

**FREE TRADE DEALS: IS THE UNITED STATES  
LOSING GROUND AS ITS TRADING PARTNERS  
MOVE AHEAD?**

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

FIRST SESSION

MARCH 29, 2001

**Serial No. 107-9**

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

73-528

WASHINGTON : 2001

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NERS MOVE AHEAD?**

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**THURSDAY, MARCH 29, 2001**

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

The Subcommittee met, pursuant to notice, at 10:04 a.m., in room 1100 Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.  
[The advisory announcing the hearing follows:]

# **ADVISORY**

FROM THE COMMITTEE ON WAYS AND MEANS

## **SUBCOMMITTEE ON TRADE**

FOR IMMEDIATE RELEASE

CONTACT: (202) 225-1721

March 13, 2001

No. TR-1

### **Crane Announces Hearing on Free Trade Deals: Is the United States Losing Ground As Its Trading Partners Move Ahead?**

Congressman Philip M. Crane (R-IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the increasing number of bilateral and regional trade agreements to which the United States is not a party, and the implications for the United States. **The hearing will take place on Thursday, March 29, 2001, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

Oral testimony at this hearing will be from both invited and public witnesses. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

#### **BACKGROUND:**

The United States has not had a significant expansion in its trade relationships in many years. Of the estimated 130 free trade accords currently in force, the United States is a signatory to only two (Israel and the North American Free Trade Agreement (NAFTA)). Meanwhile, many of our major trading partners have been active at the negotiating table. For example, the EU has trade agreements in force with 27 countries (including important U.S. markets in Mexico and Central and Eastern Europe), and is in the process of implementing or finalizing agreements with Egypt, Jordan, the MERCOSUR nations, and the six countries of the Gulf Cooperation Council. Mexico, the second largest market for American exports, has trade agreements with at least 28 countries and is currently negotiating several more.

In announcing the hearing, Chairman Crane stated: "We are at a critical juncture in U.S. trade policy. Right now, the United States has several pending opportunities to forge more bilateral and regional free trade agreements, and we must not squander those opportunities. American businesses, workers, and farmers are disadvantaged in foreign markets because the United States has been absent from the trade negotiating table. A commitment to trade liberalization will provide the crucial boost the economy needs to recover from the current slowdown through job creation, low prices, increased market access, and improved productivity. Quickly giving Trade Promotion Authority to our President would put the United States back in a leadership role."

#### **FOCUS OF THE HEARING:**

This hearing will (1) explore whether these new trade agreements disadvantage U.S. business, workers, and families; and (2) assess current opportunities for the United States to move forward with new negotiations.

#### **DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:**

Requests to be heard at the hearing must be made by telephone to Traci Altman or Pete Davila at (202) 225-1721 no later than the close of business, Thursday, March 22, 2001. The telephone request should be followed by a formal written request to Allison Giles, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225-6649.

**In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard.** Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **The Five-Minute Rule Will Be Strictly Enforced. The full written statement of each witness will be included in the printed record, in accordance with House Rules.**

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies, along with an *IBM compatible 3.5-inch diskette in WordPerfect or MS Word format*, of their prepared statement for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than Tuesday, March 27, 2001.** Failure to do so may result in the witness being denied the opportunity to testify in person.

#### **WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:**

Any person or organization wishing to submit a written statement for the printed record of the hearing should *submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, with their name, address, and hearing date noted on a label*, by the close of business, Thursday, April 12, 2001, to Allison Giles, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, by close of business the day before the hearing.

#### **FORMATTING REQUIREMENTS:**

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

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments

by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

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

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

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

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Chairman CRANE. Welcome to this hearing of the Ways and Means Trade Subcommittee to examine the impact of bilateral and regional trade agreements being negotiated without U.S. participation.

I give a special welcome to our two new members of the Trade Subcommittee, Mr. Phil English of Pennsylvania and Mr. John Tanner of Tennessee, and I would like to thank our witnesses who have all graciously reorganized their busy schedules so they could testify today. The members of the Subcommittee and I look forward to your commentary and reports from the frontiers of what can be described only as a new era of world trade.

Since America's founding, new eras have usually been synonymous with new generations of American innovators, whether it was Frederick Douglass, Alexander Graham Bell, Susan B. Anthony, or Sally Ride, America has not sat in the bleacher seats of history. We have stood up, set the mark, and run the race. Likewise, in trade policy, the United States worked at the forefront of the creation of the General Agreement on Tariffs and Trade, which reopened and expanded the routes of international trade after World War II. More recently, America led in the creation of the World Trade Organization and guided efforts to negotiate the North American Free Trade Agreement (NAFTA).

Trade agreements such as those contributed to the longest period of economic growth in U.S. history. Thanks to the NAFTA, Mexico is now one of the fastest-growing export markets for the United States and Canada and Mexico are the first and second most important U.S. trading partners. Yet here at the onset of the new millennium and a new administration, we mark the beginning of the seventh year without Congressionally approved trade promotion authority, or what was formerly called fast track. We are not the leaders we once were. In our stead, our trading partners have actively opened and expanded markets for their exporters, and as a result, there has been a proliferation of free trade agreements in recent years.

There are now over 130 free trade agreements in force. The United States is party to only two, the U.S.-Israel Free Trade Agreement and the NAFTA. Europe, on the other hand, has in force Free Trade Agreements (FTAs) with 27 countries, and Mexico

has 28. While our trading partners stand ready to negotiate trade agreements with the United States, we stand back and continue to debate among ourselves.

During the seven years since the President's trade authority expired, America's exporters and workers have faced higher tariff differentials and more and more discriminatory rules, unfamiliar product standards, and unnecessary threats to their investments. For example, Automated Food Systems, Inc., is a small 11-person outfit based in Duncanville, Texas. Automated is a successful distributor of food processing equipment and exports to Egypt, the Middle East, and Europe. In recent years, Automated tried to export its equipment to Brazil, where there is demand for the company's products. However, because the United States does not have a trade agreement with Brazil, Automated's wares are subject to import duties of over 14 percent, while regional competitors may import their products duty-free.

This differential treatment creates an insurmountable margin that prohibits small businesses like Automated from penetrating the market and expanding their operations. This is exactly the type of barrier that could be eliminated in trade negotiations if the President had the trade promotion authority.

My friends, opportunities for renewed U.S. growth are being squandered. High-wage export-related U.S. jobs are being lost and, compared to others, U.S. manufacturers and consumers are paying extra for the same goods and services. In pairs and groups, the nations of the world are passing us by, writing the rules for international commerce and promoting their exports and their business practices. The costs to our country for failing to get back in the race are unacceptably high. Let us agree to work quickly to find common ground to pass trade promotion authority and regain our position as the true leader and innovator in this new era of trade.

I would now like to yield to the ranking minority member of the Subcommittee, Mr. Levin, for any remarks that he would like to make.

[The opening statement of Chairman Crane follows:]

**Opening Statement of the Hon. Philip M. Crane, M.C., Illinois, and  
Chairman, Subcommittee on Trade**

Welcome to this hearing of the Ways and Means Trade Subcommittee to examine the impact of bilateral and regional trade agreements being negotiated without U.S. participation. I give a special welcome our two new members to the Trade Subcommittee, Mr. Phil English of Pennsylvania and Mr. John Tanner of Tennessee. And I would like to thank our witnesses, who have all graciously reorganized their busy schedules so they could testify today. The Members of the Subcommittee and I look forward to your commentary and reports from the frontiers of what can be described only as a new era of world trade.

Since America's founding, "new eras" have usually been synonymous with new generations of Americans innovators. Whether it was Frederick Douglas, Alexander Graham Bell, Susan B. Anthony or Sally Ride, America has not sat in the bleacher seats of history; we have stood up, set the mark, and run the race. Likewise in trade policy, the United States worked at the forefront of the creation of the GATT, which re-opened and expanded the routes of international trade after World War II. More recently, America led in the creation of the World Trade Organization and guided efforts to negotiate the North American Free Trade Agreement (NAFTA). Trade agreements such as these contributed to the longest period of economic growth in U.S. history. Thanks to the NAFTA, Mexico is now one of the fastest growing export markets for the United States, and Canada and Mexico are the first and second most important U.S. trading partners.

Yet, here at the onset of the new Millennium and a new Administration, we mark the beginning of the seventh year without congressionally approved trade promotion authority. We are not the leaders we once were. In our stead, our trading partners have actively opened and expanded markets for their exporters and, as a result, there has been a proliferation of free trade arrangements in recent years. There are now 130 free trade agreements in force. The United States is party to only two—the U.S.-Israel Free Trade Agreement and the NAFTA. Europe, on the other hand, has in force FTAs with 27 countries.

While our trading partners stand ready to negotiate trade agreements with the United States, we stand back and continue to debate among ourselves. During the 7 years since the President's trade authority expired, America's exporters and workers have faced higher tariff differentials, and more and more discriminatory rules, unfamiliar product standards, and unnecessary threats to their investments.

For example, Automated Food Systems, Inc. is a small eleven-person outfit based in Duncanville, Texas. Automated is a successful distributor of food-processing equipment and exports to Egypt, the Middle East, and Europe. In recent years, Automated tried to export its equipment to Brazil, where there is demand for the company's products. However, because the United States does not have a trade agreement with Brazil, Automated's wares are subject to import duties of over 14 percent while regional competitors may import their products duty-free. This differential treatment creates an insurmountable margin that prohibits small businesses like Automated from penetrating the market and expanding their operations. This is exactly the type of barrier that could be eliminated in trade negotiations if the President had trade promotion authority.

My friends, opportunities for renewed U.S. growth are being squandered. High-wage, export-related U.S. jobs are being lost, and compared to others, U.S. manufacturers and consumers are paying extra for the same goods and services. In pairs and groups, the nations of the world are passing us by, writing the rules for international commerce, and promoting *their* exports and *their* business practices.

The costs to our country for failing to get back in the race are unacceptably high. Let us agree to work quickly to find common ground to pass trade promotion authority, and regain our position as the true leader and innovator in this new era of trade.

I'll now yield to the Ranking Minority Member of the Subcommittee, Mr. Levin, for any remarks he would like to make.

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Mr. LEVIN. Thank you, Mr. Chairman, and welcome to each and every one of you. We are glad you are here.

The issue is not whether there should be an expansion of world trade. The question is how that expansion occurs. Globalization is surely here to stay. The real question is whether and how that globalization should be shaped. That involves examining the role of bilateral, regional, and multilateral agreements. That includes an examination of the increasing number of free trade agreements, as I believe is the basis for this hearing today. That examination is necessary before we rush to conclusions as to the interaction between bilateral, regional, and multilateral agreements, and the actual impact of these types of agreements on the U.S. economy.

In this examination, I urge that we need to look not only at the number of agreements, but beyond sheer numbers, to their contents, including the level and actual scope of trade covered by the agreements. I think we will find that many of these free trade agreements, as they are called, are much less comprehensive than agreements such as NAFTA. Indeed, some may be vulnerable to challenge under Article 24 of the General Agreement on Trade and Tariffs (GATT) and similar World Trade Organization (WTO) rules. We should give serious consideration to bringing challenges in appropriate cases.

When it comes to the question of how to shape expanded trade as we enter into more trade agreements of our own, it is vital that we take into account the evolving nature and the new issues of trade. Trade policy is no longer just about tariffs, as important as they were and remain, and the more glaring non-tariff barriers. It is also about labor standards, environmental regulations, health regulations, among other issues, and the impact that these have on the terms of competition. Each issue should be included in fast track and in the agreements negotiated pursuant thereto.

Finally, as I have said before, the best way to move ahead with agreements on expanded trade is as we did last year with very substantial success, is to proceed step by step. The first step is clear. There is a free trade agreement that was negotiated and signed last year and transmitted to Congress at the beginning of this session. I am referring, of course, to the U.S.-Jordan Free Trade Agreement. Legislation to implement that agreement was introduced in the Senate yesterday and will be introduced by me and others in the House in the coming days, and that agreement, as written, should be acted upon expeditiously. With the King of Jordan visiting the United States next week, the time is now to send a clear message that we intend to make the U.S.-Jordan Free Trade Agreement operational.

Thank you, Mr. Chairman, and I look forward to the testimony. [The opening statements of Mr. Levin and Mr. Ramstad follow:]

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

- The issue is not whether there should be an expansion of world trade. The question is how that expansion occurs. Globalization is here to stay. The question is whether and how it should be shaped.
- That involves examining the role of bilateral, regional, and multilateral agreements.
- That includes an examination of the increasing number of free trade agreements, as we are doing today. This is necessary before we rush to conclusions as to the interaction between bilateral, regional, and multilateral agreements, and the actual impact of any of these types of agreements on the U.S. economy.
- In this examination, we need to look not only at the number of agreements, but beyond sheer numbers to their contents, including the level and actual scope of trade covered by the agreements.
- I think we will find that many of these free trade agreements are much less comprehensive than agreements such as the NAFTA. Indeed, some may be vulnerable to challenge under Article XXIV of the GATT and similar WTO rules. We should give serious consideration to bringing challenges in appropriate cases.
- When it comes to the question of *how* to shape expanded trade as we enter into more trade agreements of our own, it is vital that we take account of the evolving nature and new issues of trade. Trade policy is no longer just about tariffs and the more glaring non-tariff barriers. It is also about labor standards, environmental regulations, health regulations—among other issues—and the impact these have on the terms of competition. These issues should be included in fast track and in the agreements negotiated pursuant to fast track.
- Finally, as I have said before, the best way to move ahead with agreements on expanded trade is to proceed step by step.
- The first step seems clear. There is a free trade agreement that was negotiated and signed last year and transmitted to Congress at the beginning of this session.
- I am referring, of course, to the U.S.-Jordan Free Trade Agreement. Legislation to implement that agreement was introduced in the Senate yesterday and will be introduced in the House in the coming days and should be acted upon expeditiously.
- With the King of Jordan visiting the United States next week, the time is now to send a clear message that we intend to make the U.S.-Jordan Free Trade Agreement operational as quickly as possible.
- Thank you.

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

- Mr. Chairman, thank you for calling this important hearing on the free trade agreements being negotiated around the world.
  - It is truly alarming that the U.S. is a party to only two of the 130 free trade agreements currently in force around the world. This means that U.S. companies are disadvantaged in their efforts to sell products overseas. Worse, it means that free trade rules are being written without U.S. input, harming our countries into the future.
  - Last year, I think most of us on the Committee would agree, was a great one for trade. Congress worked to expand international trade and development. Now, we need to build on that success.
  - How can we not? The U.S. economy is increasingly international in focus. Over 25% of our economic growth in the last decade is tied to foreign trade and 12 million Americans owe their jobs to exports. The unprecedented economic growth this country has experienced in recent years is in part a result of expanded trade between the U.S. and our trading partners.
  - I strongly believe the cornerstone of congressional trade action must be approval of Trade Promotion Authority for President Bush. As long as we continue to deny this fundamental power to the President, our economy and our citizens will fail to capitalize on the trade opportunities before us.
  - What are these opportunities? The U.S. must push aggressively to negotiate and enact the Free Trade Area of the Americas, preferably by 2003. The NAFTA agreement has been an enormous benefit to our country, and we will further benefit from expanding free trade to the rest of the hemisphere.
  - We should also continue to push for bilateral trade agreements with countries like Chile, New Zealand, Australia, Singapore and others. Lastly, we should continue to work with Europe to amicably settle our differences and move forward.
  - We have the opportunity to build on last year, and I hope that we seize that opportunity.
  - Thanks again, Mr. Chairman, for holding this hearing and I look forward to hearing from today's witnesses.
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Chairman CRANE. Thank you, Mr. Levin.

Mr. Ramstad, I will recognize with panel two, I guess is when your constituent is here?

Mr. RAMSTAD. That is right, Mr. Chairman. Thank you.

Chairman CRANE. With that, I now welcome our first panel to the Subcommittee. Mr. Donohue, you can lead off. May I suggest that if you folks could try and keep your oral testimony to five minutes, any written testimony will be made a part of the permanent record. Mr. Donohue?

**STATEMENT OF THOMAS J. DONOHUE, PRESIDENT AND CHIEF  
EXECUTIVE OFFICER, U.S. CHAMBER OF COMMERCE**

Mr. DONOHUE. Good morning, Mr. Chairman. I am here today to suggest that the United States is rapidly losing ground in the free trade arena and failure by Congress to grant the President trade promotion authority threatens our global economic leadership further.

Let me just give you a few statistics. I think we lose sight of the fact that only four percent of the population in this world lives in the United States and the people we want to trade with live somewhere else. The World Trade Organization counts more than 130 regional free trade agreements that are currently in force around the globe, and that number, by the way, is increasing, but the U.S.

is a party to just two, with Canada and Mexico through NAFTA and with Israel.

Only 11 percent of the world's exports are covered by U.S. free trade agreements, compared with 33 percent of the European Union's. I came back just last night from a four-day visit with the European Union and find them aggressively pursuing further discussions around the world. And while Western European nations have negotiated 909 bilateral investment treaties, the U.S. is a party to just 43. This country can no longer afford to sit on the sidelines while our competitors are busy cutting deals with one another, often doing it at our expense.

America must reengage global markets and the President must have trade promotion authority for that to happen. Under the authority, Congress agrees to grant the President the privilege of an up or down vote, assuming and demanding that during the process, the President consults with the Congress and if they do not like the agreement he made, they can vote against it. Every President since Gerald Ford, up until the first term of Bill Clinton, had this process and protection and our new President needs it, as well.

Trade promotion authority gives U.S. negotiators the type of credibility they need. Negotiators from our potential trading partners have to feel confident that the U.S. government and Congress will not come back and take the agreement apart piece by piece. As anyone in business knows, you do not negotiate with people who are not in a position to keep their promises.

Finally, I would like to emphasize that trade promotion authority must not be encumbered by extraneous labor and environmental positions. The business community does not oppose discussion of labor and environmental positions, but not as a direct part of the trade agreement and not backed up by sanctions. Mr. Chairman, in long discussions in the European Union (EU) with Commissioner Pascal Lamy and others, they are now coming to that decision and conclusion themselves. Our potential negotiating partners have told them and told us, and they told us in Seattle, that trade agreements that have these provisions directly involved and supported or pushed by mandatory sanctions are not going to fly with them and they are not going to fly here.

Now, history has proven that countries that trade with the United States not only create more jobs, but they raise the standard of living and they generate wealth to pay for environmental improvements.

In conclusion, Mr. Chairman, let me say that our success in the 21st century's global economy requires that we continue working to open global markets to U.S. business. American businesses cannot compete and win unless we have an opportunity. If we have the opportunity, we always compete and we usually win.

Let me make one final point. Absence of a free trade agreement or trade promotion authority is not a significant problem for the biggest of our companies. If you make tractors in Peoria and you cannot sell them into someplace in the world because of high tariffs, you simply make tractors someplace else, like Brazil or Mexico and then sell them into the country you want to go to. Who is most hurt by this problem are the small and medium-sized companies

who now, helped by technology, can trade around the world. They will pay a price for our neglect.

It is time to put aside any rivalry that exists between different branches of the government and different parties, and it is important that you understand that the Chamber sees this vote as one of the critical votes this year, and it is important to us because the companies we represent are being disadvantaged in their trade around the world.

I thank you, Mr. Chairman, for holding this hearing. I look forward to the discussions. I have a hunch they will be pretty interesting, and we appreciate being here.

[The prepared statement of Mr. Donohue follows:]

**Statement of Thomas J. Donohue, President and Chief Executive Officer,  
U.S. Chamber of Commerce**

Mr. Chairman, thank you for inviting me to appear before this panel today. I am Thomas J. Donohue, President and Chief Executive Officer of the U.S. Chamber of Commerce. I appreciate this opportunity to testify on behalf of the Chamber on free trade deals and whether the United States is losing ground.

Simply stated, when fast-track trade negotiating authority expired in 1997, the United States no longer possessed the single most important tool for ensuring that its trade negotiators would enjoy maximum credibility vis-a-vis their counterparts in other nations.

Over 130 regional trade agreements are currently in force worldwide. Most have been concluded in the past 10 years. The WTO has been notified of 90 such agreements since 1995. The European Union has free trade agreements with 27 countries, and 20 of these agreements have been signed since 1990. Just last year, the European Union and Mexico—the second-largest market for American exports—entered into a free trade agreement. The European Union is also negotiating free-trade agreements with the Mercosur countries and the Gulf Cooperation Council. And while there are approximately 130 free trade agreements in force globally, the United States is a party to just two: one is with Canada and Mexico (NAFTA), and the other with Israel.

This pattern of diminished U.S. participation must not be allowed to stand. While our own government has yet to restore effective trade negotiating leverage, U.S. companies are facing growing disadvantages relative to their competitors as other nations negotiate agreements that provide preferences for their firms over our own.

**The Need For Trade Promotion Authority**

Of paramount relevance to our global trade negotiating agenda is the provision of unfettered trade promotion authority to the President. Simply put, under trade promotion authority, Congress agrees to grant the President the privilege of an up-or-down vote, within a specified period of time, on agreements negotiated between the U.S. and its trading partners. Every President from Gerald Ford through Bill Clinton has enjoyed this authority. Access to trade promotion authority is a critical element to the success of any negotiating strategy. U.S. trade negotiators' credibility depends heavily on their ability to obtain Congressional approval of legislation to implement trade agreements as they were negotiated. As anyone in business knows, you do not waste your time making deals with negotiators who are not in a position to commit their principals—whether they are companies or countries—to an agreement.

In return for that privilege, Presidents have agreed to extensive consultation with the Congress so that, when the agreement is finally concluded, Congress will have enough confidence in the agreement's benefits to the United States that it will be willing to approve the changes in U.S. laws that are needed to implement the agreement.

By the same token, if the President fails to consult adequately or in good faith, Congress has the power to refuse to pass the implementing legislation. Or if it chooses, Congress can take an intermediate step—rescind the trade promotion authority process, and send negotiators back to the table to seek revisions in the agreement.

Obviously, the Chamber strongly believes that the first scenario should prevail. Domestic disagreements between the executive and legislative branches should stop at the water's edge. It does us no good for our President's negotiators to reach ar-

rangements with other countries, only to have them amended in numerous ways for whatever reason, after the fact. History shows that if the President and the Congress work closely together to craft a national trade agenda, real progress can be achieved. Without it, our trading partners will neither sit at the table with us, nor make vital market-opening concessions to America's most competitive products. Only the largest U.S. companies will be able to overcome the hurdles that remain or increase in the absence of pro-U.S. trade agreements generated with trade promotion authority.

#### **Renewing Trade Promotion Authority—A Wrong Way And The Right Way**

On October 24, 2000, the United States and the Hashemite Kingdom of Jordan entered into a free trade agreement (JFTA) that would eliminate duties and commercial barriers to bilateral trade in goods and services originating in the United States and Jordan. The JFTA also includes, for the first time ever in the text of a trade agreement, separate sets of substantive provisions addressing trade and the environment, trade and labor, and electronic commerce. Other provisions address intellectual property rights protection, balance of payments, rules of origin, safeguards and procedural matters such as consultations and dispute settlement.

The last administration made known its intention that the JFTA serve as a "template" by which subsequent trade agreements with other countries should be crafted. We respectfully but strongly disagree. Jordan has made admirable progress against the backdrop of continuing Middle East crises as it pursues economic modernization and liberalization. However, modeling our global trade negotiating strategy on our relationship with an economy as small and relatively uncomplicated as Jordan's would necessarily result in the neglect of a plethora of vital and much more complex U.S. national interests.

In addition, we regard adoption of the JFTA's labor and environmental provisions—and the attendant possibility of trade sanctions deriving from labor or environmental policy disputes—as a dangerous precedent that, if approved, could seriously threaten our negotiating posture vis-a-vis many far more significant trading partners. We must find a basis for addressing substantive labor and environmental concerns without holding U.S. competitiveness hostage to special interest efforts to achieve extraterritorial application of policy objectives that are not relevant to international commerce. **At the same time, the Chamber will oppose any trade agreement that includes labor and environmental provisions and accompanying sanctions in the agreement.**

There are other avenues for the United States to discuss labor and environmental issues with other nations. The President already has authority to address these issues in fora such as the International Labor Organization (ILO). Likewise, multilateral environment agreement (MEA) negotiations present opportunities to address environmental concerns.

But provision of trade promotion authority—unencumbered with extraneous non-trade objectives—is the only way to effectively arm our negotiators with the tools they need to conclude beneficial trade agreements and thus level the playing field further for U.S. companies.

#### **Advancing U.S. Interests With Trade Promotion Authority**

In general, Congress should grant trade promotion authority to Presidents that permit our negotiators to obtain:

- More open, equitable and reciprocal market access;
- The reduction or elimination of barriers and other trade-distorting policies and practices;
- Strengthened international trading rules and procedures; and
- Increased economic growth and full employment in the U.S. and global economies.

More specifically, trade promotion authority negotiating objectives should include verifiable provisions providing for:

- Expanded competitive opportunities for the export of U.S. goods;
- More open and equitable conditions of trade for U.S. services, including financial services;
- Reduction and elimination of artificial or trade-distorting barriers to international direct investment;
- Maximum protection for intellectual property rights; and
- Transparent, effective and timely enforcement of agreements' rules and implementation of dispute settlement procedures.

The Chamber also believes that trade promotion authority should be unencumbered by requirements to advance unrelated labor, environment and other social agenda objectives as part of trade negotiations. These issues also would re-

quire a considerably expanded level of technical expertise at the negotiating table and there would be a very real risk that a wide array of domestic labor and environmental laws could end up re-written on trade promotion authority timetables, with potentially serious consequences. Finally, numerous potential negotiating partners have stated repeatedly that they want these issues dealt with separately. Trade issues are contentious enough, with the well-being of tens of thousands of American companies and millions of American workers dependent on continued new access to foreign markets. What is already difficult to achieve could well become impossible if trade negotiations become loaded down with non-trade issues.

If the United States does not jump start negotiations with its major trading partners soon, U.S. businesses will find their current markets eroding. U.S. companies won't be able to institutionalize favorable customer relationships because the U.S. can't negotiate the elimination of tariff and non-tariff barriers that other competitors don't have to face. The Chamber believes trade promotion authority is essential if the United States is to pursue a variety of legitimate and critical national objectives worldwide. These objectives include:

**Completing the Unfinished Business of Seattle.** U.S. negotiating agendas for "post-Seattle" multilateral and other trade negotiations should include:

- Primary focus for services trade negotiations, with bilateral and regional cooperation playing a supporting role.
- An agricultural trading system free of restrictions and distortions on trade in processed and unprocessed foodstuffs.
- Prompt and full implementation of existing commitments undertaken by WTO members with respect to intellectual property rights (TRIPs), trade-related investment measures (TRIMs), services, telecommunications, tariff liberalization, government procurement, market access, subsidies and antidumping—coupled with expedited procedures where feasible to make the implementation process commercially meaningful.
- Continuing support for WTO "built-in agenda" negotiations that include, among other things, further tariff cuts for manufactured goods and greater liberalization in insurance, banking, telecommunications, legal and other financially related sectors.
- New rules to address foreign direct investment in non-service sectors to ensure fair and open investment opportunities. Within an economy there should be no discrimination between domestic and foreign-owned companies in the application of national law, regulations, or taxes.
- New multilateral rules that establish the highest standards for the liberalized treatment and full protection of investment. The WTO TRIMs agreement represents a useful step forward in multilateral cooperation but does not address numerous other important investment issues.
- Clarification of how multilateral environmental agreements (MEAs) relate to the WTO system. To avoid creation of potentially significant new trade barriers, strict guidelines for the application of trade measures under MEAs must be established, and trade sanctions as a toll for advancement of labor and environmental objectives must be opposed.
- More transparent and expeditious dispute settlement procedures.

**Free Trade Area of the Americas (FTAA).** In December 1994, thirty-four western hemisphere heads of state committed to establishment of a FTAA—a market of over 750 million consumers—by 2005. Such an agreement would create the world's largest free trade area, encompassing 755 million people with a collective GDP over \$10 trillion. A Chile-U.S. FTA was envisioned as the first of many steps leading toward that goal. A successfully negotiated FTAA would:

- Eliminate existing tariff and non-tariff barriers and the avoidance of new ones;
- Remove other restrictions on trade in goods and services, and investment unless specifically exempted;
- Harmonize technical and government rule-making standards;
- Exceed World Trade Organization disciplines, where possible;
- Provide national treatment and investor safeguards against expropriation;
- Establish a viable dispute settlement mechanism; and
- Improve intellectual property rights protection.

Since that time, various summits and ministerial meetings organized toward that end have taken place and real progress has been achieved. However, conclusion of a final agreement will require provision of trade promotion authority in order for the U.S. to participate credibly in setting the rules for trade in this region. The European Union and others clearly find these kinds of initiatives worthwhile. And while we stall, they are proceeding along, to our disadvantage.

**Chile.** On its own and as part of broader efforts to negotiate a hemisphere-wide FTAA, the U.S. should seek a FTA that achieves the following objectives, and will require trade promotion authority to succeed:

- Eventual zero tariffs such as are already in force between Chile, and Canada, Mexico and Central America. Moreover, Chile is an associate member of the Mercosur customs union, which embraces Argentina, Brazil, Paraguay and Uruguay. In addition, we recommend that the FTA also include an understanding that Chile will join in any sectoral agreement to eliminate tariffs that is undertaken in the WTO.
- Government procurement liberalization modeled after the WTO Government Procurement Agreement (GPA). Unlike the current GPA, the bilateral agreement should cover procurement of services as well as goods.
- Strengthened intellectual property rights protection, including a stronger patent law and legislation to implement Chile's WTO TRIPs obligations.
- National treatment for U.S. service providers.

While useful in its own right, a Chile-U.S. FTA also represents an opportunity to set standards that would "raise the bar" for the FTAA itself. By Latin American standards, Chile's economy is relatively advanced and open, and thus presents itself as a model for our other partners in the region to emulate.

**Singapore.** On November 16, 2000, President Bill Clinton and Singapore Prime Minister Goh Chok Tong announced the intention of their governments to negotiate a bilateral FTA. The U.S. Chamber of Commerce strongly supports this step toward a closer economic relationship with one of America's most important allies in Asia. In 1999, the United States and Singapore had two-way trade of \$34.4 billion, making Singapore America's tenth largest trading partner. The Singapore FTA will set an important precedent. It will be the first signed with an East Asian country and, for this reason, will be closely studied by other major trading partners in the region. Generally speaking, Singapore is already open to U.S. goods, services, farm products and investment. However, a variety of barriers and distortions disadvantage U.S. firms in that market. A properly negotiated FTA should address such issues as steep tariffs on selected products, improved intellectual property rights enforcement, service sector restrictions, discriminatory excise taxes, mutual recognition of standards, direct selling restrictions, and others. Again, however, the Chamber will oppose inclusion of labor and environmental provisions and accompanying sanctions in the agreement.

**Egypt.** In 1997, Vice President Al Gore and Egyptian President Hosny Mubarak agreed to explore the possibility of establishing a U.S.-Egypt FTA. Since that time, U.S. and Egyptian officials have consulted on this matter and, in July 1999, the two nations concluded a Trade and Investment Framework Agreement (TIFA). The TIFA provides a mechanism for facilitating the concrete measures needed to continue moving the two countries to freer trade. Earlier this month, Egypt reportedly invited Jordan to set up a four-way free trade zone that would also involve Tunisia and Morocco. The initiative is proposed in the belief that such an alliance would bolster each country's economic position and increase investments between them as well as strengthen their ties with the European Union. Egypt, Jordan, Tunisia and Morocco are each bound by a "partnership" agreement with Europe. It is in the U.S. interest to be prepared to conclude an agreement that will advance our economic interests in the region. A properly negotiated agreement will reduce such impediments to U.S. business as may be caused by: discriminatory import restrictions; protectionist standards, testing, labeling and certification requirements; inadequate intellectual property protection; various banking, securities, insurance, telecommunications, transportation and other services barriers; and anti-competitive practices.

#### **Creation of an Asia-Pacific Free Trade Area**

While 2020 may seem a long way off for some, in 1994 Asia-Pacific area heads of state similarly agreed that our combined long-term interests require the progressive elimination of trade and investment restrictions by that time (19 years from now) in a region with over half the world's population. Already, ASEAN nations have agreed to reduce tariffs to 5 percent or less on a preferential basis—meaning for them but not us—by 2003. But we weren't there. And we won't be there for the rest of the negotiations without trade promotion authority. This becomes particularly relevant when observed against the backdrop of the upcoming APEC summit scheduled for October in Shanghai.

