AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

THE FUTURE OF OUR ECONOMIC PARTNERSHIP WITH EUROPE

HEARING

BEFORE THE

COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

TUESDAY, JUNE 15, 1999

Serial No. 106–71

Printed for the use of the Committee on International Relations

U.S. GOVERNMENT PRINTING OFFICE
61–707 CC WASHINGTON : 2000

COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM F. GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRABACHER, California
DONALD A. MANZULLO, Illinois
EDWARD R. ROYCE, California
PETER T. KING, New York
STEVE CHABOT, Ohio
MARSHALL "MARK" SANFORD, South Carolina
MATT SALMON, Arizona
AMO HOUGHTON, New York
TOM CAMPBELL, California
JOHN M. MCHUGH, New York
KEVIN BRADY, Texas
RICHARD BURR, North Carolina
PAUL E. GILLMOR, Ohio
GEORGE RADANOVICH, California
JOHN COOKSEY, Louisiana
THOMAS G. TANCREDO, Colorado

SAM GEJDENSON, Connecticut
TOM LANTOS, California
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
ENI F.H. FALEOMAVAEGA, American Samoa
MATTHEW G. MARTINEZ, California
DONALD M. PAYNE, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. MCKINNEY, Georgia
ALCEE L. HASTINGS, Florida
PAT DANNER, Missouri
EARL F. HILLIARD, Alabama
BRAD SHERMAN, California
ROBERT WEXLER, Florida
STEVEN R. ROTHMAN, New Jersey
JIM DAVIS, Florida
EARL POMEROY, North Dakota
WILLIAM D. DELAHUNT, Massachusetts
GREGORY W. MEEKS, New York
BARBARA LEE, California
JOSEPH CROWLEY, New York
JOSEPH M. HOEFFEL, Pennsylvania

RICHARD J. GARON, *Chief of Staff*
KATHLEEN BERTELSEN MOAZED, *Democratic Chief of Staff*
FRANCIS C. RECORD, *Professional Staff*
JILL N. QUINN, *Staff Associate*

CONTENTS

WITNESSES

	Page
The Honorable Stuart Eizenstat, Undersecretary for Economic, Business and Agricultural Affairs, U.S. Department of State	8
The Honorable David Aaron, Undersecretary for International Trade, U.S. Department of Commerce	12
Mr. Willard Berry, President, European-American Business Council	36
Mr. Michael Farren, Corporate Vice President for External Affairs, Xerox Corporation	44
Mr. Bob Robeson, Vice President of Civil Aviation, Aerospace Industries Association	38
Dr. Paula Stern, President, The Stern Group	41
Mr. Stephen Weber, President, Maryland Farm Bureau, American Farm Bureau Federation	39

APPENDIX

Prepared Statement

The Honorable Benjamin A. Gilman, a U.S. Representative in Congress from New York, Chairman, Committee on International Relations	58
The Honorable Sam Gejdenson, a U.S. Representatives in Congress from Connecticut	61
Undersecretary Stuart Eizenstat	62
Undersecretary David Aaron	80
Mr. Willard Berry	95
Mr. Robert E. Robeson	104
Mr. Stephen Weber	112
Dr. Paula Stern	124
Mr. Michael Farren	157

Additional material submitted for the record:

Report prepared and submitted by Dr. Paula Stern entitle "The Transatlantic Business Dialogue: A Paradigm that Delivers"	60

THE FUTURE OF OUR ECONOMIC PARTNERSHIP WITH EUROPE

Tuesday, June 15, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C.

The Committee met, pursuant to call, at 10:05 a.m. in Room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman (Chairman of the Committee) presiding.

Chairman GILMAN. The Committee will come to order. I take great pleasure in opening the first in a series of hearings that our Committee will hold over the next several months on the Transatlantic Relationship and its importance to United States economic, political, and security interests.

With total trade and investment between our Nation and the European Union now exceeding $1 trillion, that is with a capital T, $1 trillion annually, the EU is already our largest trading and investment partner. It is also the world's largest single market, and with the creation of the Euro, this market should keep on growing for many American firms.

yet present, our deficit in goods and services with Europe is growing faster than with any other region of the world. Moreover, trade disputes between us are taking center stage at the World Trade Organization and, worse, often occupying too much time when the leaders of the two sides come together. Perhaps more important, and more corrosive in the long term, than the major disputes that are taken up formally are the systemic problems that American firms are having getting a fair shake from EU institutions on routine standard setting and regulatory matters.

On this side of the Atlantic, we would like to ensure that the EU is able to do its fair share in reviving global trade in the face of the lingering effects of the Asian financial and economic crisis. Unless the EU is able to revive its economy, which is going to take major structural reforms, it will neither be able to do right by its own people nor play a fully responsible role in the world.

But in the past many of our policymakers have downplayed the importance of our trying to manage our political, our commercial and trade links with Europe through the EU. They have favored emphasizing our strong security relationship with Europe anchored in the North Atlantic Treaty Organization.

This Administration, through the New Transatlantic Agenda process, has worked hard to understand the importance of our relationship with the EU as an institution, and in shaping our relation-

ships with the Member States in significant part through the prism of their EU membership.

Today, as conflict in the Balkans seems to be coming to an end, and we hope it will be a peaceful end, and with the beginning of the peacekeeping phase of the Kosovo humanitarian crisis, we have seen tangible evidence of the continuing importance of NATO. Certainly the threats to our common interests and values are no less compelling now than at the height of the Cold War. The challenges of post war reconstruction throughout Southeast Europe will put additional strains on our complex relationship.

We are confident, however, that the Administration witnesses before us today will be capable of defending our values and our interests with our European partners and with our competitors. Ours is truly an indispensable relationship, with one quarter of our exports going to Europe and with those exports supporting some 1.5 million U.S. jobs. Additional efforts are now needed to harmonize our approach to the upcoming WTO Ministerial Conference in Seattle and to promote new market-opening approaches to the increasingly important trade in services across the Atlantic.

But there are great challenges as well as opportunities in this all-important relationship: it is being put to the test as never before with the EU's increasing willingness to use standards as market access barriers, or in a more benign view of their intentions, to permit standards to be used as barriers. It may well be, as is sometimes argued, that the standards are so constructed to meet local needs, for local reasons. But if they are, in fact, clearly intended to slam the door on our exports to Europe, we must be prepared, at some point, to take effective retaliatory measures. But we need to make certain, first, that European policymakers know that they are allowing the standards-setting bureaucrats to set up yet another trade dispute with the United States.

The U.S. Department of Commerce estimates that EU standards across a wide spectrum of agricultural and high tech products act directly as trade barriers on $20 to $40 billion in U.S. exports and could affect an additional $150 billion annually of our exports. There is increasing concern as well that EU legislation or regulations now being developed on key products could impede the entry of U.S. products into the EU.

The ongoing disputes over bananas, beef, and genetically modified organisms have prompted the trade experts and the policymakers on both sides of the Atlantic to renew the calls for an improved "early warning system". Before the next agricultural or aircraft dispute threatens to disrupt Transatlantic relationships, the Congress and the Administration need to work even more closely with the incoming members of the European Parliament and the European Commission to identify emerging trade and investment disputes before Brussels or Washington locks in a final position.

Toward this end, I am pleased to report that the first meeting of the Transatlantic Legislators' Dialogue earlier this month marked the first attempt to bring legislative and executive branch officials from our nation and the EU into the same room to define our common problems and to begin finding mutually acceptable solutions. I want to acknowledge the initiative that Secretary

Eizenstat has taken to build "early warning" into the work of the Transatlantic process.

However, in our view, the key to effective "early warning" is sunlight. We simply have to allow the private sector businesses, the non-governmental organizations, and through the press, the public at large to know more about potential policy changes as they are being developed. Neither the American or European administrations nor the legislative branches, can analyze those potential policy changes as effectively as those directly affected by change. The private sector will then let the administrations and legislators know what changes they need. In all frankness, much more work is needed to promote openness in Brussels, in the Commission, in the Council, and in the European Parliament.

We are pleased to see with us this morning the Administration official who was most instrumental in bringing together the Senior Level Group with the Transatlantic Legislators' Dialogue, Undersecretary of State for Economic and Business Affairs, and Treasury Deputy Secretary-Designate, Stuart Eizenstat, who has done much to resolve ongoing trade disputes between our nation and the EU. As a former United States Representative to the European Union, while he is a leading voice for cooperation and dialogue with our European partners, I know that he can also be a very tough negotiator on behalf of American interests.

I look forward to hearing his review of our relationship and his suggestions for keeping it on track over the coming year.

Also with us, Undersecretary of Commerce for International Trade, David Aaron, is no less experienced a trade negotiator and diplomat. His leadership in the International Trade Administration at the Commerce Department and at the Organization for Economic Cooperation and Development has been essential in promoting and protecting our interests in the EU and around the world.

We appreciate the fact that two such high-ranking members of our Administration are here today. I know that there is a lot of cooperation in the Administration on European affairs, but given the enormous stake in getting this relationship right, I think it is crucial that every agency in the Administration pull together and put our relationship with Europe at the top of their list of priorities.

At this time I would be pleased to recognize our Ranking Minority Member, Mr. Gejdenson, for any opening remarks he may wish to make.

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

Mr. GEJDENSON. Thank you, Mr. Chairman. There are seldom opportunities where the Chairman and I agree to such a large extent. I can remember as the European Union was being formed, and at that time, the Administration that was in power had three people in Brussels. One of my great fears was that they would use standards to block American products, and the example I used to use, I should go back and dig it out of the hearings, was they would add a spar, a piece of metal to the air frame and say that Boeing couldn't sell overseas anymore, that it would now have to be Airbus until Boeing qualified under their less than scientific approach to strengthen the frame of an airplane.

The issue that has affected my State directly, but it is symptomatic of what happens, is the hush kit issue. I think part of the problem is America's governmental responsibility for dealing with these issues is somewhat diffused, and I think we need to focus, as we focused on Japan at the beginning of this Administration, to focus on Europe. There has been no scientific evidence that I know of that has correlated the amount of air that goes through a bypass system and the noise of a jet engine, and for us to sit down and see this as anything else but an attempt to close the European market to American products is foolishness.

Now, I am not here to argue that we need to disengage from Europe. Anytime you have a discussion that criticizes one of our trading partners some people stand up and say we can't isolate them, we can't go back to a protective economy. I am not advocating any of those things, but I think this Administration has got to send an even tougher message to Europeans. Yes, we want to be friends; yes, we like the idea that you have a European Union; yes, we are for more engagement. But we can't allow them to sector by sector block American products, and the hush kit is one of the clearest examples. Some of our genetically designed seeds are being blocked from many of these countries, and it seems to be not based on any scientific evidence but simply based on protecting indigenous industries.

I think that the State Department and the folks in Commerce and elsewhere have changed their old attitude. There was a time when these kinds of issues were beneath our diplomats, and diplomats thought they should just deal with war and peace and the larger issues of humanitarian relief. I think we ought to do all of those things. I commend the Administration for doing a great job in Kosovo, leading the 19 nations of NATO and a reluctant Congress, at times, to a successful conclusion.

But this is what gives American citizens confidence that their government is paying attention, and I know you both have done great work, but we need to focus on this even more because of what it says back home and what it says to the Europeans. If the Europeans are successful in coming up with this absolutely unscientific attempt to block American jet engines then they will have a green light for all the other products they want to protect in Europe, and in that case, we better be ready for the fight of our lives. This is 333 million of the richest people, and access to the old East Bloc countries as their economies recover.

This is going to be tough economic competition. I am not frightened. I think the United States is the most powerful economic and military force in the world. But we cannot allow arbitrary control to keep American products out, and I look forward to hearing the testimony.

Chairman GILMAN. Mr. Lantos.

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

Mr. LANTOS. Thank you very much, Mr. Chairman. I want to commend you for holding this hearing. There are two things I would like to say, Mr. Chairman, if I may. First, I want to pay public tribute to Undersecretary Eizenstat. He is the quintessential, outstanding, extraordinary public servant in this city who has dem-

onstrated his commitment to the highest quality of public service in a variety of most important capacities as our Ambassador to the European Union, in sub-Cabinet posts in now three departments, and I am just looking forward to the next step in his illustrious and most impressive career.

Second, Mr. Chairman, I would like to say a word about Europe and European leadership, and I think I am entitled to do so as a former European. The great men at the end of the Second World War, Adenauer of Germany and Alcide De Gasperi of Italy, and Paul Enrespoc of Belgium and Churchill and Jean Monnet of France, would be turning in their graves if they would see our European friends and allies defining much of their relationship with the United States with respect to bananas and beef hormones.

There was a time, still in the memory of some of us, when the United States and Europe were bound by great ideas of how to transform a devastated and totalitarian continent into a prosperous and democratic society. The notion that our vision has been so dramatically—their vision—has been so dramatically lessened that when we meet with our European counterparts all of the great issues that have unified us for two generations, the enormous contributions of the United States to the fact that Europe today is not a Soviet satellite because, had it not been for NATO, Europe would be a Soviet satellite, just boggles the mind. I think that in the wake of the Kosovo engagement, which of course also would have been a failure had it not been for the United States leadership and the overwhelming participation of the United States, Europe today would be in total disarray, NATO would have disintegrated because a two-bit dictator would have triumphed over NATO had it not been for the United States and the leadership of this Administration.

So, Mr. Chairman, I take a much less kindly view of our European friends and allies than most of my colleagues. Europe has benefited from the United States military leadership and economic assistance in a historically unique fashion. In two world wars we liberated Europe. With the Marshall Plan, we made Europe successful and prosperous, and we have been sniped at year after year after year with tangential, little selfish issues, and I, for one, am sick and tired of it.

My feeling is that our policy toward Europe will have to be one of friendship and cooperation, but also a greater degree of assertiveness. Had it not been for the United States, had it not been for our military and economic sacrifice and leadership, Europe today would not be in the position it is in today, and I don't think we should treat the various self-centered economic policies with the degree of respect that we apparently do.

My feeling is that Europe owes us a great deal, and we owe Europe very little. This needs to be stated publicly and clearly and without reservation, and I very much hope that our two distinguished witnesses will be able to address my particular concerns. I am totally disinterested in talking about bananas and beef hormones. I want to talk about the overall relationship.

I am interested in talking about the fact that had it not been for us, Kosovo would have been a failure. Had it not been for us, the Marshall Plan would not have been there and European recovery

would have taken decades longer, decades longer, and would never have been as cohesive as, in fact, it was.

Every time I visit our military cemeteries in Europe I am appalled by the incongruity between the vast numbers of American young lives which were lost for the sake of Europe and the self-centered approach of many European governments and opposition parties to our role in the 20th century.

I thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Lantos.

Mr. Rohrabacher.

Mr. ROHRABACHER. I would just like to associate myself with about half of what Mr. Lantos said in a very big way. Tom Lantos is a very articulate spokesman, and he, of course, has a deep and abiding interest in American foreign policy and has studied the issues for many, many years, and he has my deep respect.

However, I do disagree with him on several points, and of course, over the current—our current operations in the Balkans, we have a fundamental disagreement. However, the point that Mr. Lantos made concerning the overall European relationship in the United States, I think, deserves some very close attention. I believe that the American people are going through a change in their perception as to what our relationship should be with Europe, and I think the Balkans operation will crystallize many of their thoughts. It is something we have to realize, that we are in a new era of history, and in the post-Cold War era of history we are not going to have the same relationship that we had with Europe. The American people will not stand for the same relationship that we had with Europe during the Cold War.

NATO cannot be a situation in which the proportionate share of benefits goes to our European allies and a proportionate share of costs go to the American people. That just will not be agreed to by the American people, and it will reflect itself in our elections as they come forward, I believe, in the next 4 years.

Stability, I believe what is going on in the Balkans is based on trying to provide European stability. Just like as they say, it is not the job of the United States military, and it is a job of the Europeans to provide their own stability, it is not the job of the American taxpayer to provide stability for Europe at a great cost of tens of billions of dollars.

So, in the future—and I agree with Mr. Lantos, we bore this burden and we ended up with very little thanks for it and I have heard Mr. Lantos in private meetings. I remember when our French colleagues came here, and Mr. Lantos asked them about why it is that they were so close to the Germans, willing to make all sorts of agreements with the Germans, but when it came to the Americans, we were always held at arms length and treated with such disdain at times. I thought that sentiment—after we of course had come to Europe twice to save the French from the Germans——

Mr. LANTOS. Will my friend yield for a moment?

Mr. ROHRABACHER. Certainly.

Mr. LANTOS. Since he mentioned Germany, may I just tell our distinguished witnesses, a short while ago I was in Berlin at a meeting where the distinguished Mayor of Berlin was present, and

I pointed out to him that it would be nice if the municipality of Berlin would accommodate our embassy's request to reroute some traffic for security reasons because at the moment our new embassy location is in a singularly exposed place subject to terrorist attack.

The distinguished Mayor of Berlin reminded me that this is a very complex issue because several streets will have to be redesigned and traffic rerouted, and I couldn't resist the temptation to tell him that the Berlin Airlift was a bit more complex logistically and a bit more important historically than rerouting traffic on two side streets of Berlin, and he was stunned by this revelation.

Mr. ROHRABACHER. Thank you very much.

Mr. LANTOS. I thank my friend for yielding.

Mr. ROHRABACHER. As I say, we have a strong area of agreement and some areas of disagreement. But in the future, I know that the American people are going to demand that the relationship with Europe be mutually beneficial and certainly not in a situation where the United States bears the burden any longer of the cost that should be rightfully going to Europeans, and I yield back the balance of my time.

Chairman GILMAN. Thank you, Mr. Rohrabacher.

Mr. Hastings.

Mr. HASTINGS. Mr. Chairman, I just want to urge a note of caution, and ask my colleagues to be mindful of the enormity of the contributions that have been made by virtue of all of the activity that we did put forward in the Marshall Plan and everything else that has been mentioned by Mr. Lantos and Mr. Rohrabacher and yourself.

There are a significant number of structures in Europe, not the least of which the one that has generally laid the foundation for our activity, at least geographically, has been NATO. With the ongoing actions hopefully coming to a positive conclusion, it is clear that with the European Union and its development, albeit nascent, that too is a formulation of a work in progress, and is going to require a considerable amount of attention.

The caution that I urge is with the new isolationist mood that seems to be developing, at least inside the United States Congress. We need to be mindful at this time in the world of our responsibilities to ensure that we are stable and secure in the world's economic environment. Toward that end, when colleagues do not participate in interparliamentary exchanges—and Mr. Chairman, no later than last week we had members of the Council of Europe here, and seven or eight of our Members saw fit to visit with them, and they outnumbered us. When I met with the Organization for Security and Cooperation in Europe, we had a small delegation from time to time. Annually we do have a good delegation, but overall we fail to participate in the quarterly meetings of that organization.

The same could be held for at least three others that are critical, and when I am there, as I am sure many of you are, we find that the people are begging us to have exchanges with them. In Denmark, I talked with people about hormone beef, and you get an entirely different view as to whether or not they are willing to cooperate. Recently, in Ireland and in London, the same exchanges were

had and all of the results were positive, at least from the standpoint of talk.

I do believe that the World Trade Organization is where the action is going to be for liberalization of trade and that we need to be on top of it and stop just playing political games and sit down and try to understand not only what the Administration is offering, but what we as policymakers are able to offer ourselves.

With that, I part company with my good, good, good friend from California. While he does signify that he is not interested in bananas and hormone beef, and I too join that we don't need a whole lot of explication in that arena, I would urge all of us to understand that the European Union and Europeans dragged their feet for a long time. A positive sign is that they have not seen fit to appeal the decision of the WTO with reference to bananas. But what I beg us to do, the Administration, and us as policymakers, is not to let this matter go on the back burner, because there must be some kind of way that we can assist the Caribbean economies in some manner while the problems are being worked out at the World Trade Organization.

My final statement, Mr. Chairman, is that the European Union held an election last week, and we talk all the time about elections and their importance. A hell of a lot of people in Europe didn't participate in that, and I urge you to be mindful that everybody is not on board with the European Union.

Thank you very much.

Chairman GILMAN. Thank you, Mr. Hastings.

Secretary Eizenstat, please proceed, and you may put your full statement in the record or summarize, whatever you deem appropriate.

STATEMENT OF STUART EIZENSTAT, UNDERSECRETARY FOR ECONOMIC, BUSINESS, AND AGRICULTURAL AFFAIRS, DEPARTMENT OF STATE

Mr. EIZENSTAT. Thank you. I would like to put my full statement in the record, and I very much appreciate the statements that have been made by you and the other Members. It is an honor to be here, also——

Chairman GILMAN. Without objection, your full statement will be made part of the record. Please proceed.

Mr. EIZENSTAT [continuing]. With my good friend David Aaron.

I want to specifically applaud your leadership, Chairman Gilman, in working to improve Transatlantic relations. Your commitment to lead, for many years, the U.S. side of the Congressional European Parliament Delegations, and I have met you on both sides of the Atlantic during those meetings, and your initiative recently to form the new Transatlantic Legislators' Dialogue is strongly supported by the Administration, and much appreciated.

With the European Union, we share a commitment to the promotion of security, prosperity and democracy, not only in the Euro-Atlantic area but beyond as well. It is no hyperbole to suggest that the relationship between the United States and the European Union may be the most important, influential and prosperous bilateral relationship of modern times. Two-way trade and investment

flows, as you indicated, are now some $1 trillion annually, supporting more than 6 million jobs on both sides of the Atlantic.

One in 12 industrial jobs in the United States is in a European-owned factory, and European countries are the biggest foreign investors in 41 of our 50 U.S. States.

We have launched the Transatlantic Economic Partnership covering ten broad areas to reduce existing trade barriers, improve regulatory cooperation, and establish a bilateral dialogue on multilateral trade issues in the WTO. We have agreed with the EU that the WTO should begin a new broad-based round of trade negotiations following a structure that will yield results expeditiously in agricultural service and other areas. We have also agreed to seek permanent commitments by WTO members not to impose duties on electronic commerce transactions, an area where Secretary Aaron has had a particular impact.

There is no more vivid example of our common values and goals than in the work we are doing with the EU right now in the postconflict reconstruction of Southeastern Europe. As the confrontation in Kosovo comes to an end, together we have a big job before us. Our joint aim is to build a solid foundation for a new era of peace and stability, helping a region that has been one of the continent's most violent become, instead, a part of the European mainstream. We forged a new stability pact for the region, and we believe that just as we have borne the lion's share of the military expenditures, it is only right that the European Union bear the lion's share of the reconstruction, and this is something they themselves have indicated they wish to do.

The 15 member EU is now about to undertake its largest enlargement ever. It will be one of the most important challenges facing Europe in the 21st Century, and I would say to my dear friend, Congressman Lantos, that when he talks about great enterprises, this expansion will be a historic opportunity to further the peaceful integration of the continent if it is done right. The EU plans to spend on its new members, between 2000 and 2006, the equivalent in 1999-dollars of what we spent on Western Europe through the Marshall Plan. It will encourage cooperation, reinforce democracy, and reduce nationalistic and ethnic tensions. If in the end it is successful, the European Union will be the largest single market in the world with over 500 million citizens in an economy significantly larger than our own.

Thirteen countries have applied for EU membership so far, and the European Commission is in the middle of negotiations with 6 of those 13, and another 5 are going through initial screening. The year 2003 is the earliest likely date for accession of the first wave of candidates and, frankly, the balance of risks are for a later rather than earlier date for enlargement. Enlargement should be a net plus for U.S. exports of goods and services to help the countries of Eastern and Central Europe. Nonetheless, we will ensure that our commercial and economic interests are not disadvantaged. We are working both with the EU and its candidate states to prevent the erection of new barriers to trade as part of the enlargement process.

The main problem concerns the interim period between now and ultimate accession, because at accession they will take the common external tariff of the European Union, which is generally quite low.

But in the interim, as tariff levels for EU products drop to zero in the candidate countries, they remain at higher levels for U.S. products, to our disadvantage. We are working with the candidate countries to find suitable remedies. We are encouraging them to adopt the lower EU tariff schedules as soon as possible. Slovenia, for example, has begun to do this.

The European Commission has agreed with our strategy and accession candidates are beginning to respond. Certainly, we will be economic competitors, but with our combined strength, together we will also be able to set a global agenda supporting democracy and open markets. We share, if I may say so, more values with Europe than we do with any other region.

Enlargement of the EU requires the candidate countries to conform their laws and practices to EU norms. It would almost be like saying that a new State coming into the United States has to conform to every page of the code of Federal regulations. It is a mammoth job. It requires change, not only in the candidate countries, but also on the part of the current member states as well.

The largest step is the reform of the Common Agricultural Policy or the CAP. The EU has now agreed to put a ceiling on total money expenditures over the next several years, but this cannot be done without reforming its agricultural subsidies. Almost half of the EU's overall budget, over $50 billion, is earmarked for agricultural subsidies. The European Commission's modest CAP reforms are inadequate to do the job. They will complicate the process of enlargement, and they do not go nearly far enough in terms of reducing the distorting effects of the CAP on the world trading system. Other countries, including developing countries, will continue to be forced to pay for European farm inefficiency by losing sales in home and third markets.

Historically, every enlargement of the EU has been preceded by a deepening of the level of internal cooperation. They are already slow in many cases to respond to a crisis. This will be further complicated when they expand to 21 members.

With the advent of the Amsterdam Treaty on May 1, we are witnessing a dramatic shift in power. The European Parliament now has a greatly enhanced role in EU decisionmaking and will enjoy equal say or co-decision with the Council Ministers on more than two-thirds of all EU legislation. The Amsterdam Treaty will also result, Mr. Chairman and Members of the Committee, in major changes in the way the EU conducts its foreign policy.

A new High Representative for its common foreign security policy will give the EU greater visibility on the international scene. They have selected NATO Secretary General Javier Solana as the first High Representative for their common foreign security policy. He has been an extraordinary Secretary General of NATO, and we believe he will perform equally well at the EU. We look forward to working with him.

An EU with an effective common foreign and security policy would be a power with shared values and strong Transatlantic ties with which we could work globally to solve problems. The EU has

also chosen former Italian Prime Minister Prodi as the next President of the European Commission. We have worked well with him before, and we have great confidence in him as well.

We often let the immediacy of our current trade disputes blind us to the very real benefits that we both enjoy from access to each other's markets, but obviously there is a tough road ahead, and yet we can't allow our relationship to be defined solely by these disputes. Nevertheless, the EU takes actions such as its unilateral hushkits regulation where Ambassador Aaron did a fabulous job of at least temporarily diverting a problem.

For its counterproductive response to the previous WTO panels on the bananas and beef from exacerbating trade tensions, it is for that reason that we have suggested an early warning system to identify such problems before they burst into full-scale disputes.

We are indeed facing a tough set of trade disagreements, and we continue to hammer home the principle of fair and transparent trade rules: the need for the EU to respect international commitments and WTO rulings; abiding by scientific principles, and not politics; and making health, safety, and environmental decisions.

The need for a clear and rational trading principle may be greatest in the area of biotechnology. Within a few years, virtually 100 percent of our agricultural commodity exports will either be genetically modified or mixed with GMO products, and our trade in these products must be based on a framework of fair and transparent procedures which address safety on a scientific, and not a political basis.

We have, since 1994, approved some 20 GMO agricultural products. Since 1998, Europe has not approved any. There is no scientifically based governmental system to approve GMO products, and therefore, the European public is susceptible to ill-informed scare tactics. The EU approval process for GMOs is not transparent, not predictable, not based on scientific principles, and all too often susceptible to political interference.

We have been working to break this pattern of confrontation, and indeed there are leaders in Europe who recognize that an EU regulatory system drawn up in accordance with its own international trade obligations would be a boon to both business and consumers. We have a new bio-tech working group to address GMO issues.

The same can be said with respect to beef hormones, where the European public is subjected to daily scare tactics which try to portray the hormone issue as a health and safety issue when indeed there is broad scientific evidence that beef hormones are completely safe. There is no reason why American beef producers should pay the price for internal political calculations in Europe inconsistent with WTO principles.

To conclude, as we look toward the future, our goal is to work together to promote our goals of security, prosperity, and democracy. Together we can accomplish more than either the U.S. or the EU can by acting alone. We want to work more effectively to deal with fast-breaking crises, to find ways to manage our disagreements before they get out of hand, and to expand areas of joint action and cooperation. We are working on just that in the hopes that we can articulate a new vision at the June 21 U.S.–EU Summit in Bonn through a new Bonn declaration. This would fit in with our

larger goal of using 1999 for a series of summits, NATO, OSCE, which Congressman Hastings mentioned, and the U.S.–EU Summit to strengthen the abiding European Atlantic Partnership which has been so important to maintain stability in Europe for the 20th Century and to make sure it does the same for the 21st.

Thank you.

Chairman GILMAN. Thank you, Secretary Eizenstat.

[The prepared statement of Undersecretary Eizenstat appears in the appendix.]

Chairman GILMAN. We will now proceed with Undersecretary for International Trade, Department of Commerce, Honorable David Aaron. Please proceed. You may put your full statement in the record and summarize, whichever you may deem appropriate.

STATEMENT OF DAVID AARON, UNDERSECRETARY FOR INTERNATIONAL TRADE

Mr. AARON. Thank you very much, Mr. Chairman. I will also put my full statement in the record.

Chairman GILMAN. Without objection, the full statement will be made part of the record.

Mr. AARON. Mr. Chairman, I too would like to thank you for your leadership in Transatlantic relations. I am pleased to be with you and the Committee this morning to discuss the prospects for our economic and commercial partnership for the European Union. As you and Secretary Eizenstat have pointed out, the U.S.–EU commercial relationship is the largest in the world by far. Indeed, if you aggregated all the U.S. businesses that are located in Europe, they would constitute the fourth largest economy in all of Europe.

But while our economic relationship remains robust, the trade deficit with Europe is cause for concern. In 1998, our deficit with Europe reached $27 billion, an increase of $10 billion over 1997. Historically, our trade balance has been balanced. Indeed, in the 20 years up to 1995, the total accumulated deficit on the part of the United States was only $1 billion, but since then it has become $60 billion. This reflects the difference in economic growth between Europe and the United States rather than an increase in European trade barriers. Indeed, American competitiveness is still quite strong because our growth in exports was 6 percent last year while European internal growth was only 2 percent. We are doing a good job of selling into a depressed and slowly growing market.

However, to shrink the deficit the European Union needs to strengthen its economies. It needs to undertake domestic reforms. It needs to stimulate employment and domestic investment. As with any important economic relationship, disputes arise from time to time. Our economies have grown so close together that I sometimes regard them as a set of finely meshed gears, and even small issues like grains of sand in a transmission can cause not only enormous noise but enormous damage if they are not fixed.

Let me briefly address two recent examples of this kind of damage in the areas of data protection and hushkits. We have been working for over a year to reconcile the very different United States and European Union regimes on data protection. The European Union has adopted a comprehensive umbrella legislation that covers every area of data privacy and tries to answer every possible

question and meet every contingency. The United States, in contrast, relies on a much more flexible set of targeted laws and self-regulation backed up by the Federal Trade Commission and our consumer protection laws, both at the Federal and State level.

The European Union is now considering under this regime whether United States data protection is adequate. We believe it is, but if we do not reach an arrangement with the European Union all Transatlantic data flows could be halted, with catastrophic effects on the economies on both sides of the Atlantic. To bridge the gap, we have proposed a set of safe harbor principles.

The companies subscribing to them would be able to keep exchanging data with Europe. After lengthy talks we have reached agreement on virtually all substantive privacy issues. Procedural issues such as enforcement mechanisms, the role that the Europeans will play in abiding by the agreement, and transition times for U.S. companies to adhere to the safe harbors are delaying final agreement. We hope to reach such agreement by this fall.

The European Union has also adopted a ban on hushkits, as was mentioned earlier by Mr. Gejdenson. These are essentially jet engine mufflers or replacement engines that would be banned by the European Union to achieve aircraft noise reduction. Interestingly and importantly, this rule would affect only U.S. products, to the tune of $1 billion, and it would allow the amount of European equipment that is just as noisy or even noisier to increase. The regulation would undermine 40 years of multilateral cooperation on aircraft noise regulation in the ICAO.

On April 29, the EU council adopted this hush kit regulation but postponed its implementation until May of 2000. This gives us additional time to resolve our differences with the EU on aircraft noise standards and specifically hushkits and re-engine aircraft issues and try to work out, through the ICAO, an international standard that would further improve noise.

So far however, their response to our proposals has been desultory and inadequate. If they do not respond more seriously and constructively, this crisis will revive.

I might also make a passing comment, if I could, on the enlargement question that Secretary Eizenstat pointed out and the differential in tariffs which has arisen from the process. Assistant Secretary of Commerce Patrick Mulloy is now in Eastern Europe. He has just held talks in Poland on this very important issue and they are making very good progress thus far. We are encouraged by this development.

It has been clear to both the United States and the European Union for some time that we have needed better ways of identifying and setting issues earlier. In 1996, at Ambassador Eizenstat's initiative, we inaugurated a series of initiatives to identify priority areas that needed to be addressed and provide a mechanism to make progress. This new Transatlantic agenda marks, for the first time, an attempt to involve heads of government in the resolution of commercial problems.

At the top are semiannual U.S.–EU summits, one which will take place next week in Bonn. They are supplemented by meetings of the senior level group chaired by Ambassador Eizenstat, senior trade and economic officials on both sides.

The Transatlantic Economic Partnership was also established under the NTA, as were the Transatlantic Business Dialogue, the Transatlantic Labor Dialogue, the Transatlantic Consumer Dialogue and the Transatlantic Environmental dialogue. We are very pleased, Chairman Gilman, that you have taken the Transatlantic Legislative dialogue, TLD. We expect the TLD to add significantly to the richness of Transatlantic contacts and found its inaugural meeting held during last week's senior level group to be very productive.

Now, the U.S.–EU Summit in Bonn, Germany next week will allow us once again to demonstrate the staying power of our economic relationship. At the summit, President Clinton, EU President Santer and German Chancellor Schroeder will announce a number of important deliverables. Among them are an expansion of the Transatlantic economic partnership and an early warning system to address trade issues before they rise to the level of trade disputes such as we saw this spring.

Speaking in Europe last week, Secretary Daley called the formation of an early warning system a Doppler radar system for tracking trade storms, adding that he has asked me to be his long range weatherman on trade. I will work with my EU counterparts and with all the Transatlantic bodies, the TAB, TLD, TALD and so forth, to follow the summit announcement and set forth such a process. I hope to have better luck than most weathermen.

Another issue to be address at the summit is the reconstruction of Kosovo. The United States has paid most of the costs of the military operation during the conflict, and the Europeans have agreed to take the lead in the reconstruction efforts for Kosovo. We believe that U.S. companies have much to offer and should play a prominent role in rebuilding Kosovo. However, historically, a large majority of European Union aid is tied, therefore, limiting the ability of U.S. companies to obtain contracts. We will make it clear to the European Union governments that U.S. companies must be able to openly compete in the EU finance reconstruction programs in Kosovo. We believe that we have earned it.

Let me close by emphasizing that the U.S.–EU relationship takes a lot of work to maintain, but it is worth it, to the U.S. and the EU, and the rest of the world. There is much work to be done, but our expanded dialogues and early warning system will help keep our relationship on track.

Thank you, Mr. Chairman.

[The prepared statement of Undersecretary Aaron appears in the appendix.]

Chairman GILMAN. Thank you, Secretary Aaron, for your remarks, and Secretary Eizenstat, for your good remarks.

Let me kick off our questions with the issue of European bars to the use of genetically modified organisms or GMOs. Of course it is a vital concern to our American agricultural community. Secretary Aaron, in your view, should this issue be included in the U.S.–EU or G–8 summit discussions in Germany?

Is that a subject now on the formal agenda of this summit meeting, and if it isn't, why not, and what steps could the EU take in its food safety policies? Do they have the potential to affect not only

a large amount of U.S. agricultural exports but also a full range of pharmaceuticals and cosmetics exported by the U.S.?

Mr. AARON. Mr. Chairman, it is going to be on the summit agenda. We will be discussing it. It forms part of the report which Secretary Eizenstat has supervised and put together for the summit discussions. Essential issues here are really threefold. First of all, the European process for making decisions on genetically modified organisms is not Transparent. Second, it does not appear to be based on scientific evidence. Third, it is taking place in an atmosphere that can only be described as nearly hysterical concerning food safety in the European Union.

I think it is very important to recognize that and develop our own strategy, in the context of a situation in the EU where, because of the mad cow disease and its very devastating effect on the authority and credibility of the scientific and official community in Europe, now we have had this recent dioxin issue in Belgium.

What you are getting is a continuing impact on the public but to the point that they have become extremely allergic to this kind of technology. You have the public press waging a campaign, for example, in Britain where they are calling these things Frankenstein foods.

This is totally blown out of proportion, but it is an EU problem that we have to somehow address, and what we need to do is find a way to help them re-establish the credibility and reliability of their system of dealing with advanced bio-technology. In the Transatlantic Economic Partnership, there is a bio-technology working group. It is working on the problem, but I think that the political dimensions of this have gotten to the point that you have all sorts of protectionist pressures now wrapping this cloak of public hysteria around them and taking advantage of it. We have got to find a way to cut through that, and I hope that the conversations at the summit will provide some impetus for us being able to do so.

Chairman GILMAN. Let me address this question to both our panelists. When the EU expanded to include Greece in 1981, Portugal and Spain in 1986, and Austria, Finland and Sweden in 1995, it disadvantaged our own commercial interests. What steps can we now take to ensure that the process of admitting new member nations will not similarly disadvantage our U.S. interests? How can our negotiators achieve an appropriate measure of parity for our own interests as the United States begins another round of accession talks with Poland, Hungary, Czech Republic, Cyprus, Estonia, and Slovenia?

Mr. EIZENSTAT. There really are two steps. The first is that we have already notified all the future accession countries that we will seek compensation for the breach of their tariff bindings, which will occur as a matter of definition when they join the European Union, just as we did with Portugal and Spain and Austria and other accession countries, and this is not a punitive matter. It is simply a matter of a right under the WTO. So that provides our interests, our business interests, a right to compensation in the form of lower tariffs in other areas.

Second, we are working very assiduously, even now, to make sure that during this transition period between the time that nego-

tiations commence and end for the admission of new members that we are not disadvantaged, and we are, in fact, disadvantaged. The International Trade Commission recently did a study showing, for example, in Poland alone, that there could be up to $20 billion in lost U.S. exports from the differential in that their tariffs are at zero for EU products but they have maintained their higher tariffs, their MFN tariffs, for the United States.

So what we have done as a strategy, which the European Commission has agreed to, is we have gone to each of those countries and we have asked them to reduce immediately, certainly as soon as possible, their tariff levels to the generally lower EU tariffs that they would take when they become members, and that will remove some of the disadvantage during this transition period.

Chairman GILMAN. Did you want to comment on that, Secretary Aaron?

Mr. AARON. No. Just as I indicated in my statement, right now we have a team in Eastern Europe discussing with those governments this precise point, and the report I received this morning on the discussions in Poland was very encouraging.