#### **Conclusion**

As both this administration, its recent predecessors, and outward-looking businesses all over the United States believe, U.S. success in 21st century competition requires that we continue working to open global markets to U.S. businesses. And

with smaller businesses rapidly getting more involved in trade in the wake of NAFTA and the Uruguay Round—and at the same time continuing to grow most of the new jobs in this country—America must stay engaged at both business and governmental levels. American business is quite capable of competing and winning against anyone in the world when doors are open and the field is level. But when other governments block the doors and tilt the fields against us, it is time for our government—with the combined support of the legislative and executive branches—to make sure that business has the freedom to do what it does best.

This concludes my testimony. I will be happy to try to answer your questions.

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Chairman CRANE. Thank you, Mr. Donohue. Mr. McGraw?

**STATEMENT OF HAROLD MCGRAW III, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MCGRAW-HILL COMPANIES, NEW YORK, NEW YORK, AND CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE**

Mr. MCGRAW. Thank you, Mr. Chairman, members of the Subcommittee. Thank you for the opportunity to be here. I am Terry McGraw, Chairman and Chief Executive Officer of the McGraw-Hill Companies. I am here today as Chairman of the Emergency Committee for American Trade, ECAT.

Mr. Chairman, the United States' trade policy is at a crossroads. The United States faces crucial choices in 2001 determining whether our trade and investment policies will continue to support our economic growth and high standard of living. Over the past decades, America has enjoyed enormous prosperity, in large part because of the open trade policies adopted following the Great Depression. But the post-World War II consensus supporting expansionary trade policies has faltered.

Last year, Mr. Chairman, you, Ranking Member Levin, Congressman Rangel, and others in the House and the Senate achieved some crucial victories on trade. We at ECAT very much appreciate all of your work and your leadership, but Mr. Chairman, much more remains to be done.

The United States is losing ground. Since the NAFTA and Uruguay Round agreements, America has entered into few significant new trade liberalizing agreements. Meanwhile, our trading partners have aggressively negotiated new agreements throughout the world that exclude the United States and disadvantage U.S. companies, and Mr. Chairman, in my written testimony, I refer to numerous examples of some of those disadvantages.

But even more significant, if America does not play a leadership role in new negotiations, then much of the impetus for negotiations in the Western Hemisphere and in the WTO will be gone. Without those negotiations, we will be unable to open new markets, we will be unable to reduce barriers, and unable to support the economic growth and standard of living that we have enjoyed in this country.

In the Western Hemisphere alone, the loss of these opportunities is enormous. Many of these countries maintain some of the highest tariff and non-tariff barriers in the world. In the high-tech sector, for example, only three Latin American countries have signed the Information Technology Agreement. Brazil, with tariffs of nearly 35 percent on information technology products, cites the lack of trade promotion authority in the United States. The same story can be told in manufacturing, agriculture, and other service areas.

An issue of great concern to content providers, such as the McGraw-Hill Companies, is piracy of our intellectual property. Sticking with Brazil, piracy, including motion pictures, music, software, books, totaled almost \$920 million in 1999 and a huge \$8.7 billion worldwide.

Mr. Chairman, members of the Subcommittee, America must resume its leadership on trade issues. To do that, we must first rebuild the national consensus on trade and lay the foundation for passage of trade promotion authority this year. This is not only essential to rally support in this country, it is essential to progress with our trading partners.

One-and-a-half weeks ago, I visited Brazil and Mexico and met with both countries' government and many business leaders. I left convinced that they are committed to substantially broadening trade and engagement with the United States, but they had concerns about the depth of our nation's commitment to far-reaching regional agreements.

To build that national consensus, we at ECAT believe it is imperative to identify and translate to the public concrete trade and investment liberalization objectives to promote U.S. prosperity. We must make the case, just as we did with China, how trade agreements reduce barriers and result in concrete benefits for U.S. companies, their workers, and their families. This effort requires visible leadership from the President, Congress, and the private sector.

Mr. Chairman, we must also proactively address concerns about the trade agenda, including the issues of labor and the environment. We must take a pragmatic approach to the international labor and environment arenas. After defining and then prioritizing our labor and environmental objectives, we need to identify the right solutions for each. We think these issues primarily are best addressed through their own agendas in organizations with the appropriate technical expertise and not as add-ons to the trade agenda. Much is being done at the International Labor Organization, the NAFTA Commission for Environmental Cooperation, and so forth. These efforts can and should be intensified.

Now, there will be cases where our labor and/or environment and our trade goals complement one another. In such cases of complementarity, we should support both sets of goals in a cooperative and trade liberalizing way. Consider the issue of agriculture subsidies in China, which have a devastating impact on water and land resources in that country. It is important for both trade and environmental reasons to help China end the use of these subsidies and to open its market to agricultural imports. This is an area of complementarity.

Three final points on these linkages. First, any linkages with labor and/or the environment should be positive and not the result in trade sanctions agreements.

Second, trade promotion authority should not be used to mandate the inclusion of labor and environment issues in all trade agreements. The world is simply too complex for a single shot approach.

And third, we must address many of our U.S. workers' anxieties about trade directly through the reauthorization and transformation of the Trade Adjustment Assistance programs.

Trade and investment expansion are critical to America's prosperity. The U.S. occupies a unique position of influence in the world, as we all know. It is so important to provide the President with trade negotiating authority.

My last point. After an incredible period of sustained economic growth, business is facing economic pressure not felt in some time. Consequently, it is more important and more timely than ever that we rededicate ourselves to expansionary trade practices and open markets so that the promise of the global economy can be made fully available to U.S. businesses, their workers, and their families, as well as our counterparts elsewhere.

Thank you, Mr. Chairman, for the opportunity.

[The prepared statement of Mr. McGraw follows:]

**Statement of Harold McGraw III, Chairman and Chief Executive Officer, McGraw-Hill Companies, New York, New York, and Chairman, Emergency Committee for American Trade**

Mr. Chairman, Members of the Subcommittee. Thank you for the opportunity to be here today. I am Terry McGraw, Chairman and Chief Executive Officer of The McGraw-Hill Companies.

I am here today as Chairman of the Emergency Committee for American Trade—ECAT—an association of the chief executives of major American companies with global operations who represent all principal sectors of the U.S. economy. ECAT was founded more than three decades ago to promote economic growth through expansionary trade and investment policies. Today, the annual sales of ECAT companies total more than \$1.5 trillion, and the companies employ approximately 4.5 million people.

The McGraw-Hill Companies is a global information services provider headquartered in New York City. We employ 17,000 people in more than 300 offices in 32 countries worldwide. You know us best through the McGraw-Hill imprint in education, Standard and Poor's, and Business Week.

**The Challenge on Trade**

The United States faces crucial choices in 2001 on whether our trade and investment policies will continue to support our economic growth and improve our high standard of living. Over the last century, the United States, now the world's largest trading nation, has enjoyed enormous prosperity in large part because of the open trade policies it adopted following the Great Depression, starting with the Reciprocal Trade Agreements Act in 1934. Over the last decade alone, U.S. exports have accounted for one-quarter of U.S. economic growth and have contributed significantly to the high standard of living enjoyed by American workers and their families. Imports have improved the variety, quality and availability of products throughout the United States, have increased the competitiveness of U.S. companies, and have been a significant factor in dampening inflationary pressures. As emphasized in the *2001 Trade Policy Agenda* released by the United States Trade Representative, trade and investment not only support U.S. prosperity, they promote greater economic growth, freedom, and stability throughout the world.

In 2001, the United States has an important opportunity to move forward with trade and investment policies that continue to support U.S. prosperity and our global interests. It can play a leadership role in shaping and propelling negotiations globally, in the Western Hemisphere, in the Asia-Pacific and bilaterally throughout the world.

Yet, U.S. trade policy is at a crossroads. The post-World War II consensus on the value of liberalizing trade and investment policies has been shaken in recent years as is evident from Congress' failure to renew trade promotion authority, so-called trade-negotiating authority legislation or fast track, since its expiration in 1994 and protests against globalization in Seattle, Washington, D.C. and elsewhere.

From an historical view, most striking is the failure to renew trade-negotiating authority legislation that had previously been provided to all presidents, Republican and Democratic, from 1975 onward. Indeed, the forerunner to the modern fast-track procedures contained in the Trade Act of 1974 was tariff proclamation authority which had been granted to all presidents, almost continuously since the Reciprocal Trade Agreements Act of 1934; even that is no longer provided to the President except for some limited leftover authority from the Uruguay Round Agreements Act.

Last year, Mr. Chairman, you, Ranking Member Levin, Congressman Rangel and others in the House and the Senate were able to achieve some crucial victories on trade:

- Congress overwhelmingly supported Permanent Normal Trade Relations with China.
- It also reached a broad consensus on unilateral preferences for Africa and the Caribbean Basin.

We at ECAT very much appreciate all of your work on those and other matters. Indeed, the 106th Congress passed more trade legislation than any other Congress in the last decade; but it did not pass, nor did it even consider, trade promotion authority legislation.

Clearly much more remains to be done.

### **The United States Is Losing Ground**

Since the NAFTA and the Uruguay Round Agreements, the United States has entered into few significant new trade-liberalizing agreements. Meanwhile, our trading partners have aggressively negotiated new free trade agreements throughout the world. These new agreements exclude the United States and disadvantage U.S. companies and their workers.

#### **Examples of Other Preferential Trade Agreements**

The following are just a few examples of countries pursuing free trade agreements that exclude the United States:

*Mexico:* In the last year, Mexico continued its efforts to negotiate free trade agreements to build upon the NAFTA and free trade agreements that it had previously concluded with Chile, Venezuela, and other countries. On November 24, 1999, the EU and Mexico concluded a free trade agreement that was formally signed on March 23, 2000. The EU-Mexican agreement went into effect for industrial goods, dispute settlement, government procurement, and competition policy on July 1, 2000 and with respect to services, intellectual property, investment, and government procurement on March 1, 2001. The agreement is estimated to apply to 96 percent of EU-Mexican trade when the tariff reductions are phased in by 2003. As of July 1, 2000, 82 percent of Mexico's industrial goods were able to enter the EU free of duty. Approximately half of the EU's exports to Mexico are also duty-free.

After eight years of negotiations, Mexico completed free trade agreement negotiations with Guatemala, El Salvador, and Honduras in May 2000. The agreement covers market access, services, investment, intellectual property, and dispute resolution. Tariffs for industrial goods will be eliminated in 11 years and for agricultural goods in 12 years. The agreement is expected to enter into force in 2001.

On November 3, 2000, Mexico and the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland) concluded free trade agreement negotiations that will eliminate tariffs by 2007. The agreement covers trade in goods, services, intellectual property, procurement, competition policy, and intellectual property issues and includes a dispute settlement mechanism. It will provide substantially similar access to the Mexican market as provided under the NAFTA and the EU-Mexican free trade agreement.

Building on Mexico's existing free trade agreement with Uruguay, Mexican President Vicente Fox has indicated that he will seek to accelerate talks with Brazil, which began in early 2000, to reach a broad trade agreement. He also expressed willingness to extend any agreement reached with Brazil to the other MERCOSUR countries. Mexico is also engaged in discussions with Japan, Korea and Singapore.

*Canada:* Canada is also continuing to seek out other countries with which to negotiate free trade agreements, to build on NAFTA, Canada's free trade agreement with Israel, and its NAFTA-like agreement with Chile. In 2000, Canada began looking into possible free trade agreements with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Japan, and Singapore.

*Chile:* Chile is an associate member of MERCOSUR and has free trade agreements with Canada, Mexico, Venezuela, and Colombia. It has begun trade agreement talks with the EU and South Korea and is exploring the possibility of negotiations with New Zealand, Singapore and Japan.

*The European Union:* The EU is already the world's largest market and it is expected to expand through its continued enlargement negotiations with twelve Eastern European countries. In 2000, the EU continued the process of deepening integration among member states, broadening its borders to Eastern Europe, and developing deeper trade relations with other countries through trade preferences and free trade agreements. In addition to its Free Trade Agreement with Mexico, the EU's free trade agreement with South Africa entered into force on January 1, 2000 and its association agreement with Morocco entered into force on March 1, 2000. It is

also proceeding with negotiations with MERCOSUR, several Gulf States, Chile, and other countries.

#### **Effect on the United States and U.S. Companies and Their Workers**

By reducing or eliminating tariffs and providing other preferences among members, these agreements severely disadvantage U.S. companies. The tariff preferences alone directly raise the relative cost of American goods at the expense of our companies and workers. Other preferences act more subtly, but similarly result in the loss of U.S. exports and other activities in foreign markets.

Perhaps the most oft-repeated, but very important, example is Chile. It maintains a 9 percent tariff on virtually everything we ship. That means U.S. exporters suffer a 9 percent price disadvantage compared to our competitors from Canada, Mexico and Chile's other free trade partners. This affects every exporter to Chile and reduces our ability to do business. This price disadvantage has severely affected U.S. agricultural exporters who have had deficits with Chile over the past several years. Notably, in 1996, the United States exported \$4.132 billion of goods to Chile. By the end of 2000, U.S. exports had dropped to \$3.455 billion (actually an increase from 1999 exports of \$3.079 billion). While other economic factors have affected U.S. exports, the tariff disadvantage we face in the Chilean market severely disadvantages our exporters, their workers and their families. We are, therefore, very pleased that the Administration has resumed bilateral negotiations for a free trade agreement with Chile this week.

The same stories can be told in other manufacturing sectors, in agriculture and for services as well.

#### **Loss of Forward Momentum on Trade**

Even more significant than these other agreements is the lack of forward momentum on trade when the United States sits on the fence.

Two weeks ago, I visited Brazil and Mexico and met with both countries' government and business leaders. I came away convinced that they are committed to substantially broadening trade and engagement with the United States, but they had concerns about the depth of our nation's commitment to far reaching regional agreements. The absence of such a commitment will likely lead to the creation of regional and bi-lateral agreements that exclude the United States.

If the United States does not play a leadership role in new negotiations, then much of the impetus for negotiations in the Western Hemisphere and in the WTO will be gone. Without those negotiations, we will be unable to open new markets, unable to reduce barriers, and unable to support the economic growth and standard of living that we have enjoyed in this country.

In the Western Hemisphere alone, the loss of these opportunities is enormous: The FTAA could join a population of 800 million, with a combined GDP of approximately \$11 trillion. Yet, many of these countries maintain some of the highest tariff and non-tariff barriers in the world today. The United States' lack of trade promotion authority is one of the major reasons that Brazil has cited for its reluctance to enter into serious FTAA negotiations, which would reduce and eliminate tariff and non-tariff barriers. In the high tech sector, for example, only three countries in Latin America (Panama, Costa Rica and El Salvador) have signed onto the WTO Information Technology Agreement, which is likely to be included in the FTAA negotiations. For example, Brazil, with the eighth largest economy in the world, maintains tariffs of nearly 35 percent on Information Technology products. Even Mexico imposes 20 percent external tariffs on imports from non-NAFTA countries.

An issue of great concern to content providers such as The McGraw-Hill Companies is piracy of our intellectual property. Piracy of intellectual property—including motion pictures, music recordings, software and books—totaled over \$8.7 billion in 1999. Sticking with Brazil, a country that has been placed on the U.S. Trade Representative's Priority Watch List, piracy of intellectual property totaled almost \$920 million in 1999. Piracy of books in Brazil alone cost our industry almost \$20 million that year.

Earlier this month, law enforcement officials in Korea announced the discovery of some 600,000 counterfeit English-language books with an estimated value in excess of \$14 million. The counterfeit books comprising some 2,000 separate titles, run the gamut from popular best-selling fiction, to college textbooks, to reference and professional works. These books were in a warehouse belonging to Han Shin, one of the oldest book distributors in Korea. The raid on Han Shin underscores the fact that pirates are no longer fly-by-night operators requiring only a storefront and a photocopying machine, but have evolved into sophisticated high-tech enterprises that pose an even greater threat to legitimate publishers.

Without U.S. leadership on trade, we will be unable to address these issues through existing agreements or to conclude new trade agreements with even stronger provisions protecting intellectual property rights that could further help eliminate several of these major problems.

#### **Restoring U.S. Leadership/Rebuilding the Consensus**

Mr. Chairman, Members of the Subcommittee. The United States must resume its leadership on trade issues. It must aggressively pursue regional, global and bilateral trade-liberalizing agreements throughout the world.

To do that, we must first rebuild the consensus on trade that has faltered in this country and lay the foundation for the passage of trade promotion authority later in 2001. To build that consensus, we at ECAT believe it is imperative to identify—and translate to the broader public—*concrete* trade and investment liberalization objectives to promote U.S. prosperity.

All too often, we have used the language of those who oppose trade. Rather, we must effectively make the case—as we did in the China debate—that trade agreements reduce barriers and result in concrete benefits for U.S. companies, their workers and their families.

This effort will require visible leadership—from the President, Congress and the private sector. We are working with the Administration, Congress and others in the private sector to define a set of concrete trade and investment liberalization objectives that will promote U.S. prosperity. Among the objectives are the specific benefits that the United States can reap from ongoing negotiations to conclude an FTAA and the launch of broad negotiations in the WTO, as well as other specific negotiations.

Our objectives should also recognize the importance of expansionary trade and investment policies as essential components in the continued growth of the new economy. ECAT has commissioned a new study, from Dartmouth College economist Dr. Matthew Slaughter on the linkages between the growth of the new economy and trade and investment policies, as one way to help reinvigorate the debate on the importance of trade and investment liberalization. In addition, ECAT supports concrete trade and investment objectives that will promote the growth of digital trade and ensure that electronic commerce benefits from trade liberalization in the WTO and in bilateral and regional trade agreements.

In defining our objectives, ECAT companies are particularly focused on the benefits for the United States, its workers and their families, that can be achieved through the conclusion of comprehensive, trade-oriented agreements. We therefore strongly support the renewal of the broadest possible trade promotion authority. Trade promotion authority legislation is critical for the United States to regain its leadership role in international trade negotiations. Following their experience in the Kennedy Round negotiations and the adoption of the trade-negotiating authority procedures in 1975, U.S. trading partners have generally supported, indeed sought, assurances that the President would have such authority to implement future trade agreements. Although only technically necessary to facilitate implementation of a final agreement by Congress, these procedures have taken on a much greater role in the eyes of U.S. trading partners, many of which have refused to take U.S. negotiators seriously (particularly in the context of multilateral negotiations) since this authority expired. Others have used the expiration of this legislation as an excuse to stall negotiations and not make important concessions. Timely renewal of such authority is critical in order to give U.S. negotiators the clout necessary to extract concessions and successfully conclude negotiations. Lack of this authority represents a serious impediment to the United States' ability to lead on trade issues, particularly with respect to both the FTAA and WTO negotiations.

Among our specific priorities are:

- completion of China's negotiations to enter the WTO;
- concrete progress at the Quebec Summit of the Americas in April on expediting negotiations to complete the FTAA before or by 2005;
- Congress' approval of the U.S.-Vietnam Bilateral Commercial Agreement;
- the launch of a broad WTO round encompassing agriculture, services, and industry; and
- bilateral negotiations with Singapore, Chile and other countries.

We also strongly support efforts to modernize how the U.S. government itself handles trade—from the outdated automated systems and operations of the U.S. Customs Service to the export control system. These systems must be modernized to keep pace with technological developments and the rapid pace of globalization. Similarly, we must ensure that the trade agencies of the U.S. Government have adequate resources to perform their jobs, from trade financing, such as the Ex-Im Bank, which needs to be reauthorized this year, to trade agreements compliance. Without

these concurrent efforts, U.S. competitiveness will continue to be undermined at the expense of U.S. companies, their workers and their families.

#### **Addressing Concerns About Trade Liberalization**

In addition to defining our trade and investment objectives, we must also proactively address concerns about the trade agenda, including issues of labor and the environment. Without question, there are serious labor, environmental, and other issues that need to be addressed in the international context. Before rushing to adopt solutions that may not be effective, however, it is critical that policymakers first work to define the United States' objectives and then determine how they can best be achieved.

As the World Bank and others have documented, it is precisely through increased trade and economic growth that developing countries are better able and increasingly motivated by a growing middle class to improve labor and environmental standards. Since World War II, the liberalization of trade has produced a six-fold growth in the world economy and a tripling of per capita income and enabled hundreds of millions of families to escape from poverty and enjoy higher living standards. Proposals that would impede trade liberalization and economic growth must, therefore, be seriously questioned.

Mr. Chairman, Members of the Subcommittee. Most business leaders are practical people who generally approach issues without pre-existing ideologies. From my perspective, the way forward on these issues is to first reach consensus on what our objectives are in the international labor and international environment arenas—just as ECAT supports doing with respect to our trade and investment objectives.

After identifying and prioritizing our labor and environmental objectives, we need to identify the right solutions for each. My initial view is that—for the most part—these issues are best addressed through their own agendas in organizations with the appropriate technical expertise and *not* as add-ons to the trade agenda. Much, for instance, is already being done at the International Labor Organization, the NAFTA Commission for Environmental Cooperation and elsewhere. Those efforts can be intensified. For example, if our priority is to ensure clean water and sewage treatment along the Southwest border, won't increased funding of the North American Development Bank and similar activities be more fruitful than imposing sanctions on Mexico?

These issues are complex and some solutions that have been offered in the trade arena are counterproductive. Particularly compelling is the case of exploitative child labor. The International Labor Organization's International Program for the Elimination of Child Labor (IPEC), with significant financial support from the United States, is engaged in serious work to address child labor problems in several key countries. Their approach is based on almost a century of experience and recognizes not only the problem, but also its causes. IPEC has provided substantial support to many children and their families in a positive manner and does not, as some suggested solutions in this area have, result in moving children from one form of employment to another even less desirable sector.

Now, there will undoubtedly be cases, where our labor and/or environment and our trade goals complement one another. In such cases of complementarity, we should support both sets of goals in a cooperative and trade-liberalizing way. Consider the issue of agricultural subsidies in China, which have a devastating impact on water and land resources in that country. It is important for both trade and environmental reasons to help China end the use of such subsidies and to open its market to agricultural imports. This is an area of complementarity. Another obvious area is the issue of tariffs on environmentally-clean technologies. Reducing tariffs and promoting trade in these items will have a positive environmental impact throughout the world.

#### **Linkages Must Be Positive; Sanctions Are Counterproductive**

Three final points on these linkages. First, I and my fellow CEOs feel very strongly that any linkages with labor and/or the environment must be positive and not result in trade sanctions. Let me offer a few reasons:

- The practical—most countries that have labor and environmental problems that we want to address will simply not accept trade sanctions as part of a trade agreement.
- The impact—trade sanctions target export industries, which oftentimes have the highest labor and environmental standards as a result of the involvement of U.S. companies. Trade sanctions would undermine precisely those industries and the examples they set.

- The result—such sanctions are largely counterproductive. By impeding economic growth and trade liberalization, sanctions limit the ability and motivation of countries to increase such standards.

#### **No Mandatory Inclusion of Labor and Environmental Provisions as Part of Trade Promotion Authority**

Second, we should not use trade promotion authority to *mandate* the inclusion of labor and environment issues in all trade agreements. There remains much disagreement in the developing world, not to mention in the United States, over how to address these issues. Mandating the inclusion of labor and environmental issues will impede, rather than promote, the very trade liberalization and economic growth that support the adoption of higher standards throughout the world.

Already, many countries in the developing world are reluctant to move forward with trade liberalization. By mandating the linkage of labor and environmental issues to trade agreements, we create an additional incentive and excuse for these countries to oppose the very trade liberalization that will enable them to improve their economies and these standards.

#### **Review and Transformation of the Trade Adjustment Assistance Programs**

Third, we should address U.S. workers' anxieties about trade directly—through the reauthorization and transformation of the Trade Adjustment Assistance (TAA) programs that expire at the end of September. Despite the importance of trade and investment liberalization in supporting economic growth and a high standard of living in the United States, there remains much skepticism on whether the United States should continue to pursue liberalized trade and investment. In a recently published book, *Globalization and the Perceptions of American Workers*, Drs. Kenneth Scheve and Matthew Slaughter review public opinion surveys dating back to the 1930s documenting this uncertainty. Their review indicates that while a large majority of Americans acknowledge the gains from globalization, a plurality to a majority are worried about the impact of trade and globalization on labor issues, particularly lower wages and the loss of jobs in this country.

The original TAA programs for workers and for firms were enacted as part of the Trade Expansion of 1962. These programs were premised on the recognition that while trade liberalization supports economic growth and prosperity for the United States as a whole, certain workers and companies may be adversely affected by the adjustment to trade liberalization. The TAA for Workers and the TAA for Firms programs enacted in 1962 were last modified in any significant manner as part of the Trade Act of 1974. The third TAA program, NAFTA–TAA for Workers, was enacted as part of the NAFTA Implementation Act in 1993 and is focused on workers adversely impacted by trade with Canada and/or Mexico. The NAFTA Implementation Act also established a fourth program, the Community Adjustment and Investment Program (CAIP), to provide funds for community adjustment and investment.

As the U.S. economy has changed considerably since the enactment of the original TAA programs, so have the needs of the U.S. workforce, particularly as technological development accounts for a substantial proportion of the dislocations experienced in the U.S. workforce. ECAT supports, therefore, an extensive review and transformation of these programs to address more fully the needs of today's workers.

While there is no lack of support for the objective of these programs, support for the extension of the TAA programs has declined in recent years as complaints have grown over the effectiveness and proper role of these programs. Last year, the Senate Finance Committee requested the General Accounting Office (GAO) to perform a comprehensive review of the three primary TAA programs and the CAIP in 2000.

The GAO's initial reports confirm some of the concerns over the TAA programs that have been raised in recent years. In its October 2000 report, *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs*, the GAO found that 75 percent of TAA beneficiaries in FY 1999 were able to find follow-up employment, but only 56 percent of those workers earned 80 percent or more of their prior wage. While training improved wage and employment outcomes for workers, training rates have declined substantially in the 1990s (from 31 percent of eligible workers in FY 1995 to 18 percent in FY 1999). Some states have suspended training and established waiting lists because of Labor Department funding delays. Differing eligibility rules between the general TAA for Workers and the NAFTA–TAA programs also impede the provision of assistance, as do time limits on training.

GAO's review of the TAA for Firms program and the CAIP illustrated even greater concerns. In its December 2000 report, *Trade Adjustment Assistance: Impact of*

*Federal Assistance to Firms is Unclear*, the GAO was unable to determine the impact of these programs since there is no formal monitoring and tracking of program results, as well as limited funding. In its September 2000 report on the CAIP, *Trade Adjustment Assistance: Opportunities to Improve the Community Adjustment and Investment Program*, the GAO found significant managerial deficiencies and inefficiencies that delayed implementation of the program for more than three years and continue to delay approval of loans and grants. Eligibility procedures are complex and appear to undercount dislocated workers. Furthermore, notification and outreach to communities designated as eligible are very limited, further undermining the ability of this program to address the adjustment needs of communities and workers. Since 1997, the CAIP provided \$257 million in loan guarantees, loans and grants to 83 of the 228 eligible communities. Like the TAA for Firms program, GAO found that the CAIP lacks any monitoring system and, therefore, was unable to determine whether distributed grants and loans have been effective.

This year provides an important opportunity for engaging in an extensive review and transformation of the TAA programs to address more fully the needs of today's workers. Many scholars and others are already working on ways that this can be done. Proposals being developed include an expansion of the TAA programs to address technology-based dislocations, wage insurance, and/or health care portability. Notably, on November 14, 2000, the Congressionally established Trade Deficit Review Commission released a report—divided along party lines—on the causes and impact of the trade deficit. The primary area where members were able to achieve consensus, however, was on the need to provide effective worker adjustment assistance, including through the provision of new benefits, such as health care portability.

Nor is this solely the role of the Federal Government. The McGraw-Hill Companies and other ECAT member companies are actively involved in our own education and retraining efforts to address the needs of today's workforce. We have focused on continued education and intensive retraining through the use of community colleges, the Internet, and other education resources. These programs, in conjunction with government efforts, represent an important facet of worker readjustment efforts.

### **Conclusion**

Mr. Chairman, Members of the Subcommittee: Trade and investment expansion are critical to the prosperity of the United States. The United States occupies a unique position of influence in the world. It is so important to provide the President with trade promotion authority not only to provide him the power and flexibility to negotiate agreements that advance our national interests, but also to assume the mantle of leadership the global community expects from the U.S.

One last point. After an incredible period of sustained economic growth, business is facing economic pressure not felt in some time. Consequently, it is more important and timely than ever that we rededicate ourselves to expansionary trade practices and open markets so that the promise of the global economy can be made fully available to U.S. business and workers as well as our counterparts elsewhere.

I and my fellow ECAT CEOs are committed to ensuring that the United States regains its leadership role on trade and pursues aggressively trade-liberalizing opportunities throughout the world.

I appreciate the opportunity to appear before you today on behalf of ECAT.

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Chairman CRANE. Thank you, Mr. McGraw. Mr. Maury?

### **STATEMENT OF SAMUEL L. MAURY, PRESIDENT, BUSINESS ROUNDTABLE**

Mr. MAURY. Thank you, Mr. Chairman, for holding this hearing this morning. My name is Sam Maury and I am President of the Business Roundtable, an association of chief executive officers of leading U.S. corporations. I want to thank you for providing us with the opportunity to share our views on the recent proliferation of free trade agreements, FTAs, that grant parties preferences at the expense of the United States.

The world has entered a new era in international trade, an era in which our trading partners no longer consider the United States indispensable. One defining feature of this new era is the proliferation of FTAs. The United States is a party to only two of the more than 130 FTAs in force today. The European Union has FTAs with 27 countries. About one-third of total world exports in 1999 were covered by EU free trade and customs agreements, compared with only 11 percent for U.S. free trade accords.

The EU is hardly alone. Mexico has FTAs with at least 28 countries, and nine Southeast Asian nations are beginning to consider an FTA with China. The United States is not keeping pace and the implications are serious and they take a variety of forms.

First, we face discriminatory tariffs. For example, the Canada-Chile FTA eliminated Chile's across-the-board tariff for Canada, but not for the United States. Most trade between Brazil and Argentina, two members of MERCOSUR, is now duty-free, while U.S. companies face an average tariff of more than 14 percent.

The case of the Holland Binkley company illustrates the harm that many U.S. companies face every day. Holland Binkley, an Ohio company, recently bid to supply axle products to a customer in Chile. They lost that bid to a Canadian supplier because the Canada-Chile FTA exempted Canadian suppliers from all tariffs. Holland simply could not compete because of the discriminatory tariff regime. Now Holland Binkley exports transportation products to Chile from Canada, not from the United States, in order to take advantage of the Canada-Chile FTA.

Second, because these FTAs increasingly cover trade and services, they often place our service industries at a competitive disadvantage against their foreign rivals.

Third, these FTAs establish product standards that favor our foreign competitors. Their product becomes the standard while the U.S. product becomes non-standard.

Fourth, these FTAs grant our foreign competitors investment opportunities that U.S. investors lack.

Finally, they set dangerous precedents and allow our trading partners to present a united front in future negotiations with the United States. With respect to precedents, for example, the EU-Mexico FTA contains little coverage of agriculture, which supports the dangerous proposition that agriculture is too sensitive for international rules. As a result, the United States will find it increasingly difficult to open foreign markets to U.S. farmers.

With respect to alliances, the four South America members of MERCOSUR hope to conclude FTAs with Chile, the Andean community, and Mexico before MERCOSUR enters the final and most difficult stage of negotiations with the United States on an FTA of the Americas.

Mr. Chairman, U.S. trade policy makers need to reengage immediately and aggressively in trade negotiations. We must proceed on multiple fronts. We must deepen our commitment to a new round of WTO negotiations, complete negotiations with Singapore and Chile, reinvigorate the FTAA negotiations, and begin formulating entirely new trade and investment initiatives. Granting the President trade promotion authority is an important first step towards reengagement on all of these fronts.

The Business Roundtable is determined to reach out to the public and help them understand the many benefits of international trade and the need for trade promotion authority. In 1998, we established the Business Round Table (BRT) Go Trade, a national grass-roots program designed to help Americans better understand the benefits of international trade. The initiative continues to expand and build support for trade at the local level. From 11 Congressional districts in eight States in 1998 to more than 160 key Congressional districts covering 25 States today, the program has increased its reach across the country to ensure that the pro-trade message is heard.

Mr. Chairman, in this era, standing still means falling behind. I urge the Congress to give the President trade promotion authority so that the United States can move forward and resume its position of leadership on trade. Thank you.

[The prepared statement of Mr. Maury follows:]

**Statement of Samuel L. Maury, President, Business Roundtable**

Mr. Chairman, Members of the Subcommittee. Good morning. My name is Sam Maury. I am the President of The Business Roundtable, an association of chief executive officers of leading U.S. corporations with a combined workforce of more than 10 million employees in the United States.