Chairman GILMAN. Let me ask, Secretary Aaron, under the Kyoto Climate Change Treaty, EU nations felt they were protected from any new emission reductions that would be required by the protocol because of the massive reduction in emissions already happening in the UK and Eastern Europe.

These already recurring reductions created an EU bubble protecting other U.S. economies from potentially Draconian cuts. We now understand the EU may have miscalculated, and its emissions may exceed those allowed by Kyoto. We have reports of EU members squabbling about who will make extra cuts, and projections that the EU may need to buy emission credits from the Russians. We thought that the system the Administration designed under Kyoto depended on the U.S. buying those Russian credits. Are we now going to face higher prices and competition from the EU for those Kyoto emission credits?

Mr. AARON. Mr. Chairman, if I might, I would rather defer to Ambassador Eizenstat on this.

Mr. EIZENSTAT. No. Let me explain our differences with the EU with respect to climate change. We have strongly favored the most cost effective way of achieving our Kyoto targets, and that is by using flexible market mechanisms, in particular, trading of emission rights as well as the mechanisms by which the developed and developing world can exchange projects, transferring technology to developing countries and obtaining credits back. We believe that the European Union's attitude in adopting ceilings and unadministerable caps on the amount of emissions that can be traded will make the whole system less cost effective, less capable of achieving objectives in a cost effective way; and we strongly, strongly oppose that effort at caps.

In fact, a number of countries will have excess emissions to trade. It is certainly possible that the European Union may be competing for those emissions, if, in fact, they can't meet their targets through domestic means.

This is something we have always anticipated, and we have taken it into account in our cost estimates, but they seem to want

to reach their targets by high taxes internally. Our mechanism is to do so by market mechanisms, which we think is much more effective and much less costly and equally effective from an environmental standpoint.

Chairman GILMAN. Just one more question. Secretary Eizenstat, Committee staff have heard many complaints about the processes of the European Commission, specifically that projects are often staff-driven without considered policy-level input and broad coordination and that our companies are, at least on occasion, not permitted to participate in those Commission consultative processes that do exist.

Does the executive branch have any strategy to open a Commission up to public view and to public input in a nondiscriminatory basis, and what can we do about the fact that so many of their proposals are worked up in a Commission so that it is difficult or impossible to change them once they are proposed, either by way of a green paper or more formally? I welcome your comments, Secretary Eizenstat.

Mr. EIZENSTAT. As a result of the Amsterdam Treaty, there has been a profound change in the balance of power between the European Parliament and the executive arm of the European Commission. The European Parliament has shown by the dramatic action which was taken that led to the resignation of the entire Commission, has asserted responsibilities that it had not done so before, and it has insisted on more democratization and more openness and more accountability by the Commission to the only popularly elected body in the European Union, namely, the Parliament.

We expect to see more oversight. We will see more scrutiny of new commissioners, as they are named by Mr. Prodi, and I think we will see a gradual opening up of the Commission, recognizing that as an executive arm there are certain things, as our executive branch has, that are kept within that branch.

What we have urged, also, Mr. Chairman, is that with processes like the review of GMOs, that this has to be open to a transparent, open, scientifically-based process. The notion of keeping approvals for major agricultural products done in a way that is not open and which we have no ability to input is totally contrary to the way a democratic system should work.

When the FDA, for example, makes a decision on a particular food or drug, they have open hearings. People can introduce evidence. Now what happened with the beef hormone issue is a precise example of an absolutely atrocious decisionmaking process, and that is that after the WTO ruled that the beef hormone ban had no basis in science and had to be ended, and gave the European Union 15 months to finally make that decision, just before the deadline, without any credence given to this by the WTO, they started a new risk assessment.

How did they do it? They chose scientists without our knowing who they were. They operated in ways that no one had any information about. They came out with a report that was not based on any introduction of any evidence by any outside parties, and this kind of lack of process, lack of openness, is precisely what you are talking about.

We won't stand for it. It is unacceptable, and that is one of the reasons that we have retaliated on the beef issue to the tune of $200 million and will keep that on until we get our WTO rights won through an open, scientifically based process. We suggest a labelling procedure to resolve this, but this is the kind of closed process I think you are referring to, Mr. Chairman.

Chairman GILMAN. Thank you, Secretary Eizenstat.

Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman.

Let me commend Undersecretary Aaron for all the work that he has done in this area as well. He has really been one of the folks in the Administration who understands the importance of this battle and trying to focus our resources as a government to making sure that we keep this market access issue fair for all parties. I am not looking for advantages necessarily for American companies. I just want to make sure they don't get shut out in this process.

I guess my question would be first to Secretary Aaron. We went through this great phase in America where we were reluctant to go to the metric system, and darn it, we were not going to cave in to metric, and along the way we also decided we weren't interested in getting involved in the European standards-setting. We let them set their standards, we set ours.

Now we are starting to pay some price for that past neglect. Is there a way—as we see the problem with the Europeans stepping out of the aircraft standard-setting organization, the ICAO—is it just unreasonable to assume that the Europeans would see any benefit from international or American-European standards-setting at this stage while we are fighting these individual battles. Are we going to stop the Concorde if they stop the American jet engines.

I think we probably ought to do some more. I think we should trigger it, so we don't have to take another action, that as soon as they—if they implement in 2000 the hush kit issue, that we ought to automatically send the Concorde packing, and maybe some other things. But besides these kinds of retaliatory responses, is there an avenue that is beneficial that both Americans and Europeans say, OK, let's sit down and see if we can start a process to build international standards as we have in manufacturing with ISO, and can we do this in health and safety and all these other areas?

Americans aren't going to be happy about it either. Americans are very, you know, kind of proud of their own standard and their own operation, but I think in an international world that is rapidly accepting European standards as the world standard, America's going to be left behind if we don't create a real international standard.

Mr. AARON. You make a very good point because I think that one of the things that we have found, our general approach to standard-setting has been let's let the private sector sort this out, and the Europeans have tended to say let's pick a standard, and the result of that in many areas of the world has been that their standard has been adopted by other governments who have a kind of du registe notion of how government and the private sector should work together.

One interesting example of this has been the debate over the third generation wireless standard. In other words, what is going

to be the technology and the standards for your cell phones in the future generation, and literally billions of dollars have been riding on this. The Europeans have learned to create an exclusionary standard that would just be the European standard, but we took the position that the private sector should solve this.

Ultimately what happened was that the Transatlantic Business Dialogue, this cooperative relationship that exists between government and the private sector, came up with a compromise. That compromise is now being adopted. Now, I think that the real answer to the kinds of process questions that you talked about is not just better U.S.–EU coordination, but U.S.–EU coordination that pulls in the private sector, pulls in all the real various actors and gives us an opportunity to open up their process and make it much more responsive, and not only to public concerns, but also to market forces.

Mr. EIZENSTAT. I would like, if I may, to amplify. First of all, there are a number of things we have done. Ambassador Aaron correctly mentions the work we have done on third generation wireless. When I first came to Brussels as Ambassador of the EU, we were dealing with the first and second generation. We had the same issue of a so-called ESI standard, a European standard, potentially being the sole standard, and by working in the Administration and the work that Ambassador Aaron and the State Department and others have done, we have now been able to open up those standards. What we tried to do both there and in the hush kit issue is move these to international bodies—in the case of wireless, to move them to the ITU, and in the case of hushkits, to move them to ICAO, the International Civil Aviation Organization—so that we don't have a European standard, we have an international standard.

Next, one of the real pioneering efforts that we have done under the new Transatlantic Agenda is the negotiation of mutual recognition agreements. We completed seven of those in 1998. They will save American industry about $50 billion. They will save about $1 billion in trade, over $50 billion in products. This is a real savings, and the concept is that you test once in each other's market, and you don't have to have duplicative tests in terms of standards.

Finally, is this early warning concept that both Ambassador Aaron and I have referred to. The whole concept is to try to avoid, Mr. Gejdenson, the development of unilateral standards in Europe that preempt the U.S. efforts. If we can nip these in the bud before they reach a political level, we can avoid a lot of heartache and a lot of tension.

So we have a very clear strategy of moving as much as we can into the international bodies, like ITU and ICAO, of going toward MRAs and more and more products, and we hope to finish one in marine safety for this summit, which will save even more money for U.S. companies, and then to use our early warning mechanism.

Mr. GEJDENSON. Thank you.

Chairman GILMAN. Thank you, Mr. Gejdenson.

Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. Before I get into my questions, let me just say that I was just notified that the State Department, one full year after my request for documents

concerning Afghanistan—and as you know, I have made a charge that the Administration has a covert policy of supporting the Taliban and requested documents to find out whether or not that charge had more substance than just the information that I had available to me. Six months after Madeline Albright had agreed to provide the documents that I requested, a full year after I requested them, 6 months after Madeline Albright agreed that she would provide them, at last the State Department is going to send over some of the documents starting at the end of this week.

Let me just say, Mr. Secretary, that I would hope that in the future there would be a better good faith effort in working together with Members of Congress on issues. When we request documents like this and make a serious charge, as I did, I think that it behooves us not to stonewall or not to drag one's feet and just get it over with because my charge may or may not be correct, but we certainly deserve to have the documents. We are elected by the people to oversee what is going on in the State Department. So, with that, let me just thank you and hope that we proceed now as the documents get into my possession.

You stated, Secretary Eizenstat, that the EU should help rebuild—to a greater degree the United States should rebuild in the Balkans because we bore a lion's share of the fighting. How much do you think that will cost us, and what do you think the cost is going to be for rebuilding? How much will it cost them? How much will it cost us, and how much have we spent so far?

Mr. EIZENSTAT. Well, first, let me respond to your statement. I hope we can act expeditiously on document requests, and I am sorry that it has taken so long.

Second, with respect to the reconstruction, if I may divide this into two segments. The first is the disadvantage to the front-line countries, Romania, Bulgaria, Macedonia, Albania, who have borne the brunt of accepting both refugees and the interruption of trade flows from the war. Congress is already in its supplemental appropriated sum of moneys for balance payment assistance, and we are examining now whether additional assistance will be necessary, and if so, how much. We do not yet have figures.

Third, and quite apart from that, and yet it has to be integrated in the end, is Kosovo reconstruction. This is everything from reconstructing homes that have been destroyed by the Serbs, putting roofs on, restoring electricity grids, building homes, enabling the refugees to come back.

There is, Mr. Rohrabacher, an EU-World Bank process that will take the lead in assessing costs for reconstruction. We will be part of that, but it is clearly understood by the EU that they will do the lion's share of both Kosovo reconstruction and the Southeast Europe frontline issue. The reason that I am not able to give you a figure now is because we literally are just within the last 24 to 48 hours getting on the ground in Kosovo. We have to assess the extent of the damage, and only when that is done will we be able to come up with a figure. We obviously know the Congress, and we ourselves, need that. We are working very carefully to try to construct that.

Mr. ROHRABACHER. What percentage do you think we should pay?

Mr. EIZENSTAT. We don't at this point want to get into percentages. Let me simply say that as the President himself said on Memorial Day, we have borne the largest share of the burden militarily, and that the overwhelming amount of the reconstruction should be done by the Europeans.

We will be working out percentages in the future. We don't have percentages now, but suffice it to say that the EU will assume, and wants to assume, the overwhelming share of the reconstruction costs. That is, however, to indicate that we also do wish to participate in that. We think we have an obligation, but it should be a minority share.

Mr. ROHRABACHER. One suggestion is that we should not be rebuilding Serbia until perhaps the Serbians have paid for their—or at least someone else has paid for their share of the damage that they caused in Kosovo. I think it would be kind of ironic to have the United States taxpayers end up paying for the liberation of Kosovo and at the same time pay for the rebuilding of those parts of Kosovo that were destroyed by the Serbs themselves. So I would hope that we would use some leverage in this rebuilding effort so that we don't end up rewarding the Serbs for the type of activities that they participated in.

Mr. EIZENSTAT. I appreciate very much those sentiments. I want to indicate to you that there are existing sanctions on Serbia, both the so-called outerwall sanctions and more comprehensive sanctions that the U.S. has, and we believe that it is premature to phase those sanctions out when we do not know the attitude of Milosevic's regime to implementing the Kosovo settlement or to engaging constructively in reaching a political settlement on Kosovo autonomy. So we will maintain those sanctions during this period of time, and we are urging our European allies to do the same.

Mr. ROHRABACHER. Thank you.

Mr. AARON. Mr. Chairman, if I could just add one point. U.S. industry wants to participate in this reconstruction. I had over a hundred companies at a meeting last week at the Department of Commerce expressing interest in both the reconstruction and work in the frontline states as well as in Kosovo, but it is very important that even as the Europeans assume a greater economic burden for the reconstruction of Kosovo that they have to do that in a way that gives our companies equal opportunity to show what they can do to be effective in that region and not keep us out by tired aid programs as they often have in the past. We think we have earned the right to be full partners in the reconstruction of Kosovo.

Mr. ROHRABACHER. Thank you very much.

Mr. COOKSEY.—[Presiding.] Mr. Lantos.

Mr. LANTOS. Thank you very much, Mr. Chairman. I would like to react to some of the issues that have come up and then ask you to comment.

First, I want to say a word on behalf of the Serbs. There are powerful democratic forces in Serbia which have been suppressed by this dictatorial Milosevic regime, and I think it would be singularly ill-advised and unfair for us to take it out on the Serb people the acts of their leadership. May I remind my colleague from California that at the end of the Second World War we led the way in providing vast humanitarian aid to Germany, and subsequently, we

provided vast economic and reconstruction aid to a democratic Germany, even though Hitler was overwhelmingly responsible for the unbelievable human and material damage that occurred during the Second World War.

So I think it is extremely important that we do not confuse the genuine and legitimate decency of the bulk of the Serbian people with this appalling and sickening dictatorial regime. I think it is also important for us to realize that in Europe there is an end of the—there is a light at the end of the tunnel, and the light at the end of the tunnel, of course, is the opportunity to join the European Union. This will be the most powerful magnet for the Serbian people to get rid of the Milosevic regime because, short of doing that, they haven't got a ghost of a chance, not only of getting economic aid but of joining the European Union.

If one takes a historic view, gentlemen, of this process, the emancipation of Europe since the end of World War II came in two parts. The first part came right after the war with NATO, the Marshall Plan, and West Europe recovered. Since the collapse of the Soviet empire, 1990 broadly speaking, we have now seen the emancipation of the second half of Europe. First came the Central European countries, three of them now in NATO, and now we have reached the Balkans.

Now, some might argue that mainstreaming the Balkans is an oxymoron because if anything cannot be mainstreamed it is the Balkans. I don't agree. I think the Balkans can be mainstreamed, and I think we have an enormous responsibility in doing so, not only for humanitarian reasons. As you pointed out, Ambassador Eizenstat, this is not a zero sum game. While in the short run we incur expenses, in the long run a prosperous stable and democratic group of nations in the Balkans will be a tremendous benefit to American industry and to American agriculture and to American high tech and to American companies in general.

I would like to ask both of you a couple of questions about enlargement. I am delighted to see that following the defeat of Meciar, the quasi -fascist leader in Slovakia, Slovakia is now in the process of being considered part of enlargement, and I hope in time it will be considered for NATO. I am very much interested in finding out your comments about the attitude of the European Union with respect to both Turkey and Malta as the enlargement issue is concerned. It is self-evident that of the 13 countries that had applied, Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia and Turkey, all but these two are on track. Some will happen much sooner. Slovenia, Hungary, Estonia probably in the first round, Czech Republic. But there are some clouds over both Turkey and Malta.

Since I am of the opinion that when Secretary Albright speaks about a Europe free and whole she includes these two countries, I think it is important we have your most candid and best assessment as to where the European Union is with respect to both Turkey and Malta.

Mr. EIZENSTAT. Let me respond to your comments, and I think you, Mr. Rohrabacher, said it very well, but we all respect the enormous vision you have of Europe, and we take very seriously all your comments with which we almost always agree.

With respect to Serbia, we certainly have never attacked the Serbian people and we have always tried to make it clear, and we continue to make it clear, that our disagreements are with Milosevic, not with the people of Serbia. At the same time, in terms of the analogy, we did in fact pour aid into Germany, but it was a Germany in which Hitler had died and which democracy had taken over, and Milosevic remains in power and we don't even know, let alone a democracy, whether there will be a full implementation of the Kosovo settlement. We think that it is important to keep sanctions on to encourage the FRY and Serbian governments to do the right things, including the full implementation of a political settlement with Kosovo.

Mr. LANTOS. I fully agree with that.

Mr. EIZENSTAT. Second, with respect to the Balkans, I couldn't agree more. I think that the Balkans can and indeed must be incorporated into the mainstream of Europe or we will face continued conflicts in the 21st Century. What the President and Secretary of State, Secretary Daley and others have emphasized is the critical importance of making sure that we have created, after the conflict, the kind of economic conditions which provide them an equity in Europe, and the whole process that we will be working on with the European Union, with the World Bank and others, is designed to give them a stake and to make it clear that they have a future in and are not separated from Europe.

In fact, the studies we have done, Mr. Chairman, indicate that there are two ways to go about this. One is to reduce intra-Balkan barriers to trade of which there are very few. But even more promising is the incorporation of those countries into the EU process, not necessarily immediately as members, but in terms of trade relationships and trade integration.

Third, with respect to your question on enlargement, the fact is that of the 13 countries that have applied, six are in the first wave, Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia. Five others are in an initial screening stage, Bulgaria, Latvia, Lithuania, Romania and Slovakia. Countries can move into different tranches if they show greater progress, if Slovakia were, for example, to do so.

With respect to Turkey, this is an area where we have had differences with the European Union for a number of years. Turkey actually has the longest standing application for membership, going back to the 1960's. Turkey is a European country. It wishes to be a secular country. It is important that it be given as much opportunity to enter into the European Union as other countries. It obviously has to meet the same standards, but it ought to be given that opportunity, and we have encouraged the European Union to do so, and we hope they will.

Malta has reactivated its application for membership to the EU. The EU has not yet made a formal decision on that, but again, we think that the more countries that can meet the standards of the EU the better, and the safer and more secure and more prosperous Europe will be.

Mr. LANTOS. Mr. Chairman, I know my time is up, but may I just make one quick observation?

Mr. COOKSEY. Yes.

Mr. LANTOS. And perhaps invite a response. We are talking about dividing the cost of immediate assistance and reconstruction between the European Union and the United States. I am sure this is not an exclusive list, and I personally would like to see maximum political pressure applied to the European neutrals who have contributed nothing to the military effort so that they will contribute all the more to the economic efforts, Sweden, Switzerland, Austria, and others. I also would like to ask you about the contribution of both the wealthy Arab states which are particularly well suited to support Kosovo's rebuilding, which is an overwhelmingly Muslim area, and the participation of Japan in this effort.

Mr. EIZENSTAT. It is an excellent point, Congressman Lantos, and let me assure you, we will earnestly seek that, and there will be a formula for that. For example, there are likely to be several donor conferences, perhaps even one this summer, that will be called for purposes of immediate assistance, short-term assistance for Kosovo, to help refugee resettlement, and perhaps a longer term donor conference that will be held in the fall to deal both with longer term needs of Kosovo and the needs of the front line countries.

Now, the precise sequencing and timing is still up in the air, but clearly there will be donor conferences, and we will do everything possible to see to it that Japan, the European neutrals who are not part of the EU and not even part of NATO, and Muslim countries participate. Japan has already indicated a $200 million contribution for refugee resettlement which we think is a good start, and so we think that sharing this burden ought to be disbursed as widely as possible. Your point is very well taken, and we will very much encourage those countries to participate in the donor process.

Mr. LANTOS. Thank you very much.

Mr. COOKSEY. First, I want to tell you how much I personally appreciate your being in front of this Committee, and I do respect your academic credentials and most importantly your experience in this area. Some of my colleagues sometimes disagree on policy, but I would hope it is not personality.

Tracking along Mr. Lantos' line of questioning, I would really like to direct this question to you, Secretary Aaron. Is it possible, or can there be a formula for this reconstruction of Kosovo, and I assume some reconstruction efforts in Yugoslavia, so that U.S. companies can have a proportion of the contracts equal to the proportion that the American tax payers pay for this? Is that possible?

Mr. AARON. Well, I think, Mr. Chairman, we would be really happy if we just had an open, untied process here. Money for relief is growing scarce in the world. There was a donor conference just a few weeks ago in Stockholm for the relief victims for Hurricane Mitch at which over $6 billion was pledged. Now we are going to have donor conferences on reconstructing this area. This money has to be spent in the most efficient way, and in our view this money should be untied. There ought to be fair competition, there ought to be transparent rules, and we ought to go at it in the most efficient way. Let the market do this, and we will be satisfied with the outcome.

Mr. COOKSEY. That is a good answer, a good economic answer, and I agree with that.

Secretary EIZENSTAT. Yes, sir.

Mr. COOKSEY. The EU's continued heavy subsidies for agriculture are, in my opinion, a denial of the realities of information technology, biotechnology, and globalization. Do you feel like this is a reflection of the personal views of the statesmen, the European statesmen, or is it a——

Mr. EIZENSTAT. I would like to be very direct on the subsidy issue for agriculture, having lived over there for a couple of years, as did David a little way down the road.

First of all, it is important to understand that Germany, which was and is the residency country of this 6 month period, made a tremendous effort within the last several weeks to have a major reduction in what they call the agenda 2000 exercise, that is, their next 6 year budget, to substantially reduce agricultural export subsidies in the EU and internal price supports and break the link between production and prices. There are many countries in the EU, if I may say so, I think a majority, who would have supported that. But there are a number of countries, France being one of them, that latch on to these subsidies as something very important.

Second, and here is where I want to try to be a little bit philosophical, as much as we disagree with, and Lord knows we do, and we put every effort into eliminating this tremendous disadvantage—we think it burdens our farmers, it burdens our tax payers, it burdens developing countries—there is a social component to those countries which continue to latch on to these heavy and, I believe, unsustainable subsidies. I don't believe they will be able to sustain them over time. It costs too much, $50 billion. They will never be able to do the enlargement with this process unless it changes. But there is a social component, and that is, they want to keep farmers on the farm. They don't want them immigrating into urban areas, and this is one of the social aspects that makes it difficult to follow the logical economic consequence of the way the world is changing.

I believe, over time, that the economic logic is so compelling, the budget costs so overwhelming, and the disadvantage to enlargement so compelling, that we will get reform in this process. I also hope that the WTO process, as we inaugurate the ministerial efforts in November, where one of our key priorities, our overall priorities, is reducing these subsidies, will be successful in getting the EU to further reduce their subsidies.

Mr. AARON. Can I make a comment on this as well? When I first arrived in Europe 5 years ago, we were in the middle of this battle on agriculture in the WTO or in the GATT, and a European who supported our position said something to me—"you have to understand something, we have been cultivating this land for 2,000 years, and when you ask a European to imagine an ideal landscape, he doesn't picture a wilderness."

So this social point that Stuart just made is a very important one, but the irony is the OECD has demonstrated conclusively that less than half of the people in the rural areas of Europe get their income from agriculture, and those that do get less than half their income from agriculture. So you really have a decreasing and declining part of this rural economy having anything to do with agriculture, and they have to find other ways now to support the kind

of landscape they want to preserve rather than simply supporting these kinds of unjustifiable subsidies.

Mr. COOKSEY. Mr. Pomeroy and I are both on the Agricultural Committee. I am going to yield any of my time that I might have left to him, but I was really struck by your comment, Mr. Eizenstat, that you stated almost half, $50.5 billion of the EUs 1990 budget, is earmarked for agriculture. That is a travesty.

Mr. Pomeroy.

Mr. POMEROY. I thank the Chairman for yielding. Sanctions are up on the floor. I have to depart, but there was a point I wanted to make directly on this issue. There is a social dimension to their incredible subsidy structure for agriculture. There is a cultural dimension to their incredible food-safety angst, but both serve their economic interests against ours, and so as you mentioned earlier, Secretary Aaron, it can wrap around a pure protectionism, these social or cultural issues. I believe we have to do a much better job of establishing cross linkages that make them pay for the social and cultural. For example, I know that they are about to take a run—and I value Europe. I have lived in Europe. I have an affinity for the people there, and they are an extraordinarily important partner of ours, economically, and every other way. So it is with a fondness that I say this.

But they are going to come after our insurance marketplace, and they will assert that State regulation of insurance is a barrier to entry, and I look for that to be raised with vigor even next year. I believe that these are the kinds of cross linkages we have to establish, cross sectors, so that we place maximum pressure on them over the long haul and we make them bear proper expense to what they are costing our country, and our agriculture in particular, due to these social and cultural issues that, quite frankly, can't be really bargained away. I mean, they are going to be a long time resolving, working our way through those, but in the meantime they ought to be paying a hefty price for it.

Mr. EIZENSTAT. I think your point is well taken. Let me be very brief on this so you can go to the floor. If they want to have a farm policy with social implications, they have no basis to shift those social costs to us. Let them put in a huge direct payment. If they want to spend half their budget on direct payments that is their business. What is our business is when they do it in a way through export subsidies and very high internal subsidies that shift the costs to our taxpayers and to our farmers. That is what is unacceptable.

Mr. POMEROY. That is precisely correct. We can do better than we have done, I believe, in asserting that point.

Mr. COOKSEY. Mr. Menendez.

Mr. MENENDEZ. Thank you, Mr. Chairman.

Mr. Secretary and Mr. Ambassador, thank you both for your service to our country, and I appreciate your testimony today. I want to direct my questions to Secretary Eizenstat, if I may. I am with you on your goals of getting the EU to be in compliance with us and on some of the issues that we have chosen to pursue on banana and hormone treated beef cases.

However, I have a caveat, and I am wondering whether the Administration has thought at all in terms of the impact of the retal-

iatory tariffs on small American businesses. I understand the need to do the retaliatory measures, but I am particularly concerned about the impact on the small businesses that only import two or three items and cannot withstand or survive the long-term economic consequences of those retaliatory provisions. I am wondering, as we look at what seems to be an escalating trend in economic retaliation, are we looking at the impact and at any type of a carve out for small business that may only have a handful of items that they import and for which we, in essence, could crush them by virtue of the retaliatory measures versus the larger companies that have a diversification and who can better withstand the actions and have the ability to deal with some of the retaliatory measures and consequences here domestically?

Mr. EIZENSTAT. I will respond to that, and I am sure Ambassador Aaron will want to supplement it. First of all, in all of the disputes that we have, we make every effort to negotiate settlements, whether it is bananas or beef or hushkits, so that we don't have to retaliate. In every single effort, we bend over backwards to avoid having to do retaliation, and we do retaliation only when we have no other option available. With respect to, for example, beef hormones, we have not actually retaliated. We simply requested a damage amount, and we hope that the EU will negotiate an acceptable regime which will allow market access for our beef.

Second, when we do retaliate, we go through a very exhaustive process, and the interagency 301 process allows for public comment. We try to exclude those products which would have a disproportionately negative effect on U.S. employment, on the U.S. economy, on small businesses that have difficulty adjusting, and so those companies have the ability to tell us that the retaliation may end up disadvantaging them. That is something that we try to take into account when we do our retaliation, if and when we have to retaliate.

So, first, we try to avoid it and we try to get a negotiated settlement. That is what we are doing with bananas. That is what we are trying to do with beef. Second, there is a process for public comment, and those are taken seriously. We do try to factor in the impacts on domestic companies and on small businesses.

Mr. MENENDEZ. Just before Ambassador Aaron answers so you can include it hopefully in your answer. Many of the companies that I have heard from in my district, and that I have spoken about with some of my colleagues in the House who face similar circumstances did make, either through their associations or individually, their testimony known, yet they are still suffering under the consequences of the measures and some of them, as they speak to me, seem to have not a long lifespan left if we continue these measures for any significant amount of time. Ambassador.

Mr. AARON. Let me just say I think that as Secretary Eizenstat has indicated, the retaliation list for the beef hormones is still under consideration, and the final list has not been solidified. So that the concerns of the small companies that may be affected by this, we really need to pull to the fore, and I will guarantee you that our participation in this and our responsibility for small and medium-sized businesses are such that we will take active interest

in trying to defend the interests of small businesses that might be——

Mr. MENENDEZ. But there are already a list of items that have been listed for the banana case.

Mr. AARON. Yes, there are.

Mr. MENENDEZ. I am speaking to those items already that several companies in my own congressional district have come to me and said look, we are not large importers of a variety of products, we only have a couple, and the couple that we have happen to be on the list. So it just seems to me that the bulk of what we try to do can be accomplished while creating some minor carve out for some of these small, and I underline that again, small businesses. Moreover, we can control that they don't become an escape hatch to your measures by limiting their imports to what they imported the previous year, and I would really urge that the Administration consider such a measure.

Mr. AARON. You make a very good point, and we will consider it. I would just like to say, if I may, Congressman, this is not a final list. Even though it is published, it is not a final list. We are still taking comments, we are still considering comments. So we would be particularly interested in knowing which of your companies could be affected.

Mr. MENENDEZ. That is on beef, but I understand that the other one is finalized, and that is the one I am referring to.

Mr. AARON. I am hopeful that we are now in the midst of negotiations with the EU on what we hope will be a WTO consistent regime on bananas. If we can reach it, that would obviate the need for retaliation.

Mr. MENENDEZ. Last, in a somewhat indirect issue, I would like to refer again to Secretary Eizenstat. As you know, I and the Ranking Democrat of this Committee and other Members have pursued, with reference to sanctions, the Administration's proposal on Sudan, which I generally support. The question of gum arabic. It is a very unique product. It is only produced in about two or three places in the entire world. It is an emulsifier that particularly is used in certain cases by the pharmaceutical industry for drugs here in this country, prescription drugs. It is used as a unique product that is not substitutable, and it seems to me that what we are doing in this particular case, unless we carve out somewhat of an exception or give some licensing provisions, is to hand over an American industry. Since the imposition of the sanctions the price for gum arabic has risen by 40 percent, the French have come in and purchased all of the contracts in Chad and the other locations. They are going to make a killing.

They are going to resell it to us. The Sudanese are going to get more money, not less, as a result of the sanctions, and we will have undermined the very nature of the type of consequence that we want to provide.

As you know, I am more likely than not to be a supporter of using sanctions as a way in which to promote peaceful diplomacy, but I would like to know what your position is on this, and do you not think that this is one case in which, because of the uniqueness of the product, we are actually not helping our policy; we are hindering it?

Mr. EIZENSTAT. First, you have been a very strong and effective champion of this issue, and as you remember when you talked to me and others last year, we issued two licenses to allow limited imports of gum arabic from Sudan. In the first case, to allow a shipment that had already been shipped to enter the United States, and in the second to permit entry into the U.S. of gum arabic which had already been contracted for prior to the embargo.

We are now facing a situation where we have to consider this again, and we understand very much the arguments you have made. We also have to balance that against the need to maintain our pressure on Sudan in response to that country's continued unacceptable behavior, and I can assure you that your concerns will be taken very seriously. We have not made any decisions. It is a very difficult decision, and we will certainly fully take into account your concerns as we must the need to maintain pressure on Sudan.

Mr. MENENDEZ. Mr. Chairman, one brief follow-up question, and I thank you for your indulgence. Can we agree to this, can we agree that the market reality is such that the prices have increased by more than 40 percent and that the French are out there aggressively taking all of these contracts or all of the products?

Mr. EIZENSTAT. Factually, the French have made every effort to corner the market. They have bought much of the production, perhaps all of the production from the Sudan, and it is possible too that will require U.S. companies to go through the French for this product.

That appears to be factually the case, but that is one of the things we are looking at. We want to verify that and make certain that is the case. We also have to look at what alternatives, if any, exist in terms of the quality of the gum arabic that is available from Chad and other countries. So there are a lot of factors to take into account, but you are quite right, the French appear to be making an effort, we have to determine how successful, to corner the market.

Mr. MENENDEZ. Last, is it my understanding that there is nothing under the sanctions regime as it relates to the Sudan that would prohibit a United States company from buying the French product of the gum arabic?

Mr. EIZENSTAT. At this point, I think that is correct.

Mr. MENENDEZ. Thank you.

Mr. COOKSEY. Mr. Burr.

Mr. BURR. Secretary Aaron, let me move to one thing. Is there a structure for this early warning system? Is that a formalized plan?

Mr. AARON. There has not yet been created a formal body to do this job. That really lies in the future.

Mr. BURR. But structurally you know how it should operate now?

Mr. AARON. What has been established are a set of principles, and really, the senior level group, and I would like Secretary Eizenstat to comment on this, they created a process by which these issues can come forward.

Mr. BURR. Let me ask you this, under that concept that both of you see, what signals would go off now as it relates to agriculture and the EU changing from where they currently are? Would buzzers go off under this early warning system right now?

Mr. AARON. That is already a red light that is sort of flashing both in terms of subsidies and all of that. So that is well understood. What this process would do would be to identify, let's say there is some new regulation that is proposed that would be harmful to trade, or there is a new initiative on standards or something of that, something that we hadn't already known about.

Mr. BURR. We believed that when the EU got back together that they were going to reverse themselves on some of their agricultural subsidies. They came consequently out of that meeting and actually gave in a little bit more to additional subsidies, and I am asking under this proposal of an early warning system, would we have seen that coming? Would we have seen, in fact, not them coming to us but them going farther away from what we wanted?

Mr. AARON. In this particular situation, I think we are talking about sort of two different classes of objects here. As far as this agricultural thing is concerned, I don't think the Europeans themselves knew how they were going to come out of the room when they were trying to do this Agenda 2000 deal on agriculture. Once they came out we knew about it immediately. It is certainly on our list before the WTO and for the negotiations that we believe have to take place now on agriculture.

I think what the early warning system is going to look like is, you know, different bodies inside the European Union, different Committees in the European Parliament, different national laws that may be contemplated or procedures that all of the sudden are put into place that blind side us, that have an impact. It is really those things that are kind of below the level of vision than something big like this agricultural thing that nonetheless start out as a cloud no bigger than a man's hand but then become an enormous storm. It is really that kind of thing that this early warning system is going to be focused on.

Mr. EIZENSTAT. If I may, Congressman, just to reinforce what Ambassador Aaron said. First of all, it will work under the auspices of the senior level group. Second, a perfect example of how the early warning system could have worked if it had been in place is with respect to the hushkits issue that Ambassador Aaron worked on and that Congressman Gejdenson mentioned. The reason for that is that this came up through one part of the European Commission without other parts, particularly the trade and U.S. relations part, even knowing about it. If we had the early warning system in place, it would have alerted others within the EU that this was going to cause a real friction point with the United States

So it is those kinds of issues, getting them before they bubble up and become formal decisions, that we want to try to nip in the bud.

Mr. BURR. Secretary Eizenstat, let me ask you about the mutual recognition agreement. There was a lot of controversy as to whether the Food and Drug Administration would accept the European standards. Where are we on that agreement or disagreement now?

Mr. EIZENSTAT. It is a good question. First, Congressman, we reached agreement in about seven industrial sectors on mutual recognition, and in the industrial areas it is much easier to simply have one test where we accept each other's test. We were not able to do that in the pharmaceutical area, in part because our FDA was unwilling to accept the tests from certain of the European

Union countries, not believing they came up to our level. So we have established best laboratory practices for pharmaceuticals where we will try to identify labs in Europe where, over time, the FDA will have such confidence, and then we can move to a more formal MRA structure. So we are not there yet.

We also had an issue, which you have taken an interest in, and that is, we call it the SRM ban. This was with respect to a type of pharmaceutical. It would have prevented the use in pharmaceuticals and in other products, particularly in pharmaceuticals, of certain bone marrow from cattle, and if it had been put in place, it would have banned large amounts of our pharmaceutical exports. Fortunately, we have been able to postpone that. We are trying to work through our Transatlantic Business Dialogue and other processes to come to an agreement on how to handle those. So I would say, frankly, pharmaceuticals have lagged behind other products in terms of MRAs, and we are really now just looking at good lab practices.

Mr. BURR. Let me ask you just in conclusion, we have just had a case of the inspection program on food safety where I think we have made the decision not to accept Belgium eggs. Let me ask you to comment, if you would, relative to their inspection standard there. Did they catch it? Did we catch it? Who saw the problem first, and what does that say about their inspection process?

Mr. EIZENSTAT. It was not initially captured through, but then it subsequently was by their own processes, both within Belgium and then within the EU. They had a similar situation with some of our hormone-free beef where they found traces of, they said, of hormones, and just within the last 24 hours they have now said that they are prepared to lift that ban, given certain assurances that we have had.

Following the Belgian government's announcement in late May that elevated dioxin levels had been detected in animal feed and poultry products as a result of dioxin contamination of fat, our Department of Agriculture and our FDA took the action to minimize any risk of importing it. So the Belgian government did find the initial levels that led us to act. We announced on June 3 that we would hold all poultry and pork products from the European Union countries pending certification that the products are not contaminated.

Then on June 4, our FDA instructed food inspectors to request documentation that Belgian processed food products containing eggs, and Belgian, French, and Dutch animal feed products were not from contaminated sources.

More recently, on June 11, the FDA revised its earlier action to require the inspectors to detain eggs and egg-containing products from Belgium, as well as certain animal feed products. These detained products can't be released until the importer provides lab test results indicating that the products are not contaminated.

So we have taken these as a precaution. Both agencies are continuing to review the records of European products imported since January to determine if there are any additional measures that are needed, and we are working closely with Belgian officials to identify the extent of the possible contamination.

Mr. BURR. I thank our witnesses. I would yield back, Mr. Chairman.

Mr. COOKSEY. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Gentlemen, I do want to echo the sentiments expressed earlier by the gentleman from New Jersey to thank you for the tremendous services that you are rendering for our country in the positions of leadership that you currently hold within the State Department. I have a couple of questions.

It is my recollection that it costs approximately $250,000 to $300,000 to put these hushkits in these commercial airlines, as I understand, required by Federal law, and I am somewhat amused by the fact that now the Europeans are putting a little pressure on us that they think that these hushkits are not necessary as far as they are concerned.

Of course, it is an environmental issue in our country, and I am curious the fact that the irony of this issue of hushkits is that it is not required on military aircrafts. If you ever have a chance to go to Andrews Air Force Base, and a lot of these residential areas near that area, because these jet air crafts don't have hushkits, I just wanted to get a comment from you, if we see somewhat of a contradictory policy here.

We required hushkits for our commercial airlines, but not for military aircrafts, and yet they probably do more damage or some of the environmental problems that we are concerned with, and we are making this requirement to commercial airlines in Europe, and they are balking at us. Can you see how we are going to settle this problem in an international arena of arbitration?

Mr. AARON. Basically, what has happened is this. At the ICAO we agreed on new noise standards, and we allowed companies and airlines to come to their own solution as to how we reach these new what are called stage three noise standards. Now, one of the ways to do that for older airplanes that made more noise was to put hushkits on them. The other is to re-engine the aircraft. A third way is to just buy a new aircraft that has been designed to be quieter.