I want to thank you for providing me and The Business Roundtable with the opportunity to share our views on the recent proliferation of bilateral and regional trade agreements that exclude the United States.

Mr. Chairman, the world has entered a New Era in international trade and investment policy, an Era in which our trading partners no longer consider the United States an indispensable party to market opening agreements. One defining feature of this New Era is the proliferation of bilateral and regional free trade agreements (FTAs) that grant parties preferences over non-parties. The United States is a party to only two of the over 130 estimated FTAs in force today. As a result, the vast majority of FTAs grant our trading partners preferences at our expense. Our failure to keep pace has both immediate and long-term implications for the health of the U.S. economy. Not only do FTAs that exclude the United States make it difficult for U.S. businesses, workers and farmers to compete today, they also diminish our ability to negotiate forcefully in the future, especially in the World Trade Organization (WTO).

In this New Era, standing still means falling behind. The United States must move forward by re-engaging immediately and aggressively in trade and investment negotiations. Giving the President Trade Promotion Authority would enable the United States to retake its leadership role, and signal to our trading partners our commitment to reinvigorate the WTO and the Free Trade Area of the Americas (FTAA) negotiations, to move forward with the Singapore and Chile FTA negotiations, and to launch new initiatives.

**I. The New Era in International Trade and Investment Policy**

The world has entered a New Era in international trade and investment policy. In the past ten years, our trading partners have become hyperactive, rewriting trade and investment rules and reshaping international economic relations. Our trading partners no longer consider the United States an indispensable party to trade and investment negotiations. They are cutting deals without us, gradually surrounding the United States with a network of preferential trade arrangements.

When the New Era began, the United States kept pace with its partners. We negotiated the North American Free Trade Agreement (1994), promoted ambitious market-opening initiatives in the APEC, such as the Information Technology Agreement (1996), and negotiated telecommunications and financial services deals in the WTO (1997). After a pause of several years, we have started to get back into the game with the U.S.-Jordan FTA and the proposed FTA negotiations with Chile and Singapore. However, unable to agree domestically on an agenda for the next round of WTO talks or on comprehensive regional objectives in the FTAA negotiations, we run the risk of falling further behind.

### A. Free Trade Agreements

Approximately 130 FTAs have been notified to the WTO (or its predecessor, the GATT) and are in force around the world today, most of which were concluded since 1990. Only two—the U.S.-Israel FTA and the NAFTA—include the United States. (The U.S.-Jordan FTA is not yet in force.) The actual number of FTAs may be even greater, as not all FTAs are notified to the WTO. In many instances, these FTAs are less comprehensive than U.S. FTAs. Nevertheless, they pose a considerable challenge to U.S. policymakers.

*The European Union.* About 33 percent of total world exports in 1999 were covered by EU free trade and customs agreements, compared to almost 11 percent for U.S. free trade accords. The EU has in force FTAs with 27 countries—20 of these have been signed since 1990. Last year alone it reached agreements with South Africa, Morocco and, most significantly, Mexico—the United States' second largest export market. Agreements with Egypt and Jordan have been signed but are not yet in force.

The EU has 15 more FTAs on its active negotiating agenda—including FTAs with the four nations that comprise MERCOSUR, with the six countries of the Gulf Cooperation Council (Saudi Arabia, Oman, Kuwait, Qatar, UAE and Bahrain), and with Chile.

*MERCOSUR.* Argentina, Brazil, Paraguay and Uruguay formed MERCOSUR in 1991. MERCOSUR began its first round of FTA negotiations with the EU in April of 2000. In September of 2000, MERCOSUR agreed to establish by 2002 a trade union with the Andean Community. (The Andean Community comprises Peru, Venezuela, Colombia, Ecuador, and Bolivia.) At the end of 2000, MERCOSUR invited Mexico to join its bloc by 2004.

*ASEAN.* The Association of Southeast Asian Nations began to form an FTA in 1992. (ASEAN comprises Brunei, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam.) In November 2000, ASEAN began considering an FTA with China. Some consideration is also being given to a massive East Asian FTA between ASEAN, China, Japan and Korea.

*Mexico.* Mexico has FTAs with at least 28 countries; 25 agreements were concluded since 1994. In addition to NAFTA and its agreement with the EU, Mexico has agreements with Bolivia, Chile, Venezuela, Colombia, Costa Rica, Nicaragua and Israel. It is presently negotiating FTAs with MERCOSUR, Japan, South Korea and Singapore. In November 2000, Mexico reached an agreement with EFTA (Iceland, Liechtenstein, Norway and Switzerland). According to Mexican President Vicente Fox, "The fact that we belong to [NAFTA] does not impede us from reaching bilateral and regional accords. . . . Brazil, the MERCOSUR, and Latin America are our priorities."

*South Africa.* In addition to concluding an FTA with the EU, South Africa is the leader of the Southern Africa Development Community (SADC), an FTA among 12 South African countries. In December 2000, SADC and MERCOSUR agreed to pursue closer trade and economic ties.

*Japan.* Following a long-standing policy of refusing to sign bilateral and regional FTAs, Japan in the past two years has decided to give serious consideration to several significant FTAs. Japan hopes to conclude a comprehensive agreement with Singapore by the end of this year. Japan is also holding informal discussions on FTAs with Mexico, Canada, South Korea, Australia and New Zealand—but not with the United States. A senior Japanese official has suggested that Japan's future may no longer be as closely tied with the United States and the WTO: "For the past several decades, Japan has been backing bilateralism and multilateralism, in which it has treated the United States as its key trade partner and GATT and the WTO as the supreme body to set global trading rules. This policy is changing as the time changes."

*The United States.* At present, the United States has in force FTAs with only three nations; the most recent agreement, NAFTA, entered into force in 1994—more than seven years ago. While the United States in 1998 gained acceptance from 34 Western Hemisphere nations for the general principle of moving toward hemispheric free trade in the Americas by 2005, these negotiations have stalled. The objective of free trade in APEC by 2020, agreed to in 1994, is even less advanced.

### B. Bilateral Investment Treaties (BITs)

Bilateral Investment Treaties (BITs) are international agreements that essentially prevent discrimination, remove barriers and protect investments against expropriation. The nations that are most active in negotiating BITs recognize the tremendous benefits that foreign investment provides to their economies. Although a full list of these many benefits is beyond the scope of this testimony, two of the most fundamental deserve particular attention.

First, our investments and our exports are generally linked. Exports of goods by U.S. companies to their foreign affiliates total about \$162 billion a year, 26 percent of all U.S. goods exports. It is easier for U.S. companies to export to foreign markets when these companies can establish a commercial presence in the foreign market. For example, a U.S. machinery manufacturer may find low tariffs on U.S. machinery meaningless if the manufacturer cannot establish a sales outlet or provide maintenance services for the exported machinery.

Second, U.S. companies' overseas operations also generate income that is reinvested in the United States. Approximately \$135 billion per year is invested in the U.S. economy from this source of income. Foreign investment also allows U.S. companies to enjoy greater economies of scale and scope, as well as greater access to important foreign technologies.

The number of BITs *quintupled* during the 1990s, from 385 to 1,857, according to a recent report from the United Nations Conference on Trade and Development. The United States ranks only 26th in terms of the number of BITs concluded as of January 2000.

While the United States is party to approximately 43 BITs, Western European nations have negotiated 909 and have negotiated with the largest and most commercially significant developing countries in the world. For example, 16 Western European countries have BITs with Brazil (the largest country in Latin America), 16 with China (the largest country in Asia), 10 with India (population nearly 1 billion), and 13 with Indonesia (population over 200 million). The United States has not signed a single BIT with any of these nations.

### C. Mutual Recognition Agreements (MRAs)

A Mutual Recognition Agreement (MRA) is an agreement between the parties to accept one another's (different) standards or regulatory certification systems.

The EU leads the world in the development of MRAs. While the United States concluded several MRAs with the EU in 1997 and an MRA for telecommunications equipment with members of APEC in 1998, the EU has greater experience and familiarity with MRAs. Most recently, in December 2000, it concluded an MRA with Japan, after five years of negotiations. Its dominance in this area means that European exports often can gain entry into foreign markets at a lower cost and sooner than U.S. exports.

## II. The Impact of U.S. Inaction

A Presidential Report to the Congress several years ago recognized the harm that results from U.S. inaction in the New Era: "[A]ny time a trade agreement is concluded that reduces barriers among the parties, and those parties do not include the United States, U.S. producers are put at a competitive disadvantage in that market. U.S. exporters are discovering every day the real and growing commercial costs of U.S. non-participation in these ongoing trade negotiations." (Presidential Report to the Congress: Recommendations on Future Free Trade Area Negotiations, September 25, 1997).

While many of the FTAs and BITs described above are not as comprehensive as agreements to which the United States is a party, our failure to keep pace with our trading partners in this New Era nevertheless poses both an immediate and a long-term threat to U.S. businesses, workers and farmers. In the immediate future, and even today, U.S. businesses, workers and farmers are forced to compete on an uneven playing field. Longer term, our trading partners are creating rules that cut against us and are forming strategic alliances that are hostile to U.S. interests. The immediate and long-term threats take a variety of forms.

### A. Discriminatory Tariffs

With the proliferation of FTAs that exclude the United States, U.S. exporters face higher tariffs than their competitors. For example, the Canada-Chile FTA eliminated Chile's across-the-board 11 percent tariff for Canada, but not for the United States. In addition, most trade between Brazil and Argentina (two members of MERCOSUR) is now duty-free, while U.S. companies still face an average tariff of more than 14 percent on exports to these countries. Unless the United States returns to the negotiating table, the situation is likely to deteriorate even further in the immediate future, as numerous proposed FTAs are concluded and enter into force.

These discriminatory tariffs harm U.S. businesses and workers every day. For example, Holland Binkley Company, an Ohio company, recently bid on supplying axles to Chile. Holland lost the bid to a Canadian company, because the Canada-Chile FTA exempted Canadian products from a tariff that U.S. manufacturers must pay. To be able to compete with Canadian companies, Holland has to use its plant in Woodstock, Canada, to export transportation products to Chile.

Henry Schein, Inc., headquartered in New York, is the world's leading distributor of healthcare products to office-based doctors and dentists. Henry Schein exports its products to over 400,000 clients around the world. But tariffs and duties as high as 100 percent place these U.S. exports beyond the means of many customers in Brazil and Argentina. MERCOSUR's preferential treatment of South American products force doctors and dentists to buy local products, even though U.S. healthcare products are widely regarded as the best in the world. Before MERCOSUR was formed, Henry Schein had much better access to these markets.

Foreign FTAs are also adversely affecting U.S. farmers. For example, according to the Washington State Potato Commission, Chile has been the largest importer in South America of U.S. frozen potato products. However, because of Chile's FTAs with Canada and MERCOSUR, Chile is phasing out its duties on Canadian and Argentine potatoes, while tariffs on U.S. potatoes are stuck at 8 percent. As a result, U.S. potato producers are losing their market share. Recently, U.S. potato exporters lost the Burger King account to Canadian and Argentine suppliers.

Finally, in your second panel today, you will hear the Mead Corporation explain how the lack of FTAs with Latin American countries has adversely affected exports from Mead and other U.S. forest and paper product companies.

#### **B. Discriminatory Services Provisions**

FTAs increasingly cover trade in services. Because many developing countries have yet to remove barriers to market access in many services sectors under the WTO's General Agreement on Trade in Services, FTAs provide fertile ground for preferences in such service areas as telecommunications, financial services, tourism, and government procurement. Our exclusion from FTAs means our service providers are placed at a competitive disadvantage against their foreign (especially European) rivals. Take, for example, the EU-Mexico FTA. The European Commission boasts that European service providers "will be granted *better access than* that currently enjoyed by Mexico's other preferential partners and in particular *the USA and Canada.*" (emphasis added)

#### **C. Unfavorable Product Standards and Regulations**

Our major trading partners are actively seeking to embed their technologies in standards and regulations adopted in other countries. FTAs often provide the institutional framework for doing so. When successful, these efforts grant foreign companies a decisive competitive advantage. Their product becomes the standard, while the U.S. product becomes obsolete.

#### **D. Discriminatory Regulatory Treatment**

Like FTAs, mutual recognition agreements (MRAs) create a preferential arrangement for the parties involved. Exporters covered by MRAs not only greatly reduce their costs by eliminating duplicative investigations of their products, they also get to the foreign market first.

#### **E. Preferential Investment Protection and Liberalization**

FTAs and BITs can provide each party's investors with protection against discrimination and expropriation without compensation. They also provide for the liberalization of investment rules. For example, BITs and FTAs increasingly include provisions regarding the right to establish a commercial presence in the foreign country and the free movement of managerial employees. Thus, FTAs and BITs that do not include the United States grant our foreign competitors opportunities that U.S. companies lack. These lost opportunities harm U.S. workers because, where our investments go, our exports follow.

#### **F. Losing the Benefit of Our Existing FTAs**

Our only FTA (other than the one with Israel) is NAFTA. In many instances, other countries are diminishing our preferential relationships by negotiating similar agreements with Mexico and Canada. Indeed, that is the very purpose of some of these FTAs, including the existing EU-Mexico FTA and the proposed Japan-Mexico FTA.

The European Commission has stated that "the main objective [of the EU-Mexico FTA] has been to restore the competitiveness of EC exports to Mexico and secure equivalent access to that market, in particular with respect to that enjoyed by products originating from the NAFTA countries." For example, European cars "will enter the Mexican market under the same, and in certain cases better conditions than NAFTA cars. Tariffs will be reduced from 20% to 3.3% at entry into force and will be eliminated by 2003. *Unlike in NAFTA, [European] vehicles imported by companies which are not established in Mexico will also benefit from these preferential conditions.*" (emphasis added)

The lesson is clear: it is no longer possible for us to rest on our past success in negotiating preferential market access. Without an ongoing commitment, those preferences will be lost, and U.S. workers, farmers and exporters will pay a price for our inaction.

### G. Setting Dangerous Precedents

FTAs set precedents for future bilateral, regional, and multilateral agreements. If the United States does not participate in shaping these precedents, the United States becomes isolated when new rules are negotiated in the WTO and elsewhere. For example:

- *Anti-dumping Remedies.* Without U.S. involvement, FTAs may threaten the careful balance that WTO negotiators struck over antidumping remedies during the Uruguay Round. For instance, in their 1996 FTA, Canada and Chile agreed to discontinue the use of antidumping remedies with respect to one another's exports. Moreover, the Japanese Keidanren wants "the network of FTAs to disseminate fairer anti-dumping rules" in order to "strengthen Japan's position in the next WTO negotiations."

- *Electronic Commerce.* Our trading partners are contemplating rules on electronic commerce that are inconsistent with U.S. interests. For example, the EU asserts that "all electronic transmissions consist of services." In practice, because members have eliminated more barriers to trade in goods than to trade in services, this principle would allow our trading partners to backslide on existing tariff concessions for goods, such as books and music, that are digitally transmitted.

- *Agriculture.* The EU-Mexico FTA contains little coverage of agriculture. The imminent Japan-Singapore FTA and the proposed Japan-Mexico FTA are unlikely to cover most agricultural trade. As Japan and the EU create the precedent that trade in agriculture is too "sensitive" for international rules, the United States will find it increasingly difficult to open foreign markets for U.S. farmers.

### H. Blocked Alliances

Preferential trade arrangements provide our trading partners with an opportunity to build alliances and to present a united front in negotiations with the United States. The formation of strategic alliances is perhaps most evident in the Western Hemisphere, where negotiations are underway to conclude the FTAA. MERCOSUR is negotiating FTAs with the Andean Community and Mexico, and has included Chile and Bolivia as associate members. Brazil, a powerful member of MERCOSUR, opposes an expedited FTAA negotiation and the rapid elimination of many trade barriers, while the United States has much to gain by moving quickly to eliminate trade barriers. Perhaps to enhance its position in FTAA negotiations, Brazil hopes to first solidify and expand MERCOSUR.

## III. The United States Must Return to the Negotiating Table

The growing network of preferential trade arrangements that exclude the United States clearly harms U.S. companies, workers and farmers. U.S. trade policymakers therefore must re-engage immediately and aggressively in trade and investment negotiations. In fact, because the United States is the most competitive nation in the world, we can expect to gain the most from greater access to foreign markets. Indeed, our economic growth depends on access to foreign markets, as one-third of that growth is the direct result of exports.

We must proceed on multiple fronts. We must deepen our commitment to a new round of WTO negotiations, complete negotiations with Singapore and Chile, reinvigorate the FTAA negotiations and the APEC, and begin formulating entirely new trade and investment initiatives.

Granting the President Trade Promotion Authority is an important first step towards re-engagement on all of these fronts. Trade Promotion Authority not only will enable the United States to *conclude* important trade agreements, it would give our negotiators credibility at the bargaining table and, as a result, encourage our trading partners to *move forward* in negotiations. Without Trade Promotion Authority, our trading partners will be reluctant to engage in comprehensive and time-intensive negotiations with the United States and will turn to other nations to negotiate deals that exclude the United States.

The Business Roundtable is firmly committed to helping the public understand the benefits of international trade and investment negotiations and the need to give the President Trade Promotion Authority. In early 1998, The Business Roundtable initiated its *BRT goTRADE* programs. *BRT goTRADE* is a grassroots trade education and information program designed to help Americans better understand the benefits of international trade, and build support at the local level for trade expansion initiatives.

Why *BRT goTRADE*? Roundtable CEOs are convinced that the choices we make as a nation today on international trade rank among the important decisions that will define the American economic and social landscape decades from now. Forward looking trade policies will create increased 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.

In view of *BRT goTRADE*'s success over the past few years, *BRT goTRADE* continues to expand across the country. From 11 congressional districts in eight states in 1998 to more than 160 priority congressional districts covering 25 states today, the *BRT goTRADE* program has increased its reach across the country.

Each *BRT goTRADE* location undertakes a series of activities tailored specifically to the needs and circumstances of its site. These activities include:

- Establishing locally organized, pro-trade networks comprising businesses, workers and academics. These networks concentrate on developing, publicizing and leveraging positive local trade stories. In each district, scores of large and small companies and trade groups joined forces in these networks to promote a pro-trade agenda.

- Conducting statistical and qualitative studies on the local impact of international trade. These studies—the first ever done at the congressional district level—demonstrate clearly and convincingly that trade helps increase the standard of living for workers in each district. The studies also show that small businesses, even more so than large companies, rely on exports to survive and prosper.

- Releasing state studies that explain the benefits of trade. Last year, these studies focused on China's accession to the WTO and why its accession would be a win-win proposition for America's companies, workers, farmers and consumers. These studies helped make the case for Permanent Normal Trade Relations (PNTR).

- Creating a schedule of special community events and forums devoted to trade education and awareness, including educational outreach to local schools.

- Working with the news media to generate positive coverage of local trade successes or opportunities, and placing letters to the editor and op-ed articles written by local pro-trade luminaries in local papers.

Mr. Chairman, in this New Era of international trade and investment policy, standing still means falling behind our foreign competitors. I urge the Congress to give the President Trade Promotion Authority, so that the United States can move forward and resume its position of leadership in the global economy.

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Chairman CRANE. Thank you, Mr. Maury. Mr. Weiller?

**STATEMENT OF WILLIAM WEILLER, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, PURAFIL, INC., ATLANTA, GEORGIA**

Mr. WEILLER. Good morning, Mr. Chairman. My name is Bill Weiller and I am the CEO of Purafil, the leading manufacturer of air purification systems, based in Atlanta, Georgia. I prepared some testimony that I ask be submitted in the written record and have some brief remarks.

I would like to thank you for the opportunity to testify before the House Ways and Means Trade Subcommittee on whether U.S. business is disadvantaged by the increasing number of trade agreements to which the U.S. is not a party. I am testifying on behalf of Purafil. I also serve on an International Economic Policy Steering Committee of the National Association of Manufacturers.

Why is Purafil, a small American business with about 70 employees, even remotely interested in 130 free trade accords currently in force to which the United States is not a party? Sixty percent of our sales, of Purafil sales, are made outside of the United States. Exporting is a cornerstone of our corporate strategy and I am here to let you know that the effect of these agreements is very real for Purafil. Staying on the sidelines while other companies move for-

ward with their own trade agreements is having negative consequences that will only get worse. Frankly, Congressional inaction in the past six years has been my competitors' best friend, and I urge you to take immediate action on trade promotion authority.

I will give you four examples. The EU-Egypt association agreement, Canada and Chile, MERCOSUR, and the EU-South African agreement illustrate the bottom line impact of not moving forward on trade.

The EU-Egypt association agreement: Purafil's exports to Egypt face a ten percent duty and a three percent surcharge, not to mention a range of difficult non-tariff barriers. As a result of the recently initialed EU-Egypt association agreement, my competitors in the EU will have its tariff in Egypt phased out over a transition period and the 13 percent difference in duties that remains will be enough to turn over our sales in Egypt to our European competitor.

Canada-Chile FTA: In Chile, our products are subject to a duty of nine percent. Purafil's Canadian-based competitors face zero duty, since Chile and Canada have an FTA. I can assure you that for any business, small or large, a nine percent price difference is enough to swing a sale. To level the playing field for my company in Chile, a U.S.-Chile FTA is essential.

MERCOSUR: In Brazil, our products face a duty of 14 percent. My Brazil-based competitor faces no such duty in the Brazilian market or in Argentina, Paraguay, or Uruguay, the other members of the South American MERCOSUR agreement. An FTA would allow Purafil to overcome this 14 percent cost disadvantage.

EU and South Africa: As a result of the EU-South Africa Trade Agreement, my company faces two times the duties in the European markets as my South Africa-based competitor.

Purafil will do everything in its power to remain competitive. I am here today to ask you to do your part. Level the playing field so our people, our technology, and our products can compete in a global market. Level the playing field by providing the President with trade promotion authority to put the U.S. in a leadership role and allow it to move quickly on the FTAA and the WTO. Do not force us to compete with the trade barriers and tariffs currently in place. Thank you.

[The prepared statement of Mr. Weiller follows:]

**Statement of William Weiller, Chairman of the Board and Chief Executive Officer, Purafil, Inc., Atlanta, Georgia**

Good morning, Mr. Chairman. My name is Bill Weiller. I am the Chairman of the Board and CEO of Purafil, a leading manufacturer of air purification systems based in Atlanta, Georgia. I would like to thank you for the opportunity to testify before the House Ways and Means Trade Subcommittee on whether U.S. business is disadvantaged by the increasing number of trade agreements to which the United States is not a party. I am testifying on behalf of Purafil. I also serve on the International Economic Policy Steering Committee of the National Association of Manufacturers (NAM).

I'd like to tell you a little bit about my company and how important foreign markets are. Purafil manufactures air quality systems that remove odorous, corrosive and toxic gases. In short, we sell clean air. Our customers include paper mills in Argentina, Oklahoma and North Carolina. We protect valuable artifacts in the Netherlands, the Sistine Chapel, and in Washington, DC. We service petrochemical refineries in Texas, Brazil, and Saudi Arabia. Despite our small size, Purafil is an industry leader in this niche market.

The problems that Purafil can solve are the same worldwide. A refinery in Baton Rouge experiences the same hazardous emissions from manufacturing processes as

does a refinery in Saudi Arabia. The Sistine Chapel protects its artwork from environmental degradation, as does the U.S. National Archives in Washington. Our intellectual property, considering our size, is significant. We have worked hard to take a technology that was developed in the United States about 30 years ago and have constantly refined and improved it.

If Purafil were not present to solve these problems, the increased demand for a solution would result in foreign competitors gaining the business. Right now, Purafil is the best in the world at solving air purification problems. We have a technology that cannot be matched. Purafil has worked hard to stay on top of our industry, and I fear that without exporting, someone else will take the lead. That “someone else” could likely be a company from outside the United States.

Sixty percent of our sales are made outside of the United States. Exporting is vitally important to Purafil: it is the cornerstone of our corporate strategy. We are not a company that got into international sales by accident or solely as a reaction to market demand. We have recognized that in order to survive, to continue to provide jobs to our employees, and to continue to fund the R & D efforts necessary to our success, we have to export and become experts in doing international business.

Many might be surprised that Purafil, a small American business with about 70 employees, is even remotely interested in the 130 free trade accords currently in force to which the United States is not a party. Just last year I testified before the full Committee that, in fact, we often have enough on our hands countering the notion that global free trade is good for big companies and bad for “the little guy.” Small and medium-size businesses do not attract the headlines the multinationals do, and neither do the trade agreements to which the United States is not a party. After all, when Canada signed a free trade agreement (FTA) with Chile, or when the European Union concluded an agreement with South Africa, it certainly did not make the headlines in Atlanta, or even Washington, DC, for that matter. I am here to let you know that the effect of these agreements is very real for Purafil and small business in general.

In Chile, our products are subject to a duty of 9 percent. Purafil’s Canadian-based competitor faces a zero duty since Chile and Canada have an FTA. I can assure you that for any business, small or large, a 9 percent price margin is enough to swing a sale. To level the playing field for my company in Chile, a U.S.-Chile FTA is essential. That is why the United States needs to move quickly on the FTA with Chile, and on the hemispheric Free Trade Area of the Americas (FTAA).

Why the FTAA? For Purafil, it’s quite simple. In Brazil, our products face a duty of 14 percent. My Brazil-based competitor faces no such duty in the Brazilian market, or in Argentina, Paraguay and Uruguay, the other members of the South American MERCOSUR agreement. How is Purafil to overcome this 14 percent cost disadvantage? Move quickly on the FTAA by giving the President Trade Promotion Authority (TPA) that would put the United States back in a leadership role. For businesses with a payroll to meet, one year is an eternity, and I will not be able to compete in these international markets unless the playing field is leveled, and leveled quickly.

It’s not just trade agreements in the hemisphere, or lack thereof, that disadvantage my company. Another example is the trade agreement between the EU and South Africa. We are beginning to see competition from a South Africa based firm. As a result of the EU-South Africa agreement, we face twice the duty in the European market as our South African competitor. That is a disadvantage for Purafil that the United States needs to address through the launch of a new round of negotiations at the World Trade Organization (WTO). We are facing similar high tariff situations in India, China and elsewhere. One solution is to form licensing agreements in these countries, but in doing so, we dilute our profit margins and make it easy for partners to eventually become competitors. The real solution is for the WTO to move forward in continuing to reduce tariffs and other barriers, particularly in the developing countries, where the barriers are still high. If our trading partners do not come to the table with serious market access commitments in the FTAA and the WTO, then the United States needs to move swiftly with as many countries willing to do so on a bilateral basis.

Purafil will continue to do everything in its power to remain competitive. I am here today to ask you to do your part—level the playing field so our people, our technology and our products can compete in the global market. Level the playing field by providing the President with Trade Promotion Authority to put the United States in a leadership role and allow it to move quickly on the FTAA and the WTO. Don’t force us to compete with the trade barriers and tariffs currently in place.

I don’t need statistics, studies or business experts to tell me that exporting creates jobs and is good for the economy. As a small business owner, I see it every day I

go to the plant. I'm constantly reminded when I look at the shipments on our dock and see their final destinations.

There is no substitute for U.S. leadership on trade. The right policies on trade, taxes and regulation are particularly vital at a time of slowing economic growth. For Purafil and other small-business exporters, we will continue to be successful only if we maintain our international customer base. In order to do that, we will depend on the reduction of tariffs and other trade barriers. Thank you.

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Chairman CRANE. Thank you, Mr. Weiller. Mr. Tarullo?

**STATEMENT OF DANIEL K. TARULLO, PROFESSOR,  
GEORGETOWN UNIVERSITY LAW CENTER**

Mr. TARULLO. Thank you, Mr. Chairman. Let me say at the outset, Mr. Chairman, that I endorse fully the emphasis of the rest of the panel on the importance of U.S. leadership in trade policy. In general terms, I also agree with the proposition that a proliferation of bilateral and regional agreements to which the United States is not party can adversely affect U.S. commercial interests. But my point today is that the consensus on the desirability of U.S. leadership and justifiable concerns about trade agreements that exclude the United States do not take us very far in determining an appropriate policy response. I say this for three reasons.

First, the fact that we can assume some damage to U.S. interests from these agreements does not tell us how much damage is being caused. Without more careful, systematic study, we will not have the answer to this question. Aggregations of numbers of agreements and a compiling of anecdotes are a helpful starting point for analysis, but they can be misleading. When one talks about the number of bilateral investment treaties, for example, one has to recognize that there are 15 different countries in the European Union, each individually negotiating the Bilateral Investment Treaty (BIT). Moreover, it is very difficult to tell from the existence of these treaties how much advantage, in fact, is accruing to the countries negotiating them.

As to anecdotes, there are always anecdotes about lost sales because of trade agreements and I am sure that most, if not all, of them are accurate. But anecdotes alone do not tell us the overall effects of a free trade area upon non-member States. We cannot tell if the free trade area has promoted growth in the countries that are members to it, so that there are more exports from the United States and other non-member countries than would otherwise have taken place. We cannot tell if patterns of world exports have shifted in response to the preferential tariff agreements but have not resulted in much of a net change in world market share.

My second point is that even where preferential trade agreements are of concern and are clearly harming U.S. commercial interests, we cannot assume that a more activist U.S. trade policy will necessarily blunt their effects. Some of these agreements exclude the United States not because of inaction on the part of the United States, but because of an affirmative desire on the part of some of the negotiating countries to exclude the United States. These agreements are intended precisely to reduce U.S. influence, an outgrowth of fears in some other countries of having international systems dominated by the world's remaining superpower.

Now, these first two points do not, of course, mean that there is no sensible trade negotiating agenda which the United States can realistically pursue. Ultimately, the most important question before the Congress and the public is not whether the United States should undertake trade negotiations, but how and with what aim. The day has long passed when trade agreements could be approached as a simple balancing of the interests of import-sensitive industries with those of export-oriented industries and of consumers. The scope of trade agreements has so broadened in recent years that important domestic policies, as well as commercial interests, are regularly implicated in trade policy decisions. For example, recent events underscore the inadequacy of international arrangements to protect food safety and animal health, even as trade in food has been liberalized.

The Business Roundtable's report, which I assume was in part the prompt for this hearing, quite rightly identifies the need to build the national consensus that can form the basis of an agreed mandate from the Congress. Whether one agrees or disagrees with the Roundtable's specific ideas, one should applaud the desire to engage on these issues. Indeed, those who most fear the costs of trade agreements that exclude the United States should have the greatest incentive to address the concerns of citizens who do not stand to benefit directly from new trade agreements involving the United States.

Let me close by trying to place trade negotiations in perspective. As important as they are, they cannot on their own sustain U.S. economic leadership or protect U.S. interests. I would like to suggest just two, rather different additional policies for the consideration of Congress and the administration to complement trade negotiations.

First, we do not need to be passive. I would like to echo Mr. Levin in suggesting that the United States reconsider its position of acquiescing in trade agreements concluded by the European Union that may well violate WTO rules. Historically, there were good foreign policy reasons for acquiescing in those agreements on the European continent. But as Europe seeks preferential trade agreements in other parts of the world, there seems to me no geopolitical or foreign policy reason to give the EU a free ride.

Second, and in conclusion, successful international leadership by the United States requires more sustained attention at home and abroad to those who have difficulty benefitting from increased international trade. I think the members of the Committee are well aware of the range of possibilities and I hope that you and the administration will continue to pay attention to them as you move forward. Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Mr. Tarullo.

[The prepared statement of Mr. Tarullo follows:]

**Statement of Daniel K. Tarullo, Professor, Georgetown University Law Center**

Mr. Chairman, Congressman Levin, I appreciate this opportunity to appear before you today. I am currently a professor at Georgetown University Law Center. Formerly, as you know, I was Assistant to the President for International Economic Policy. I testify before you purely in my individual capacity as an academic, with no client interests or representation.

This hearing was presumably prompted in part by a recent report of the Business Roundtable entitled *The Case for U.S. Trade Leadership: The United States is Falling Behind*. Let me say at the outset that I endorse fully the Business Roundtable's emphasis on the importance of U.S. leadership in trade policy, as in other international economic matters. Constructive U.S. leadership maximizes the chances that the prevailing forms of trade arrangements—regional and multilateral—will reflect American values and promote American interests.

My testimony today is intended to show that consensus on the desirability of U.S. leadership and observation of trade agreements that exclude the United States do not take us very far in deciding upon the best set of policy responses. First, we do not have the kind of data that permit even a rough calculation of the potential harm to the United States from these agreements. Second, we need to recognize that some of the actual or proposed agreements may be motivated precisely by the desire to exclude the United States. Accordingly, even a highly active U.S. trade policy may fail to derail them. Third, even if we all agree that it is important to move forward with trade agreements, the difficult question of our negotiating aims remains.