What the Europeans basically said was even though these aircrafts are going to meet the new noise standards we don't want them, we don't want that, we want new airplanes. Why do they want new airplanes? Because they know 50 percent of all the new airplanes that are bought in the world are bought from Airbus, as opposed to 100 percent of the hushkits which are bought from the United States. I mean, it doesn't take a genius to know exactly what was behind this from a trade and protectionism point of view.

Now, as to the issue of military aircraft. They have been set aside under ICAO, I think, for some time, and it is true, it is as true in Europe for their military aircraft as it is for ours.

Mr. FALEOMAVAEGA. Mr. Secretary, both of you can answer this. You had indicated earlier about the process of how we may go about financing the reconstruction of Kosovo, but I have not heard anything about Belgrade. I think we have done more damage to Belgrade. Given the current negotiations, I am just curious, has there been any discussion about the reconstruction effort in Belgrade if and whenever at that point it should arise?

Mr. EIZENSTAT. Well, Mr. Milosevic brought about the damage to Belgrade by his own policies.

With respect to any reconstruction, a democratic-tolerant Serbia would certainly be an important part of the whole reconstruction effort, but that is a Serbia we do not have, under Milosevic and we don't think that they are entitled to reconstruction assistance when he continues, not even—we don't even know if he will fully implement the Kosovo settlement.

Mr. FALEOMAVAEGA. So it is basically the policy of the Administration, as long as Milosevic is in power, we cannot count on any assistance from our nation as far as any reconstruction of Belgrade in terms of the damage that we have done?

Mr. EIZENSTAT. As long as he maintains his current posture, and we will have to see over time how Serbia changes, but he is an indicted war criminal, and that has to be taken into account. He is heading that government. So it certainly would make it very difficult for us to provide assistance to that government. Now, in terms of basic human needs, that is something that we will have to look at over a longer term. But certainly, in terms of reconstruction, to someone who is an indicted war criminal, that would not be part of our policy.

Mr. FALEOMAVAEGA. You have basically discussed about the economic wonders in terms of our dealings with Western Europe, but where are we now with Eastern Europe, the 15 new Eastern European nations that have now become part of the free world? Are these struggling, or are we having a lot of help from the Western European nations?

Mr. MANZULLO.—[Presiding.] We are running pretty late, and I really would like to get the next panel up here, if you wouldn't mind.

Mr. FALEOMAVAEGA. Mr. Chairman, I have been here very patiently, and other Members have gone way beyond the five minutes.

Mr. MANZULLO. If you could answer the question.

Mr. EIZENSTAT. I will be glad to. First, Congressman, the European Union, between now and 2006, will be putting in the equivalent of about $80 billion to those countries. That will be, in 1999 dollars, equivalent to what the U.S. spent on the Marshall Plan. So there will be a massive effort by the European Union to bring these countries up in their economic development.

Second, almost all have strong, functioning, sustainable democracies which are tolerant. A number of the countries have settled their ethnic disputes, for example, the ethnic Hungarians. The attraction of European Union membership is an important magnet to encourage democracy, tolerance, and free markets.

In terms of their economy, while some are still struggling, like for example Bulgaria and Romania, many are doing quite well. Poland, for example, has done remarkably well when one considers how close it is to Russia, and the difficulties Russia has had economically. Through very good economic management, Poland has avoided the sort of Asian and Russian contagion problem, and countries like the Czech Republic and Hungary and Poland and many others are doing fairly well and have avoided problems, but they have a long way to go. They are still well below per capita in-

come levels of the 15 EU countries, and it will take many years and much effort for them to come up to those EU levels.

Mr. AARON. Let me make one point, too. It is important to recognize that our interests in that area are fundamentally strategic and political, because if you look at the economic picture what our trade relationship, for example, to Eastern Europe is in Russia and all of the former Soviet Union, if you put it all together, is not as big as our trading relationship to the five countries of Central America, countries that for the most part we neglect in a lot of our policy considerations. So from an economic standpoint we have to realize that as important as these countries may be to us politically and strategically, we have to focus sometimes on our own backyard.

Mr. EIZENSTAT. Although Ambassador Aaron is right, the EU is naturally going to be the biggest trading partner, it is important to realize that we are the largest investment partner in terms of the amount of investment. We tend, in Poland and many of the countries in central Europe, to be larger than any other single European country in terms of actual investment.

Mr. FALEOMAVAEGA. Thank you, gentlemen.

Mr. MANZULLO. I don't have any questions. Congressman Faleomavaega, if you had a burning question, I would be glad to yield.

Mr. FALEOMAVAEGA. I do have one burning question, Mr. Chairman.

Mr. MANZULLO. Please go ahead.

Mr. FALEOMAVAEGA. I am sorry. Thank you, Mr. Chairman.

Gentlemen, we have come to the point now in looking at what we have done in our efforts, and clearly this ethnic cleansing, the atrocities committed by the Milosevic regime, I call it atrocities because these are not acts of war. They are murders and rapes, abuses, tortures. We know this because of the tremendous conscience that European nations have gotten to bear after the Nazi regime advanced by Hitler and the Arianism and all of that sort and coming out about ethnic cleansing, and my question about it—2 million people were murdered in Cambodia by Pol Pot, they have got their problems in Rwanda and in Africa.

My only question is that because NATO has been the basis of stabilization in Europe, do you, gentlemen, see also the need that we should create NATOs in Asia, in Africa, in the Western Hemisphere? Because the United Nations is totally unable to perform the mission that NATO is currently having to do in Yugoslavia.

Mr. EIZENSTAT. I think it is important that the countries of some of these regions, like the African countries in the OAU, develop the operational capacity to stop slaughters which have occurred as in Burundi and Rwanda. We can't make the perfect enemy the good and suggest that because we have been able to be successful in Kosovo that somehow we are to blame for not stopping similar atrocities in Cambodia or in Africa. It is important for those countries to organize themselves as the European countries and the U.S. have done in NATO, to take action on their own, and if that had been done and if there had been more affirmative action that could help.

Now, there have been efforts, for example, Nigeria is playing a very constructive role in terms of its efforts for peacekeeping

through Ecolas process in Western Africa. Those kinds of processes are very important and can play a very important role. The U.N. does have a role to play, and I think that it is important that it be a more efficient and effective role to intervene earlier when these kinds of mass slaughters have occurred. We have had too much of that in the 20th century, and I hope that we have learned the lessons as we enter into a new millennium that we need more effective mechanisms to intervene earlier to prevent this kind of slaughter wherever it occurs.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. Thank you, gentlemen.

Mr. BURR. Mr. Chairman, would the Chairman be willing to yield for one or two questions, since we will be leaving for a series of votes?

Mr. MANZULLO. Let me give this direction. As soon as you are done with that we have to vote. I would like to recess for about 20 minutes and instruct the staff to set up the tables so as soon as we get back we can start in again.

Mr. EIZENSTAT. Mr. Chairman, may we be excused at that point?

Mr. MANZULLO. Absolutely. You are excused. Undersecretary Aaron, I think I missed you three times in my office, even once last week. This is the fifth time I have stood you up, but I agree with you in principle on 99.9 percent of everything. So forgive me.

Mr. Burr, you have a question? Was that the second bell or first bell?

Mr. BURR. That was the first bell of a series of two votes so we may be longer than 20 minutes.

Mr. MANZULLO. You can go to the second bell, and then I will hammer you down.

Mr. BURR. Let me ask you, Secretary Eizenstat, what is the likelihood, short term, that the agriculture subsidy policies in the EU will change? First part of the question. Second part is, as they look at the addition of new countries, Czech Republic, others, who have a significant need in their own agricultural population, what is going to be the pressure there to extend subsidies upon their entry?

Mr. EIZENSTAT. I would say, frankly, in terms of short-term change, they had their chance a couple of months ago when the German presidency tried their best to push through some real reductions in subsidies. They failed. So I would think, frankly, in the short term their chances are nil. However, I think in the medium term, over the next 3 to 5 years, they are much better for the following reasons, one of which you have clearly alluded to, but I would like to mention both.

The first is on enlargement. It is not economically sustainable for the EU to bring in Poland, for example, which is a huge agricultural country, almost a third of the people are employed on the farm in Poland and some of the other countries of Central Europe. Under the current structure of subsidies, it would so bust the budget and their own budget caps that they put in just a couple of months ago that there is simply no way to do it without in a marked way revising their common agricultural policy. They simply can't afford the enlargement.

So they will have a collision between incorporating these countries in say 2002, 2003, or 2004 and a budget that simply won't be able to sustain it.

Second, I do believe that the WTO talks, which will commence in Seattle, give us the vehicle, the external vehicle, for the EU to make the changes they have to make internally to accommodate the enlargement. Just as happened in the Uruguay round, although they were insufficient, we cut export subsidies by about 20 percent. There were some more modest changes in internal subsidies. I believe that the WTO talks will lead to further reductions in subsidies, and this indeed is one of our very, very top priorities as we go into the WTO ministerial.

So I hope the combination of the WTO talks and the pressures of enlargement will begin to reduce substantially and radically what I think are very trade distorting, very expensive subsidies.

Mr. BURR. I thank you and yield back.

Mr. MANZULLO. We want to thank Undersecretary Eizenstat and Undersecretary Aaron for coming to the meeting today. We will get together some time in the future on it, and this Committee will be recessed for about 25 minutes.

[Recess.]

Mr. MANZULLO. We are going to reconvene the second panel. Mr. Berry, since you are the first one here, you will have the opportunity to be the first one to speak. Bill Berry is the President of the European-American Business Council located here in Washington, where he has led the Council in a variety of positions concerning international trade, investment and finance issues. Before joining the Council in 1992, he led several national and State organizations involved in international trade.

Bob Robeson is Vice President of Civil Aviation of the Aerospace Industries Association of America. It is the trade association representing leading U.S. manufacturers of aerospace equipment. Prior to joining the AIA in 1998, he held a number of positions in government, including Senior Economist for European Community Affairs in the Department of Commerce.

Steve Weber is current President of the Maryland Farm Bureau, and a graduate of the University of Baltimore with a Bachelor of Science degree in Business Management. He has served as President to the Maryland Roadside Market Association and sat on the Baltimore County Development Commission.

Mr. MANZULLO. Mr. Berry, you are first up.

What I would like to do is try to limit the testimony of each of the witnesses to 5 minutes. If you want to read, that is fine. I prefer that you paraphrase as long as your presentation is something with which you feel comfortable. Please.

STATEMENT OF WILLARD BERRY, PRESIDENT, EUROPEAN-AMERICAN BUSINESS COUNCIL

Mr. BERRY. Thank you, Mr. Chairman. I will try to summarize my comments. I appreciate the opportunity to testify, and the fact that these hearings have been organized. The council which I represent is a Transatlantic organization of companies which works with officials on both sides of the Atlantic to secure a more open trade and investment climate. Everyone knows about the remark-

able aspects of the EU–U.S. trade and investment relationship, so I won't go into them.

But any relationship of this size will always have its share of disputes, and the relationship between the United States and Europe is no exception. Although we cannot head off all trade disputes, we can address some of the systemic issues that continually cause problems. Many of the trade problems between the U.S. and the EU have been intractable because they involve issues unrelated to business and the two sides have policy priorities which are different.

Where disputes are caused by different views of, say, food safety, or for that matter on protection of the environment or aid to developing countries, it is often difficult to find an economic solution. The classic confrontational approach of trade negotiators and the threat of trade sanctions are often not the best way to handle such problems. Instead, the U.S. and EU should continue to improve their dialogue on divisive issues in hopes of finding common ground.

With regard to food safety, both industry and governments need to redouble their efforts to educate consumers. It is incumbent on European governments to fix their regulatory processes to ensure consumer protection and restore confidence in the system at the same time. If the U.S. and EU governments truly want to serve the economic interests of their constituents, they will focus on advancing the Transatlantic Economic Partnership and the Transatlantic Business Dialogue and supporting multilateral trade liberalization under the WTO.

We are very encouraged by the development of an early warning system to deal with these disputes. We congratulate the leadership of this Committee in organizing the Transatlantic Legislators Dialogue. We support early warning. Unfortunately, our experience is that most of the most difficult problems we face on the agenda are really not new.

Mr. BERRY. With regard to beef hormones, this is an issue which raises many systemic problems which have been plaguing the relationship. Despite losing a WTO case, and an appeal, the EU has refused to lift the ban. By ordering yet another risk assessment the EU has tried to find some basis for the ban despite overwhelming scientific evidence showing that U.S. beef products are safe. This approach not only perpetuates this dispute but also adds to the consumer confidence problem in Europe by suggesting there is a substantial health risk where none exists. A more constructive approach is needed.

Our recommendations on biotechnology follow previous witnesses. It is a big problem. We do feel that there is need for timely, predictable and science-based regulatory processes, and in this area we think the recommendations of the Transatlantic Business dialogue should be followed.

With regard to bananas, the EU must make meaningful changes to its banana regime to conform to WTO rules. The privacy area is one which is, although there are still some problems there, we think the dialogue has been very constructive, and we look for some solution which Secretary Aaron said would take place in the fall.

The Transatlantic Economic Partnership I mentioned is very important, and we think it should be given the highest priority, although it has been slow of late.

In sanctions, we think this is an example where dialogue and how leaders facing an extraordinarily difficult issue have really managed to postpone a crisis. We think the 1998 agreement on expropriated property and secondary boycotts has defused much of the Transatlantic controversy. We would like to see some changes in the Helms-Burton law. We support the Lugar-Crane bill, and we also think the Congress should oppose efforts by State and local governments to enact sanctions measures and maintain their own role in the conduct of foreign policy.

Finally, I would like to say that a very high item on the agenda is the WTO negotiations. We think this is important for our companies. It is important for the relationship, and I think it is important for maintaining a competitive position in a globalizing economy.

Thank you very much.

Mr. MANZULLO. Thank you, Mr. Berry.

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

Mr. MANZULLO. Mr. Robeson.

Mr. ROBESON. Thank you, Mr. Chairman. Before giving you my remarks, I would just like to mention that our President, John Douglas, is in Paris and has been having meetings on the subject of hushkits, which is the focus of my testimony, and as a result of those discussions there have been some minor changes to the testimony which I brought and gave to your staff. So that will be given to you, but no substantive conclusions are different from what is contained in the testimony.

Mr. MANZULLO. Any additional materials without objection will be made a part of our record.

STATEMENT OF MR. BOB ROBESON, VICE PRESIDENT OF CIVIL AVIATION, AEROSPACE INDUSTRIES ASSOCIATION

Mr. ROBESON. Thank you. I appreciate that.

Our fundamental problems with the EU non-addition rule really point to some bigger issues in terms of how rulemaking is conducted in the European Union. With respect to the non-addition rule, the first problem is that it is a design-related rule, which is to say it imposes design criteria rather than performance criteria, and that is quite different from the way we normally design and certificate airplanes. We certificate that the airplane can meet certain performance regulations, and, in fact, noise regulations are in place both in the United States and Europe which govern this, and we certify to those requirements, and they are based on testing which shows that the airplane meets those requirements. So our view is that the regulation has no scientific basis.

Unfortunately, whether by design or by mere happenstance, the rule has been constructed in such a way as to only affect U.S. producers of these products, as was pointed out in earlier testimony. One of our members estimates that the effect is in the neighborhood of $1 billion if the rule goes into effect in April of next year. There are other AIA companies and other producers in the States who are not members of AIA whose products will also be affected,

and that means that the absolute number probably kicks up well above that, to say nothing of what this rule does to the residual value of aircraft currently operating in the United States, but which could not find a market either in Europe or to countries on the littoral that would be flying into Europe if they are re-engined or reconfigured to meet stage three requirements.

So we find that the regulation, as it was drafted, has a discriminatory effect upon U.S. producers as well as operators. But more fundamentally than that, what the rule really means to us is it calls into question the way in which these kinds of regulations are agreed in internal fora, and that is really the most important point of this testimony. The hushkits are legal under ICAO requirements ascurrently constructed. We are looking at products which may have a production life of something like 20 years and a follow-on life in operation of something like another 30 or 40 years per airplane. So it is conceivable, like a DC–9 designed and produced in the 1960's is still operating today 30 years later.

If you arbitrarily change these requirements unilaterally to carve out a third of the world market it throws all of our calculations in terms of investment into a cocked hat. So it is very important to keep this in ICAO where there is an international consensus and we don't have a Balkanization, it seems an apt term these days, a Balkanization of environmental requirements as they apply to the vehicle. It is not only noise that is at issue. ICAO is also responsible for setting requirements governing aircraft emissions, and it is very important that the EU does not set a precedent which will take us away from ICAO as the venue for setting those consensus standards.

So we have asked that the Administration do two things. One, pull the EU back into ICAO to address the issue of aircraft noise and see whether we can come up with a new standard, a so-called stage four standard.

The second thing is we have written to the U.S. Trade Representative, Ambassador Barshefsky, asking that they self-initiate an investigation to determine whether or not the hush kit rule is consistent with EU obligations under the relevant international agreements. The Air Transport Association has made a similar request. The General Aviation Manufacturers Association is also preparing an identical request, and we would urge the Congress to support us in their conversations with the Administration to open such an investigation.

Mr. MANZULLO. Thank you.

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

Mr. MANZULLO. Mr. Weber.

STATEMENT OF STEPHEN WEBER, PRESIDENT, MARYLAND FARM BUREAU, AMERICAN FARM BUREAU FEDERATION

Mr. WEBER. Good afternoon, Mr. Chairman and Members of the Committee.

Mr. MANZULLO. Could you put the microphone directly in front of you.

Mr. WEBER. Good afternoon, Mr. Chairman, Members of the Committee. I am Stephen Weber, President of the Maryland Farm

Bureau, and a third generation food and vegetable grower from Baltimore County. The American Farm Bureau represents more than 4.8 million member families that produce every type of farm commodity grown in America.

The European Union is the second largest market for U.S. agricultural exports, comprising 16 percent of U.S. agricultural export trade. However, EU trade policies and agriculture support programs inhibit U.S. export growth and potential to this region. The resignation of the European Commission and the uncertainty that lingers as most of the commissioners serve in caretaker roles until their replacements are named late this summer casts serious doubt on resolution of several outstanding agricultural trade problems in our bilateral trading relationship. Increased diplomatic efforts by U.S. officials and Congress must be undertaken to ensure that EC officials do not use disarray in their political system to delay progress on important agricultural trade issues.

There are a number of significant trade problems in the U.S.–EU agricultural trading relationship which I will touch on briefly. As you know, the United States and European Union have been enrolled in a lengthy dispute regarding the European Union's compliance with the WTO ruling on bananas and beef. Even though retaliation is now in effect on bananas, the EU officials continue to put forth reform options that are not consistent with WTO trade rules. The United States should adopt a carousel approach for retaliation on bananas wherein the list of targeted EU products is rotated periodically to ensure that specific concessions are suspended for all member countries.

Regarding the beef case, it is critically important that the Administration adhere to the timeline to retaliate against EU imports for noncompliance of the WTO ruling on beef. According to that timeline, the Administration has committed to suspension of concessions no later than mid-July, following a ruling by the arbitral panel on damages. As with the banana case, the United States should adopt a carousel retaliation approach with beef. Specifically, the carousel list should target the largest EU member states as first up for retaliation in this exercise.

The Administration and Congress should also be mindful that the EU is likely to alter its already heavy subsidization of agricultural products to mitigate the effects of prohibitive duties to be levied on their agricultural imports in the United States. If this occurs, the prohibitive duty should be adjusted to eliminate the offsetting increase in subsidy levels by the EU.

One of the most contentious trade irritants in the U.S.–EU trading relationship is the EC approval process for genetically modified organisms. Significant delays and a lack of transparency in the EC regulatory approval process for GMOs had a substantial impact on U.S. export of soybeans and corn to the EU.

The EU's regulatory process for GMOs is a nontariff trade barrier that disregards scientific findings regarding the safety of bioengineered products. Moreover, EC regulations concerning labelling of GMO products do not provide meaningful information to consumers who lack empirical and scientific basis for labelling and lack procedures to ensure enforcement on a nondiscriminatory basis.

U.S. negotiators should place the issue of biotechnology high on the agenda of emerging issues to be addressed in the upcoming negotiations on agriculture in the WTO.

EU import trade policies and agricultural support programs have significantly impacted the ability of U.S. agricultural producers to export to the EU. Further reform of the EU's agricultural support policies, aggressive enforcement of EU implementation of WTO rulings, and international obligations of market access for bioengineered items are areas that should be addressed in order to foster growth in U.S. agricultural exports to the EU.

Thank you for this opportunity to testify on behalf of U.S. agriculture.

Mr. MANZULLO. Thank you very much.

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

Mr. MANZULLO. Our next witness, Dr. Paula Stern, is President of the Stern Group, an economic analysis and trade advisory firm in Washington, formerly a chairwoman of the U.S. Trade Commission, International Trade Commission. She advises businesses on trade issues. It is a pleasure to have you here this afternoon, Dr. Stern.

Dr. STERN. Thank you very much. It is a privilege to be here. I am mindful of the time and wish to request that my full statement be entered in the record.

Mr. MANZULLO. All statements will be entered into the record.

Dr. STERN. Also to request while you are being so affirmative that the statement that I prepared on the Transatlantic Business dialogue, which staff of your Committee noted had not been made part of any congressional record, be included as well.

Mr. MANZULLO. We shall do that.

[The information referred to appears in the appendix.]

STATEMENT OF Dr. PAULA STERN, PRESIDENT, THE STERN GROUP

Dr. STERN. Thank you very much. My task today, I believe, is to stand at 20,000 feet and look down on the U.S.–European partnership. I guess that is appropriate since that is how we won the war in Kosovo. In the post-Kosovo conflagration, my view is that debalkanizing the Balkans will be the most prominent project in U.S. economic partnership with Europe.

There are, of course, important points that are being made by my fellow panelists that deal with issues that have preoccupied our negotiators and our leaders in both Europe and the United States, and I do not want to suggest that talking about the future in Southeastern Europe minimizes the importance of some of the ongoing issues. However, I do believe that at the end of this war it is an opportunity for us to crystallize our thinking, see where we have been in the last 50 years.

After all, we have just had the NATO 50th anniversary here, and really, I think that the last 80 days in Southeastern Europe have given us an opportunity now to stand back and say, well, "where are we going to go for the next 50 years and what is the nature of the U.S.–EU partnership going forward? How do we expand and extend some of the lessons that we have learned from the Marshall

Plan, for example, to apply them going forward to those countries that had been behind the Iron Curtain for the last 50 years?"

Today most people believe that the world is globalizing, not balkanizing, but in fact, our world is not as globalized as it had been in the 19th century when trade flowed freely. Deterioration in the Balkans, which ushered in the First World War, in effect balkanized the rest of Europe, and the wounds never healed. The Iron Curtain added an ideological divide between the capitalist and Communist world. The Curtain has gone now, but many of the divisions remain as the legacy of the 20th century balkanization.

Today our job is to break down those barriers to ethnic, national, and regional cooperation to, in effect, debalkanize the world, including the Balkans itself.

Security partnerships, such as NATO; economic and political developments, such as the Stability Pact which was mentioned here today, which is being planned for the region of Southeastern Europe; as well as cooperation in trade through the WTO, through bilateral negotiations, are all means to this end: to, in effect, debalkanize. Guided by the wisdom of history, we can achieve these needs by negotiating correctly, administering skillfully, and understanding some fundamental political truths.

The EU, as we had heard from Ambassadors Eizenstat and Aaron today, are taking the lead now in establishing a Stability Pact for the Balkans. The United States seems to be willing, at this point, to see the EU take the lead, mindful of the fact that the U.S. was responsible for the lion's share of the military sorties and for humanitarian aid up until now.

But certainly, the EU and the World Bank and others who are going to be helping have their work cut out for them. What we have learned from the Marshall Plan, I think, is really the most important thing that I would like to bring to this Committee's attention. I have developed at some length, points that I think are worthy of further time and discussion. I am mindful that the clock has already indicated that we have a yellow light here, but let me just underline that the Marshall Plan was not about just giving money.

There was a key point to the Marshall Plan and that was that the recipients who received that money were required to cooperate amongst themselves, and that is a critical matter. It relates to the political processes which we will have to be pushing in these countries. Simply pushing money into these countries will not achieve the goals that we have. It is clear that Europe—Western Europe—at the end of World War II was in just as desperate straits, perhaps even more desperate straits, and experienced greater levels of destruction than Southeastern Europe has today. In three short years, the Marshall Plan played a major role in turning Western Europe around to what in effect was an economic miracle.

Also, political institutions in Western Europe at that time were not much better than they are in Southeastern Europe. The divisions between the countries were deep; Communist parties were strong. Governments in all the countries were weak, and many only stayed in power for a few months at a time. This economic and political recovery in World War II was not necessarily preordained. It took a lot of hard intellectual thinking in advance and a lot of

bargaining, and it took the participation of those countries and regions as well as the help from the U.S. coming from abroad.

The Marshall Plan is relevant today because it had this very key point, and mindful that Chairman Gilman has just come in, let me just underline that point, and that is that those who look at the Marshall Plan tend to overlook this point, and it is that there are important non-financial, self-help, multinational planning components which distinguish the Marshall Plan from other aid efforts overseas which came later. These non-financial elements need to be stressed because the Marshall Plan was not only or even principally a transfer of resources, it was a program which helped, indeed required Europe to mobilize its own resources.

Now, I would like to also just close and invite any questions, if there are, about my comments that are in this testimony, as well on the bilateral relationship between the U.S. and the EU, and particularly the nature of the transatlantic economic partnership which will be the subject of the EU-U.S. Summit that is coming up at the end of this month. There is one area in particular, competition policy or antitrust policy, which has generated I think more heat than light amongst our negotiators. As the Co-Chair of the Attorney General's International Competition Policy Advisory Committee that is making recommendations to the Administration at the end of this year regarding how to enhance collaboration and coordination of our anti-trust policies with that of the rest of the world, it has become very clear to me that the U.S. and the EU are in effect harmonizing and converging as we speak.

This is happening in the oversight of mergers area. It is happening in cooperation tackling hard-core cartels, and there are other areas where there is much bureaucratic cooperation, but there needs to be a complete review of how we will operate going forward into the next 50 years.

So the competition policy piece is an area I would like to alert you to because it has not been given a great deal of reveiw and needs to be looked at as the U.S. and the EU plan for going to the World Trade Organization talks in November.

I would also like to point out that there is a discussion in my written testimony on Europe's macroeconomic underachievement, the fact that it has not been growing. In fact, this a flip side to the question that the Chairman asked earlier today about the European-U.S. trade imbalance. That, too, is discussed in there. Finally, I would like to underline the importance in all of this of the Transatlantic Business Dialogue, which has been a force over the last 4 or 5 years for making sure that pragmatic, business-like thinking is helping to shape the thinking of our government negotiators as they talk on all of these topics.

Mr. MANZULLO. Thank you, Dr. Stern. I look forward to reading the totality of your testimony.

[The prepared statement of Dr. Stern appears in the appendix.]

Mr. MANZULLO. You said there are documents in addition to what we have? There is something revised?

Dr. STERN. It is a manuscript written in November 1998 which I know your staff has, and I will certainly make sure that the other authorities have it.

Mr. MANZULLO. What is that entitled?

Dr. STERN. It is called, the Transatlantic Business Dialogue, A Paradigm That Delivers.

Mr. MANZULLO. Appreciate that very much. Look forward to reading that.

Dr. STERN. Thank you.

Mr. MANZULLO. Our next guest is J. Michael Farren, who is Vice President of External Affairs for Xerox Corporation. Mr. Farren, you are probably wondering why you are testifying last, and I had people testify in the order that they came from the break. Otherwise, you would have been second.

STATEMENT OF MICHAEL FARREN, CORPORATE VICE PRESIDENT FOR EXTERNAL AFFAIRS, XEROX CORPORATION

Mr. FARREN. All the better being last. Thank you, Mr. Chairman. I have a statement which I will submit and try to summarize it in my verbal comments. I am here, of course, in my capacity as the U.S. Working Chair of the Transatlantic Business Dialogue, something that Paula Stern just referenced and has been involved in as well for a number of years.

In that context, I would particularly like to note Chairman Gilman's reference to the Transatlantic Legislative Dialogue. It is something that the Business Dialogue hopes to be able to develop a close working relationship with, and we think a great deal can be accomplished on both sides of the Atlantic by using both as tools to strengthen the relationship.

The Transatlantic Business Dialogue was established in 1995. Its goal is to increase Transatlantic trade and investment and essentially to make sure that the governments don't get in the way of that sound investment. This year the TABD is chaired by Richard Thoman, who is President, and Chief Executive Officer of Xerox Corporation, and Jerome Monod, the Chairman of the supervisory board of Suez Lyonnaise des Eaux.

We think 1999 is going to be a unique year for the TABD. It has done a great deal of work over the last 4 years. We think some of that can be particularly fruitful, given the fact that the World Trade Organization has its ministerial coming up in Seattle in November. The Transatlantic Economic Partnership negotiations continue to move ahead, and frankly, the fact that there is a new European Parliament and new Commission coming in also makes it timely to push some of these issues.

The Transatlantic trade relationship, as Chairman Gilman noted in his opening statement, is the world's largest economic partnership, and it is important to note from the point of view of the business community we see that partnership as strengthening. Certainly the high profile disputes such as bananas, beef, genetically modified foods, which were discussed extensively during the course of this morning's hearing draws a lot of possibilities, but in trade terms that really amounts to less than half a percent of the total trade. So the vast majority of trade is, in fact, proceeding without dispute and continuing to grow.

The TABD, we think in the last 4 years, has played a strong role in that. We have played a role as an early warning system on disputes, and we think that we have made a real contribution on some of the issues, in fact, that were discussed extensively this morning,

such as third generation wireless, the airplane hushkits, personal data protection on electronic commerce.

On May 10, the TABD had its mid-year meeting. Over 200 industry and government participants came to Washington to really assess our priorities coming out of the Charlotte conference and also look ahead to the Berlin conference this coming fall on what the CEOs ought to be focusing on.

I would like to go through the five working groups and some of the key issues that are being addressed. Regulatory and standards is working group one. Specifically, the TABD has pressed both governments to implement a pilot project on the approval process for biotechnology products, again to increase transparency, one of the issues that was referenced by both Undersecretary Aaron and Undersecretary Eizenstat.

The issue of third generation wireless standards, again, it was the TABD that served as the forum for the private sector agreement that led to what we think will be a long-term solution for that. Aircraft hushkits: The TABD was one of the first forums where that issue was raised.

Metric labelling: The TABD worked very closely with the European Commission to delay that directive for 10 years, and also, the reforms of the 1990 Fastener Quality Act which was just passed by Congress and signed by the President, I think as recently as last week, which we think will resolve some of the Transatlantic issues on fasteners.

Working group two is business facilitation. This year we are focusing on an international standard for accountancy procedures and also customs coordination. We think standards for international accountancy is a critical issue that will have broad implications globally.

Working group three focuses on the World Trade Organization and global issues. We are looking at the array of issues that will come up at the ministerial in establishing priorities for the two business communities that we hope will be pursued by the U.S. Government and the Commission. Those include issues related to services and intellectual property. We are also concerned with China's accession of the WTO, and have strongly endorsed that. We would also like to see the ministerial serve as a means of pushing ahead on the information technology agreement part two. We also see the ministerial as an opportunity to move ahead on something that Paula Stern referenced, which is examining international competition policy more broadly, and its implications for world trade.

I would also like to see the WTO and the U.S. and the EU look at dispute settlements, particularly and especially Undersecretary Aaron's reference to an early warning process.

Working group five is electronic commerce, and this is looking at the overall framework on how electronic commerce will change the nature of global markets and trade.

Finally, working group four is small- and medium-sized enterprises. Since 1995, we have tried very hard to make sure that small- and medium-sized enterprises had a real voice in the Business Dialogue and also had a higher profile in policymaking with both the U.S. Government and the Commission.

In conclusion, we think that the TABD has a unique role going out in the future as part of an early warning system. We also think that through the WTO ministerial and the TEP the business community can help set some of the priorities to deal with the critical issues before they become a matter of Transatlantic dispute.

Thank you very much.

Mr. MANZULLO. Thank you.

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

Mr. MANZULLO. Mr. Cooksey.

Mr. COOKSEY. Thank you, Mr. Chairman. I have five questions, and I will address the questions to each one of you.

Dr. Stern, my question to you is what specific steps can the U.S. and EU put in place to increase transparency in the regulatory process?

Mr. Farren, can early warning mechanisms be put in place to address emerging trade issues before they become full-blown crises?

Mr. Berry, how can Commission working groups and advisory committees be modified or changed to permit greater transparency?

Mr. Robeson, what role can and should the Congress and the European Parliament play through Transatlantic Legislators' Dialogue? You might contribute to that question, too, Mr. Weber.

So, Dr. Stern, what specific steps can the U.S. and the EU put in place to increase transparency in the regulatory process?

Dr. STERN. I can see from your questions to several of us that transparency is of concern to you. As you know from hearing the testimony earlier today, the question of transparency, particularly with regard to science-based or lack of science-based risk analyses has been the most troublesome source of many of our disputes in the last several years. You have heard that in the context of the hormone-treated beef, you have heard it in the context of the hushkits, and it is this question of how to measure risk with products and how to approve standards that will be acceptable.

We have to be mindful of the fact that Europe has a different regulatory process than does the United States. But there has been a lot of experience that the U.S. has had, particularly with regard to the FDA, which has given confidence to the American consumer. That same type of science-based approach and vetting that provides opportunity for all interested parties to be heard also is undertaken at the Department of Agriculture.

So I think that transparency is simply a means to enhance a political buy-in of the consuming public for any one product, agricultural or industrial. I don't pretend to be able to say what type of hearing process will make the most sense in the European context, simply because bureaucratically it is different from ours.

Mr. COOKSEY. Well, I agree with you about using scientific methods. I am a physician and was trained in the scientific method, and we have got groups in this country, trial lawyers for example, who throw scientific process or method to the wind, and we have certain regulatory agencies that do the same thing. It is a problem, and I agree, but that would certainly be a step, if we get the Europeans to do it and got everyone in this country to do it we would be better off. So maybe that is part of the solution.

Mr. Farren, can early warning mechanisms be put in place to address emerging trade issues before they become full-blown crises? This is the Doppler system we referred to in the early testimony.

Mr. FARREN. I think it is definitely well worth the effort to have, on both sides of the Atlantic, government officials trying to get actively engaged in issues before they become a matter of controversy. I think, to a degree, the Business Dialogue already provides a private sector analog to which can—what can be done which is regular meetings, full engagement of the stake holders, and public policy issues and the ability to raise them to the highest levels at an earlier stage than they would normally bubble up, relying on the traditional process in place.

I think there are a couple of problems that were referenced this morning. One is that individual DGs within the European Commission do tend to act independently, have their own individual constituencies, their own regulatory authority, and they don't necessarily come together with a broader, more holistic view of what impacts they will be having transatlantically.

The Parliament also has procedures that tend to push things out without adequate hearings. I think the change in the Parliament, the change in the Commission may make things happen in Europe a little bit differently.

I think generally there is inadequate consultation on many of the public policy initiatives to the extent that the private sector can get engaged in that, and there is more Transatlantic discussion that will be helpful. I think another problem which is one of the reasons why the European Commission was so interested in developing the Business Dialogue, constituencies within Europe and European constituencies are really inadequately developed. They still tend to take a nationalistic approach.

Mr. COOKSEY. By constituencies you mean, for example, manufacturers across the EU or farmers across the EU or——

Mr. FARREN. I think farmers, the CAP may have brought them together more effectively. I will let me colleagues speak to that, but certainly the business constituencies. I was Undersecretary for Trade during the Bush Administration and it was very difficult, and I knew from my colleagues on the European side, it was very difficult for them to come up with a non-nationalistic approach to particular issues because they tended to hear from business—from the perspective of German business, French business, UK business, not European business-at-large, and I think that was one of their motivations in looking favorably on the Transatlantic Business Dialogue. It helped get their own side of the issue organized.

Mr. COOKSEY. Do you feel that business-to-business, EU businesses as to American businesses, could move through this process more expeditiously, for example, than politicians?

Mr. FARREN. Depending on what your definition of politicians is. As policymakers, I think the business community can be very effective at raising concerns with particular issues to a higher level than they would normally get. Many of the issues we have talked about over the course of this hearing were known at lower levels, and in a Commerce Department parlance an office manager undoubtedly would have been very involved in some of these issues, perhaps months or years ago.

It takes an awful long time for it to get to the undersecretary or minister level, and I think the business community, through the Business Dialogue, has helped do that because we have minister-level participation, and they hear about issues much more directly from constituencies that have a vital interest in seeing them corrected before they become a matter of dispute.

Mr. COOKSEY. Thank you. Mr. Berry.

Mr. BERRY. Thank you. Mike touched a little bit on this, but you know, there are some dramatic changes going on in Europe, and I think we can expect some improvements in transparency as a result. If you followed what Mr. Proti is doing in terms of selecting and organizing a new Commission, he has authority to do this which is new under the Treaty of Amsterdam, which became effective the first of May. He is not only making sure that he organizes this group as a team, he will have someone within his office who will basically coordinate activities among the members of the Commission which will be a new thing and which I think will work or mitigate against the kind of secrecy and competition which characterized some of the activities within the Commission before.

The other thing that is significant is under the Treaty of Amsterdam the Parliament is given new powers, so they are not a rubber stamp exclusively, they cannot initiate legislation but they can amend legislation. They can veto legislation. So you can imagine that there will be a lot more give and take and a lot more discussion about policies as they advance.

Not just that, but something that Mike was saying which is not as strictly institutional is that in the business arena you have seen movements. The way business groups were organized is they were organizations of organizations, so frequently you did not have direct input from specific companies. It was filtered through national organizations, and if you look at something like the electronic commerce area or the third generation wireless, is that these organizations are transforming so you don't just have delegates from organizations within the member states but you now have direct participation, and I think that is going to affect the transparency a lot and put issues on the table in a way that they directly represent interests and the specific things that are involved in a decision.

Mr. COOKSEY. Quite frankly, I feel that as we move into this—and we are there—but as we move very rapidly into this era of globalization and information technology, the countries and the companies that fail to make those moves in an expeditious manner are going to cease to be players, much less stakeholders, and so if they're not dragged into the 21st century, they will cease to be factors in this.

Mr. BERRY. This process has been underway for some time. One of the first major things that happened in the Transatlantic Business Dialogue was the information technology agreement which was strongly supported by businesses in Europe and in the U.S., and after this happened, the European Commission said, well, oh no, oh, there are lots of businesses that object to it, and in fact, there weren't, so we had to tell the Commissioner, one of the people who was involved in this, that essentially this was not a business issue.

It was a revenue issue. They didn't want to change these tariffs because of the revenue they would lose, and that is really what it was, and that is how the business community regarded it. So these things change just because of more communication and more direct participation.

Mr. COOKSEY. It is really the politicians that were lagging, it sounds like.

Mr. Robeson, Mr. Weber, my question, what role can and should Congress and the European Parliament play through the Transatlantic Legislators' Dialogue?