Thus the Roundtable's report is more a useful starting point for discussion than the basis for action. Following an identification of the potential adverse effects on the United States from other countries' trade agreements, I will elaborate on each of the three points just noted. At the end of my testimony I will suggest two policies beyond launching trade negotiations—one reactive and one proactive—that could strengthen our international position.

#### **Potential Adverse Effects of Agreements that Exclude the United States**

In general terms I agree with the proposition that a proliferation of bilateral and regional agreements to which the United States is not party can adversely affect U.S. commercial interests. These adverse effects come in three forms. First is the well-known effect of *trade diversion*. Products from Country A that were not competitive against those of Country Y when each faced a common tariff in Country B may become competitive when Country A's products receive zero tariff treatment in Country B as a result of a free trade area, but Country Y's products continue to be subject to the tariff. Similarly, the harmonization of certain product standards by members of a free trade area could operate to the detriment of producers from non-member countries. Our concern here, of course, is that competitive U.S. exports may lose market shares in other countries solely because they do not benefit from tariff preferences or other benefits.

A second potential negative effect is that a pattern of bilateral and regional agreements with features disadvantageous to the United States might continue to have disadvantageous effects once multilateral negotiations get underway. The Business Roundtable report contains several examples of possible patterns in bilateral and regional agreements that could set precedents the Roundtable believes to be undesirable. For example, the Roundtable fears that the limited coverage of agriculture in free trade agreements concluded by the European Union with other countries may create the view that agriculture is too sensitive to be subject to the normal international rules that govern trade.

While a fairly broad U.S. consensus likely exists around the desirability of fully including agriculture in trade negotiations, other concerns of the Roundtable about precedent are more controversial. For example, the Roundtable cites as another bad precedent certain provisions in the EU-Mexico agreement that protect the privacy of individuals in the dissemination of electronic data. Judging by public and Congressional discussion since passage of the Gramm-Leach-Bliley Act of 1999, I suspect that many members of Congress would be more sympathetic to efforts to protect individual privacy.

A third possible negative effect of a proliferation of bilateral and regional trade agreements is that they may strengthen geopolitical ties among the members of those arrangements so as to diminish U.S. influence with the member countries. This possible negative effect is really the converse of the foreign policy gains that some believe accrue to countries that conclude free trade agreements. It is, however, very difficult to measure gains and losses in geopolitical influence, much less to separate out the effect of trade agreements from the many other factors that determine the state of relations among nations.

#### **Some Questions About the Costs of Agreements that Exclude the United States**

The existence of grounds for concern about the spread of agreements among U.S. trading partners does not in itself yield prescriptions for policy. For one thing, the fact that we can assume *some* damage to U.S. commercial and other interests does

not tell us *how much* damage is being caused by these agreements, and thus how urgently a policy response is needed.

There have not—at least to my knowledge—been any careful, systematic studies in recent years of the economic costs to the United States of being excluded from new trade agreements, though some may be underway. It is, of course, quite difficult to quantify accurately the net effects of a free trade agreement, including effects on producers in non-member states. Anecdotes about specific lost sales following a trade agreement may be quite valid, but alone they do not tell us very much. We do not, for example, know from such anecdotes whether there may simply have been a reshuffling of supplier-consumer relations, so that U.S. suppliers are selling more to countries which formerly were supplied by producers from the new free trade area.

Furthermore, if the free trade area is a success and helps promote economic growth in the participating countries, consumers in those countries may make purchases from U.S. firms that they would not otherwise have been able to make. These purchases may be of altogether different goods or services from those which suffered initially as a result of the free trade agreement. Of course, no specific new sales can be traced to the agreement the way lost sales can be linked to a tariff disadvantage, so there are rarely countervailing anecdotes.

Because of the complexity of calculations that are necessary to determine the net economic effects of free trade areas and customs unions, empirical assessments have yielded varying results. While some economic studies have produced findings of statistically significant relative increases in trade within various regional trade groupings (as compared to their trade with the rest of the world), it is very hard to project accurately the impact of any single agreement. Moreover, the difficulties in disentangling the specific effects a free trade agreement from other factors, such as accelerating economic growth in geographically proximate countries, remain substantial. For example, one might expect accelerating growth in both Brazil and Argentina to produce increased bilateral trade at a more rapid rate than that at which their global trade increases, quite apart from the effects of a preferential trade arrangement between them.

The Business Roundtable report does not claim to be an economic study. It is an expression of concern by the organization's membership, which includes the nation's largest exporters. The concern is understandable, and the report has provoked a useful discussion, including this hearing. But it would be misleading to conclude too much from the raw numbers contained in the study. A couple of examples demonstrate this point:

- The report indicates that 33 percent of world exports is covered by preferential trade arrangements concluded by the European Union, whereas only 11 percent of world exports is covered by preferential trade arrangements to which the United States is party. A look at the list of agreements concluded by the EU suggests that the only way to reach the 33 percent figure is to include the Treaty of Rome itself. That is, this number must include exports from Germany to Italy, as well as from Germany to Latvia or Tunisia. Given that we now think of the EU as a single economic unit for trade purposes, the inclusion of such exports is accurate but not particularly meaningful.

- The report notes that as of January 2000 there are 1,857 bilateral investment treaties (BITs) in the world, of which only 43 involve the United States. In the 1990s numerous emerging market and formerly communist countries went on a kind of BIT binge, signing such agreements with just about any other country that wished to do so. Thus, Argentina signed 53, including one with the United States. The other 52 agreements do not “exclude” the United States—they simply provide comparable protections for other countries. The report further notes that Western European nations have negotiated 909 BITs. Again, these numbers are accurate, but standing alone they do not tell the whole story. Because European nations negotiate BITs individually, rather than through the European Union, there would need to be 15 separate BITs to achieve the protection for all EU investors that a single BIT provides U.S. investors. Furthermore, as the report itself indicates, Germany alone has concluded 124 BITs, including with a number of very small countries that are unlikely to host significant foreign investment.

The point of these examples is not to quibble with the report, but simply to caution that an inquiry into the potential negative impact on the United States requires considerably more analysis than the aggregation of numbers of agreements and anecdotes, useful as that may be as a starting point for a more extensive investigation. Again, I do not disagree with the proposition that some harm is likely to result from proliferating trade and investment agreements to which the United States is not party. I do believe that we are some ways from being able to identify the order of magnitude of that harm.

### **The Possibility of Competing Economic Blocs**

One frequently-cited concern in recent years is that Europe and Asia are self-consciously attempting to create economic “blocs” that exclude the United States. Based on the existence of Mercosur, some would add Latin America to the list of potential regional blocs. Concerns along these lines are frequently exaggerated, though not unfounded. More importantly, those who raise concerns about blocs sometimes erroneously conclude that these tendencies are due primarily to the failure of the United States to pursue an aggressive negotiating agenda in recent years, and that they can be reversed if the United States pursues just such an agenda.

The European Union is itself a trading bloc, of course. In its external policies, however, the EU is not so much attempting to extend an exclusive, regional bloc as to extend its influence globally. Its free trade agreement with Mexico and its overtures to Asian nations are two good examples. To be fair to the EU, these initiatives are in part responses to American policy in NAFTA and APEC, respectively. They are also, however, part of an emerging European challenge to U.S. leadership in numerous areas, including trade. Europe’s coherence as an international actor is still more latent than realized. But many European officials aspire to co-equal status with the United States. As a byproduct of those aspirations, they resist following U.S. leadership and resent occasions when—as in the Balkans—they are nonetheless forced to do so. In these circumstances, it seems misguided to believe that U.S. trade initiatives will substantially deflect European efforts.

The dynamic between America and Europe that produced the Kennedy, Tokyo, and Uruguay rounds of trade negotiation was itself contentious at times. Even this brand of cooperation is probably gone forever. Rather than believe we can turn back the clock, it is more realistic to prepare ourselves for an extended period of friction with Europe as we redefine our relationship in the post-Cold War era. With skill and luck, our shared values will more than outweigh our sometimes diverging interests. But we should be under no illusion that Europe is simply waiting for us to take up the mantle of economic leadership and will then politely step aside.

Proposals for exclusively Asian economic arrangements have issued for decades. Usually these proposals are not pursued. Even when they have been implemented, as in the case of ASEAN, the member countries have remained quite outward looking. Recent proposals for an approach based on exclusivity should be taken seriously, even though they are far from being realized. However, the very impulse to exclusivity contradicts the notion that a parallel U.S. or multilateral initiative will deflect these efforts. Some countries in the region favor exclusivity because they wish to confine the broad U.S. influence that comes from being the world’s remaining superpower. Other countries are not antagonistic to the United States as such, but believe they need to reach a rapprochement on Asian terms with other Asian countries in order to achieve regional stability. To be effective, U.S. policies toward Asia will have to be both patient and nuanced.

Concerns about Latin America have centered on Mercosur, an arrangement among Argentina, Brazil, Paraguay, and Uruguay (with Chile as an associate member). Mercosur began as a trade agreement, with aims for broader economic integration among the existing members and within Latin America as a whole. Yet even those who support a stronger Mercosur as a counterweight to the United States appear to contemplate an eventual negotiation with the United States (or, perhaps, NAFTA). Moreover, Mercosur has been weakened in the aftermath of Brazil’s financial problems in 1998–1999. Most countries in the region prefer closer economic ties with the United States.

### **Trade Policy Decisions Remain**

Notwithstanding my first two points, there is surely a sensible trade negotiating agenda which the United States can realistically pursue. Ultimately, the most important question before the Congress and the public is not whether the United States should undertake trade negotiations, but *how* and with *what aims*. The day has long passed when trade agreements could be approached as a simple balancing of the interests of import-sensitive industries with those of export-oriented industries and consumers. The scope of trade agreements has so broadened in recent years that important domestic policies, as well as commercial interests, are regularly implicated in trade policy decisions. For example, recent events underscore the inadequacy of international arrangements to protect food safety and animal health, even as trade in food has been liberalized. Current proposals for trade provisions that would permit foreign investors to challenge non-discriminatory state and local regulations, or that could subordinate consumer protection aims in antitrust policy, raise key issues of national policy.

The Business Roundtable’s report quite rightly identifies the need to “build a national consensus that can form the basis of an agreed mandate from the Congress.”

In this spirit, the Roundtable goes on address labor and environmental issues and to suggest some possible approaches to those issues. Whether one agrees or disagrees with the Roundtable's specific ideas, one should embrace the Roundtable's desire to seek a serious discussion on how to move forward. Indeed, those who most fear the costs of other trade agreements should have the greatest incentive to address the concerns of citizens who do not stand to benefit directly from new trade agreements involving the United States. Only if we confront the risks and costs attendant to trade and economic integration will we build the consensus that permits full realization of the benefits that come from trade.

Some may respond that a trade policy agenda that pursues such aims, or that excludes ill-advised ideas like placing competition policy in the WTO, will meet with resistance among our trading partners. Of course, some countries will resist some U.S. negotiating aims and preferences. But this is true for commercial negotiating aims as well. The task for Congress will be to devise an approach that can command broad support from the public. Moreover, there is no reason to think that—for example—labor and environment are qualitatively different from intellectual property, product standards, or government procurement in the reception U.S. proposals will elicit from other countries. Indeed, the U.S.-Jordan FTA has evidenced the willingness of a developing country to include labor and environment provisions in a trade agreement. And the importance which the EU attaches to the “precautionary principle” assures that similar topics will be raised by other countries.

#### **Policies to Complement Trade Negotiations**

My final point is that it is important to place trade negotiations in perspective. As important as they are, they cannot on their own sustain U.S. economic leadership and protect U.S. interests. Moreover, the difficulties in reaching domestic consensus and international agreement are such as to assure delay in achieving the desirable outcomes that trade negotiations *can* deliver. Let me close by commending to the Congress and the Administration just two examples of policies to complement trade negotiations.

First, I suggest that the United States reconsider its position of acquiescing in trade agreements concluded by the European Union that may well violate WTO rules. Historically, the United States raised questions about the compatibility of free trade agreements concluded by what was then the European Economic Community with Article XXIV of the GATT. The most important, but not the only, issue has been whether certain of those agreements met the Article XXIV requirement that “substantially all trade” be covered in a free trade area. While U.S. officials raised these issues, they did not attempt to block working party reports on the free trade areas in question. Nor has the United States invoked the dispute settlement provisions of the GATT or WTO to challenge any of these agreements. Within the U.S. Government, this posture was justified by the geopolitical imperative of strengthening Western Europe during the Cold War. In the 1990s, geopolitics again counseled restraint as the EU concluded agreements with Central and Eastern European countries, based on the reasoning that it was important to bring these new democracies closer to the established democracies of Western and Southern Europe.

Today we are in substantially different circumstances. As the Business Roundtable report points out, the EU-Mexico agreement does not contain anything approaching complete coverage of agriculture. Presumably, the EU's intended agreements with South American countries will have similarly limited coverage. Insofar as European Commission officials have explicitly stated their intention to “consolidate” their leading commercial position in South America through such agreements, it seems to me that there is no strong geopolitical reason to acquiesce in possible WTO violations.

This is not to say that the United States should immediately begin challenges to one or more EU agreements. Nor is it to say that any of these is a clear violation. In fact, the requirements of Article XXIV have barely been developed in the GATT and WTO. But the European Union should not have a free ride if it is evading multilateral rules governing the free trade areas it is concluding outside Europe. We should make this policy position clear. Then, if and as appropriate, the United States should challenge non-conforming agreements in the WTO Committee on Regional Trade Agreements, in dispute settlement proceedings, or both.

My second recommendation is hardly novel but, I believe crucial nonetheless. Successful international economic leadership by the United States requires more sustained attention, both at home and abroad, to those who will have difficulty benefiting from increased international trade. At home we must take more seriously the plight of workers, particularly unskilled and semi-skilled workers, who will be dislocated because of agreements that are beneficial to Americans as a whole. Modest

programs for dislocated workers, usually passed in an effort to move a particular fast-track authorization or trade agreement, will not do the job.

Internationally, we must recognize how much our leadership suffers when we fail to meet financial obligations to which we have already committed ourselves, or when we only grudgingly contribute to development efforts for the poorest countries, such as replenishing funds the International Development Association. I can testify from experience as the President's "sherpa" in preparation for G-7 Summit meetings how much of my time was spent fending off criticism, even from our friends, to the detriment of our efforts to advance our affirmative agenda.

Beyond the simple but important responsibility of the United States as the world's richest nation to do its part in meeting global problems, a more generous and well-conceived development policy can yield benefits for our capacity and credibility as a world leader. In some instances, there may also be ways to accomplish commercial aims through technical and financial assistance and to do so with less rancor than is often produced in trade negotiations. For instance, the Roundtable report mentions European and Japanese technical assistance programs for developing countries. One byproduct of such programs can be a leg up for companies from the assisting country, since the assistance is presumably compatible with standards developed at home. While such advantages should not themselves drive decisions on technical assistance, there is an obvious opportunity to serve commercial and genuine development needs simultaneously.

There are obviously many other possible complementary policies. While the merits of any one such policy can be the subject of good faith differences of view, it is disconcerting that, at a time when we are preparing to spend a good part of the budget surplus anticipated in coming years, so little attention has been paid to the needs of globalization's losers.

I thank you for your attention, and would be happy to answer any questions.

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Chairman CRANE. We are going to be interrupted here shortly by a couple of votes on the floor and we will recess, but we will wait until the second bells go off. In the interim, I have a question for the entire panel.

Some have said that the U.S.-Jordan Free Trade Agreement is a political document closely related to the Middle East peace process. What do you see as the benefits and pitfalls of this agreement from a trade perspective? Yes, Mr. Donohue?

Mr. DONOHUE. Mr. Chairman, the total trade between the U.S. and Jordan is less than \$300 million. A great portion of that is money that we give them to buy weapons from us. They are a very important strategic country to us. We have hosted the King at the Chamber on a number of occasions. But this agreement, which he sought for strategic reasons, was then loaded up with the labor and environmental provisions as a cost of getting the agreement and was then sold to the labor unions and others as the template that they would use for future trade agreements. And to retract—there is very little trade going on here.

If we decide that this is something strategically we should do, then Congress is very able to take care of it. It was not done under a fast track provision, so Congress can remove the defined template of labor and environmental issues, which can and should be dealt with in other ways, and pass the strategic agreement without any delusion that it is a free trade agreement. There is no trade going on.

And the Chamber and other members of the business community will oppose this agreement if it contains those provisions, not because we have any problem with Jordan or with a free trade agree-

ment with Jordan. But to set this template in such a visible and artificial way is not acceptable.

Chairman CRANE. Mr. McGraw?

Mr. MCGRAW. Mr. Chairman, the member CEOs of ECAT look pretty much at the Jordanian bill as a foreign policy issue. And if it is one whose objective is to support the peace process in the Middle East, then I think most of the ECAT members are supportive of that kind of an agreement.

However, there is the feeling that as a trade agreement it fails in terms of the language on labor and environment because of the fact that the United States does not have any real significant labor or environmental issues with Jordan. Therefore, I come back to my earlier comments that in terms of both labor and environment, it is very important that we set up in each individual case what are the specific objectives that we are trying to solve and then identify how we are going to go about achieving those objectives.

I would also say that there is concern about the overall punitive nature of the possible inclusion of trade sanctions, and that when we start talking about developing agreements where developing countries are trying to be encouraged to undertake trade liberalization, that these provisions could be counterproductive in terms of their participation.

One positive point that I would say is very much welcome in the language of the Jordanian agreement has to do with the intellectual property rights area. I think there is also very good language in terms of electronic commerce and in the information technology area. So I think that is a benefit to this agreement.

But as a trade agreement, I think that the flaws in the overall package, you know, spelled out with the labor and the environment and the trade sanctions, are negative. But the peace element and the objective for promoting that process is one that I believe we all support.

Chairman CRANE. Thank you. Mr. Maury?

Mr. MAURY. Mr. Chairman, the Roundtable has not yet taken a position on the agreement, so my comments would have to be personal. I appreciate the way you asked the question, because what the question implied was that we need to have a balancing of interest tests and we need to look at each of these agreements on a case-by-case basis.

What is the plus? Well, you know, the problem, and the testimony has demonstrated it here this morning, is that we are facing a logjam. I mean, the chairman's opening statement was, here we sit debating with ourselves while the world passes us by, and when the world passes us by, we lose. So I think there is a big plus from the standpoint of breaking the logjam and moving forward.

The downside, as Mr. McGraw pointed out, I think there is a great deal of skepticism with respect to the use of sanctions.

Chairman CRANE. Is anyone else wishing—Mr. Tarullo?

Mr. TARULLO. Two quick points, Mr. Chairman. First, on the foreign policy issue, I would just like to underscore that the situation in Jordan is potentially an unstable one. The United States does not have a lot of foreign policy instruments at this time to help stabilize countries in the region and I think it is essential that before

King Abdullah arrives in Washington, we move forward with one of the instruments we do have at our disposal.

Secondly, I think it is notable that Jordan, as an emerging market country, was willing to include the labor and environment provisions in the agreement. Moreover, I know from firsthand knowledge that some of the other countries which were beginning to line up for bilateral negotiations with the United States were not closed-minded about the proposition that they, too, would negotiate such terms.

So again, I think it comes back to an issue of what does the United States, what does the Congress, what do the American people want to have in their trade agreements and then we can confront the issue of trade-offs of negotiating aims. But I do not think anything should be off the table from the outset. Thank you.

Chairman CRANE. Thank you. Mr. Weiller, a specific question along this same vein. Does an agreement with Jordan, does that adversely affect U.S.-Egyptian trade relations?

Mr. WEILLER. My company does no business with Jordan. We do business with Egypt. Egypt is a larger country. Obviously, its potential is great. I am actually concerned because this is a political matter that is being—to me, is almost disguised as a trade issue. I am concerned that our market in Egypt, small as it may be, has a lot of potential because it is a large population base and we feel that as they grow and as its importance grows, we will be able to establish help in determining some standards.

Currently, we are ignoring Egypt and focusing on Jordan as if it was a trade issue, where I do not hear much trade going on, and we are ignoring this while the EU is in a process of initialing and carrying out agreements with Egypt. So I am concerned that, in real terms, we are losing market potential and future market potential.

Chairman CRANE. Well, I appreciate the input. I have met with some of the Egyptians and will continue to do so.

Folks, because we are running out of time here, we will recess subject to call of the chair, until after that second vote. After everyone casts his second vote over there, if you could all hurry back here, we would appreciate it.

[Recess.]

Chairman CRANE. Folks, if you would please take your seats, our groups should be coming back from the floor. In the interim, let me put another question to the entire panel. It is about mentioning the importance of expanding our market access in Latin America. What concrete steps can President Bush take to reinvigorate the FTAA negotiations and has lack of trade promotion authority raised concerns in the FTAA negotiations about a lack of will on the part of the United States to lead in these talks? Has this perception spurred others in Latin America to go ahead without us? Any comments from any of you?

Mr. DONOHUE. Well, Mr. Chairman, as you know, MERCOSUR has been developing while we sit and watch and some people think that is bad. Other people think it is a good forerunner to bringing everyone together in a free trade agreement.

The Chamber has said along the way to do a free trade agreement of the Americas is to allow everyone else to cut every bilat-

eral or group deals throughout the region. When I went to Mexico ten days ago, when I arrived, they had 30 free trade agreements. I stayed for two days, met with the president and others, and when I left, they had 32 free trade agreements. So I think what is clear is that to get the ball rolling, we need to instruct the trade negotiators to put—and, by the way, I believe the President has done this—trade agreements high on the list and to continue these negotiations in an aggressive way to protect our interest, because the longer we wait, the more other agreements are being made that are going to complicate our ability to build the type of free trade agreement of the Americas that this part of the world needs to compete with what are the development of three or four very aggressive cartels around the world.

Chairman CRANE. Yes, Mr. Weiller?

Mr. WEILLER. Thank you. If I may just add to that, I would like to add a sense of urgency that is missing. While we are talking, the Europeans are working and concluding an agreement with the MERCOSUR countries. We are not even a player at this point. Companies such as mine—and I can only speak for myself, so I assume others like me, smaller companies—we are facing a very direct challenge to our ability to remain in those markets because the duties are so severe in terms of differentials that you will severely impair our ability to continue in that market.

As far as I am concerned, potentially, the market in Latin America is, what, I think three or four times greater than in China. So this is something that is close by, it is important to us, and I am not seeing any sense of urgency in terms of concluding something of this sort.

Chairman CRANE. Mr. Maury?

Mr. MAURY. Mr. Chairman, I think that we need to have a consensus in this country on trade, and I know that you and Mr. Levin have been working very hard to develop that. So I would say that the first and best thing the President could do would be to step out and start to help develop that national consensus.

I would say, secondly, he should be given trade negotiating authority. It should be as flexible as it can possibly be. And then the Congress should judge what he brings back. And third, I think we probably should start to focus on Chile.

Chairman CRANE. Anyone else with any comments? Mr. McGraw?

Mr. MCGRAW. Mr. Chairman, I would just echo on some of those things, but I think the President needs to take a leadership position in speaking out to the American people, perhaps from Quebec City, in terms of the importance of this agreement, not only to his agenda but why, given the push for all the bilateral agreements, why we need a regional and a broader conclusion to that.

To Sam's point about a lot of the agreements throughout Latin America, as described in my written testimony, it is mind boggling the number of bilateral agreements that are going on with Mexico, Canada, Chile, and it goes on and on and on. And, by the way, everybody wants to have a bilateral agreement with the United States, but positioning it becomes somewhat difficult. And where this is important, to be able to be included into those kinds of dis-

cussions, bilateral arrangements are second best to the development of those broader global and regional kinds of agreements.

So, one, the President is going to have to take leadership, I believe, in developing that consensus with the American people on FTAA and the importance of trade. Number two, he is going to have to have trade promotion authority to be able to have the teeth to be able to pull that off. So I would put it in those priorities.

Chairman CRANE. Thank you. Mr. Levin?

Mr. LEVIN. Thank you. First, let me apologize in a way for those who are not here. We are just starting the debate on another tax bill and it is not a very fortuitous coincidence. Mr. Rangel and others would otherwise be here, and I am sure the same is true on the Republican side. This is the Committee of jurisdiction on the tax bill.

We were going to, I thought, focus mainly on the issue of proliferation of free trade agreements and others, but since other subjects have been raised, let me, if I might, take some time to just say a few words.

I very much appreciate, Mr. McGraw, your statements about the progress that was made last year. I think progress was made. I think we regained momentum. I think we did so partly because we tried to work together across party lines. I think also because we tried to tackle some of the troublesome issues taking each agreement on its own, some of the issues that have been controversial, and I think they are important issues.

In the Caribbean Basin Initiative (CBI) agreement, for example, in terms of labor provisions, we enhanced them as we gave greater access to countries to our textile and apparel market and other markets. Cambodia also tackled the issue of labor provisions. In China, which was a different proposition, I think we did take the lead, this country, in trying to work out an understanding with the Chinese, and there it was not a bilateral or regional. It was, as we know, accession to the WTO. We tried to tackle how we both engaged and kept pressure on China. We set up, as you know, the commission that includes human rights and worker rights. We have a major anti-surge provision in there, the strongest one ever written into American law. And we provided effective mechanisms for oversight.

And this brings me, Mr. Maury, I think to your comment, and that is the logjam. I think the danger is that we are going to fall back into a logjam, which was broken last year, and that the forward momentum is now going to be imperiled. I think the only way to avoid that is for people to have some open minds on these issues, including labor and the environment, and understand what it is all about. I want to say just a couple of things in that regard, because Mr. Donohue and I have talked about these issues over a substantial period of time.

There is a reference to special interest efforts. I would urge, as we have open minds, that we not readily use that term. When we were debating China, we did not talk about the business community interests as special interests. When we debate the Ex-Im Bank, I try to urge people to look at the merits and not just talk about special interests.

There is a reference to extraterritorial application of policy objectives. When it comes to environmental and labor standards, these are often international standards like the International Labor Organization (ILO) core labor standards. In a sense, everything is extraterritorial in their application. A trade agreement is by definition.

And in terms of relevance to international commerce, we have been dealing, for example, with labor provisions in GSP for years. I think the problem is not the lack of relevance but the fact that these are labor market and environmental issues that are relevant to international commerce. That was one of the bases for the President's position, whether you agree with it or not, on the Kyoto Accord, that it would be harmful to American interests in terms of trade and commerce internationally.

So if we are not going to fall back into a logjam, there is going to have to be willingness to have open minds and to engage. Otherwise, we are going to go nowhere and it is going to be essential to do that in terms of rebuilding a national consensus.

So let me just say a word about Jordan. There has been reference to intellectual property provisions. I think they are important. It is a small country in terms of our trade, but we have trade agreements with a lot of countries where there is relatively small trade. Cambodia is an example.

I think that we also talk about trusting when the government negotiates, and our government negotiated an agreement with Jordan. I was there when the King said they wanted to discuss and negotiate on labor and environmental issues. We did not drag them across the line. I just hope that we will not draw hard lines in the sand, because if we cement ourselves in, we are going to be back to three or four years ago instead of the momentum we gathered last year. We need to build on that, not pull the rug out from under it.

And so while that was not the purpose of the hearing today, and, therefore, I think it may be better just that I make my views clear, I just wanted to be very clear that we are headed for a return, Mr. Maury, to the logjam if there is not a willingness to engage on these issues with some openness of minds. If we fall back into the pitfalls of polarization, we are going nowhere.

Mr. DONOHUE. Congressman, I think those were very useful comments. I would just like to make two comments that might add to your thinking.

Number one, what really is the challenge for America in trading around the world is our compulsion to impose unilateral sanctions. We have unilateral sanctions in more places than you can count. We have missed the Vatican and Bermuda and other places, but we have got unilateral sanctions just about everywhere else. And every time we have a unilateral sanction, our trading partners, our best friends, have a cocktail party and celebrate because we are staying out of markets.

And the challenge about labor and environment is not whether, as you and I have discussed, not whether we should find ways to establish our views, to encourage objectives, to have side agreements, to support the ILO, or to do any of those matters. The challenge is that what we are talking about here is including in trade

agreements like Jordan mandatory sanctions, where it would not only be sanctions against Jordan but could be sanctions against the United States if some third party there took a complaint against us.

And if we are going to continue to put sanctions in everything we do, you are going to find that as we become a smaller and smaller part of the world trading system that folks are just not going to play that game. And until this country recognizes that if every trading agreement, every time we have a disagreement with somebody around the world, we are going to establish a trade-based sanction, if we do not deal with that, it is going to be a lot worse than having logjams here in the United States.

Mr. LEVIN. Before you make your second point, let me just respond. There is nothing mandatory about any enforcement provision in the Jordan agreement, as there is nothing mandatory about the provisions in GSP, which have been used in terms of mandatoriness without sanctions but effectively. There is nothing—for example, I forget who it was who referred to the intellectual property provision.

Mr. DONOHUE. Mr. McGraw did.

Mr. LEVIN. Okay. Those are important provisions. True, Jordan is small, but you said they were important. You have to make sure they are enforceable, and that does not mean the minute that they do not—in fact, the language of Jordan is written to undermine the notion that at the drop of a hat, there would be a mandatory sanction. The language is carefully written so that will not happen. And we have all kinds of consultation processes within and mediation processes short of there being any utilization of sanctions on either side.

Mr. DONOHUE. Well, I would—

Mr. LEVIN. I would just urge, before we raise that flag and get everybody into a polarized position, that we think twice, because we are going to go back to where we were three, four years ago if we are not careful. Now the second point.

Mr. DONOHUE. Well, let me just say that I agree with you that there is a significant consultation and process before sanctions are implemented. So yes, and I was getting to the point. If all of those matters fall aside, sanctions are there.

Let me just make the second point. I think, as I said in the Senate the other day—Mr. Sweeney was on the panel, as well—that the arguments and the debate about labor and environmental issues are not ones the business community shrinks from. We have an extraordinary record of what happens abroad when we trade. What we are saying is there are appropriate institutions for that. There are extraordinary numbers of environmental treaties for that. There is the willingness to even enter into sidebar objectives and working groups.

But when you put sanction-involved programs in trade agreements, you are setting up a—I talked at great length with Pascal Lamy about it just Monday. You are setting up a situation that is just not going to work, and we know, and let me just end—when Jordan came here and wanted a free trade agreement, the only way they got it was with labor and environmental issues in it. Now, you can say that the King came here and asked for that—

Mr. LEVIN. No, let me be clear, because I was there when he was there. Let me be very clear. He was very categorical about their willingness to negotiate on those subjects and he never for a minute said anybody was twisting his arm. And I have talked to Mr. Lamy, too, and I talked to the people from Singapore in terms of the willingness to negotiate. With CBI, we had extensive discussions with Central America and with Caribbean nations. There is now a growing recognition that you cannot escape the environmental and labor market aspects of the competition between nations. And if we try to put it under the rug, it is going to pull the rug out from under any real chance to move ahead. A lot of us want to move ahead. We did last year. I do not think we have to talk about our credentials on that subject.

Mr. DONOHUE. No, you do not.

Mr. LEVIN. And if we do not get some open-mindedness and some willingness to sit down and talk about, back to deadlock or back to logjam, as Mr. Maury said.

Mr. DONOHUE. Well, nobody wants logjams, Congressman, but trade agreements at any price are something that we are not prepared to do.

Mr. LEVIN. I do not suggest at any price. I suggest with an open mind and realization as to what is really going on.

Chairman CRANE. The time of the gentleman has expired. Mr. Houghton?

Mr. HOUGHTON. Thank you, Mr. Chairman. As you know, it is fascinating going over the script again. So many of us have been over this territory so many, many, many times, and it seems to me there are three issues. One is the labor issue. One is the ag issue. And the other is abiding by the rules.

But let us get to the labor issue for a minute, and I would like to ask Sandy, if you could wave a wand and have any labor, critical, not detailed, critical labor standard, what would it be?

Mr. LEVIN. If the chairman would allow, I will be very brief.

Chairman CRANE. Please.

Mr. LEVIN. He asked the question, though.

Chairman CRANE. You volunteered to be brief. [Laughter.]

Mr. LEVIN. What we are basically talking about are the core labor standards of the ILO, which virtually every nation has agreed to embrace. The question is whether they will apply them, and there is no enforcement mechanism in the ILO. There is clearly, like labor market issues relevant to economics domestically, they are internationally. The question is how we handle them.

And my main point is that it will differ also from agreement to agreement. Cambodia was not the same as CBI. And everybody, both Mr. Donohue and those who have somewhat different views, agree Jordan is not a template. It is not going to be utilized automatically every time this issue is raised. And the WTO is different than a bilateral agreement, and the regional Free Trade Area of the Americas (FTAA) is different.

I will close with this, going back to intellectual property. We are not going to negotiate an intellectual property agreement with Brazil in an FTAA without enforcement within the agreement. At least, I assume that will be totally unacceptable, including perhaps the possibility of sanctions.

Mr. HOUGHTON. Sandy, you are going to take all my time. Look, my understanding originally, when we were talking about the labor and environmental agreement, particularly the labor agreement, that if labor agreements had two concepts, one, that the labor agreement would apply only to trade issues—it would not just be for everything around the country, and secondly, that all we asked was that people abide by their own labor agreements. To me, that was never a problem. I did not see that. It is not an ILO standard. It is not an AFL-CIO standard. It is their own labor agreements.

I do not know how you gentlemen feel about that, but if you could do something like this, it would get us over that terrible hurdle, more than the agriculture, more than the intellectual property rights, more than anything we are talking about as far as MERCOSUR or any of these other issues. How do you feel about that?

Mr. MAURY. I will attempt a brief beginning answer to that question, Mr. Houghton. I do not think it is a question anymore of whether labor or environment is included in trade negotiations because it is going to be, and I will take a second seat to none with respect to advocating the passage of NAFTA, and, of course, NAFTA has in its side agreements on labor, and actually in the main agreement, a provision on the environment. What is unacceptable is standing still and letting the world pass us by. It is not unacceptable just because it is nice to delay a decision, but these periods of time that we take having these debates are not for free. I mean, they cost people money.

Mr. HOUGHTON. Let me just interrupt, because my time is running out.

Mr. MAURY. I do not have any idea—

Mr. HOUGHTON. And I appreciate that. The only thing is that we can pose the problem and we can talk about sort of the generalities and the philosophies here, but that labor issue is the critical thing to get over, and it would seem to me that if you go back into the original understanding, that if people abided by a reasonable labor standard set up in their own country—not on our standards, not somebody else's standards, their own standards—that that would really solve that problem. Am I wrong? I have just got a few seconds left.

Mr. MCGRAW. Congressman, I certainly do not think you are wrong. Again, I come back to the whole issue of making sure that in each individual agreement that we take the time to define what the objectives for labor and environment are that we want to achieve.

Mr. HOUGHTON. No, it is not what we want to achieve, it is they have already set those labor objectives.

Mr. MCGRAW. No question.

Mr. HOUGHTON. Okay.

Chairman CRANE. The time of the gentleman has expired.

Mr. HOUGHTON. My time is up. Thank you very much.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman. I, too, appreciate the input of this distinguished panel and I agree with one thing my colleague and friend from Michigan said, that it is too bad that everyone on this panel, on the Subcommittee, is not here to get your

input. In fact, every member of Congress needs to hear from you, particularly those of you involved, engaged in the global marketplace who deal in your businesses or those you represent with real trade barriers in trying to grow the economy, create jobs, and we need your input on this.

I just think it is economic suicide to not pass trade promotion authority, and it is alarming to hear your testimony, to hear the fact, Mr. Donohue, that the United States is a party to only two of the 130-plus free trade agreements currently in force around the world. This means, obviously, that U.S. companies are disadvantaged in their efforts to sell products overseas, to export products and services overseas. And on the issue of free trade rules, they are obviously being written, for the most part, without U.S. input. How are we going to influence labor and environmental standards if we are not engaged in these places, in these countries and with these countries, with these economies? And, of course, the 130, I am sure, most of the 130-plus trade agreements that you have referred to have been concluded since fast track, or as we now call it—the vernacular now is trade promotion authority, expired.

Let me ask you this, any of you on the panel. Can any of you quantify the damage? Is there any empirical data that quantifies the damage that U.S. non-participation has cost our economy in terms of jobs lost, gross domestic product? Do any of you know of any such studies?

Mr. DONOHUE. We can use experience. The NAFTA agreement, which Mr. Maury referred to, has created in the United States since its inception about a net 1.3 million jobs. It has significantly improved circumstances, by the way, in labor and environment, in Mexico at the same time. So one could suggest that in the absence of an agreement, others are reporting to their legislatures about the jobs that they are creating.

Now, I will make one point. A large number of these agreements have recently been negotiated. As I said, when I was in Mexico, they were doing it while I was sitting there. So we are only going to begin to see the competitive disadvantages in the weeks and months ahead, and the longer we wait, the more egregious that is going to be.

Now, we have some advantages here in the United States. Our economy is so big, we could go out and make the right six free trade agreements and we will be ahead of all the aforementioned. But we need to understand that agreements come because there are advantages to both parties, and while we are here discussing, appropriately, labor and environment, many people who will take up objectives and those kinds of issues are not going to do an agreement with us if it has sanction-based labor and environmental standards.

So the number—just use NAFTA as an example. Multiply that out for all the agreements that are going down the road and it is pretty clear that others will benefit and we will not. Now, we are going to still succeed—many of our companies are going to succeed because they are going to find a way around the obstructions that are in their way. They will move somewhere where they can build their product and then sell it in one of those free trade agreements

without paying the penalties that are now paid by American companies all over the world.

Mr. RAMSTAD. Thank you, Mr. Donohue. I certainly appreciate that response and I think it is the accurate one. I also appreciate the input, I think it was you, Mr. McGraw, who referenced the tripartite effort that is necessary to get this passed, and we do need strong Presidential leadership. Those of us who support these agreements and the trade promotion authority have pledged our best effort here in the Congress, and we also need the continued involvement and leadership from the business community, from you and those businesses that you represent.

I know as a good friend of your predecessor, Ernie Micek from Cargill, who was a good friend of everybody on this dais, I know you will provide that leadership, and at least most of the rest of you on this panel, as well. So thank you again for working in a collaborative way with us. I do not think anything is more important than this Congress will do.

Chairman CRANE. Thank you. Ms. Dunn?

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

Mr. MCGRAW. Could I respond very quickly? Excuse me, Congresswoman.

Chairman CRANE. Yes, Mr. McGraw?

Mr. MCGRAW. Thank you for your comments, and I will make sure I relay those to Ernie. He will feel very good about that.

I agree with your comments. Again, you can look at a lot of facts and figures. Over the last decade, about a quarter of our growth, economic growth in this country, is a function of U.S. exports. When we start talking about the real benefit of economic growth and that kind of development in those foreign markets, now we are really starting to talk about how countries are starting to develop that middle class, how they are starting to develop all those labor practices, and it is going to influence labor and environmental issues in that way. So the economic growth through trade is certainly going to be a big part of that level of improvement in other countries. I just thought I would throw that out.

Mr. RAMSTAD. Put another way, it is a win-win, a win for both. Thank you again, Mr. Chairman.

Chairman CRANE. All right. Ms. Dunn?

Ms. DUNN. Thank you. Welcome, gentlemen. I am sorry we had to miss a little of this important time because of votes on the floor, but I am glad to have a chance to question you.

I had a recent meeting with Dr. Supachai, who is going to become the Director General of the WTO in about 18 months, and we talked about labor and environmental provisions in trade agreements. He represented mostly developing nations when he ran for that post, so I wanted to know his opinion of whether something could be worked out in those two areas. He said in the environment, probably. But, he said, when it comes to labor, that is a big problem for developing nations. We all were aware of the enormous result of the President's speech during the WTO meeting in Seattle, where he said that there was a possibility the United States would use sanctions on nations that did not accept our standards of labor.

I have a lot of concern about this and I am wondering, one of you mentioned that the ILO is involved and others are involved in a roundtable to try to solve some of these problems and I would like to hear more about that, because it is a political problem for us on the Hill, even though most of you make a very rational and strong and realistic, I believe, case for why we should not connect those two. Would anybody care to comment?

Mr. TARULLO. Ms. Dunn, the ILO has obviously existed for almost 100 years precisely to promote labor standards. I think the perceived problem that many labor advocates have with the ILO is that it seems not to have been particularly effective in doing so. Indeed, a recent case in which, for the first time in memory, the ILO approved sanctions against Burma for violation of fundamental labor and human rights, has resulted in virtually no imposition of sanctions or change in Burmese practices, and I think that has reinforced the sense of a lot of people that the ILO is not an effective forum.

Indeed, a lot of people say about the ILO what a lot of business people used to say about the World Intellectual Property Organization. It is a good organization, it has got some good ideas, but it has not been effective. And just as a lot of business people who are concerned about protection of intellectual property wanted to take the intellectual property issue out of WIPO and put it into the WTO, I think a lot of people concerned about labor standards want the WTO also to have a role because of the inadequacies of the ILO.

Ms. DUNN. Okay, let me just stop you there. Does anybody else have any other comments on this? Tom?

Mr. DONOHUE. When I testified at the Senate the other day, John Sweeney pointed out the ILO funding and so on was being cut. I offered to support continuance of it. I think the ILO has not been as effective as it needs to be but can be, and I think that, as you know, Congresswoman, I offered John Sweeney and supported a working group in the WTO on labor which would handle a lot of this, and we were making some progress in Seattle when the President gave that speech. It is an uphill issue here in the Congress, as we have seen in our discussion, but it is an up-mountain issue around the world. I hope we can find a way to work it out. It is important and you have been very helpful and I thank you.

Ms. DUNN. Yes, Mr. McGraw?

Mr. MCGRAW. Congresswoman, I would also add, it takes commitment. I agree with some of the comments on the International Labor Organization that you were making. The problem has been, and it was the same thing with the predecessor to the WTO when we were talking about GATT, when we do not have clarity in terms of the objectives that we are seeking, in terms of our agreement, it is very hard to place commitment behind those organizations that we want to address those particular kinds of issues.

So yes, there has been a mixture of response to organizations like the ILO or the NAFTA Commission for Environmental Cooperation and the like, but if we are going to be serious about those issues and serious about going after the objectives that we are trying to establish and trying to achieve, then we are going to have to put our full commitment behind it.

It is one of the problems, Congressman Levin, that I believe comes back to the process nature of putting in blanket labor or blanket environmental clauses into our trade agreements. It does not address the specificity of what particular objective we are trying to go after, and secondly, it undermines those various organizations that you are talking about Congresswoman, that are trying to deal with those issues.

So when we do identify and have clarity about the objectives, then we have to decide and identify how we are going to go about achieving them and in what organizations we want to be able to achieve them.

Ms. DUNN. All right. Let me just leave it at that. I am sorry, Mr. Weiller, but I am almost out of time and I just need to put a question out there for you all to be thinking about. I hope the chairman will yield me a few more seconds.

I do not think we are very good about talking about free trade in the United States. Recently at an international meeting, I heard Brian Mulroney, for example, talk about the benefits of NAFTA to Canada and the United States and Mexico. I have heard Vicente Fox talk about the same thing. I just do not think we are good about doing that here. What do you suggest we do? It seems to me that we have got to start training our leaders to get out there and sell the benefits of free trade. We have not done it well and so we have not built a consensus behind it. We continue to have tough discussions every time this issue comes up when, from most of your testimony, it is obviously a very good place for us to be. Any thoughts?

Mr. MCGRAW. Congresswoman, one quick observation. On the whole education front, we all can share a great deal of blame, I believe. When we start talking about educational reform initiatives and we start talking about our math and our science skills and how we have to do so much that way, we also have to improve upon our basic understanding of the world that we are living in. There are a lot of organizations, there are a lot of programs that are working very effectively at dealing with some of those, like the National Council on Economic Education, and on and on, lots of different programs.

But I do believe that at the very top, the President is going to have to make trade a very, very important dialogue with the American people. I am very concerned about, as you are, about the lack of understanding that we talk about in terms of globalization and its ramifications on growth and on their own job security. When we talk about job security and when we talk about those kinds of issues, the anxiety that exists today with U.S. workers is abnormally high. They do not trust globalization. They are fearful. When they have lost their jobs, there are concerns about those dislocations and how they can reenter the workforce.

And, therefore, I come back to the overall initiative of trade adjustment assistance programs, and I know that is coming up by the end of September in terms of its reauthorization, but it is not just trade that is doing that, it is a lot of the technological development, as well, that is costing those jobs and we have to understand those implications. But we need to put more emphasis behind those trade adjustment assistance programs, as well. But a great deal of effort

has got to be done, not only by government leaders but by the business world, as well, in terms of trade and global education.

Chairman CRANE. Thank you. The time of the gentlelady has expired. Mr. English?

Mr. ENGLISH. Thank you, Mr. Chairman, and I want to thank you, Mr. Chairman, for convening this panel. I think it is very timely.

Mr. McGraw, on your last point, in your testimony, you touch on trade adjustment assistance and, I think, establish very well the case for reauthorizing it and making the center—one of the components of our trade strategy. One thing that was not clear from your testimony is what changes you might recommend in trade adjustment assistance to make it more effective. For example, would you consider favorably the notion of changing the Trade Adjustment Assistance (TAA) eligibility overall to more resemble the eligibility built into the TAA NAFTA-Mexico program?

Mr. MCGRAW. Congressman, I am certainly not an expert in terms of being able to comment completely on your answer. I think that when we start talking about TAA modifications and modernization, we certainly are going to have to look at a far more inclusive set of programs that take into ramifications not just trade, but some of the technological changes that have resulted in a loss of those positions, as I was saying to Congresswoman Dunn on that one.

In terms of inclusion, in terms of any part of the NAFTA assistance program, there are probably wonderful examples like that that we could work on. I do believe that a larger overhaul of the adjustment assistance program is necessary.

Mr. ENGLISH. Thank you. Mr. Donohue, thank you for your testimony, and if I could, I would like to delve a little bit into your approach to normal or standard trade negotiating authority for the President. My understanding is that the Chamber would oppose a fast track proposal or an expedited negotiating procedure proposal that would mandate that labor and environmental provisions be included in any trade agreement, is that fair?

Mr. DONOHUE. Yes. If the legislation mandated labor and environmental provisions within the trade agreement that had ultimate sanctions involved, we would oppose it. Agreements to work together or agreements to set objectives, agreements to do those kinds of things are acceptable either in or out of the agreement. But the sanction-based ones, we would oppose it.

Mr. ENGLISH. And you would, then, oppose trade agreements that include in the body of the trade agreement non-trade-related items, such as labor and environment, with trade sanctions being the specified penalties?

Mr. DONOHUE. Yes.

Mr. ENGLISH. What would your position be on a fast track, or whatever you want to call it, proposal that would allow labor and environmental issues to be considered within the trade agreement but without trade sanctions being applied in cases of dispute?

Mr. DONOHUE. We have always said that the trade discussions that include reasonable objectives that would be coming from the trade arrangement that would, hopefully, improve labor and environment provisions, that those statements of working together and

objectives and so on, the devil being in the details, we would certainly support those agreements.

Mr. ENGLISH. Currently, I believe, Canada has side agreements with Chile that allow for labor and environmental standards to be applied, but that in the event of a dispute, there would be monetary penalties as opposed to trade sanctions. Is that a model your organization would consider, depending on the details?

Mr. DONOHUE. Mr. English, that is a very good question, and you want to be very careful—we want to be very careful in answering it.

Mr. ENGLISH. Certainly.

Mr. DONOHUE. It certainly is far more preferable than sanctions, but we do not want to suggest from the business community that we will pay for the behavior we choose. But obviously we might have something to work with there.

Mr. ENGLISH. My final brief question will be, would you be supportive of a fast track proposal that would be silent on how labor and environmental provisions would be addressed in a treaty that might be brought back by an administration with labor and environmental issues potentially addressed?

Mr. DONOHUE. Yes.

Mr. ENGLISH. Thank you.

Mr. DONOHUE. Thank you, sir.

Mr. RAMSTAD. [Presiding.] The gentleman from Kentucky, Mr. Watkins.

Mr. WATKINS. Oklahoma.

Mr. RAMSTAD. Oklahoma.

Mr. WATKINS. Mr. Donohue, you are correct. Let me say, I was in Seattle and the President pulled the rug right out from under us at a time when I thought we were on the verge of doing some good things, but that is not the only time. On fast track, there is no reason why we could not have passed fast track if Bill Clinton had truly been sincere about dealing and working on it. But he catered to labor and catered to the environmentalists totally. That is why we do not have fast track, and I get tired of people painting it over. That is exactly what happened to us here in that particular time.

But I am interested in supporting a trade promotion authority. I want us to move it. I want us to get it. But I also want us to be on fast track. Fast track, or full court press, as I like to call it, is done—there was a question a while ago. We have not done the things necessary to build an image. We have got a Trade Subcommittee here in Congress. We have got a USTR that has hidden all of it. Why do we not make a Department of Commerce and Trade if we are sincere about trade and build that image. Let us make a United States Chamber of Commerce and Trade. It is image. I read this as just commerce. We do not talk about it.

In 1980, I started working building a global trade center in Oklahoma, in Stillwater, Oklahoma, because I knew that my small businesses and my people did not understand global trade, and we need to be able to provide the right, yes, image, right perception, and the right reality, and we have not done the job out there. Small business industries are suffering.

We have talked about the environment, labor, and ag. I have a strong background in ag. I wonder if your businesses had \$7 billion of export trade subsidies locked in against you, how would you survive it? That is what the GATT talks happened, Mr. McGraw. The GATT talks locked in \$7 billion of export subsidies for the European Union. They grandfathered in about \$200 million in ag for the United States, but \$7 billion. Twenty-seven trade agreements have been signed by the European Union and some of them have allowed a loss to take place in agriculture in order to grab other trade agreements with other commodities and products of our country. That is why we are talking about ag. We are being sold down the drain by our own United States Trade Representatives and people who have been taking care of other factors. I do not deny it.

But let us not talk like we have done a good job. We have not done a good job negotiating, and I want the United States to lead. I have asked Alan Greenspan before about—when I became, Mr. Donohue, really passionate about trade was in 1980 when I woke up and realized we were at about a \$69 billion trade imbalance. Look where we are today. We are at, what, a \$400 billion trade imbalance, and Alan Greenspan said he does not know exactly how that is going to all play out with the overall economy. But we need to do some things, I think, to build that image that we are sincere about it. There is a lot that we can do. But also, do you have any feeling about what the situation is that we are confronted with on the trade imbalances, how that is going to in the long run affect our economy?

Mr. DONOHUE. Well, Congressman, you certainly covered a number of issues and I wish I could respond to a number of them, and I will come and see you because we are doing a lot. We have 90 American Chambers of Commerce abroad. We have been running a grassroots trade operation in this country for a couple of years.

Mr. WATKINS. Could that be 90 commerce and trade—

Mr. DONOHUE. Ninety American Chambers of Commerce operating in countries around the world who are pushing trading issues.

Mr. WATKINS. Chamber of Commerce, that is great.

Mr. DONOHUE. But let me just respond very quickly to the question of the trade imbalance. You know, we started our trade deficits with George Washington, and we had some periods of time after the war when we did not have them, but very, very clearly we are a high-consuming nation, but we are also the largest exporting nation in the world. The more we push the exports and the better we are doing, the more jobs we create and the more increase in the standard of living here and there.

When the number gets very big, it has to be looked at in two ways. Number one, it is a much bigger number in relation to a much, much bigger economy.

Mr. WATKINS. Right.

Mr. DONOHUE. I mean, when you look at the trillions of dollars of commerce, the number is not as large as it looks. And second, that number could get painful, but it could get very much balanced if we would get the free trade agreements going, and when we see the China implementation of what everybody worked on last year

in PNTR and when we expand into Asia and Latin and South America, you will see more balance. We need it. You are on the right track. There is a lot going on. Unfortunately, we do not have the time right now, but I will come by and see you.

Mr. WATKINS. I would welcome that and I ask that. In fact, I asked that about a year ago, but I hope you will come by.

Mr. DONOHUE. I promise.

Mr. WATKINS. All right. You are a good man.

Mr. MCGRAW. Mr. Chairman, can I make one comment?

Mr. RAMSTAD. Mr. McGraw?

Mr. MCGRAW. There is another danger here that we have to be very careful about. In many ways, we benefit from some of that trade deficit in terms of the prosperity that a lot of Americans have been able to enjoy in purchasing those goods and the like. The current economic slowdown in this country, if prolonged, could render a very different situation where a lot of foreign capital would be coming out. I would just add that the imperative in terms of making sure that our economic slowdown is a short one is also going to have some serious ramifications on our trade and our trade relations.

Mr. WATKINS. I understand. Thank you, Mr. Chairman.

Mr. RAMSTAD. Let me apologize to my good friend, and he is my good friend, the gentleman from Oklahoma. Believe me, nobody fights harder for the cattle ranchers in Oklahoma, nobody fights harder for the small operators in the oil patch of Oklahoma than my good friend from Oklahoma, Mr. Watkins. I will never make that mistake again, I can assure you, Wes.

Let me also thank the five distinguished members of this panel. We do appreciate your counsel, your input, your patience, as well. It is very important that we work together, all of us, in a collaborative way for the betterment of our economy and of our country. So thank you very much for being here today and sharing your wisdom with us. Thank you.

I will call the second panel, Mr. John McCarter, Mr. Harold Wiens, Mr. Jeffrey Schott, Mr. John Hardin, Jr., and Mr. Donald R. Burke. I want to welcome all of you gentlemen of the second panel and thank you very much for your patience, for your indulgence. This process is often very tedious and slow, and you have seen examples of that this morning.

I particularly am being a little bit parochial. I want to introduce a fellow Minnesotan member of this panel, Mr. Harold Wiens, who is Executive Vice President for Industrial Markets of 3M Corporation in St. Paul, Minnesota. Mr. Wiens is here today representing the National Association of Manufacturers, a longtime employee of 3M, a distinguished career, 34 years I guess it is now, Harold, and certainly your responsibilities with the company have been very, very important both domestically and abroad. I know you spent eight years in Europe and Asia gaining extensive experience in managing the many difficulties that companies like 3M face trading with countries there.

We are certainly glad to have you here today and would ask you to lead off, please.

**STATEMENT OF HAROLD J. WIENS, EXECUTIVE VICE PRESIDENT, INDUSTRIAL MARKETS, 3M, ST. PAUL, MINNESOTA, AND MEMBER, BOARD OF DIRECTORS, AND CHAIR, INTERNATIONAL ECONOMIC POLICY COMMITTEE, NATIONAL ASSOCIATION OF MANUFACTURERS**

Mr. WIENS. Thank you, Mr. Chairman, very much for that kind introduction. It is a warm Minnesota welcome.

Thank you again for giving me the opportunity to testify today. My name is Harold Wiens, as introduced by Mr. Ramstad, and I am testifying today on behalf of both the National Association of Manufacturers and 3M, but I am going to use actual 3M experience to support my points.

The message that I want to leave with you today is that America has lost ground on trade access, and more importantly, the biggest impact is yet to come. This is hurting American workers and consumers, as well as countries around the world that depend upon U.S. innovation to raise living standards and develop their economies. In addition, it is hurting American business at a time when we are seeing a significant softening of the American economy.

Let me begin by stressing how important trade already is for U.S. manufacturers and the 18 million employees who work in the manufacturing sector. U.S. manufactured exports last year totaled \$650 billion, and one in five manufacturing jobs is supported by exports. For 3M, of our 37,000 U.S. employees, about 8,000 of those folks' jobs depend upon our ability to export.

Last year, for example, \$2 billion worth of our products manufactured in the U.S. were exported abroad. So I believe it is fair to say that 3M's success in no small measure lies in its commitment to compete everywhere in the global marketplace with the most advanced, highest-quality products that we can develop.

But, you know, it is not just large manufacturers like 3M that benefit from exports. Many smaller companies, including many of our vendors, also do benefit from that export.

Looking out across the globe today, 3M and other U.S. manufacturers do not see a level playing field for trade. The U.S. market is already open for trade and investment. While tariffs in other industrial countries have fallen sharply, they are still high in emerging markets and newly industrializing countries. In these markets, U.S. exporters face tariffs ten to 15 times the U.S. average.

3M's exports to Latin American typically encounter tariffs as high as 20 to 30 percent on major product lines. For example, in Venezuela, the duty on 3M's popular Post-It brand notes is 30 percent.

The United States cannot afford to be shut out of these emerging markets, but over the past several years, we have lost ground by being forced to stand on the sidelines while our competitors have moved ahead. The European Union is pressing hard for quick free trade agreements with Brazil and other MERCOSUR countries that, frankly, would put us at a considerable disadvantage.

An extremely important new element is that Japan has recently—that is, last year—changed its trade policy and is negotiating bilateral rather than multilateral trade deals. A Japanese free trade agreement with Korea or China would have huge long-term costs for U.S. exporters and all their stakeholders, including

employees in small company suppliers. The United States needs to get started now to take the initiative on trade.

First, the Congress needs to give the President trade promotion authority. Without it, no country will seriously negotiate a broad reduction in trade barriers. Our trading partners understand the American legislative system very well. For example, we have recently seen a press report that the EU is advising Brazil not to negotiate a free trade agreement with the U.S. without Trade Promotion Authority (TPA) because Congress would change the deal.

Second, the administration should establish as its highest new trade negotiating goal the creation of the Free Trade Area of the Americas. South America is four times as large an export market for U.S. exporters as China.

Third, the administration should conclude the agreements with Chile and Singapore and should explore opportunities to pursue free trade agreements with other trading partners, particularly those in Asia.

We recognize the legitimate concerns about labor and the environment. Business wants to work positively to address those concerns in ways that do not harm trade.

Companies like 3M and its stakeholders strongly support free trade not only because of its economic benefits to the United States, but also it is a form of positive engagement, a way for countries to interact peacefully and to learn to respect and value each other's values and cultures. So as we lose ground on trade by standing on the sidelines, we incur many losses—lost export sales, lost jobs, lost consumer choices, and lost opportunities for positive engagement to promote economic development and improved living standards.

The United States still has time to resume its traditional leadership role in trade, but we need to act now. If we do not, we can be assured that others will continue to pursue their own trade agendas, leaving the United States behind and ultimately hurting American businesses, workers, and consumers. Thank you very much.

[The prepared statement of Mr. Wiens follows:]

**Statement of Harold J. Wiens, Executive Vice President, Industrial Markets, 3M, St. Paul, Minnesota, and Member, Board of Directors, and Chair, International Economic Policy Committee, National Association of Manufacturers**

Mr. Chairman and Members of the Committee, thank you for giving me the opportunity to testify today. My name is Harold Wiens. I am the Executive Vice President, Industrial Markets, 3M. I am also a member of the Board of Directors of the National Association of Manufacturers and chair of NAM's International Economic Policy Committee.

The message that I want to leave with you is that America is losing ground on trade access, and this hurts American businesses, workers and consumers. It also hurts countries around the world that depend on U.S. innovation to raise living standards and develop their economies.

I am testifying today on behalf of both the NAM and 3M but will draw on actual 3M experiences to support my point. International trade agreements affect, either directly or indirectly, the majority of NAM members. For 3M, international trade agreements are of vital importance for enhancing penetration in current markets and opening new markets.

3M is a large multinational corporation with worldwide annual sales of nearly \$17 billion. We produce more than 50,000 products that are sold in six market groups: Industrial; Health Care; Transportation, Graphics and Safety; Consumer and Office;

Electro and Communications; and Specialty Material. International sales account for 53 percent of total sales. Our products are sold in nearly every country in the world. We have operations in 65 foreign countries. Our 72,000 employees are split almost evenly between facilities in the United States and abroad.

### **Importance of Trade**

I want to stress how important trade is for U.S. manufacturers and their stakeholders. Long gone are the days when manufacturers could focus solely on the large U.S. market. Companies that can't compete with the best companies in the world lose market share.

3M has known this for a long time. We seek to compete in the global marketplace with the most advanced, highest-quality products that we can develop. Every year, we introduce, on average, 450 new products to stay ahead of the competition.

U.S. manufacturers now depend on exports for sales more than ever before.

- Almost 1 in every 6 manufactured products coming off the assembly line goes to a foreign customer.
- America's manufacturers exported \$650 billion last year—almost 90 percent of U.S. merchandise exports.
- Exports support 1 in every 5 manufacturing jobs and about 1 in 10 private sector jobs.

3M exports a wide range of consumer and industrial products. Exports directly support 8,000 jobs, over 20 percent of our total U.S. employment. For example, at our Menomonie, WI, plant where we make electrical tapes, reflective sheeting and brightness enhancement film, 60 percent of output goes to foreign customers. At the Brookings, SD, plant, where we produce surgical drapes, facemasks and surgical tapes, 50 percent of production is exported.

But it's not just large corporations like 3M that benefit from exports. Smaller companies do as well. For example, the benefits of 3M's exports flow to some 36,000 supplier companies—most of them small and medium-size companies—that receive nearly \$8 billion in orders from 3M. Many small companies export on their own, too. My NAM colleague Bill Weiller, the president of Purafil, will tell you how important exports are for his company of 70 employees.

### **Leveling the Playing Field**

Looking out across the globe today, 3M and other U.S. manufacturers do not see a level playing field for trade. Unlike many foreign markets, the U.S. market is already open to trade and investment. Approximately two-thirds of U.S. imports enter duty-free. The weighted average U.S. tariff on imported goods is only about 2 percent.

While tariffs in other industrial countries have fallen sharply, they are still high in emerging markets and newly-industrialized countries. In these markets, U.S. exporters face tariffs 10–15 times higher than the U.S. average. They face other non-tariff barriers as well.

For example, 3M's exports to Latin America typically encounter tariffs as high as 20 percent to 30 percent on major product lines. In Colombia, the duty on 3M electrical tapes is 20 percent. In Ecuador, our filter products face a 30-percent tariff. And in Venezuela, 3M's popular Post-It brand products can enter only after importers pay a 30-percent duty.

In addition to tariffs, other charges, such as excessive clearance and handling fees, add to the cost of our products. Some countries also require mandatory import licenses and/or pre-shipment inspections on every product, which can cause significant delays in customs clearance and add to handling expenses.

Without these trade barriers, 3M would have much greater market penetration in Latin America. That would have been good for 3M, good for its workers in Menomonie and other U.S. plants, and good for Latin American consumers who could have bought more of our products at lower prices.

This is why we are so concerned about the United States losing ground on new trade agreements. We need these agreements to level the playing field and get our trading partners to offer the same kind of open market access that we do.

Trade liberalization agreements in the GATT and later the World Trade Organization have helped to lower tariffs and remove some other persistent barriers to trade. But in too many promising markets, like Brazil, Venezuela and Colombia, trade barriers are still too high.

Trade with South America is particularly important for 3M as it is for many other U.S. manufacturers. Last year, 3M exported more than \$2 billion worth of U.S.-manufactured merchandise. Of this, only \$220 million was exported to Latin America.

The NAM has focused on the Free Trade Area of the Americas (FTAA) for this reason. South America is already four times as large an export market for the United States as is China. Recognizing the trade potential in the region, the NAM has identified progress on the FTAA as its top trade priority this year.

The current situation is bad enough. But if other countries were to negotiate free trade agreements with our most promising markets while we stood on the sidelines, that would be worse. Exports from our U.S.-based plants would be further disadvantaged. And in today's highly competitive global markets, even relatively small preferences to our competitors can make big differences in our ability to win sales contracts.

But we shouldn't restrict our trade negotiations to the Western Hemisphere. In Asia, U.S. exporters also face relatively high average tariffs. NAM members, including 3M, would like to see the U.S.-Singapore Free Trade Agreement (FTA) negotiations brought to a successful conclusion. Trade agreements with our Asian trading partners would also help to offset recent moves by some Asian nations to consider an exclusive Asian regional trade community.

Japan, which, up until recently, has supported trade liberalization mainly through global negotiations in the WTO, appears to be changing its trade philosophy in favor of more regional approaches. Some in Japan are fostering the idea of a regional free-trade area that would include ASEAN, Korea and China, but not the United States.

Finally, we should not ignore the opportunities to improve market access through the WTO. We need to continue to clarify and strengthen WTO rules and compliance, and encourage further sectoral liberalization where possible. When there is a prospect for consensus on a new round of comprehensive negotiations, we should be prepared to move forward.

#### **We Can't Afford To Be Shut Out**

What happens if the United States doesn't pursue regional and bilateral trade initiatives? We are already beginning to see the results.

In the past, the United States was the trade-liberalization leader, but for several years now, the United States has been sitting on the sidelines. In the meantime, our trading partners are moving ahead and cutting their own trade deals. We are losing ground, and we worry that the worst may lie ahead of us.