Mr. ROBESON. That is a pretty good question. I just came back from a week in Rome meeting with European and U.S. aviation regulators, and I came to the conclusion that travel is what we do when we go abroad in order to gain a deeper misunderstanding of someone's culture.

What brings that to mind is a discussion in the hush kit context after the Congress got a little excited and drafted and passed a proposal to ban the Concorde with over 400 votes in the House. One of our European interlocutors from one of the EU member countries called AIA's president John Douglass up and said how in the world—what are you thinking of to get that kind of response pulled up. Mr. Douglass said that if you think that I have the power to get 400 people on the Hill to vote one way, then I need to have my salary doubled and my staff expanded.

So the point is that anything that you and the EU Parliament can do to get together to improve the understanding of the legislative cultures would be a tremendous help. The Europeans on their part are irritated at us with the Fastener Quality Act. It was very important to get those changes made. There is a kind of two-way street here of what is affecting people, so that is important.

But the key, the real key, is also the transparency. It is critical. You know, one of the problems with the early warning system is this, when I see something that has hushkits emblazoned on it, I know right away that it affects my constituents. When I see something that says metric labelling or I see something that says electromagnetic compatibility or disposal of electronic waste, you know, the people I am relying on to tell me that is out there and could affect my constituents, they don't see airplane stamped on it. They see, you know, radios, and so there has to be some way to identify all of these issues just as the fasteners affected the aerospace industry, and frankly when it was first passed, shame on us because we didn't pay enough attention ourselves.

So a key element in assisting you will be for us to work together also with our legislators, to let you know what we are finding out so that you can put that in your database and get calibrated a little bit when you talk to the Europeans.

Mr. COOKSEY. I am leaving in two weeks to participate in one of these dialogues. I agree with you, and I think it needs to be done.

Mr. Weber, did you want to add to that?

Mr. WEBER. Of course, we support efforts——

Mr. MANZULLO. Mr. Weber, if you could put the microphone closer to you.

Mr. WEBER. Certainly. We support efforts to increase communication on bilateral trade issues. The culture thing that was men-

tioned this morning, we have a culture here in this country, too, with our farmers. I guess I am reminded of a visit I had last year from a Swiss medical student. He was interning at Johns Hopkins. He came into our—we are Weber's Farm and he was there at Weber and he wanted to take—we have little Weber's Farm shirts, and he wanted to send home a shirt to his dad who operated a 14 acre, 7 cow dairy farm in the Swiss Alps, totally subsidized, of course, and there is this huge cultural difference here.

We have a culture here, too, and, of course, ours is to move to free markets, a market-oriented economy. It has been very, very painful, American agriculture, as you know. So there is this tremendous culture gap between what we are trying to do and what they are trying to do.

I would note that on the Transatlantic Economic Partnership, agriculture was really not involved in any meaningful way. There was no dialogue established on agricultural trade issues. The TEP attempts to address agricultural problems, seting up minimal provisions to look at food safety and biotech issues. Neither are expected to resolve our complex problems. In fact, the biotech project for approvals has not been implemented, and the EU has stopped biotech approvals all together.

We would hope that Congress and the Administration would review the TEP with a view to establishing an agricultural dialogue or placing agricultural reps on existing dialogues and pressuring the EU to implement the biotech approval pilot project.

Thank you.

Mr. COOKSEY. Thank you. Your testimony is quite good, and Dr. Stern, I am looking forward to reading your document. Are you a professor or former professor?

Mr. MANZULLO. A former trial lawyer.

Dr. STERN. No, I am not a lawyer. I have a Ph.D. in international relations, and I do occupy a university chair in international business. So I like to combine business issues with public policy. Perhaps my comments also reflect a certain academic bent, too.

Mr. COOKSEY. I am still a clinical professor and enjoy the academic part of it, but this has been a great discussion. I have to run to another meeting.

Dr. STERN. Thank you.

Mr. MANZULLO. Thank you, Doctor. I have just an observation, and then a couple of questions. Let me make a statement that perhaps some of you may disagree with. One of you will agree wholeheartedly.

The group of electorate who is the most informed on international trade are farmers. I have a background in cattle myself, not a big operation, but I did that for years when I practiced trial law, Doctor, in northern Illinois. If you would just take a look at any of the weekly farm journals that come out, half of it, if not more, deals with international trade. It is written in such a fashion with charts and colors, lots of white space, so that many farmers who did not have the opportunity to earn a college degree, as you did Mr. Weber, can read this to understand fully the intricacies of international trade. The Farm Bureau has done an exemplary job of educating its members.

I have never seen such a group of people who have a grasp of what is a very complicated issue. The reason the Farm Bureau has succeeded is the same reason that most corporations have failed miserably. Most corporations in this country, with a few exceptions, have not shown the link between job retention and international trade. Their goal is to come to Washington to hire lobbyists to influence Members of Congress about trade issues, and it is not working. It is going in the opposite direction.

My suggestion is to copy, for example, what some of the companies like J.I. Case and Caterpillar are doing. Case just put out a little tool kit with a video and charts to each of its employees showing the absolute necessity for Fast Track. If we are to get Fast Track through, if we are to get China's accession to the WTO, it has got to come from the employees and not from the CEOs. It is an observation, but it is a valid one. I have every right to make that because I am a Member of Congress, and I am also one of the most ardent free traders. The business community has failed miserably. Now, how do you turn that around?

When I was first elected back in 1992 some sage said if you are in favor of NAFTA vote for it very quietly and say nothing. I became very upset with that because Members of Congress have an obligation to formulate public policy. We went back to the airport in Rockford, Illinois, which had just opened a huge hangar, and brought in about 25 companies which would benefit directly as a result of the North American Free Trade Agreement. It was headlines in the major newspaper, there were color pictures, and when people could actually see the products that they made were the beneficiaries of a decrease in tariffs they changed their mind about international trade.

To exacerbate the problem are some of the restrictions that are proposed in the Cox Report. Chris Cox is a dear friend of mine. But I had breakfast this morning with Anson Chan, who is the head of the civil service in Hong Kong, and she gave her version as to what would happen if Hong Kong were placed as a Tier III country along with mainland China, and the absolute total devastation that would have on the exports of our computers.

So I am not very optimistic with this Congress or any Congress in the future. We have had several situations where we have been involved in helping our companies achieve at least equal treatment overseas only to have the labor unions come out against us in order to beat us over the head. Over the past 6½ years, I am so totally frustrated.

A good example was a colleague of mine, and the CEO of a company came into his office to lobby for Fast Track. That company has over 20,000 employees who are constituents in this Member's district. The Member told the CEO that if you can't convince your own employees that their jobs depend upon enhanced international trade, then how can you convince me when you are not even my constituent?

So I just want to just throw that out because I know companies are doing all kinds of things, but I would just urge you to take the lead that the Farm Bureau has made on it. Illinois, 47 percent of our raw fibers and unprocessed grain are exported. This is immense. That is half of the farming economy. The congressional dis-

trict that I represent, which runs from the Mississippi River across the top of the State of Illinois, we have the No. 1 dairy county, the No. 1 cattle-producing county. We have a Hormel plant that ships two containers every other week of boned pork to Japan, a direct beneficiary of the General Agreement on Trades and Tariffs Agreement. What we try to do in our congressional district is to microeconomize everything.

I don't believe in macroeconomics. I just don't listen to people who believe in macroeconomics, because until it impacts me and the people I represent, I am not interested in it. Every other Member of Congress is the same. Until it impacts your industry, you are not interested in something.

So I didn't mean this to be any type of a lecture, but the frustration level is very intense. In fact, I am missing a meeting now on whipping Members as to where they stand on normal trade status with China. Be that as it may, I just want to let you know that there are resources available, and Dr. Stern, you probably know this better than anybody, through the Department of Commerce and the various international trade agencies where you can take a particular sector of the country and find out the extent of the exports to do a microanalysis.

In fact, I have urged Washington representatives so many times that I am blue in the face, if you want to convince Members of Congress as to the importance of these international agreements, simply do a microanalysis of each congressional district, and then you go back home and you talk to the people and you say, look, this is extremely important.

You had a comment on that, Dr. Stern?

Dr. STERN. Yes. My experience with just this last point is that during the Uruguay Round discussions or even prior when we were trying to see the final stages of the multilateral trade negotiations, I did an assignment where we gathered data which was not being gathered at the Department of Commerce, or anywhere in the Administration at that time on a state-by-state basis, of each state's leading exports. That was back in the late 1980's, but now that data is on tap at the Department of Commerce. It is extremely important. As you know, it was used in the NAFTA debate and was also generated in the debate on the final Uruguay Round legislation that launched the WTO.

I appreciate your frustrations. I completely agree with you that the agriculture sector has traditionally been in the lead pushing open markets overseas through multilateral trade negotiations. If you go back and look at the history going back to the Kennedy Round, no president has been given congressional authority to negotiate without the very firm leadership of agriculture. That has been a very key thing.

Labor had, in the past, also been a supporter of multilateral trade negotiations liberalization. That shifted and it consequently makes, I am sure, many of the bigger business CEO's who may come and visit you, still of their workers who benefit, as you said, either by producing goods exported overseas or just by being more efficient in producing in the U.S. by virtue of the fact that they are importing components which may be useful in enhancing their efficiency.

The question of how you convince the country that trade is good is, yes, tied to jobs, but I think overall, given the fact that we have become such a major exporter and importer in this country and that we need markets open at home, as well as overseas, to enhance world trade and enhance economic growth, that we have to make the *standard of living* argument.

We have to say, look, this is better for you both as a producer of goods, be they industrial or agricultural, but it makes it better for you as a consumer and for the livelihood of your family, that you do have this trade, that you do have these products, that it is keeping prices down, that we don't have inflation in this economy, and quite frankly, we couldn't be growing as fast as we are right now if we didn't have imports coming in. We would have an inflationary pressure.

I know you don't want to talk about macroeconomics as you said, but this is a macroeconomic phenomenon. To be able to grow at four percent and to be having unemployment rates as low as we are without pushing up against inflation, is because we have got imports coming in that are helping to keep prices down. That is a trade argument, but it is a macroeconomic argument, too.

Mr. MANZULLO. Did anyone else want to comment? Mr. Robeson?

Mr. ROBESON. Yes. It is a pretty interesting observation, and if you look at our industry you can see how complex it gets pretty quickly.

We in the civil side of our business, including space and whatnot, we rely on exports for about two-thirds of our sales. So we not only like access to foreign markets; without them, our overheads would be so high we couldn't survive. So when we are dealing with our unions, you know, they are in the Boeing plant and they see Malaysia or whomever they see on the tail of that airplane, you don't need a degree in rocket science to know where that bird is going, but the people who don't see it are the suppliers. The small- and medium-sized enterprises, all they know is they ship to Boeing and they don't know where that thing is going. It ultimately gets exported, but they don't see it. So one question is how you get down to all of these enormous supplier bases and explain to them the importance of open markets to their livelihood.

The other issue is dealing with the large unions. If you take a look at hushkits, for example, we have the IAM and the UAW on board with us because they understand how important it is to a number of their locals, and they are writing to the Administration with the same positions we have.

But a contrary phenomena is in the case of foreign repair stations where we are at polar opposites with the IAM on that issue. Now, we think that they are not only wrong as a matter of public policy, but they are also wrong in terms of what it will do to their constituents. So the question is why are they taking that position. Do they really believe substantively they are right, or is there a political agenda, or what is going on? So dealing with our employees from a company point of view is a very complicated issue, but you are right. That is where—you know, when you get a letter or correspondence from everybody at the plant up in East Hartford or something, Mr. Gejdenson will sit up and say, "whoa, this matters", and we as an industry are working that issue. We are identifying

where all the plants are of our membership. We are putting together a macro picture of that, which then goes right down to the microlevel, and we can go into an office of a Congressman and say there is the plant there, here is what the effect on jobs is going to be, and we can tell you why we are taking the positions we are taking on these kinds of issues.

Mr. MANZULLO. There are companies such as Caterpillar that identified their subcontractors. I know they have been working to identify the subs. A lot of their subcontractors have no idea where their products are going, absolutely no idea whatsoever. We try to stay in contact. We have about 300 exporters that we have identified in our congressional district out of about 1,600 manufacturing facilities of one size or the other, and it is a very long process. In fact, the little guys are the ones that think they are being hurt most by imports to this country when, in fact, they need to realize, through a process of education, that they are the beneficiaries.

Mr. Farren, did you have any comment to the statement that I had made?

Mr. FARREN. I think the problem goes beyond the willingness or capacity of business particularly big business to educate their work force. I think the point you just made on the subs is absolutely on target. There is also a reason why agriculture tends to have a greater sensitivity to exports, and that is because the U.S. Government for decades has done an awful lot to increase their awareness sensitivity, and, frankly, getting all range of farmers engaged in export, the U.S. has never had a similar program, particularly with small- and medium-sized firms. I mean, you can point to them, but their scale is just totally different.

When I was Undersecretary of Commerce, our commercial operation, for example in Tokyo,—and this was at the height of the U.S.-Japan trade issues and also back at the time when automotive, high tech was under enormous pressure, there was a push to export, we were pressing the Japanese to open up their markets—our entire export program in Japan was funded to the tune of $6 million. The agricultural program for export in Japan—this is a country that in large measure was closed to agricultural imports up until that period of time. The Agriculture Department spent $60 million. The assistance to processed food products exceeded the entire amount, and I am not talking about subsidies. I am just talking about putting on information, doing trade analysis, helping people come into a country and actually finding someone to deal with, just basically commercial activity.

The level of support to food processors was greater than all industrial products. So we are now reaping essentially what we have invested in for decades in the sense of heightening an awareness on trade within the industrial community, and I agree, it goes back to suppliers and employers. It also goes to business leaders to get out there and carry the message, but also to public policymakers.

This morning, in fact, I was at a meeting with Chairman Gilman where a group of high tech firms came in and briefed a small number of Congressman on the current status of the high-tech industry in the U.S. and how it has changed, and in fact, a report was just released.

We provided everyone with a copy. I will use the State of Illinois as an example. We are trying to get out the word, which is little known I think even within the business community, that, for example, the State of Illinois is the No. 3 State in terms of high-tech exports——

Mr. MANZULLO. Do you have extra report?

Mr. FARREN.—Of $16 million, and 50 percent of all the exports out of Illinois are high-tech products, but a total of $16 billion, with 207,000 people employed in Illinois.

Mr. FARREN. We absolutely have to get the message out. I think there is plenty of explanation to go around beyond the business community, to business, to Government, to how we have invested, how we have got accountants and lawyers. If you are a small business firm, just as an example, and you are trying to export to a foreign country, try to find a local lawyer in a small town who really has any sophistication or expertise, try to get a bank that can really help you do it.

We have never generated the infrastructure that other countries have. Germany, Austria, any number of European countries made enormous effort to get small- and medium-sized firms engaged, and that gave them an awareness of exports that the U.S. never developed, and we are now paying the consequences for it.

Mr. MANZULLO. I just introduced a bill that would reauthorize the ITA, TDA, and OPIC with an increase in the budget. I usually vote against anything that has an increase in it, but look at the fact that the French will spend six to seven times that amount. In fact, my Small Business Export Subcommittee held a hearing 4 weeks ago dealing with reauthorization of OPIC. A lady testified from outside of Madison, Wisconsin who is the CEO of a firm that makes little boats which have weed-eating machines on the end and they put them in the lagoons and lakes. They are extremely efficient because in many areas of the world the ecosystems are so fragile that you can't introduce any chemicals.

Well, a Canadian firm found out that she was in the process of trying to tie up some sales in Thailand, so the Government of Canada gave a weed-eating boat to the King of Thailand as a gift, just like that. They probably bought it from the company, just said here is a gift, see if you like it, we can give you a deal on as many more as you want. That really brings into stark reality the problems that we have with export promotion in this country.

Mr. Berry, do you have a comment? Then I had a question I wanted to ask all of you on what I had said. If not, I can move into the question.

Mr. BERRY. I agree with you on the fact that there is not enough understanding, and particularly about jobs. When I started this job, just on the bilateral relationship, there was no information whatsoever on Europe. So we have a book that we put out every year which shows how many jobs in each State are dependent either upon exports to Europe—and Europe is, in most States, the No. 1 or No. 2 export market—and then we show all of the categories, the sectors, or on the investment, direct investment from Europe. So it is enormously important, but it is something that people don't appreciate.

Mr. MANZULLO. I was over in Florence about 6 weeks ago with the Transatlantic Policy Network, TPN, and was talking to an MP from Germany about the beef hormone issue. He said, you know, as far as he was concerned it really didn't make that much difference, but the people in Europe are so dead set against U.S. beef that has the growth hormone plug. He said this issue is absolute total political fire.

I notice the vote in today's paper. The socialists lost control of the European Union to the Christian Democrats in very light turnout. The Christian Democrat Party, the EPP, emerged as the largest single group of representatives and said the heaviest Socialist losses were registered in the UK, where the ruling Labor Party lost half its 60 seats despite polls indicating that as many as 70 percent of British voters support the national administration led by Prime Minister Tony Blair.

Labor Minister Margaret Beck, who had appointed Blair to run the party's Euro-election campaign, blamed the low turnout on public perceptions that the EU is too remote from their everyday concerns and, quote, Europe must be reformed to make it more relevant to its people, end of quote, she declared. Sort of the thought that many Americans have to export and the small person manufacturing has to export.

I would like anybody who wants to give his or her opinion as to whether or not you think the change from the Socialist to the EPP in the European Parliament is going to have any significance.

Mr. BERRY. In terms of policy, I am not exactly sure what the significance is going to be. I know the EPP, I think has probably 2—about 240 seats. That is what I heard last night. The Socialists are down to about 180 from about 216. But within the Conservative or the Right group that now holds power there are a lot of divisions, and it isn't clear that there is any programmatic consensus among those people. So we will see where it has to go from, you know—I mean, what kinds of consensus they can develop on these policies.

Mr. MANZULLO. Dr. Stern, did you have a comment on that?

Dr. STERN. Only that the Parliament, of course, is increasing in influence, but their influence relative to the other government apparatus is not equivalent to that which Congress is equipped—equal check and balance—with the executive branch and the judiciary. Over there I think you still have a situation where the European Commission will be dominant and——

Mr. MANZULLO. Except now the European Parliament appoints the European Commission.

Dr. STERN. That has certainly proved to have been a very powerful affect. However, we still have the same Commission sitting there as we speak and it will probably be there until next fall at the earliest.

Mr. MANZULLO. We met with Proti.

Dr. STERN. Yes.

Mr. MANZULLO. Apparently he is a breath of fresh air to the entire process over there. Anybody else want to comment on that change in European Parliament?

Mr. BERRY. One other thing about the Parliament is that they didn't spend any money on the elections. So there wasn't—at least

in the UK—I mean, there wasn't very much resources really put in, and apparently the new way they had this list and that also——

Mr. MANZULLO. Proportional voting in England?

Mr. BERRY. Yes. That also tended to discourage turnout because people didn't have any particular candidate they could promote, they had to promote, and it was linked to a whole list.

Mr. MANZULLO. We want to thank you for coming this morning and making it all through the afternoon. If there are any additional comments that you want to make the record will remain open for a week, and again, thank you for coming here and sharing you thoughts and views with us.

This meeting is adjourned.

[Whereupon, at 1:50 p.m., the Committee was adjourned.]

A P P E N D I X

JUNE 15, 1999

Statement of Chairman Benjamin A. Gilman
"The Future of our Economic Partnership with Europe"
The House International Relations Committee
June 15, 1999

I take great pleasure in opening the first in a series of hearings that our Committee will hold over the next several months on the Transatlantic Relationship and its importance to United States economic, political and security interests.