The European Union has been the most aggressive in negotiating regional agreements. Last year, the EU concluded free-trade agreements with Mexico and South Africa. It is currently negotiating 15 new agreements with other trading partners, including Chile, the MERCOSUR countries (Argentina, Brazil, Paraguay and Uruguay), and countries in North Africa and the Middle East.

Recently, the pace of EU negotiations with MERCOSUR has accelerated, and the EU has reportedly promised to offer a market-access package in July. Moreover, a senior EU trade official was quoted in the press as advising Brazil that negotiating with the United States without Trade Promotion Authority in place would be a waste of time because Congress would alter the agreement after it was signed.

In addition to negotiating free-trade agreements with these countries, the EU is preparing more than 17 Central and Southern European countries for future membership in its own trade community, including several for as early as 2004. The EU continues to pursue preferential trading arrangements with its former colonies in Africa, Asia and the Pacific region.

At the same time, we have a range of disputes between the EU and the United States, including beef, bananas and FSC, and an equitable resolution of these disputes is a priority for the NAM and 3M.

The tariff preferences that the EU receives in these agreements will put U.S. companies at a disadvantage or, in the case of Mexico, will eliminate advantages that have helped to boost U.S. exports.

The EU is not the only competitor cutting separate trade deals:

- Mexico has concluded trade agreements with at least 28 countries, and is negotiating agreements with other important markets, such as South Korea, Japan, and MERCOSUR.
- MERCOSUR, with the strong support of Brazil, wants to establish a trade bloc with the Andean Community (Peru, Venezuela, Colombia, Ecuador, and Bolivia).
- South Africa is leading a trade initiative with 12 African countries called the Southern Africa Development Community, or SADC, which has started negotiating a trade agreement with MERCOSUR.
- ASEAN, which includes important Southeast Asian trading partners, is considering a trade agreement with China.

The bilateral and regional agreements being negotiated by our trading partners involve not only free trade and tariff preferences; they cover other important trade-related areas as well.

Bilateral investment treaties, for example, have proliferated. These treaties provide important protections to investors and remove investment barriers. They can encourage investment that helps to facilitate exports, but they can also serve to discriminate against investors from countries that have not negotiated these safeguards.

U.S. companies are only beginning to feel the impact of these bilateral and regional trade initiatives. The agreements with many important markets are still being negotiated, such as the EU's free-trade agreement with Chile and MERCOSUR, or, in the case of Mexico, are only now in the initial implementation phase. That is why it is so important that the United States get started now to launch its own trade initiatives.

#### **Recommendations**

To maintain America's trade leadership, the NAM and 3M recommend the following:

- First, Congress needs to give the President Trade Promotion Authority. Without it, no country or group of countries will seriously negotiate a broad reduction in trade barriers.
- Second, the Administration should establish as its highest new trade-negotiating goal the creation of the Free Trade Area of the Americas because Latin America has such a large export potential.
- Third, the Administration should conclude the agreements with Chile and Singapore and should offer other interested trading partners, particularly those in Asia, opportunities to pursue free-trade agreements with the United States. We should also seek further multilateral trade liberalization at the WTO.

#### **Losing Ground on Trade Has Many Costs**

Companies, like 3M and its stakeholders—including customers, employees and retirees—strongly support free trade. We benefit from improved market access in countries around the world. But free and open trade is more than just business transactions, it is a form of positive engagement—a way for countries to interact peacefully, as they do through tourism and educational exchanges.

Moreover, the benefits flow in both directions. Free and open trade doesn't just benefit the United States. It promotes economic development in our trading partners. Economic development is the first step in building a higher standard of living, including better health and education. Economic development creates meaningful jobs that serve to enhance human dignity and build the environment for more democratic forms of government. And as countries become engaged, they also develop a better understanding of each other's values and culture, and that helps to promote peace and security.

So, as we lose ground on trade by standing on the sidelines, we incur many losses—lost export sales, lost jobs, lost consumer choices, and lost opportunities for positive engagement to promote economic development and higher living standards.

The United States still has time to resume its traditional leadership role in international trade and, indeed, many countries around the world would like to see the United States play that role. We need to act now. If we don't, we can be assured that others will continue to pursue their own bilateral and regional trade agendas, leaving the United States behind and ultimately hurting American businesses, workers and consumers.

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Mr. RAMSTAD. Thank you, Mr. Wiens, for your very compelling testimony, and I would remind all the witnesses that your complete statements will be entered into the record. Mr. McCarter, please.

#### **STATEMENT OF JOHN T. MCCARTER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, GE LATIN AMERICA, SÃO PAULO, BRAZIL, AND VICE CHAIRMAN OF THE BOARD, COUNCIL OF THE AMERICAS**

Mr. MCCARTER. Thank you very much, Mr. Chairman, for inviting the Council of the Americas to appear today. The Council is the premier business organization dedicated to promoting regional economic integration, open markets, and the rule of law throughout

the Western Hemisphere. The Council was the leading proponent of the NAFTA and strongly supports the earliest possible creation of the Free Trade Area of the Americas.

I would like to give you an American businessman's perspective on the FTAA. Accordingly, I would like to make three broad points. First, there are real costs to the United States when our hemispheric trading partners conclude trade agreements without our participation. Second, the agreement will extend core values for which our country stands. And third, the FTAA will help create a stable, predictable, and transparent environment in which business can grow.

Today, the United States has active free trade agreements only with Canada, Mexico, and Israel, but other countries in the hemisphere have entered into a multitude of free trade agreements. Virtually every country in the region has entered into new preferential trade agreements in the last three years.

Mr. Chairman, here is a chart on this easel illustrating the many trade agreements that we have been talking about this morning that currently involve countries in this hemisphere. These agreements have benefits for the region, for sure, but this web of agreements is a suboptimal solution. It lowers barriers for some countries at the expense of creating a confused hemispheric trading landscape. More importantly, where these bilateral and sub-regional agreements do not involve the United States, they inevitably steer business away from U.S. companies.

Mr. Chairman, in the last ten years, democratically-elected governments throughout the Americas have adopted market-oriented economic policies and begun to sweep away the dead weight generated by closed markets, excessive government intervention, State-run enterprises. But the battle is hardly won and the specter of retrenchment looms.

The FTAA is key to addressing the risk of backsliding on economic, social, and political reforms. Economically, the FTAA locks in and expands the economic policy progress underway. Socially, the agreement expands the application of free trade principles and increases the presence around the hemisphere of U.S. companies which carry the core American values of democracy and individual freedom with them. Politically, as the FTAA builds strong integrated economies and shared standards and institutions, it will build new bonds of friendship and common purpose between neighbors.

GE's experience in Chile illustrates these points well. Several years ago, GE won the competition to build a gas-fired power plant near Santiago. That is a poster child for market-oriented economic policies and free trade and investment in the Americas. The plant was owned by a private Chilean electric utility, a Canadian energy company, and a U.S. electric utility from the Carolinas. GE was the prime contractor and we chose a global engineer constructor from the United States to be our partner.

The steam turbine and generators came from Schenectady, New York, the controls from Salem, Virginia, and the gas turbines from Greenville, South Carolina. The plant uses state-of-the-art high-efficiency technology and advanced environmental controls. Local Chilean suppliers, including a large local construction company,

participated in the project. And the plant is fueled, finally, by natural gas piped in from Argentina.

We are very proud of this project, but despite the success and in spite of the fact that we are the leading supplier of combustion turbine power generating equipment in the world, we lost the next two similar plants to our principal global competitors from Europe and Japan. I point these losses out only to underscore the competitiveness of the market. In these competitions, all suppliers were equally treated from a tariff standpoint. So if the European Union or Japan gains preferential treatment in Latin America, it will make it much harder, if not impossible, for us to win with equipment sourced from the United States.

Mr. Chairman, I am optimistic about the outlook for the FTAA. Already, the agreement is taking shape with draft text, though heavily bracketed, in all of the negotiating groups. Business facilitation measures, primarily in the form of streamlined customs procedures, were adopted last year, a process that the Council of the Americas was proud to facilitate. Hence, the process of creating the FTAA is already yielding benefits that will help businesses in the near term.

In conclusion, I want to thank the Committee for its leadership on this important issue. I will also add my voice to supporting comments from the other speakers, who emphasized the importance of trade promotion authority for the ability of the United States to effectively conclude the Free Trade Area of the Americas. Thank you, and I will conclude my remarks with that.

[The prepared statement of Mr. McCarter follows:]

**Statement of John T. McCarter, President and Chief Executive Officer, GE Latin America, São Paulo, Brazil, and Vice Chairman of the Board, Council of the Americas**

Thank you very much, Mr. Chairman, for inviting the Council of the Americas (Council) to appear before your committee today. The Council is the premier business organization dedicated to promoting regional economic integration, free trade, open markets and investment, and the rule of law throughout the Western Hemisphere. The Council was a leading proponent of the North American Free Trade Agreement (NAFTA) that has led to so much economic growth in the United States, Mexico and Canada, and is at the forefront of private sector efforts to promote the Free Trade Area of the Americas (FTAA), which will spread those benefits throughout the Western Hemisphere.

I particularly appreciate the opportunity in my remarks today to support the earliest possible creation of the FTAA. I would like to give you an American businessman's perspective on the FTAA, drawing on my five years of living and seven years working in the region and on my work with the Council and other trade associations. My remarks will cover three broad points. First, there are real costs to the United States when our Hemispheric trading partners conclude trade agreements without U.S. participation. Second, the FTAA not only offers economic benefits to the region, but also extends the core values for which our country stands. Third, the FTAA will help create a stable, predictable and transparent environment in which business can grow. Particularly in these difficult economic times for so many countries of the hemisphere, the Council sees the FTAA as a central building block of democracy, openness, freedom and economic hope.

**Trade Agreements in the Americas**

Today, the United States has active free trade agreements only with Canada, Mexico and Israel. Other countries of the Hemisphere, however, have entered into a multitude of free trade agreements of their own. Chile, Canada and Mexico have been the most active in this regard, but virtually every country of the region has entered into new preferential trade agreements in the last three years. Most of the agreements concluded to date are between trading partners within this Hemisphere, but this too is starting to change. A free trade agreement between Mexico and the

European Union entered into force last year, and the EU, Japan, Korea, Australia, New Zealand and Singapore are all said to be negotiating agreements with nations of this Hemisphere.

Mr. Chairman, I have attached to my testimony a chart illustrating the many preferential trade agreements that currently involve countries in this Hemisphere. These agreements offer many benefits. They reduce overall trade barriers, and they keep the concept of trade liberalization active throughout the region. But the web of agreements is a sub-optimal solution, lowering barriers between agreement partners at the expense of creating a confused Hemispheric trading system that few can master—ideally, they should be only a stepping stone to more comprehensive regional and global multilateral agreements, like the FTAA. And of course, where these bilateral and sub-regional agreements do not involve the United States, they inevitably steer business away from U.S.-based companies.

#### **Benefits Offered by the FTAA**

Over the last ten years, democratically elected governments throughout the Americas have adopted market-oriented economic policies and begun to sweep away the dead weight generated by closed markets, excessive government intervention, and state-run enterprises. The most visible benefit of these programs is that inflation is largely in check. But the battle is hardly won. With the possible exception of Mexico, growth rates have not matched popular expectations and in some parts of the region the specter of possible retrenchment looms.

The FTAA is the key mechanism for addressing both the proliferation of free trade agreements and threats to Hemispheric trade liberalization and economic reforms.

- From an *economic* perspective, it is a means of locking in, buttressing and ultimately expanding the economic policy progress that is already widely under way. As it eliminates the disadvantages caused by current agreements to which the United States is not a party, and gives the U.S. preferential market access compared with nations outside the hemisphere, the FTAA will increase U.S. trade and investment with the nations of the Americas, simultaneously strengthening our country and our Hemispheric partners. The result will be new jobs, counter-inflationary forces, greater choice for consumers, and the more efficient use of all our resources.

- From a *social* perspective, the FTAA will expand the application of free market principles, and inevitably increase the presence of U.S. companies, and the core American values of democracy and individual freedom they carry with them, around the Hemisphere.

- From a *political* perspective, as the FTAA builds strong economies closely linked to one another, and shared standards and institutions, it can also build new bonds of friendship and common purpose between neighbors who too often have viewed each other with suspicion.

These points are nicely illustrated by GE's recent experience in the Chilean power generation market. Several years ago, GE won the competition to build a gas fired power plant near Santiago that is a poster child for market-oriented economic policies and free trade and investment in the Americas. The plant was originally owned by three companies: a Chilean electric utility, formerly a state company, now private (this company, by the way, has invested broadly throughout the region); second, a Canadian energy company and; third, a US electric utility and international developer from the Carolinas. GE was the prime contractor and we chose a global engineer constructor based in the United States to be our partner in this effort.

The major equipment for the plant came from:

- Schenectady, New York for the steam turbine and generators
- Salem, Virginia for the controls, and
- Greenville, South Carolina for the gas turbines

The plant uses advanced, state of the art technology for the core equipment and systems as well as controls and employs advanced environmental control technology as well. It was placed in service as the most efficient thermal plant in operation in Chile. Many local Chilean suppliers and a local large construction company participated in the project.

Finally, the plant is fueled by natural gas piped in from Argentina.

We are proud of this project and were pleased to be selected to build the first natural gas fueled advanced gas turbine power plant in Chile.

However, in subsequent competitive bids over about a year's time, and in spite of the fact that we are the leading supplier of combustion turbine power generating equipment in the world, we lost the next two similar plants to our principal global competitors from Europe and Japan. I point these losses out, not to complain about

the competitive environment—show us a stand up fair fight and we are always ready to compete—but to underscore the competitiveness of this market.

These competitions in Chile took place in an environment where all suppliers were treated equally from a tariff standpoint. Should the European Union or Japan gain preferential treatment in Latin America, it will make it much harder, if not impossible, for us to win with equipment sourced from the United States. To win, we will be forced to source equipment elsewhere, because the US-made equipment would carry with it a defacto evaluation penalty. By contrast, if the U.S. enters into an FTAA (or, in this case, a free trade agreement with Chile), we would be operating on equal, and perhaps even favorable terms.

### **Helping Business Do Business**

The FTAA will help the Hemisphere in many ways that go beyond the obvious benefit of reducing trade barriers. Business is in many ways a natural human activity. It will get done one way or another. Entrepreneurs will stack opportunities up against each other, and pursue the highest anticipated positive returns wherever they may be. But where business will be done, how quickly it will be done and how much it will expand are all variables that are very much in the control of governments. Governments must foster an environment conducive to business, which includes three elements:

1. the policy environment should be stable and predictable, with transparent laws and regulations, to make possible reasonable business decision-making;
2. governments should impose costs on business only when absolutely necessary, and should weigh the impact of such costs on economic activity against the social benefits the policy is intended to yield; and
3. governments should support or facilitate the provision of infrastructure which is critical to economic growth—be it in training and education, a sound legal structure, or capital investments.

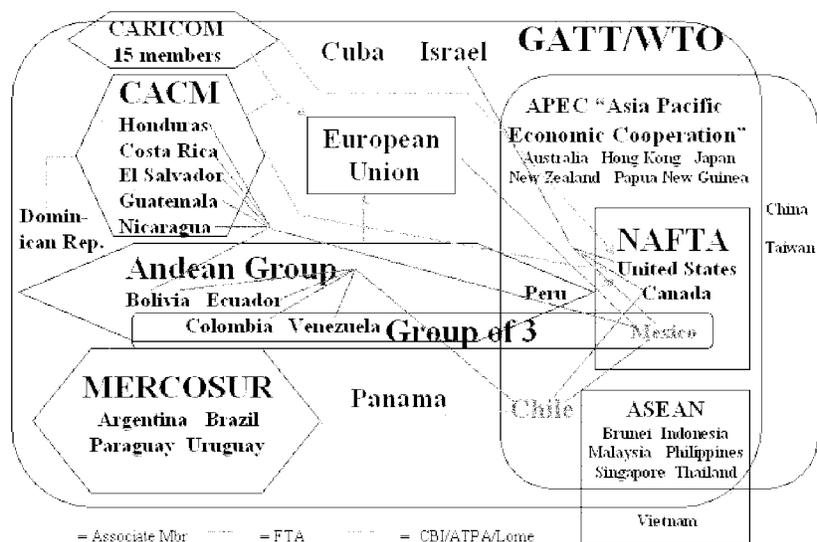
The FTAA can help in each of these areas. Its rules on services trade, intellectual property right protection, subsidies, standards, and investment combined with an effective dispute settlement mechanism can create stability, predictability and transparency. Tariff elimination, the end of discriminatory taxes on imported services, and simplification of procedures (such as the termination of antiquated consularization requirements), will reduce the cost of doing business. Increased transparency, anti-corruption measures, clear rules on foreign investment and non-discriminatory government procurement procedures will all contribute to improved Hemispheric infrastructure.

### **Perspectives on the FTAA**

Not only am I enthusiastic about the benefits of the FTAA, I am optimistic about the outlook for the FTAA. Already, the FTAA is taking shape. Draft texts, albeit heavily bracketed, have been produced in all of the negotiating groups. Business facilitation measures, primarily in the form of streamlined customs procedures, were adopted last year—a process that the Council of the Americas was proud to help facilitate. And a lively discussion is underway about exactly what the timing should be for reaching a final agreement in 2005. The fact that leaders of the Hemisphere will be meeting in Quebec on April 20–22 for the Summit of the Americas creates the opportunity to further the process with the new U.S. Administration. Latin American leaders see in President Bush a man who is committed to building closer ties with the Hemisphere, and virtually all participants see Hemispheric free trade as a necessary and fundamental part of that process.

In conclusion, I want to thank the Committee for its leadership on this important issue. The creation of the FTAA will position the United States to continue to be the economic leader of an increasingly open and prosperous Western Hemisphere. Without the FTAA, and in the absence of U.S. engagement, the United States may face an increasingly fractured and inefficient trading landscape, where our partners establish trading patterns, standards and institutions that do not necessarily reflect U.S. interests or values.

## Latin America Trade Deals -- An Increasingly Complex Web



Mr. ENGLISH. [Presiding.] Thank you, Mr. McCarter. Mr. Schott, it is a pleasure to have you back. Your testimony, sir.

**STATEMENT OF JEFFREY J. SCHOTT, SENIOR FELLOW,  
INSTITUTE FOR INTERNATIONAL ECONOMICS**

Mr. SCHOTT. Thank you, Mr. Chairman. I greatly appreciate the opportunity to testify before the Subcommittee on the implications for U.S. trading interests of free trade agreements to which the United States is not a signatory.

Four years ago, I alerted this Subcommittee to the growth of free trade areas and warned that U.S. trading interests could be adversely affected if this trend continues. The trend has continued. We have been affected. And bluntly put, we have paid a price for the seven-year-long impasse over fast track and the erosion of the bipartisan coalition in support of an open trade policy.

As Chairman Crane noted in his introduction, free trade areas are proliferating. We need to be concerned about existing arrangements that we are not a party to. Though most of the 130 agreements are not very important, some of them are very important. But we should be even more concerned, as Mr. Wiens noted just a moment ago, about prospective accords, both in Latin America and in East Asia. In particular, I would like to draw the Committee's attention to both the ongoing, though very slow-paced, negotiations between the European Union and the MERCOSUR countries and the prospective launch of new negotiations, possibly by the end of this year, of a Northeast Asia free trade agreement involving China, Japan, and Korea.

My colleague, Fred Bergsten, just came back from China last night where he had meetings with senior Chinese leaders over the past week on this subject among others. He was informed that there has been progress in working on a study of a possible North-east Asia arrangement. A vision group has been commissioned to report to leaders of those three countries by the end of this year and they have already decided to recommend the initiation of a free trade agreement. So that just underscores the point that Mr. Wiens made a moment ago and underscores why we need to reinvigorate U.S. leadership in trade talks in both the Western Hemisphere and in the APEC region.

Now, what are the costs of non-participation? Let me make three quick points, and they cover a lot of the points that other panelists have made this morning. First, U.S. exporters face discriminatory treatment in foreign markets compared to that accorded producers from the participating countries. Export contracts are either lost or they are sourced from overseas production plants. Either way, it hurts U.S.-based production and it hurts U.S. workers. And remember that exporting firms in the United States, on average, pay much higher wages and provide much steadier employment for U.S. workers than those that do not export. So we are undercutting some of our most competitive firms in this country.

Second point, when the United States is not a party to a negotiation, we cannot influence the outcome. Trade rules developed in such pacts may both increase transaction costs for U.S. businesses and establish precedents that differ from those that we may want to pursue in our own trade negotiations.

For example, the Canada-Chile Free Trade Agreement contains a provision that excludes the ability to use anti-dumping duties on bilateral trade once bilateral tariffs are fully removed. I know there are members of this Committee that would find that type of precedent difficult to swallow in a free trade agreement. Mention has also been made of the side agreement on labor in the Canada-Chile Free Trade Agreement, and that perhaps provides more interesting precedents, as other panelists have noted.

The third point and perhaps the highest price we pay for not participating in free trade agreements—is the lost opportunity to expand economic ties with our trading partners and promote economic growth and development. If one projects the future growth under a free trade agreement comparable to the growth that we have seen under NAFTA, the potential expansion of trade is notable. In that regard, I have run some numbers looking at what our bilateral trade with Brazil could be with a free trade pact. Bilateral trade is now very small, \$29 billion. But if we had free trade with Brazil like we do with Mexico, that bilateral two-way trade could double or triple up to \$87 billion in a short period of time.

In conclusion, the best way to neutralize the adverse effects on U.S. trading interests of free trade agreements in which the United States is not a signatory is to engage more effectively in bilateral, regional, and multilateral negotiations. The FTAA is particularly important to level the playing field. We also need to work intensively with other WTO countries to develop an agenda for a new round of multilateral negotiations.

And, of course, none of these trade initiatives are likely to be concluded unless the Congress and the administration develop a bipartisan agreement on trade policy objectives and trade negotiating authority. Our trade officials must have a strong domestic base of support, clear and consistent objectives, and sufficient flexibility to get the job done. Approving new trade promotion authority, hopefully later this year, is the best way Congress can respond to the problems facing U.S. companies in world markets and the best way to reassert U.S. leadership in the world trading system. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Schott follows:]

**Statement of Jeffrey J. Schott, Senior Fellow, Institute for International Economics**

I appreciate the opportunity to testify before the subcommittee on the implications for US trading interests of free trade agreements (FTAs) to which the United States is not a signatory. Many of these arrangements (or prospective agreements) involve our trading partners in the Western Hemisphere, East Asia, and Europe. The United States has important economic and political interests in all these regions, and our ability to advance those interests is impaired when those pacts discriminate against US companies.

I commend the committee on the timeliness of this hearing. Next week, US Trade Representative Robert Zoellick will be in Buenos Aires to meet with other trade ministers from the hemisphere to discuss progress in the negotiation of a Free Trade Area of the Americas (FTAA). The successful conclusion of the FTAA by the target date of January 2005, or possibly one year sooner, would create a more level playing field for US firms in markets in Latin America and the Caribbean that today are worth about \$1.5 trillion (excluding Mexico).<sup>1</sup>

Four years ago, I alerted this subcommittee that “most countries in the hemisphere continue to pursue bilateral and regional free trade pacts without us”, and that US trading interests could be adversely affected if this trend continues.<sup>2</sup> It has, and we have. My testimony today will review the FTAs that have been negotiated without US participation and the long list of similar pacts currently under negotiation. I will then describe how US firms are affected and how the pacts affect the ability of US trade officials to advance US interests in other trade negotiations.

**Are Free Trade Pacts Proliferating?**

Over the past decade, there has been a sharp increase in the number of FTAs concluded between developed countries, between developed and developing countries, and between developing countries. The Inter-American Development Bank has catalogued more than twenty preferential trade arrangements involving Latin American countries.<sup>3</sup> These accords vary from simple tariff reduction pacts to comprehensive free trade agreements and customs unions. Both Mexico and Canada have concluded free trade pacts with Chile; Mexico also has agreements with Costa Rica, Colombia and Venezuela, and with other Central American countries. Canada is in the final stages of FTA negotiations with Costa Rica as well. In addition, the Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) are consolidating their customs union and have entered into or are negotiating free trade arrangements with Chile, Bolivia, the Andean Community, and the European Union. The prospective Free Trade Area of the Americas is, of course, the most extensive example of this trend.

It is important to differentiate, however, between FTAs (which are the focus of this hearing) and other types of trade agreements between developed and developing countries. Some accords deal mainly with the conduct of trade relations; others provide trade preferences. Indeed, many pacts evolve in incremental steps over time from the granting of one-way trade preferences to reciprocal free trade agreements.

<sup>1</sup> For an analysis of the progress to date in the FTAA and current challenges facing the negotiations, see Jeffrey J. Schott, *Prospects for Free Trade in the Americas*, Washington: Institute for International Economics, April 2001.

<sup>2</sup> “The Free Trade Area of the Americas: US Interests and Objectives,” statement by Jeffrey J. Schott before the Subcommittee on Trade, House Committee on Ways and Means, 22 July 1997.

<sup>3</sup> Inter-American Development Bank, *Integration and Trade in the Americas*, Periodic Report, December 2000.

For example, the United States often has first extended unilateral trade preferences (e.g., the Caribbean Basin Initiative and the Andean Trade Preferences Act) to our partner countries, and then negotiated so-called “framework” agreements that establish forums for consultations on bilateral trade relations and the settlement of disputes. In turn, the CBI legislation enacted last year envisages the new trade preferences as a way station to the negotiation of reciprocal free trade pacts.

The United States currently participates in two FTAs, the US-Israel FTA and the North American Free Trade Agreement (NAFTA), and has concluded talks but not yet ratified the US-Jordan FTA. It is also negotiating bilateral FTAs with Singapore and Chile as well as the broader FTAA with 33 democratic countries in the hemisphere. Consideration is also being given to expanding the current bilateral talks to Australia and New Zealand to create a broader “P-5” pact. Senator Baucus has proposed initiating FTA negotiations with those countries and with Korea.<sup>4</sup> Such proposals have been advanced as part of an effort to revive progress on the commitments taken in the Asia-Pacific Economic Cooperation (APEC) forum to achieve free trade and investment in the region by 2010 for developed countries and 2020 for developing countries.

The European Union, by contrast, has concluded a large number of “association” agreements with countries in its neighborhood and in the Mediterranean Basin. More recently, it also has concluded a comprehensive FTA with Mexico, which entered into force on July 1, 2000, and is conducting free trade talks with the Mercosur countries and Chile. Those talks, however, are advancing quite slowly. In addition, the recently minted “Partnership Agreement” between the European Union and its developing-country partners in Africa, the Caribbean, and the Pacific seeks to establish a more reciprocal relationship than existed under the previous Lomé accords that eventually transforms into a FTA.<sup>5</sup>

In essence, the European Union has been pursuing new trade initiatives with its trading partners in Latin America and the Caribbean Basin that presage the development of a free trade zone over the next decade or two much like the FTAA. Unlike the United States, it has not yet integrated those initiatives into a single negotiation that over time could create a super-regional free trade zone. Rather its free trade strategy is more diversified and is proceeding at different speeds in various regions of the Americas. Discussions on a reciprocal trade agreement with the Caribbean countries are expected to begin within a few years, while similar initiatives with the Andean Community and the Central American countries are only in the planning stage. In short, the European Union is in the process of assembling the building blocks for free trade with Latin America and the Caribbean but it is a long way from putting such an initiative into effect.

Over the past two years, there also has been a dramatic resurgence of bilateral trade initiatives in the Asia-Pacific region. Japan and Singapore began FTA talks in January 2001.<sup>6</sup> Japan also has held extensive consultations with Korea on the possibility of entering free trade negotiations within the next few years. Japan and Mexico have explored the idea of bilateral talks, and have received support from a bilateral business working group.<sup>7</sup> Korea has entered into FTA negotiations with Chile and discussed possible FTAs with Japan, New Zealand, and Singapore. New Zealand and Singapore concluded negotiations on a bilateral FTA in August 2000 and signed the pact in November 2000 just prior to the APEC summit meeting in Brunei. At that meeting, Singapore agreed separately with Australia and with the United States to launch FTA talks; the latter initiative in turn spurred the start of the oft-postponed US-Chile negotiations in early December 2000. Soon after the APEC meeting, leaders of the ASEAN countries along with Japan, Korea, and China (the “ASEAN + 3”) agreed to *study* the possibility over time of a broader free trade regime in East Asia.

### **The Costs of Non-participation**

Overall, FTAs involving US trading partners but not the United States can affect US interests in several ways. On the positive side, such agreements can serve US

<sup>4</sup>For the pros and cons of a US-Korea pact, see Inbom Choi and Jeffrey J. Schott, *Free Trade between Korea and the United States? Policy Analyses* in *International Economics* 62, Washington: Institute for International Economics, May 2001.

<sup>5</sup>For an analysis of these initiatives, and the interests and objectives of the participating countries, see Jeffrey J. Schott and Barbara Oegg, “Europe and the Americas: Toward a TAFTA-South?” *The World Economy*, forthcoming summer 2001.

<sup>6</sup>For background on these talks, see the September 2000 report of a joint governmental study group, “Japan-Singapore Economic Agreement for a New Age Partnership,” Tokyo: Keidanren.

<sup>7</sup>Mexico proposed new FTA talks with Japan in January 2001. Instead, both sides agreed to study further the implications of such an accord and possibly commission an inter-governmental study group as was done prior to the launch of Singapore-Japan FTA talks.

trading interests if they promote broad-based economic and political reforms in the partner countries and contribute to stronger and more sustainable growth in the developing countries. At the same time, however, they can—and do—discriminate against US exporters and complicate the achievement of US trade negotiating objectives, in particular:

- US exporters face discriminatory treatment in foreign markets compared to that accorded producers from the participating countries. Export contracts are either lost or sourced from overseas production plants; either way, it hurts US-based production and workers.

- Moreover, when the United States is not a party to a negotiation and agreement, we cannot influence the outcome. Trade rules developed in such pacts may both increase transactions costs and establish precedents that differ from US practices and proposals that the signatory countries may seek to extend to other regional and WTO accords.

First, FTAs by their nature discriminate against outsiders; tariff preferences are accorded only to member countries and thus disadvantage foreign suppliers. As a result, US firms often are handicapped in competing for sales in South American markets when they have to pay sizable tariffs and their regional competitors do not. Sometimes US firms can source from foreign plants in countries that receive tariff preferences, although this is costly both for the company and diverts work away from US employees. Sometimes, US firms lose contracts to suppliers resident in the FTA partner countries. Such trade diversion is an important reason why multilateral liberalization is superior to discriminatory bilateral or regional accords.

How much does such trade diversion cost US firms? In the aggregate, the lost sales represent a very small share of US GDP; but for the particular firms, and the workers and communities affected by production cutbacks, the aggregate numbers mask significant costs. In a new study that will be released shortly by the Institute for International Economics, Rob Scollay and John Gilbert have examined the potential US welfare losses from a variety of prospective FTAs in the East Asia region using a computable general equilibrium model. Their simulation results show that the negative welfare effects for the United States generally amount to much less than 0.1 percent of GDP and in many cases less than 0.01 percent of GDP. Again, these findings provide little solace to the particular companies and workers that lose out to competitors that benefit from FTA trade preferences.

Second, FTAs usually contain trade rules that set criteria for qualifying for trade preferences (e.g., rules of origin) as well as other customs provisions that can impose significant transaction costs for US companies. The more complex and cumbersome the content/origin requirements, the more likely the policy will have a chilling effect on trade (and the harder to administer as well). To be sure, the most effective safeguard against abusive origin rules is multilateral tariff liberalization. Low most-favored nation (MFN) tariffs reduce the value of regional preferences; they also reduce the need for regional origin rules to block the transshipment of imported goods that have entered the regional bloc through low-tariff FTA member countries. So, the lower MFN tariff levels (and the greater the harmonization of tariff levels between countries in the regional pact), the fewer the problems posed by “tight” rules of origin.

In addition, FTAs can discriminate by providing special treatment under escape clause and dispute settlement procedures only for firms from the partner countries (as is done in the NAFTA). The proliferation of different tariff rates, customs procedures, and content requirements can create a paperwork nightmare for businessmen. Indeed, after the entry into force of the US-Canada FTA, some firms did not request the FTA tariff preferences because the transaction cost of applying for the preferences was greater than the low most-favored nation tariff.

However, in many cases it is not practical to apply different rules to the trade and investment of member versus non-member countries. For example, countries often implement investment reforms in a nondiscriminatory fashion lest the new investment regime run counter to the broader objective of promoting capital inflows from industrial countries which provide both advanced technologies and management skills.<sup>8</sup> Usually the demands of the marketplace (not to mention the inordinate administrative costs of implementing different standards and requirements for different countries) require convergence toward the standards in the predominant market of the regional partners (which for most Western Hemisphere countries means the United States).

Third, recently concluded regional agreements create precedents involving practices significantly different from those inscribed in US law that member countries

<sup>8</sup>For this reason, Mexico committed to investment reforms in the NAFTA but applied their policies on a most-favored nation basis to non-NAFTA countries as well.

may want to extend to the broader FTAA. For example, the Chile-Canada FTA prohibits the use of antidumping laws with respect to bilateral trade as soon as tariffs are removed (i.e., within six years). The Canada-Chile FTA also includes a side agreement on labor with enforcement provisions similar to those applicable to US-Canada disputes in the NAFTA (i.e., non-compliance penalties may involve monetary fines but not trade sanctions). Some countries in the hemisphere consider these provisions to be possible models for what could be included in the FTAA.

### Lost Opportunities

Of course, perhaps the highest price we pay for not participating in FTAs is the lost opportunity to expand economic ties with our trading partners and promote economic growth and development. A number of recent economic studies conclude that as countries reduce barriers to trade (both internal and border restrictions), per capita income increases significantly. For example, Frankel and Rose (2000) estimate that over a period of 20 years, a 10 percent rise in the ratio of trade to GDP boosts per capita income by 3.3 percent.<sup>9</sup> Their results can shed some light on the potential trade expansion generated by a FTAA.

If one projects future trade growth under a FTAA comparable to growth already achieved under NAFTA, the potential expansion of trade relations is notable. A comparison between Brazil and Mexico illustrates the medium-term possibilities of an FTAA agreement. In 2000, two-way merchandise trade between the United States and Mexico was more than eight times larger than two-way trade between the United States and Brazil. How much of the difference can reasonably be attributed to NAFTA?

The gravity model developed by Frankel and Rose can be used to estimate the potential increase in US-Brazil trade if the two countries were joined in a free trade agreement. The estimated parameter suggests that US-Brazil trade would double or triple, from \$29 billion in 2000 to \$58 billion or even \$87 billion, if an FTA had been in place.

This estimate can serve as a proxy for the overall short to medium term potential between South America and North America under a FTAA. Over time, however, the potential volume of regional trade creation is far larger than the volume predicted by standard gravity models. This is illustrated by the fact that the density of merchandise trade flows within a country (e.g., between New York and Chicago, between Quebec and Ontario, or between Frankfurt and Hamburg) is estimated to be at least ten times greater than trade flows that cross international borders, holding constant the economic size and distance between the source and destination.<sup>10</sup>

### Conclusions

The best way to neutralize the adverse effects on US trading interests of FTAs in which the United States is not a signatory is to engage more effectively in bilateral, regional and multilateral trade negotiations. The FTAA is particularly important to level the playing field in our own hemisphere. Furthermore, by deepening the economic partnership with our neighbors in the hemisphere, we can also strengthen cooperative efforts on other important US political and foreign policy goals, including cooperation on drug interdiction, improving environmental and labor conditions, supporting educational reforms, and reinforcing democracy. Thus, an FTAA could have important spillover effects on overall US relations with the region. This point is well illustrated by the 2000 Mexican presidential election, which demonstrated the salutary effect of economic integration on political reform.

In addition, we need to work intensively with other WTO countries to develop an agenda for a new round of multilateral negotiations that encompasses the priority concerns of both developed and developing countries. Fortunately, consultations to that end have resumed without the rancor and inflammatory rhetoric that inhibited efforts immediately after the ill-fated Seattle WTO ministerial. I am cautiously optimistic that trade ministers will succeed in launching a new WTO Round when they reconvene in Doha, Qatar, for the 4th WTO ministerial in November 2001.

Of course, none of these trade initiatives are likely to be concluded unless the Congress and the Administration develop a bipartisan agreement on US trade policy objectives and trade negotiating authority. Our trade officials must have a strong domestic base of support, clear and consistent objectives, and sufficient flexibility to get the job done. Approving new "trade promotion" authority, hopefully later this year, is the best way Congress can respond to the problems facing US companies

<sup>9</sup>See, Jeffrey Frankel and Andrew Rose, "Estimating the Effect of Currency Unions on Trade and Output," NBER Working Paper 7857, August 2000.

<sup>10</sup>See, for example, John Helliwell, Do National Borders Matter for Quebec's Trade? *NBER Working Paper* 5215, August 1995.

in world markets and the best way to reassert US leadership in the world trading system.

Chairman CRANE. [Presiding.] Thank you, Mr. Schott. Mr. Hardin?

**STATEMENT OF JOHN HARDIN, JR., PORK PRODUCER, DANVILLE, INDIANA, AND PAST PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL**

Mr. HARDIN. Thank you, Mr. Chairman. I am John Hardin, Jr., a pork producer from Danville, Indiana. I am Past President of the National Pork Producers Council and I currently serve as the Vice Chair of the Agricultural Policy Advisory Committee to USTR and the Secretary of Agriculture. I very much appreciate the opportunity to appear here today on behalf of U.S. pork producers to express our views on the importance of continued trade liberalization. My comments today will focus on the pork industry, but similar issues are holding back all of the export-competitive sectors of U.S. agriculture.

U.S. pork producers are major beneficiaries of the Uruguay Round Agreement and NAFTA. Our industry needs prompt renewal of trade promotion authority so that further trade agreements may be consummated. These trade agreements permit U.S. pork producers to exploit their comparative advantage in international markets. The future of the pork industry rests in large part on our ability to expand exports.

In the last decade, U.S. exports have increased 263 percent in value. Pork exports from the U.S. to Mexico exploded in 1994 when NAFTA went into effect. Even with the devaluation of the peso, U.S. pork increased its market share in Mexico. This never would have happened without NAFTA. Mexico is now the pork industry's second most important market behind Japan.

The United States is uniquely positioned to reap the benefits of liberalized world pork trade. Our pork producers are the lowest cost large-scale commercial suppliers of the safest, high quality pork in the world. But without renewal of trade promotion authority for the executive branch by Congress, U.S. pork producers and the rest of U.S. agriculture will be forced to remain on the sidelines while other countries continue to negotiate new trade agreements at a staggering pace.

In order to expedite the WTO negotiations, U.S. trade officials need trade promotion authority. The longer the U.S. goes without renewing trade promotion authority, the longer the WTO negotiations will drag on. Trade promotion authority is also needed so that the U.S. can pursue liberalization regionally in the Free Trade of the Americas initiative, as well as with the countries of the Asia Pacific Economic Cooperation Forum.

Finally, trade promotion authority is needed so that the U.S. can pursue bilateral free trade agreements with countries such as Chile and Singapore.

The U.S. industry is disadvantaged by the failure of the United States to keep up with these pace of trade agreements. The rapidly expanding Brazilian pork industry, a key competitor to the U.S. in-

dustry, now has preferential access into many of our markets, including that of Argentina. We recently gained access to Argentina, but our pork is charged a 34.5 percent duty while Brazilian pork enters Argentina duty-free as part of the MERCOSUR customs union. We are currently trying to gain access to the Chilean pork market. Both Brazil and Canada already have preferential access to that market through trade agreements. Mexico, which has some world class pork operations, counts Japan amongst its pork export markets. It has negotiated close to 30 free trade agreements.

While the U.S. has been on the sidelines, our higher cost competitors in Mexico and Chile, along with Canadian producers, are benefitting from their governments' active pursuit of free trade agreements. Unless the U.S. acts quickly to engage in similar FTAs, we will be shut out of many of the pork import markets in the Western Hemisphere.

In Europe, the European Union continues to cut trade deals with countries of Central and Eastern Europe. These so-called double-zero agreements have the EU and the Central and Eastern Europe (CEE) country typically agree to offer duty-free quotas for a specific quantity of a given agricultural product, such as pork, while anything above the quota is subject to duty. Further, the EU and the CEE country agree not to use any export subsidies for the given agricultural product.

The U.S. pork industry is disadvantaged in two ways by these double-zero agreements. First, the EU gets better market access to the CEE countries, and second, the EU is able to conserve its pork export subsidies for other markets outside Europe where we compete with them.

In sum, the EU, Mexico, Chile, Canada, and others are gaining the benefits of trade for their citizens while the U.S. engages in a negotiation with itself about the benefits of trade. Our comparative advantage in pork is increasingly being offset by the failure of the U.S. to get in the free trade game. Thank you, Mr. Chairman.

[The prepared statement of Mr. Hardin follows:]

**Statement of John Hardin, Jr., Pork Producer, Danville, Indiana, and Past President, National Pork Producers Council**

Mr. Chairman and members of the Subcommittee. I am John Hardin, Jr., a pork producer from Danville, Indiana. I am a past President of the National Pork Producers Council (NPPC) and a past chairman of the United States Meat Export Federation. I currently serve on NPPC's Trade Committee and am a representative on the Agricultural Policy Advisory Committee to the United States Trade Representative and the Secretary of Agriculture. I very much appreciate the opportunity to appear here on behalf of U.S. pork producers to express our views on the importance of continued trade liberalization.

**I. Introduction**

The National Pork Producers Council is a national association representing 44 affiliated states that annually generate approximately \$11 billion in farm gate sales. According to a recent Iowa State study conducted by Otto and Lawrence, the U.S. pork industry supports an estimated 600,000 domestic jobs and generates more than \$64 billion annually in total economic activity. With 10,988,850 litters being fed out annually, U.S. pork producers consume 1.065 billion bushels of corn valued at \$2.558 billion. Feed supplements and additives represent another \$2.522 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

Pork is the world's meat of choice. Pork represents 47 percent of daily meat protein intake in the world. (Beef and poultry each represent less than 30 percent of

daily global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade—and the lower consumer prices in importing nations and the higher quality products associated with such trade—will depend substantially on continued agricultural trade liberalization.

U.S. pork producers were ardent proponents of the Uruguay Round Agreement and the North American Free Trade Agreement. The industry strongly supports further trade liberalization measures. As the low-cost producers of safe, high-quality pork, these trade agreements permit U.S. pork producers to exploit their comparative advantage in international markets. However, even with the progress made in the Uruguay Round, much more needs to be done. The U.S. pork industry still is either locked out of many markets, or has only partial access to markets, due to high tariffs, non-tariff trade barriers, and subsidized competition.

## **II. Trade Promotion Authority Should Be Renewed**

U.S. pork producers are major beneficiaries of the Uruguay Round Agreement and NAFTA. Our industry needs prompt renewal of trade promotion authority so that further trade agreements may be consummated. These trade agreements permit U.S. pork producers to exploit their comparative advantage in international markets. The future of the pork industry rests, in large part, on the ability to expand exports.

Since 1995, when the Uruguay Round Agreement went into effect, U.S. pork exports to the world have increased 55 percent in volume terms and 40 percent in value terms. In 2000 the U.S. exported a record 566,900 metric tons of pork valued at \$1.316 billion.<sup>1</sup> Pork exports from the U.S. to Mexico exploded in 1994 when NAFTA went into effect. Even with the devaluation of the peso U.S. pork increased market share in Mexico—this never would have happened without NAFTA. Mexico is now the pork industry's second most important market behind Japan.

Pork exports generate wealth and create good paying jobs that contribute significantly to the economic well being of rural America. According to a study by CF Industries, exports were so important to the industry in 1997 (when cash hog prices were close to current prevailing levels) that cessation of exports (due for example to an embargo or animal disease outbreak) would have caused cash hog prices to plummet by \$15.73 per head. Research conducted by the Economic Research Service of the United States Department of Agriculture (ERS) indicates that for each dollar of value-added agricultural exports such as pork, \$1.63 in additional U.S. economic activity is generated. Moreover, ERS calculates that every billion dollars in pork exports creates an additional 23,000 new jobs in the U.S. economy.

During the past decade the number of hogs processed in the United States increased from 85 million to 101 million while the pork derived from these hogs increased from 15.4 billion pounds to 19 billion pounds. While not all of this increase is attributable to exports, much of it is. As a consequence of this increased production, more people are employed in the supply and processing industries. This means that packers and processors will operate at higher levels of capacity and/or build new facilities. More U.S. inputs, such as corn and soybeans, and more U.S.-made machinery will be utilized. More packaging supplies are used and more shipping services are consumed. Exports contribute to the well being of rural America through such growth. Given that 96 percent of the world's population resides outside the United States, it is exports that will drive the future growth and viability of the industry. In the short term, the benefit will be higher prices. In the long run it will be a larger and growing, vibrant industry.

Indeed, the Cross-Commodity Analysis conducted by the Foreign Agricultural Service of the United States Department of Agriculture (FAS) underscores the important contribution of pork exports to the U.S. economy. The report states that:

The shift toward greater exports of high-value foods such as meat instead of feed grain has major beneficial implications for the U.S. rural economy. First, expanding exports of red meat and poultry expands domestic demand for feed grain and oilseed meal. Second, the income multiplier effect from high-value exports is greater than from bulk commodity exports (2.88 versus 1.86). This means dollar-for-dollar, high-value exports generate more jobs than exports of bulk commodities.

<sup>1</sup>The volume of U.S. pork exported in 2000 is a record amount because 1999 pork export data have been revised. USDA does not count as an export the approximately 50,000 metric tons of pork that was shipped to the Russian Federation as food aid in 1999.

Further, another study by FAS points out that if the U.S. exported meat instead of the feed grains used to produce meat in foreign markets, U.S. agricultural employment would increase by approximately 50 percent.

The United States is uniquely positioned to reap the benefits of liberalized world pork trade. U.S. pork producers are the lowest cost, large scale commercial suppliers of the safest, highest quality pork in the world. But without the renewal of trade promotion authority for the Executive branch by Congress, U.S. pork producers and the rest of U.S. agriculture will be forced to remain on the sidelines while other countries continue to negotiate new trade agreements at a staggering pace. According to a report prepared for the Office of the U.S. Trade Representative, about one-third of total world exports are covered by EU free trade and customs agreements, compared to only 11 percent for U.S. free trade agreements. Of the approximately 130 free trade agreements in the world the United States is a party to only two, the NAFTA and the U.S.-Israel FTA.

In order to expedite the WTO agriculture negotiations, U.S. trade officials need trade promotion authority. The longer the U.S. goes without renewing trade promotion authority, the longer the WTO agricultural negotiations will drag on. Trade promotion authority is also needed so that the U.S. can pursue trade liberalization regionally with our Western Hemisphere neighbors in the Free Trade Agreement of the Americas initiative (FTAA) and regionally with the countries of the Asia Pacific Economic Cooperation forum (APEC). Finally, trade promotion authority is needed so that the U.S. can pursue bilateral free trade agreements with countries such as Chile and Singapore.

The U.S. pork industry is disadvantaged by the failure of the United States to keep up with the pace of trade agreements in the world. The rapidly expanding Brazilian pork industry—a key competitor to the U.S. industry—now has preferential access into many markets to the detriment of U.S. producers. For example, the U.S. pork industry recently obtained access to the Argentine pork market. We are disadvantaged selling into Argentina because of the preferential access that Brazilian pork exports receive by virtue of the MERCOSUR customs Union. Specifically, the U.S. faces a 34.5% duty on pork exported to Argentina while Brazil enjoys duty free access on its pork exported to Argentina. The U.S. pork industry currently is trying to obtain access to the Chilean pork market, another market in which Brazil has preferential access. Canada, which probably is our most significant competitor in pork, has gained preferential access into Chile through a free trade agreement. Mexico, which has some world class pork operations and counts Japan among its pork export markets, has negotiated close to 30 free trade agreements. If left unchecked, Mexico will dominate a number of Western Hemisphere pork import markets to the detriment of the U.S. pork industry. The export-competitive Chilean pork industry, which like Mexico counts Japan as one of its export markets, has preferential access into many Western Hemisphere pork markets to the detriment of the U.S. pork industry. While the United States sits idly by, Mexico, Chile, and Canada have wrestled away from the United States the mantle of the Western Hemisphere's trade leader.

In Europe, the European Union continues to cut trade deals with the countries of Central and Eastern Europe (CEE). In these so-called double zero agreements, the EU and the CEE country typically agree to offer duty free quotas for a specific quantity of a given agricultural product, such as pork, while anything above the quota is subject to duty. Further the EU and the CEE country agree not to use any export subsidies for the given agricultural product. For example, in July 2000, Hungary and the EU signed a double-zero agreement. The agreement calls for reduced tariffs and an end to export subsidies for 72 percent of Hungary's exports of unprocessed agricultural products to the EU and 54 percent of the EU's agricultural exports to Hungary. The agreement established three lists of goods. For the first list, accounting for a third of Hungary's agricultural exports to the EU, all tariffs were abolished. For the second list, tariffs were abolished for exports up to a given quota, provided exports above the quota are not subsidized. This second list includes pork. The duty-free quotas on pork are to increase by 10 percent per year.

The U.S. pork industry is disadvantaged in two ways by these double zero agreements. First, the EU gets better market access in CEE countries for its pork exports. Second, the EU is able to conserve its pork export subsidies for other markets outside Europe where we have to compete with them. Even with a small CEE country such as Estonia, the EU expects to 'save' around 3,500 metric tons in pork export subsidies. Total EU shipments of pork to CEE countries are about 220,000 metric tons, an amount equal to about 40 percent of total U.S. pork exports.

The EU, Mexico, Chile, and Canada are gaining the benefits of trade for their citizens while the U.S. engages in a negotiation with itself about the benefits of trade.

Our comparative advantage in pork is increasingly being offset by the failure of the U.S. to get into the free trade game.

### **III. The U.S. Should Pursue A Zero for Zero on Pork in the WTO Agriculture Negotiations**

NPPC believes that the United States should adopt as a primary negotiating objective in the World Trade Organization agriculture negotiations the total elimination in the shortest possible time frame of all tariffs, all export subsidies and all trade-distorting domestic support for pork and pork products. The U.S. industry is ready to compete in a free and open environment; we believe that pork producers in a number of other countries are willing to do the same. Indeed, the Canadian pork industry has also asked its government to pursue a zero-for-zero initiative on pork and pork products and there is strong interest in this initiative in a number of other countries. The United States should use its negotiating leverage to push this objective with our more reluctant trading partners in order to ensure that we are afforded the opportunity to take advantage of our natural competitiveness.

#### *NPPC Urges the Following Negotiating Objectives For Agriculture in the WTO*

Fundamental liberalization in the pork industry can be most easily achieved in the context of an ambitious overall agreement in agriculture. NPPC supports an aggressive approach to this trade round which goes beyond the consensus Seattle Round Agricultural Coalition (SRAC) policy statement. Among other things, NPPC advocates the following points as general U.S. negotiating objectives for agriculture:

#### **1. Tariff Reductions Must Be Accelerated**

Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high. U.S. agricultural commodity tariffs, which according to the Economic Research Service of USDA average only about 12 percent, are dwarfed by the agricultural tariffs of other nations, which range on average from 50 to 91 percent. Foreign tariffs on pork, beef, and poultry average about 80 percent according to ERS.

The best way to achieve such comprehensive liberalization is through the use of a tariff cutting formula that is applied to every product without exception. There are an infinite number of formulas that could be devised to cut tariffs, the "best" formula obviously depending on the results desired. NPPC prefers an approach like the Swiss formula used in the Tokyo Round negotiations, which resulted in substantially larger cuts in higher tariffs and had the effect of dramatically reducing the disparities in levels of protection. In addition, countries could engage in request/offer negotiations to achieve deeper-than-formula reductions for specific products. *This segment of the negotiation would provide the opportunity to pursue the zero-for-zero objective in the pork sector.*

#### **2. The Administration of Tariff Rate Quotas Must Be Improved**

In most instances, creating a TRQ satisfied the minimum access commitment for tariffed agricultural products in the Uruguay Round. Unfortunately, in some cases, the administration of TRQ's has been used as an instrument to thwart imports. In the upcoming trade negotiations, rules on TRQ administration must be clearly delineated. In addition, ceilings must be established for over-quota duty levels.

#### **3. Export Subsidies Should Be Eliminated**

Data compiled by USDA shows that during GATT year 1998/1999, the EU subsidized more than 750,000 metric tons of pork exports, a subsidized tonnage that exceeds our entire amount of exports. NPPC supports the complete elimination of all export subsidies and the complete elimination of all trade distorting domestic support.

#### **4. Trade-Distorting Domestic Support Should Be Further Disciplined**

The pork industry recognizes the complexities of agricultural politics and acknowledges that farm programs often are designed to meet social as well as economic objectives. Nonetheless, it is essential for the next trade round to accomplish much stricter disciplines on trade-distorting domestic support programs than was possible in the Uruguay Round. The 20 percent reduction in the Aggregate Measure of Support (AMS) achieved in the Uruguay Round did not go far enough. We need to see further significant reductions. Moreover, those reductions should be applied on a commodity-by-commodity basis, rather than a sector-wide basis, as was the case under the Uruguay Round agreement. For pork, all trade-distorting supports should be eliminated, and all tariffs and export subsidies abolished as part of the zero-for-zero initiative.

The U.S. advocated commodity-specific domestic support reduction commitments until the final stages of the Uruguay Round negotiations. The sector-wide approach was the result of a Blair House compromise with the EU. As a consequence of this change, countries such as the EU and Japan, both of whom have AMS limits over three times that of the U.S., have had significant flexibility to shift support between commodities and avoid painful reductions.

Of course, commodity-by-commodity commitments could also lead to changes in U.S. domestic programs. However, the potential gains in the world market from achieving disciplines on EU and Japanese policies justify the acceptance of more discipline on U.S. policy making. We have acknowledged this to be the case with respect to export subsidies and import barriers, and it is just as true for domestic subsidies. Without stronger disciplines and greater reduction commitments, our major trading partners will continue to be permitted to subsidize their producers at a significantly higher rate than the U.S.

### **5. The Peace Clause Should Not Be Extended**

One of the most promising sources of meaningful leverage for the United States is Article 13 of the Uruguay Round Agreement on Agriculture—the so-called Peace Clause. Article 13, which was included in the Agreement at the insistence of the European Union, suspends until January 1, 2004, the application to agricultural products of certain WTO disciplines, the most significant of which are Articles 3, 5 and 6 of the Agreement on Subsidies and Countervailing Measures. With the expiration of Article 13, the EU would immediately be in breach of its obligations under Article 3 of the Subsidies Agreement, which prohibits export subsidies (Article 13(c)(ii)). At the same time, the U.S. would be in a position to begin dispute settlement proceedings under Article 6 against any domestic or export subsidies that are causing serious prejudice to U.S. exports in third-country markets (Article 13(b)(ii)). Obviously, these are powerful disciplines.

The Peace Clause expires automatically. The only way to extend it would be to negotiate a new agreement that includes similar protections. The EU, in particular, will have a strong incentive to achieve such an agreement and will presumably be ready to pay a high price for it. It should be much easier to achieve an agreement within three years that includes a phased elimination of export subsidies and meaningful disciplines on trade-distorting domestic subsidies if the EU is facing, in the absence of such an agreement, the immediate application of even stronger measures.

The United States should do everything possible to take advantage of the leverage offered by the Peace Clause. As a first step, the U.S. should publicly declare its willingness to allow the provision to expire. *More important, the United States should begin preparing dispute settlement cases now against the European Union. The United States should be ready to file these cases against the EU under the Subsidies Agreement on January 1, 2004.*

Of course, U.S. programs could also be challenged if the peace clause expires. However, the U.S. is much less exposed than the EU. AMTA payments, which account for a significant portion of U.S. support, would almost certainly be considered non-product-specific, and therefore non-actionable, under the Subsidies Agreement. Product-specific programs in the U.S. are much less significant than those in the EU, and it is difficult to demonstrate a link between U.S. programs and level of U.S. exports.

*More importantly, using peace clause leverage could actually reduce U.S. vulnerability to an eventual challenge. Doing so increases the likelihood of achieving a good agreement on agriculture before the end of 2003. Without such an agreement, the peace clause would inevitably lapse. In the context of such an agreement, the peace clause could be extended.*

### **6. Export Credits Should Be Disciplined in the OECD**

Under the Uruguay Round Agreement the United States committed, along with other WTO members, to negotiate disciplines on export credits and credit guarantees in the OECD. Unfortunately, the OECD talks have not yet produced an agreement. Now some countries are talking of developing disciplines in the WTO rather than the OECD.

The OECD has experience in the area of export credits, having administered for many years an agreement on export credits for industrial products. It is the proper place to develop disciplines for credit programs for agricultural products. Despite the fact that the United States is currently the biggest user of such credits, we have a long-run interest in imposing disciplines to guard against future abuses by our trading partners.

#### **7. The S&P Agreement Should Not Be Reopened**

The pork industry does not support opening the SPS Agreement for further negotiation in the next trade round. It is working well.

#### **8. The U.S. Must be a Reliable Supplier of Agricultural Products**

Trade liberalization is not a one-way street. If we expect food-importing countries to open their markets to U.S. exports and rely more on world markets to provide the food they need, we should at the same time commit to being reliable suppliers. Current WTO rules permit exporting countries to tax exports whenever they choose (GATT Article XI.1), and to prohibit or otherwise restrict exports to relieve domestic shortages (GATT Articles XI.2(a) and XX(i) and (j)). These provisions should be eliminated in conjunction with the phasing out of import barriers. Such a move would not affect the ability of the United States to impose trade sanctions for reasons of national security; that right would be preserved under GATT Article XXI.

#### **IV. The U.S. Pork Industry Strongly Supports the FTAA Process and Bilateral Initiatives With Chile and Singapore**

Given the strong support of the U.S. and Canadian pork industries for a zero-for-zero approach on pork in the WTO agriculture negotiations and the likelihood that Brazilian producers also will embrace this initiative, the FTAA process should provide fertile ground for the thorough liberalization of the pork sector in the western hemisphere. However, if the Congress does not pass Trade Promotion Authority and the FTAA process languishes, the United States pork industry and other sectors of the U.S. economy will be forced to continue to sit on the sidelines and watch as the Mexicans, the Canadians, the Chileans and others continue to cut trade deals in what once was considered the domain of the United States.

The U.S. pork industry also supports bilateral initiatives with Chile and Singapore. Comments regarding each of these initiatives are attached as appendices to this statement.

[The attachments are being retained in the Committee files.]

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Chairman CRANE. Thank you. Mr. Burke?

#### **STATEMENT OF DONALD R. BURKE, VICE PRESIDENT, MARKETING AND INTERNATIONAL, COATED BOARD DIVISION, MEAD CORPORATION, PHENIX CITY, ALABAMA, ON BEHALF OF THE AMERICAN FOREST & PAPER ASSOCIATION**

Mr. BURKE. Mr. Chairman, my name is Don Burke. I am Vice President of Marketing and International of the Mead Coated Board Division, a division of the Mead Corporation. We manufacture coated paperboard for use in beverage packaging and in the folding carton industry. I am appearing today on behalf of Mead, as well as the American Forest & Paper Association, of which we are a member. Mead is also affiliated with the Business Roundtable and its Go Trade network.

The American Forest & Paper Association is the national trade association of the forest and paper products industry. This industry has annual sales in excess of \$250 billion and accounts for nearly seven percent of total U.S. manufacturing output. The Mead Corporation is a forest products company with \$4.4 billion in sales, 12 percent of which are derived from international activities.

I am pleased to have this opportunity to appear today because, for my company and others in our industry, the premise of this hearing, that the U.S. has fallen behind in gaining market access for its manufacturers and that U.S. exporters and their workers are facing discriminatory customs tariffs as a result, is a painful fact of everyday life.

Going into the Uruguay Round of trade negotiations, our industry was the first to propose zero-for-zero tariff concept, but we were largely unsuccessful. The result is that the competitive landscape for our industry has actually gotten worse over time. Let me offer a personal experience of what this has meant to American business.

During the early 1990s, Mead began market development activities on two fronts in Brazil, one involving the supply of finished packages, primarily to the beverage industry, and two, the sale of our paperboard to independent customers for use in the manufacture of folding cartons. In 1997, our exports of paperboard in support of these initiatives exceeded 30,000 tons, or \$20 million worth of business. I should point out that we were able to capture this business against domestic competition even in the presence of tariffs, initially set at ten percent, but which reached 14 percent in 1997.

In 1999, the MERCOSUR agreement required Brazil to raise its tariffs to bring them into line with its partners. Brazil raised its tariff on my product to 16.5 percent, just about the time the real was devalued. As a result, we were no longer able to compete with the Brazilian domestic suppliers. Today, that 30,000 tons I referenced earlier is zero. Mead remains committed to the Brazilian market in its beverage packaging business, but today we purchase our paperboard from a local supplier and sales of our own paperboard are nonexistent.

This experience is not unique to Mead. The MERCOSUR agreement required Brazil to increase its tariff on a wide range of paper and wood products. As a result, U.S. sales of pulp and paper declined by nearly 40 percent, from \$348 million in 1997 to just \$216 million last year. In wood products, they declined by over 50 percent.

To take another example, in 1997 when Canada concluded its free trade agreement with Chile, virtually all Canadian wood and paper products received duty-free treatment immediately upon implementation. The effect on U.S. wood and paper sales was immediate and devastating. The U.S. share of the Chilean paper market dropped from 30 percent in 1997 to 13 percent last year. That cost U.S. suppliers an estimated \$100 million last year. At the same time, U.S. exports of wood products declined by 25 percent.

What needs to be done? First, we urge the administration to move rapidly to conclude the FTA with Chile, and in particular to ensure that all tariffs on U.S. wood and paper products will be reduced to zero immediately.

Second, the administration must work with hemispheric trading partners to accelerate the timetable for a Free Trade Area of the Americas and achieve some early deliverables in selected sectors, such as forest products.

Third, the administration must revitalize the effort in APEC to achieve zero tariffs in selected sectors, again, including forest products.

Fourth, the U.S. should critically review the FTAs concluded by our major competitors and move quickly to restore the balance of competitive opportunity.

Finally, the U.S. must, of course, continue to press for further industrial tariff negotiations in the WTO, including early sectoral tariff elimination. In doing so, however, we must make sure that these multilateral efforts do not undermine our bilateral and regional negotiations. And, of course, we must provide the administration with the authority to conclude negotiations in a way that is credible to potential partners.

Mr. Chairman, over the decade of the 1990s, companies like Mead and others in the U.S. forest products industry have made the difficult decisions necessary to ensure we can compete in the global marketplace. We urge the U.S. to move quickly to catch up with our competitors, to achieve equitable tariff treatment in world markets. Thank you, Mr. Chairman.

[The prepared statement of Mr. Burke follows:]

**Statement of Donald R. Burke, Vice President, Marketing and International, Coated Board Division, Mead Corporation, Phenix City, Alabama, on behalf of the American Forest & Paper Association**

Mr. Chairman, my name is Donald R. Burke, I am Vice President, Marketing and International for the Coated Board Division of the Mead Corporation. I am appearing today on behalf of Mead, as well as the American Forest & Paper Association, of which we are a member. Mead is also affiliated with The Business Roundtable and its Go Trade network.

The American Forest & Paper Association is the national trade association of the forest, pulp, paper, paperboard and wood products industry. This vital national industry accounts for 7% of total U.S. manufacturing output. Our industry employs approximately 1.7 million people, with an annual estimated payroll of \$51 billion, and sales in excess of \$250 billion.

The Mead Corporation—a forest products company with \$4.4 billion in sales in the year 2000—is one of the leading North American producers of coated printing paper, coated paperboard and consumer and office products. Mead is a world leader in multiple packaging and specialty paper, and a producer of high quality corrugating medium used in shipping containers. Mead employs more than 15,000 people, has offices in 32 countries, and sells its products in 98 countries. In management of the company's more than two million acres of forests, Mead is committed to practicing principled forest stewardship and using resources in a responsible and sustainable manner.

The Mead Coated Board division, headquartered in Phenix City, Alabama, manufactures coated unbleached kraft paperboard. Approximately sixty percent of this product is used as a raw material by Mead's own converting operations which produce and market convenience packaging throughout the world for such products as soft drinks, beer, dairy, and other food products. The remaining forty percent is sold to customers in North America and Europe for use in multiple packaging and folding cartons. Mead is considered a global leader in this field. The division also produces dimension lumber. Mead Coated Board has more than 1,200 employees and operates two paper machines at its Mahrt mill near Phenix City, which produced approximately 1 million tons of coated paperboard in 2000.

I am pleased to have this opportunity to appear today because, for my company and others in the U.S. forest products industry, the premise of this hearing—that the U.S. has fallen behind in gaining market access for its manufacturers—and that U.S. exporters and their workers are facing discriminatory customs tariffs as a result—is a painful fact of everyday life.

For the U.S. forest products industry, it is really pretty easy to see how we got here.

Going into the Uruguay Round of trade negotiations, our industry was the first to propose a zero for zero tariff concept because we recognized several things about the future direction of our industry:

- We were then one of America's most globally competitive industries, and exports would be an increasingly important component of our business.
- Although developed country producers and markets still dominated, the real growth—in terms of demand and capacity expansion—would be shifting to developing countries.
- As our industry globalized, surviving companies would be those capable of serving markets worldwide with the lowest transactions costs.

- With U.S. markets open virtually duty free to businesses offshore, aggressive U.S. market opening measures were necessary to level the economic playing field. All of this meant that the future competitiveness of our industry depended on the elimination of all tariff barriers.

Regrettably, the U.S. was not able to fully achieve its zero tariff objective in the Uruguay Round. On paper, the Europeans insisted on a full ten year phase out for their paper tariffs—explicitly to protect their industry. However, in the spirit of full disclosure, I must report that the duty on our product—coated unbleached kraft paperboard—was phased out much faster and is now duty free in the EU. Most developing countries made no commitment to cut paper tariffs. On wood, the Japanese refused to eliminate tariffs, so we had to settle for cuts of one-third.

The Congress attempted to address this deficiency by including in the Uruguay Round Agreements Act both the authority and the mandate for the Administration to continue to pursue total tariff elimination in our sector (and others in the zero for zero category) as a priority matter. Unfortunately, as The Business Roundtable report makes clear, the U.S. has not kept up with its trading partners in terms of major new trade agreements, so the Congressional mandate was never fulfilled.

The result in terms of the competitive landscape for our industry has been that the tariff inequity we attempted to eliminate in the Uruguay Round has actually gotten worse over time:

- With impressive new capacity coming on line, developing country suppliers are now taking full advantage of the U.S. zero tariff on forest products to cut into our domestic sales base.
- International competitors are negotiating preferential trade arrangements and cutting into our share of existing export markets.

Let me offer my own experience of what this means to American business.

During the early-1990's Mead began market development efforts on two fronts in Brazil: one, involving the supply of finished packaging largely to customers in the beverage industry; and, two, the sale of our paperboard to independent customers for use in the manufacture of folding cartons. In 1997 our exports of paperboard in support of these initiatives exceeded 30,000 tons or \$20 million worth of business.

I should point out that we were able to capture this business, against domestic competition, even in the presence of tariffs initially set at 10% but which reached 14% by 1997. In 1997, the Brazilian government also unilaterally imposed import financing restrictions that effectively mandated 360 day payment terms on most imported goods, a further “un-leveling” of the playing field between companies such as ourselves and local Brazilian suppliers. In 1999, the MERCOSUR agreement required Brazil to raise its tariffs to bring them into line with its partners (Argentina, Paraguay, Uruguay). Brazil raised its tariff on coated natural kraft to 16.5%, just about the time the Real was devalued.

At this point, Mead was no longer able to compete with Brazilian domestic suppliers. Today, our once-promising export sales to Brazil have fallen to zero. Mead remains committed to the Brazilian market in its beverage packaging business, but today, we purchase our paperboard from a local supplier and sales of our own paperboard to folding carton converters are non-existent.

This experience is not unique to Mead. The MERCOSUR agreement required Brazil to increase its tariff on a wide range of paper and wood products, in addition to coated natural kraft:

- The newsprint tariff was raised from 6 to 9%; and,
- Tariffs on printing and writing papers went from 12 to 15%.

As a result, U.S. sales of pulp and paper declined from \$348 million in 1997 to just \$216 million last year. In wood products, they declined from \$12 million to \$5.5 million over the same period.

To take another example: In 1997, when Canada concluded its Free Trade Agreement with Chile, virtually all Canadian wood and paper products received duty free treatment immediately on implementation. As you can see from the charts attached to my statement, the effect on U.S. wood and paper sales was immediate and devastating.

- The U.S. share of the Chilean paper market dropped from 30% in 1997 to 13% in 2000. We estimate that cost U.S. suppliers an estimated \$100 million in 2000 alone.

- At the same time, U.S. exports of wood products declined by 25% and Chilean wood sales in the U.S. jumped from \$253 million to over \$377 million.

What needs to be done?

*First*, we urge the Administration to move rapidly to conclude the FTA with Chile and, in particular, to ensure that all tariffs on U.S. wood and paper products will be reduced to zero immediately on implementation. The mandate for U.S. negotiators must make it clear that the priority objective must be to achieve immediate

parity with our Canadian competitors. The U.S. cannot accept an agreement which prolongs the period during which our country's products are treated less favorably than those of our Canadian competitors.

*Second*, the Administration must work with Hemisphere trading partners to accelerate the timetable for conclusion of a Free Trade Area of the Americas (FTAA), and to advance the date when concrete results can be realized. The U.S. catch-up strategy for market access must include the concept of early deliverables in selected sectors—including forest products.

*Third*, the Administration must revitalize the trade liberalization dimension in our relationship with the countries of the Asia Pacific region, and especially the initiative to achieve zero tariffs in selected sectors in advance of the Bogor deadlines, know as Early Voluntary Sectoral Liberalization (EVSL). The U.S. must not allow Japanese obstructionism to continue to block regional trade liberalization. We must make it clear that we will proceed with partners willing to work with us—including Singapore, New Zealand, Australia, ASEAN and China and Taiwan.

*Fourth*, the U.S. should look opportunistically at the FTAs concluded by our major competitors. We must identify those markets where there is a substantial competitive challenge to the U.S., and move quickly to restore the balance of competitive opportunity.

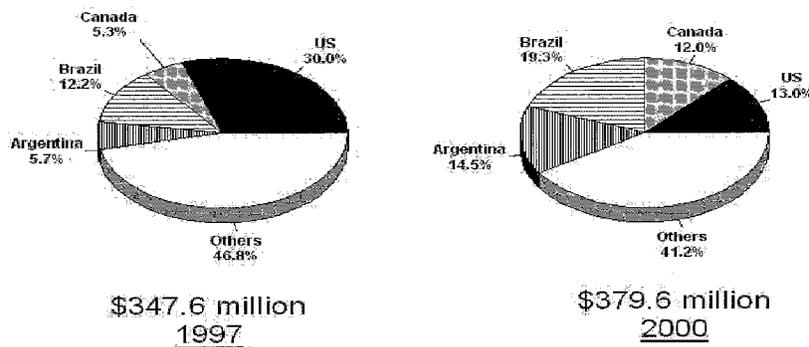
*Finally*, we agree with the observation of The Business Roundtable that the WTO and multilateral negotiations offer the best, most direct route to achieving barrier free market access on a global scale. The U.S. must, of course, continue to press for the launch of industrial tariff negotiations, including early sectoral tariff liberalization, country by country, without necessarily being linked to a possible New Round. In doing so, however, we must learn from the experience of the past four years and not allow the advent of a possible Round to exercise a chilling effect on other types of bilateral negotiations.

And, of course, we must provide the Administration with the authority to conclude these negotiations in a way that is credible to potential partners.

Mr. Chairman, over the decade of the nineties, companies like Mead and others in the U.S. forest products industry have made the difficult decisions necessary to ensure we can compete in the global marketplace. As The Business Roundtable report cautions, and as Mead's own experience makes clear, unless the U.S. can move quickly to catch up with our competitors to achieve equitable tariff treatment in world markets, "we as a nation will squander our remarkable competitive advantage and jeopardize our economic prosperity." We owe it to our shareholders, to our workers, and to our communities to make sure that does not happen.

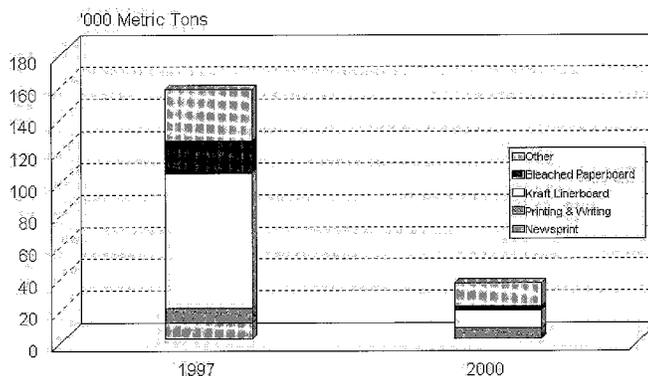
Thank you, Mr. Chairman.

## Chile Paper and Paperboard Imports



Source: Chilean Customs

## U.S. Paper and Paperboard Exports to Chile



Source: U.S. Bureau of the Census

Chairman CRANE. Thank you, Mr. Burke.

Mr. McCarter, sometimes a picture is worth 1,000 words and the diagram you attached to your testimony is that kind of picture. I am sure everyone has had a look at it already. Will successful conclusion of the FTAA negotiations help us untangle this tangled web of trade rules that have proliferated in Latin America since the United States signed the NAFTA agreement in 1993?

Mr. McCARTER. In many cases, these agreements that are sub-regional are being done along the same free trade area lines that the FTAA is intended to take on comprehensively. So it should position itself, if these specific agreements are not in conflict with the FTAA, to supplant them. So it is the intention, certainly from the standpoint of business, to see that this web is simplified and that the FTAA replaces many of these separate agreements.

Chairman CRANE. It is clear that your companies and employees need expanded trade, and I would appreciate it if you could tell me what steps your companies are taking to inform your employees about the benefits of trade.

Mr. WIENS. Mr. Chairman, at 3M Company, as I mentioned earlier, we have about 8,000 jobs in the U.S. that depend upon trade out of the 37,000 employees we have in the U.S. We are educating our people every day in plant crew meetings, in our laboratory research and development sessions, so that they understand clearly the benefits of trade for them personally and also what their contributions can be.

Chairman CRANE. I applaud you for that. Something that I have mentioned in the past is about five years ago, I had a hearing out in my district on trade and Illinois was then the fifth largest export State in the union, and in my district, I have the corporate headquarters of Motorola, Sears, United, Baxter and Abbott right on the

border, and so I knew my district was a big export district. What was revealing about the hearing, though, was that better than 90 percent of our Illinois exports came from companies employing 500 or fewer.

When you bring up trade at a town meeting back home, people start falling asleep. We are failing big time in communicating the importance to the employees of trade, and that is for the survival of the business but the survival of their jobs. So I commend you for what you are doing, but if you could get that word out to some of the smaller businesses.

I had a fellow who came in, doing business in the Persian Gulf, and he said, "Congressman, have you any idea how many businesses in your district are doing business in the Persian Gulf?" I had not the vaguest idea. He handed me a portfolio filled with the names of over 150 businesses in my district, employers of 150 or fewer, doing business in the Persian Gulf, and I looked at the list. I never recognized the name of a single one of those. I mean, I went back and examined them to make sure he was not pulling a trick on me, but they were businesses in my district doing business in the Persian Gulf. So that is one of the major jobs I think we all have on our hands, is to get it out so that the employees understand fully the importance of trade.

I would like to ask you a second question, Mr. Schott. Can you give us a better sense of how United States workers are being hurt by the proliferation of trade agreements to which the United States is not a party?

Mr. SCHOTT. Mr. Chairman, many of the panelists today have noted that when there is an export opportunity, U.S. firms often can find a way to supply that export contract; if they are affected by higher tariffs if they try to ship from the United States, they sometimes can ship the product from a foreign plant. It comes at a cost to the firm in additional transaction costs, but it comes at a much greater cost to the U.S. worker, because the U.S. worker is not flexible enough to move to a production plant in Brazil or Argentina. As a result, he or she may lose the ability to help produce the exports that are so important for our economy.

The fact that there is less production in that plant in the United States means there will be fewer high-paying jobs. As I noted in my opening comments, the firms that are shipping from the United States are the ones that are paying, on average, much higher wages and providing much more stable employment for U.S. workers. So the U.S. worker is taking a big hit when we cannot take advantage of these export opportunities.

Chairman CRANE. And finally, I was interested in the analysis you cited regarding how much trade would increase with Brazil if we had negotiated a NAFTA-like agreement with this important trading partner. Could you go through those results very quickly again?

Mr. SCHOTT. Well, basically, anyone who looks at our bilateral trade with Brazil should wonder why it is so small. We are doing \$29 billion of two-way trade with Brazil, a country of 160 million people with a GDP of almost \$800 billion. By contrast, our trade with Mexico is almost \$250 billion a year. Some of the difference has to do with the fact that we have relatively free access to the

Mexican market and have a number of barriers to two-way trade between the United States and Brazil.

If you factor in the differences in size of the countries, the geographic distance between markets, and the differences in per capita income, gravity model simulations indicate that the conclusion that free trade with Brazil would result in a doubling or tripling of our bilateral trade. Now, we will not achieve all those gains because free trade agreements do not eliminate every obstacle to trade, but we would have a tremendous increase in our exports and our imports from Brazil. We are talking about \$50 or \$60 billion in increased trade with Brazil alone.

Chairman CRANE. I was about to yield, but I guess everyone has left for lunch. This has been a chaotic day, and I am particularly appreciative of your willingness to participate in this hearing.

We have, as you know, debate going on on the floor chaired by the Ways and Means Committee on the elimination of the marriage penalty tax and we are going to then meet in Committee here in this room after that bill is finished on the floor to report out the elimination of the death tax, so this has been a kind of chaotic day for our Committee and I hope you will accept my apology on behalf of all the rest of our colleagues here.

I also want to conclude this hearing by saying that we received powerful testimony from all of you folks and we are grateful for that. We need to reinvigorate the U.S. leadership and move forward on negotiations in WTO, regional negotiations in the FTAA, and bilateral negotiations with countries such as Chile, Singapore, New Zealand, Australia, Egypt, to name just a few. That will be an unending proposition.

But we are grateful and I express my appreciation to all of you, and with that, the Subcommittee stands in adjournment. Thank you.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

**Statement of Rudolph A. Schlais, Jr., Chairman, National Center for Asia-Pacific Economic Cooperation**

The Board of Governors of the National Center for Asia-Pacific Economic Cooperation (APEC) is pleased to provide the Subcommittee on Trade with its views on the importance of APEC as a regional trade organization. This statement shows the clear value of such organizations by illustrating the significant potential of APEC to achieve foreign policy and economic goals critical to the United States.

The National Center for APEC is a non-profit organization whose mission is to generate U.S. support for and participation in APEC<sup>1</sup> with the objective of liberalizing trade and investment in the region. The National Center's Board of Governors includes 35 major U.S. corporations with extensive operations in the Asia-Pacific region and a strong interest in APEC's work to increase prosperity, facilitate business and open markets. APEC is important; the government and business community can work together to achieve critical U.S. objectives through the APEC forum.

**Asia's Importance to the United States**

Asia has the largest population in the world, some of the fastest growing economies in the world and, by a quantum measure, the greatest economic growth rates.

<sup>1</sup>The Asia Pacific Economic Cooperation (APEC) forum includes the following economies: Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; South Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Philippines; Russian Federation; Singapore; Chinese Taipei; Thailand; United States and Vietnam. The Singapore-based APEC Secretariat's website can be found at [www.apecsec.org.sg](http://www.apecsec.org.sg), and the APEC Business Advisory Council International Secretariat's website address is [www.abaconline.org](http://www.abaconline.org).

Three powerful and related trends are fundamentally reshaping the global economy: (1) the exponential growth in Internet connectivity; (2) the convergence of content, interactivity, computer applications and communications networks; and (3) the increasing use of electronic commerce as a channel for conducting international business. This technological transformation is creating a networked global economy that is just beginning to demonstrate that e-commerce and the Internet can be powerful engines for economic growth, wealth creation and societal benefit.

Asia represents no less than the future viability of U.S. companies, as well as an important arena where U.S. leadership is critical to generating growth and prosperity. The U.S. Government and private sector have worked closely together in APEC to support U.S. objectives. As we move forward into the year of China's APEC chairmanship, it is important that the private sector and government continue to work together to promote our common interests. The private sector has found APEC to be a successful forum in which to advance our objectives, and we look to the Bush Administration to take a leadership role in promoting APEC and continuing the momentum toward ensuring the ultimate goals are reached, as described below.

#### **Why APEC Action is Time-Critical**

At their 1993 meeting in Blake Island, the APEC Leaders outlined their vision for a community of nations in the Pacific. The recent financial crisis and political events in the region have challenged this ideal, and a number of factions have begun to emerge that aim to exclude U.S. agenda and objectives. The absence of U.S. leadership has allowed voices critical of the U.S. to take the stage, and strong engagement from the U.S. early in the new Administration is needed to steer APEC back toward its Blake Island ideal.

The need for action is critical and immediate. In order to achieve the APEC goals of free trade and investment in the region by 2010 (for developed economies) and 2020 (for developing economies), APEC members must take concrete steps toward this end immediately. The ASEAN countries have committed to an ASEAN Free Trade Area (AFTA) that would move that grouping significantly closer to their APEC goals; the AFTA deadline is the end of 2002. If ASEAN cannot meet that commitment, it will slow the momentum on APEC's progress and dim the chances for APEC's success.

#### **How the United States Benefits from APEC**

There is a strong and mutually reinforcing relationship between foreign policy and economic policy issues. A strong and interlinked APEC region is in the U.S. national interest. APEC provides the most immediate and far-reaching platform for U.S. leadership, with Russia, Japan, China, Korea, all the major players of the regional security and economic environment involved. APEC, while limiting its formal discussions to trade and economics, offers through the annual "Economic Leaders Meeting" a key opportunity to promote broader U.S. foreign policy objectives through the President developing personal relationships with the other APEC Leaders. The APEC meetings give the President the opportunity to broach sometimes difficult political and strategic issues with other Leaders in informal bilaterals without the rigid demands and harsh spotlight of official state meetings. The APEC meetings, with the Leaders, foreign ministers, trade ministers, APEC Business Advisory Council (ABAC) and the CEO Summit of leading regional business leaders, is the Pacific Rim's "annual meeting."

APEC serves as a perfect counter to the contentious debate that dominates the US-European trade dialogue. The common membership between FTAA and APEC (5 members) can act as a foundation for a joint FTAA/APEC coalition that can serve as a catalyst to launch a new trade round in the WTO and make progress on important trade and investment liberalization issues. The Information Technology Agreement of 1996 was a good example of an APEC agreement providing the impetus for a very successful WTO agreement. The APEC Food System initiative and the Auto and Chemicals Dialogues provide similar opportunities within the APEC process to assure progress in other sectors of global importance to U.S. business.

APEC's umbrella can ensure that bilateral free trade agreements under negotiation in the region maintain certain common interests. Every time APEC members enter into a bilateral free trade agreement, they need to ensure the agreement meets APEC standards for market openness and comprehensiveness (including all economic sectors). APEC also allows a multilateral venue in which to address issues that cannot be addressed bilaterally and provides a way to initiate new ideas that can have regional application.

Getting the WTO negotiations back on track is a priority issue for the United States. The fact that China is chairing the APEC meeting just before the next WTO Ministerial provides an opportunity to both cement China's WTO commitments and

push the cause of a new round of negotiations. As it has done in the past, if APEC can provide a positive impetus to the WTO Ministerial, it will further serve to bolster APEC's own reputation and effectiveness.

#### **Opportunities the "New Economy" Presents in APEC**

Digital trade presents a new opportunity to advance the goal of expanded international trade in a converging environment. Trade policymakers must now ensure that new technologies, new business models, and new products are available to consumers, businesses, and governments around the world so these users can benefit from increased productivity, competition, and choice.

The U.S.-sponsored APEC E-Commerce Readiness Initiative has set the stage for improving positioning for the digital economy and opportunities for U.S. industry. APEC Leaders in Brunei recognized this U.S. initiative for its global leadership in enabling economies to assess and improve their readiness for the New Economy.

The Asia-Pacific region is experiencing the most extensive and strategic build-out of major infrastructure since WWII. If U.S. technology is not the standard used, it creates significant national security implications for the future as well as a lack of economic benefits for the U.S. economy. The U.S. Government's active involvement in APEC will reinforce the reliability of U.S. technology for critical applications.

#### **APEC Relies on U.S. Leadership**

APEC's commitments to liberalizing trade and investment in the region have been hard fought victories for U.S. trade policy. It is imperative that APEC economies enact their implementation strategies immediately in order to meet the deadlines of 2010 for developed economies and 2020 for developing economies. Each economy's Individual Action Plan (IAP) provides the business plan to accomplish this. The U.S. should ensure APEC members take this process seriously.

The position of the APEC chair—this year China, next year Mexico—has a considerable impact on the progress APEC makes toward meeting its liberalization goals. The U.S. public and private sectors should be delivering a strong message to both members to take a proactive approach toward shaping the agenda during their year in the chair. China and Mexico are two of the United States' most important trade partners and an unprecedented number of U.S. firms will be on the ground at each of these APEC meetings and will be working their key issues through the APEC Business Advisory Council (ABAC) process. Full engagement from the U.S. Government at all levels will ensure maximum results for both the U.S. Government and the U.S. business community.

APEC is unique in integrating the business community into its decision-making process and has made considerable progress in this regard. This offers a great opportunity for setting a practical agenda for both achieving free trade goals and for building up the capacity of the developing economies to participate effectively in a globalized economy. The ABAC has been an effective focal point of business engagement in APEC. The U.S. ABAC members, the U.S. business community, and the National Center for APEC are committed to working with the Bush Administration to achieve our mutual goals for the Asia-Pacific region in APEC.

#### **How the U.S. Government and U.S. Business Community Can Achieve Their Objectives in APEC**

The U.S. private sector can help the Bush Administration achieve its foreign policy objectives through the APEC process. The U.S. business community is looking to the new Administration for greater involvement and leadership in APEC and believes APEC can serve the Administration's policy objectives in the region.

To be most effective, the U.S. public and private sector should speak with one voice, reinforcing each other in relevant APEC fora; the U.S. should identify its key messages for 2001 and systematically deliver them in various APEC fora as well as in U.S. speeches.

The U.S. government should organize the policy process for APEC to ensure it is integrated into the overall Asia-Pacific policy process at a very high level and maximizes the role of the private sector.

APEC, through its many working groups and committees, is working on dozens of meaningful projects that will have a positive impact on the region's economic and business climate. Work on a number of these is progressing well this year and may produce solid deliverables for the Leaders Summit in October 2001 in Shanghai:

- Expanded membership in plurilateral air services agreement.
- China APEC Shanghai Model Port Project.
- A standards harmonization outcome (material safety data sheets) at first public-private sector Chemicals Dialogue in October.
- Leaders Declaration forswearing food embargoes in APEC.
- Commitments to financial sector reform and restructuring.

- Continued prioritization and progress towards establishing policies which advance the goal of expanded international trade in a converging, digital environment. The Board of the National Center is hopeful Congress will recognize and support the important role APEC can play in achieving U.S. foreign, economic and trade policy objectives, with clear deadlines for achieving comprehensive trade liberalization and business facilitation goals while fostering greater economic cooperation.

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### Statement of Rubber and Plastic Footwear Manufacturers Association

The Rubber and Plastic Footwear Manufacturers Association (RPFMA) is the spokesman for manufacturers of most of the rubber-soled, fabric-upper footwear, waterproof footwear, and slippers made in this country. The names and addresses of the Association's members are attached hereto.

Rubber footwear is a labor-intensive, import-sensitive industry: Labor constitutes more than 40 percent of total cost; imports of fabric-upper footwear and of slippers take more than ninety percent of the U.S. market and imports of waterproof footwear take more than fifty percent. These imports come from countries where wages are from one-fifteenth to one-twentieth of the level in the domestic industry.

The remaining companies in this industry represent the survival of the fittest. They are convinced that their state of the art production facilities, the quality of their products, and their name brand recognition will permit them to continue manufacturing in this country provided that there is no further tampering with the current level of tariffs on competing imports.

The rubber footwear industry recognizes that the health of our economy depends to a considerable degree on America's ability to export its products to other countries. Unhappily, the ability of low-wage foreign producers to compete in the labor-intensive industry which produces rubber footwear presents an enormous obstacle in the path of this industry's efforts to export its products. Accordingly, while we understand the desirability of ongoing and anticipated trade negotiations for the purpose of reducing barriers to trade, we urge that there be greater recognition that exceptions must be made for those few industries, such as rubber footwear and slippers, where a reduction in duties would clearly threaten the continued existence of what is left of domestic production.

A major concern of this industry with respect to trade objectives and initiatives is the distinction between our Government's approach to such multilateral negotiations as the Kennedy, Tokyo, and Uruguay Rounds and its approach to bilateral free-trade agreements. The rules for multilateral negotiations have permitted careful scrutiny of whether cuts in tariffs on specific Harmonized System items are warranted. Thus, in recognition of the unique import sensitivity of rubber footwear and slippers, the duties on the core items of this industry remained untouched in the Kennedy, Tokyo, and Uruguay Rounds. On the other hand, in bilateral negotiations the only flexibility has been in the length of time over which all duties would go to zero.

When our government entered into a free trade agreement with Canada, this industry did not protest because of the relative comparability of Canadian and U.S. wage rates, and because we were assured that such an agreement was a natural consequence of the unique relationship between Canada and the United States and that it would not set a precedent. Before long, however, Mexico urged that a similar relationship existed between it, Canada and the United States, as a result of which we got NAFTA—with an assurance that NAFTA was based on special circumstances. It is true that rubber footwear was one of the very few industries to get a NAFTA phase-out of fifteen years, but nonetheless, at the halfway point of this phase-out, Mexico has become the second-largest exporter of rubber footwear and slippers to the United States.

Before long, the Caribbean countries claimed that NAFTA put them at a competitive disadvantage, and the rubber footwear industry soon found itself facing unreciprocated duty-free treatment from that part of the world. As a result, CBI countries which previously had posed no meaningful threat to the domestic rubber footwear industry soon saw their exports skyrocket from 200,000 pairs a year to over 5 million. Nonetheless, this CBI enhancement is now being cited as a precedent for a free trade agreement with Chile and for the expansion of the Andean Trade Preference Act.

Is it any wonder, with imports taking in excess of 90% of our market for fabric-upper footwear and slippers and in excess of 50% of our market for waterproof footwear, that what is left of this industry is concerned about any additional free trade

agreements which do not permit exceptions in those cases where the continued existence of domestic production is truly threatened?

Because of the drift of our national trade policy in the direction of unfettered free trade and the enormous advantage in rubber footwear wages enjoyed by countries in the Pacific and in Latin America, this domestic industry is continuing to suffer severe blows. Within the last several months alone, the largest domestic producer of waterproof footwear, Lacrosse Footwear, closed its domestic operations in favor of imports, and the largest domestic producer of fabric-upper rubber-soled footwear, Converse, has now followed suit.

What is left of this domestic industry does have reason to believe that it can survive, provided, however, that our trade policy is modified so as to permit limited exceptions to duty-free treatment in bilateral and regional negotiations. The history of past negotiations demonstrates that there are very few domestic industries whose survival has been as threatened as that of rubber footwear and slipper manufacturers. Surely the benefits that would otherwise accrue from a free trade agreement would not be diminished by excluding this miniscule fraction of 1% of this country's trade from duty-free treatment. We therefore urge that, if and when this Congress grants the President fast-track authority, it will insist that the standards for exceptions which have prevailed in multilateral negotiations should be made applicable to bilateral and regional negotiations.

**Appendix I**

## NAMES AND LOCATIONS OF RPFMA COMPANIES

American Steel Toe Company South Lynnfield, NJ	Johnson Technologies Corporation Nashville, TN
Apex Mills Corporation Inwood, NY	Jones & Vining Needham, MA
Bixby International Corporation Newburyport, MA	New Balance Athletic Shoe, Inc. Boston, MA
Converse, Inc. North Reading, MA	Norcross Safety Products Rock Island, IL
Draper Knitting Co., Inc. Canton, MA	Packaging Corporation of America Cutchogue, NY
Emtex, Inc. Chelsea, MA	S. Goldberg & Co., Inc. Hackensack, NJ
Frank C. Meyer Division of Mafcote Industries Lawrence, MA	Sheehan Sales Associates Beverly, MA
Genfoot, America, Inc. Littleton, NH	Tingley Rubber Corporation South Plainfield, NJ
Hudson Machinery Worldwide Haverhill, MA	Worthen Industries Inc. Nashua, NH

**Statement of U.S. Integrated Carbon Steel Producers**

This statement sets out the views of the four major integrated U.S. producers of carbon steel products—Bethlehem Steel Corporation; LTV Steel Company, Inc.; National Steel Corporation; and U.S. Steel Group, a Unit of USX Corporation—on a key issue connected to U.S. trade policy objectives and initiatives: official U.S. negotiating objectives relating to unfair trade practices and U.S. antidumping and countervailing duty (AD/CVD) remedies. We appreciate the opportunity to submit this statement for inclusion in the record of the hearing held by the Subcommittee on Trade on March 29, 2001.

The steel industry continues to support trade promotion authority to further open markets but believes that legislation enacting such authority must, consistent with prior enactments, make clear that the U.S. Government will not engage in negotiations that could weaken our unfair trade remedies.

Our industry has long supported a trade policy based upon open, fair, rule-based and market-based trade, coupled with effective trade laws to respond to unfair trade practices. The steel industry supported the Uruguay Round's WTO agreements, which made major revisions to the international rules governing remedies against unfair trade practices. To be sure, our industry did not favor all aspects of the Uruguay Round changes—particularly those that weakened domestic trade remedies. (It is important to note that since its inception the GATT has condemned unfair trade practices and sanctioned antidumping and countervailing duty laws in response to such unfair trade.) Nevertheless, the steel industry backed the WTO agreements as a whole based on an understanding that these rules would not be weakened further in subsequent negotiations and that the United States, with the world's largest open market, would have and enforce the strongest possible remedies consistent with the new rules.

Despite the fact that there already exists a built-in agenda for the next round of WTO negotiations and that the antidumping and countervailing duty rules are not part of that established agenda, some WTO members, many of whom have been found to be among the most egregious violators of the U.S. trade laws, have launched a concerted effort to renegotiate these rules. This is one more element of

a multi-front attack on the U.S. trade laws. In the WTO, as well as in FTAA and APEC discussions, foreign governments continue to seek further erosion of U.S. trade remedies.

Our foreign competitors want their governments to reopen these agreements for a single purpose. They need the United States to absorb their dumped and subsidized excess steel production instead of taking the painful yet necessary steps to restructure and reduce their production overcapacity. The WTO-sanctioned trade remedy rules are the best means to compel foreign producers to rationalize production. As such, efforts to reopen WTO trade remedy agreements would not only deprive domestic producers of basic fair trade remedies in their own market, but would actually encourage foreign producers to maintain and supplement uneconomic production capacity. This is unacceptable.

The United States, therefore, needs strong negotiating goals to make clear to our trading partners that the Administration will not consider, and Congress will not implement, trade agreements that undermine U.S. unfair trade remedies.

In the past, official U.S. negotiating goals have always stressed the importance of strengthening subsidy discipline and improving anti-subsidy and antidumping remedies. For example, the 1988 fast-track provisions contained "principal trade negotiating objectives" specifically addressing the need to define, deter, and discourage the persistent use of unfair trade practices, including forms of subsidy and dumping.<sup>1</sup> Other trade enactments, such as the NAFTA and CFTA Implementation Acts, have gone even further.

During the Ways and Means Committee's 1997 consideration of fast track negotiating authority, the Committee adopted an amendment offered by Rep. Houghton (R-NY) that would have added the following "guidance for negotiators":

In the course of negotiations conducted under this title, the United States Trade Representative shall— . . . preserve the ability of the United States to enforce rigorously its trade laws, including the antidumping and countervailing duty laws, and avoid agreements which lessen the effectiveness of domestic and international disciplines on unfair trade, especially dumping and subsidies. . . .

The fast track bill reported by the Senate Finance Committee in 1997 also contained language highlighting the importance of strong rules against dumping and subsidies.

Given the sustained attacks that we are witnessing on our basic unfair trade laws, it is essential that Congress establish ground rules for U.S. negotiators making it clear that WTO trade law rules will not be reopened for negotiation. Further, Congress should make clear that *any* statutory changes to AD/CVD laws will not be entitled to fast track procedures. To the extent changes to the trade laws are considered, Congress should have the opportunity to fully debate and amend any such proposals. Finally, it must be clear that Congress will not approve agreements weakening U.S. trade laws.

Strong and enforceable trade remedy laws are a key component of the international trading system and are an essential ingredient to maintain public support for greater trade liberalization. By ensuring that basic fair trade laws are not weakened in future negotiations, Congress will maximize the chances for a successful extension of trade promotion authority procedures and will enhance support for the world trading system.



<sup>1</sup>Section 1101(b)(8) of the Omnibus Trade and Competitiveness Act of 1988 (19 U.S.C. § 2901(b)(8)).