With total trade and investment between our nation and the European Union now exceeding $1 trillion -- that's trillion with a capital T -- annually, the EU is already our largest trading and investment partner of the United States, and it is also the world's largest single market. And with the creation of the Euro, this market should keep on growing for many American firms.

Yet, at present, our deficit in goods and services with Europe is growing faster than with any other region of the world. Moreover, trade disputes between us are taking center stage at the World Trade Organization and, worse, often occupying too much time when the leaders of the two sides come together. Perhaps more important, and more corrosive in the long term, than the major disputes that are taken up formally are the systemic problems that American firms are having getting a fair shake from EU institutions on routine standard setting and regulatory matters.

On this side of the Atlantic, we'd like to ensure that the EU is able to do its fair share in reviving global trade in the face of the lingering effects of the Asian financial and economic crisis. And unless the EU is able to revive its economy, which is going to take major structural reforms, it will neither be able to do right by its own people nor play a fully responsible role in the world.

But in the past many of our policy makers have downplayed the importance of our trying to manage our political, our commercial and trade links with Europe through the EU. They've favored emphasizing our strong security relationship with Europe anchored in the North Atlantic Treaty Organization.

This Administration, through the New Transatlantic Agenda process, has worked hard to understand the importance of our relationship with the EU as an institution and in shaping our relationships with the Member States in significant part through the prism of their EU membership.

Today, as conflict in the Balkans seems to be coming to an end, and we hope it will be a peaceful end, and with the beginning of the peacekeeping phase of the Kosovo humanitarian crisis, we have seen tangible evidence of the continuing importance of NATO. Certainly the threats to our common interests

and values are no less compelling now than at the height of the Cold War. And the challenges of post war reconstruction throughout Southeast Europe will put additional strains on our complex relationship.

We're confident, however, that the Administration witnesses before us today are capable of defending our values - and our interests - with our European partners and with our competitors. Ours is truly the indispensable relationship with one quarter of our exports going to Europe and with those exports supporting some one and a half million U.S. jobs. Additional efforts are now needed to harmonize our approach to the upcoming WTO Ministerial Conference in Seattle and to promote new market-opening approaches to the increasing important trade in services across the Atlantic.

But there are great challenges as well as opportunities in this all-important relationship: it is being put to the test as never before with the EU's increasing willingness to use standards as market access barriers, or in a more benign view of their intentions, to permit standards to be used as barriers. It may well be, as is sometimes argued, that the standards are so constructed to meet local needs, for local reasons. But if they are in fact clearly intended to slam the door on our exports to Europe, then we must be prepared at some point to take effective retaliatory measures. But we need to make certain, first, that European policy-makers know that they are allowing the standards-setting bureaucrats to set up yet another trade dispute with the United States.

The U.S. Department of Commerce estimates that EU standards across a wide spectrum of agricultural and high tech products act directly as trade barriers on $20 to $40 billion in U.S. exports and could affect an additional $150 billion annually of our exports. There is increasing concern as well that EU legislation or regulations now being developed on key products could impede the entry of U.S. products into the EU.

The ongoing disputes over bananas, beef and genetically modified organisms have prompted the trade experts and the policy makers on both sides of the Atlantic to renew the calls for an improved "early warning system." Before the next agricultural or aircraft disputes threats to disrupt Transatlantic relationships, the Congress and the Administration need to work even more closely with the incoming members of the European Parliament and the European Commission to identify emerging trade and investment disputes before Brussels or Washington locks in a final position.

Toward this end, I am pleased to report that the first meeting of the Transatlantic Legislators' Dialogue earlier this month marked the first attempt to bring legislative and executive branch officials from our nation and the EU into the same room to define our common problems and to begin to find mutually acceptable solutions. I want to acknowledge the initiative that Secretary Eizenstat has taken to build "early warning" into the work of the Transatlantic process.

However, in our view, the key to effective "early warning" is sunlight. We simply have to allow the private sector businesses, the non-governmental organizations, and through the press, the public at large to know more about potential policy changes as they are being developed. Neither the American or European Administrations nor the legislative branches can analyze those potential policy changes as effectively as those directly affected by change. The private sector will then let the Administrations and legislators know what changes they need. And in all frankness, much more work is needed to promote openness in Brussels – in the Commission, the Council, and the European Parliament.

We are pleased to see with us this morning the Administration official who was most instrumental in bringing together the "Senior Level Group" with the "Transatlantic Legislators' Dialogue." Under-Secretary of State for Economic and Business Affairs - and Treasury Deputy Secretary-Designate - Stuart Eizenstat has done much to resolve ongoing trade disputes between our nation and the EU. As the former United States Representative to the European Union, while he is a leading voice for cooperation and dialogue with our European partners, I know that he can also be a very tough negotiator on behalf of American interests.

I look forward to hearing his review of our relationship and his suggestions for keeping it on track over the coming year.

And also with us, Under Secretary of Commerce for International Trade, David Aaron, is no less experienced a trade negotiator and diplomat. His leadership in the International Trade Administration at the Commerce Department and at the Organization for Economic Cooperation and Development have been essential in promoting and protecting our interests in the EU and around the world.

We appreciate the fact that two such high-ranking members of our Administration are here today. I know that there is a lot of cooperation in the Administration on European affairs, but given the enormous stake in getting this relationship right, I think it is crucial that every agency in the Administration pull together and put our relationship with Europe at the top of their list of priorities.

30

News from
Sam Gejdenson

Congressman
Second District, Connecticut

2304 Rayburn House Office Building Washington, D.C. 20515 (202) 225-2076

June 15, 1999
FOR IMMEDIATE RELEASE

CONTACT: Jon Lenzner
202/225-2076

STATEMENT OF U.S. REP. SAM GEJDENSON
RANKING DEMOCRAT
HOUSE INTERNATIONAL RELATIONS COMMITTEE

European Union Hushkit Policy Threatens U.S. Aviation Industry

The recent decision by the European Union to adopt a new rule that would phase out hushkitted aircraft in Europe will have a severe negative effect on U.S. aviation interests that may cost the industry millions of dollars. Implementation of this rule would have a profoundly discriminatory impact on American businesses, guilty only of playing by the rules.

A year-long postponement of this regulation will not mitigate the economic impact on American aerospace jobs. This EU regulation will jeopardize job security at companies like Pratt and Whitney in Middletown, Connecticut and many others across our nation. Our European allies must abandon their hushkit policy which threatens to silence voices on both sides of the Atlantic calling for greater cooperation.

And this regional rule could lead to the refusal of lesser-developed nations, the aerospace industry, airlines, many other countries, and the U.S. to work towards the next generation of noise reduction standards.

Just as trade disputes should not derail our overall partnership with Europe, we cannot sacrifice our voice to criticize reckless European trade decisions on the altar of transatlantic partnership.

This regulation pretends to be based on science, but in reality it is grounded in politics. It selects a design rather than a performance standard to determine which aircraft will be barred from operating in the EU. Ranking aircraft by their bypass ratio, which focuses on air volume that circulates around and through the engine, does not accurately identify how noisy the engine really is. The EU has not produced an analysis that demonstrates the regulation will result in noise abatement at European airports.

The United States should consider all options, including preparing a WTO case against the European Union or adopting retaliatory sanctions here in Congress against the Concorde. I am willing to adopt either or both of these approaches and then agree to postpone implementation for a year - until the Europeans agree to stop this nonsense.

I believe we should work together to build international trade agreements that respect environmental standards and labor rights as well as build economic growth. But we have to oppose regulations that destroy multilateral, cooperative organizations designed to keep us united. We have to draw the lines at actions, even by our European friends, that do damage to us both.

–30–

Testimony before the
House International Relations Committee
Under Secretary Stuart E. Eizenstat
The Future of Our Economic Partnership with Europe
June 15, 1999

Mr. Chairman and members of the committee, it is a pleasure to be here today to discuss The Future of our Economic Partnership with Europe. I want specifically to applaud your leadership, Chairman Gilman, in working for improved transatlantic relations. Your commitment to lead the U.S. side of the Congressional-European Parliament delegations for many years and your initiative to form the new Transatlantic Legislators' Dialogue is strongly supported by the Administration. I was privileged to participate in the Legislators' Dialogue inaugural event.

INTRODUCTION

With the European Union, we have an extremely broad agenda -- indeed, one that is often global in scope. We both share a commitment to the promotion of security, prosperity, and democracy in the Euro-Atlantic area and beyond. I consider it no hyperbole to suggest that the relationship between the United States and the European Union may be the most important, influential, and prosperous bilateral relationship of modern times.

Two-way trade and investment flows account for more than one trillion dollars. Studies have shown that the relationship directly supports more than six million jobs on both sides of the Atlantic. One in 12 industrial jobs in the U.S. is in a European-owned factory. Europeans are the biggest foreign investors in 41 of the 50 U.S. states. Our trade with Europe over the medium term has been largely balanced and based on strong environmental and labor standards on both sides of the Atlantic.

On May 18, 1998 President Clinton, Prime Minister Blair, and President Santer launched the Transatlantic Economic Partnership (TEP). The TEP covers ten broad areas in which the U.S. and EU will negotiate to reduce existing trade barriers, improve regulatory cooperation, and establish a bilateral dialogue on multilateral trade issues in the World Trade Organization. The TEP will

establish a means by which both sides can enhance cooperation in some of our most sensitive trade areas. It will include cutting-edge sectors of importance to U.S. businesses and consumers, such as biotechnology and services, and also will seek common approaches to the trade-related environment and labor issues.

Since the TEP was first announced, U.S. and EU negotiators have completed and begun to implement a joint action plan that establishes concrete initiatives we will undertake under the Partnership. These include the identification of new sectors for mutual recognition of conformity assessment procedures and the establishment of a working group that will seek to narrow differences in our biotechnology approval processes.

The Mutual Recognition Agreement (MRA) we negotiated with the EU entered into force on December 1, 1998. It will facilitate $57 billion per year in trade of American products, saving U.S. companies $ 1 billion per year. The MRA will make it easier for these firms to market their products in Europe. Spurred on by this success, we are now discussing additional sectors to add to the MRA, as well as additional regulatory cooperation.

We have also been consulting with the EU through the TEP to develop a common approach to the new WTO round to begin in November. This next round holds a great deal of promise. We have agreed with the EU that the WTO should issue a mandate to begin a new round of trade negotiations in agriculture, services, and other areas following a structure that will yield results expeditiously. We have also agreed to seek permanent commitments by WTO members not to impose duties on electronic commerce transactions.

There is no more vivid example of our common values and goals than the work we are doing with the EU right now in Southeastern Europe. As the confrontation in Kosovo comes to an end, the U.S. and the EU still have a big job before us. Our joint aim is to build a solid foundation for a new era of peace and stability in Southeastern Europe, helping a region that has been one of the continent's most violent become, instead, a part of the European mainstream. The U.S. and the EU will both support democracy in the Balkans that seeks to build a future more peaceful and free than the past. The U.S., the European Union and others have forged a Stability Pact for South

East Europe. The Pact will help ensure that the resources of a wide range of organizations are mobilized; that our efforts in Southeastern Europe are as effective as possible; and that the costs of these efforts are broadly shared.

EU REFORM

I also want to look closely at the tremendous changes taking place in the EU. Enlargement, Budget Reform, and Institutional Reform will have significant effects on our future relationship with the EU.

Enlargement

As I have just discussed, the European Union is an historic force for stability and prosperity on the European Continent. It is a bold visionary experiment which has worked. The fifteen-member EU is now about to undertake its largest single enlargement ever. It will be one of the most important challenges facing Europe as it moves into the 21st century. We support this historic opportunity to further the peaceful integration of the continent. We want to extend a zone of stability, prosperity, and democracy to new members who have thrown off the yoke of Communism.

Enlargement offers the candidate countries the prospect of achieving the prosperity and quality of life enjoyed by the fifteen current EU members. The EU plans to spend $82 billion between 2000 and 2006 to help bring their economies into line with current members. This is the equivalent in 1999 dollars to what we spent on Western Europe through the Marshall Plan. Equally important, it will encourage cooperation, reinforce democracy and greatly reduce possible damage from nationalist and ethnic tension. In the end, if the current round of enlargement is completed successfully, the European Union could comprise the world's largest single market. It will have over 500 million citizens with an economy significantly larger than our own.

The United States has long recognized the importance of these goals and fostered them. Indeed, we laid the foundations for international cooperation in Europe immediately after World War II. Those foundations eventually blossomed into the European Union. Our

political, strategic, economic, and commercial interests are inextricably bound up in this process.

Enlargement will be a difficult process for the European Union. Unlike NATO expansion or NAFTA, it involves a significant transfer of sovereignty from one nation to a central authority. It addresses sensitive legal, social, and economic issues like the movement of people and goods. The task facing the EU in its enlargement is huge -- analogous to the U.S. asking another nation to sign on to every provision of the Code of Federal Regulations.

Thirteen countries have applied for EU membership so far--Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia, and Turkey.

The accession process requires:(1) an opinion from the European Commission on the applicant's suitability to become a member, (2) the European Council of Ministers' agreement to open accession negotiations, and (3) ratification of the accession treaty by the European Parliament and the parliaments of all the Member States and the candidate country.

Accession talks have begun with all the applicant countries except Turkey and Malta. The Commission is in the middle of negotiations with the first six of the 13 applicants (the "first wave" -- Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia). Bilateral screening of the legislation of five other candidates (Bulgaria, Latvia, Lithuania, Romania, and Slovakia) started in February. This screening process is a necessary prerequisite for the opening of their accession negotiations by year's end.

No end date has been set for the completion of any of the accession negotiations. The negotiations themselves will cover thousands of pages of EU legislation, which candidate states must adopt. The Commission has indicated that -- by the end of this year -- it would like to set some provisional dates for accession. This would promote the Union's commitment to enlargement. The year 2003 is the likely "earliest" date for accession of the first of the candidates -- and the balance of risks are for a later rather than earlier date.

Enlargement should be a net plus for U.S. exports of goods and services to the countries of Eastern and Central Europe. EU membership or even the prospect of EU membership should help candidate countries improve on already impressive growth rates. Our investment in the region, and our very good bilateral relations with each of these countries, should position us to take advantage of this future economic upswing. In 1997, the European Union accounted for over 60% of imports into the countries of Central and Eastern Europe while the U.S. accounted for just 2%. We had made just over 20% of the Foreign Direct Investment, while EU member states accounted for over 60%. Our trade and investment relationship with the European Union is worth more than $1 trillion. We look to achieve in the East what we now have with the West: a buoyant market open to U.S. goods and services.

Nonetheless, we will ensure that our commercial and economic interests are not disadvantaged. As a country accedes to the EU, it will liberalize trade to us since the EU's common external tariff is generally lower than tariffs in the acceding countries for most products. We are working with the European Union and the candidate states to prevent the erection of new barriers to trade as a part of the enlargement process. The main problem concerns the interim period before EU accession. As tariff levels for EU products drop to zero in the acceding countries they remain at higher MFN levels for U.S. products, to our disadvantage. In specific cases where tariff differentials do exist on American goods imported in to accession states, we are working with the candidate countries to find suitable remedies, and we are encouraging them to adopt the generally lower EU tariff schedule as soon as possible. The European Commission has agreed with our strategy, and accession candidates are beginning to respond. We are also monitoring developments closely to ensure that U.S. companies are not adversely affected by commercial decisions made for political reasons.

At the same time, we must recognize that an enlarged European Union means more than market potential. It will be our greatest partner in addressing common political, social, and security concerns in the world. The European Union is increasingly a positive force joining with us to deal with a variety of global challenges. Repeatedly, we have shown that, where the United States and the European

Union act in concert toward common challenges, those challenges are overcome.

The United States and the European Union are working side-by-side all over the globe to address problems that affect hundreds of millions of ordinary people. Together we are bringing peace to the Balkans and promoting democracy and economic growth in areas as far flung as Africa, the Middle East, and Southeast Asia. The U.S. and the EU are setting new levels of cooperation.

We will, therefore, continue to work with the European Union, both during and after enlargement, on problems around the world. We will strive to make sure that Russia and the other states of the former Soviet Union see the enlargement of the European Union as a real opportunity from which they too can prosper, rather than an obstacle.

We do not view the U.S.-EU relationship as a zero-sum game. Some commentators believe that EU growth and prosperity, whether from the success of the euro or the continuing enlargement, can only come at the expense of American power and prestige. We disagree. Certainly, we will be economic competitors, but with our combined strength, together, we will be able to set a global agenda that supports democracy and open markets. Where we cannot act together, we risk stalemate.

Budgetary Reform: Agenda 2000

Enlargement of the European Union requires the candidate countries to conform their laws and practices to European Union norms. But it also requires preparation on the part of the EU member states.

As part of that preparation, in July 1997, the Commission published "Agenda 2000," its proposals for structural, budget, and agricultural reforms required for enlargement of the Union. We can benefit from EU reform.

The largest step for the EU is reform of the Common Agricultural Policy (CAP). The EU has now agreed to put a ceiling on total budget expenditures, but this cannot be done without reforming its agriculture subsidies. The EU is also preparing for the next round of trade talks, to kick off this November in Seattle. Europe recognizes the need to reform policies on subsidies.

Reduction in subsidy and support funds would rationalize the EU economy, making it more prosperous. Almost half, $50.5 billion, of the EU's 1999 budget is earmarked for agricultural subsidies, and the EU's budgetary reform will be impossible without reform of the CAP. The EU originally sought to lower EU commodity prices to world levels in order to export without subsidies and to bring EU internal prices closer to those in potential new member states.

The European Commission's modest CAP reform proposals were weakened twice -- first by EU Agricultural Ministers and then by the European Council -- before gaining final approval on March 26 in Berlin. The final package both reduced and delayed subsidy reductions.

In the package, the EU agreed to cut guaranteed prices for cereals over the next several years by 15 percent. They cut the guaranteed prices of milk by 15 percent but delayed implementation until 2005 and reduced the support price of beef by 20 percent, to be phased in over three years. Even these cuts are engendering farmers' protests, yet they are unlikely to wean European agriculture from its dependence on export subsidies. The CAP will continue to have an impact on world prices and our trade interests. Further cuts will be necessary before new Member States could join in the Common Agriculture Policy.

We, of course, welcome any movement toward agricultural reform in the EU, particularly to the extent that these reforms will reduce the use of trade distorting export and other subsidies. That said, however, the reforms do not go nearly far enough in terms of reducing the CAP's distorting effects on the world trading system. Other countries, including developing ones, will continue to be forced to pay for European farm inefficiency by losing sales in home and third markets.

The United States has an ambitious agenda for the next round of WTO agriculture negotiations, including the elimination of export subsidies and stronger disciplines on trade distorting domestic support programs. The danger is that the EU will present Agenda 2000 Common Agriculture Policy reform as a "fait accompli" in an effort to avoid substantive negotiations in the WTO on domestic support and export subsidies. It is at least as likely, however, that

the EU is holding back so that it has something to concede in the next round.

Institutional Reform

Historically, every enlargement of the European Union has been preceded by the member states' deepening the level of internal cooperation. This "deepening" usually includes fundamental reforms that give EU institutions a greater say over actions of member states. The reforms will also change how the EU legislates and makes decisions. The current enlargement process appears no different.

These innovations may often seem arcane, bureaucratic, and complex. Nevertheless, they do serve to permit member states to pool their sovereignty while protecting the interests of their citizens. We have to learn to work with the new institutions, and insure they help us further our agenda.

With the entry into force of the Maastricht Treaty in 1993, the leaders of the European Union committed themselves to a most ambitious step toward integration, the launch of the euro. As of January 1, 1999, for the first time, participating EU member states have a common monetary policy, conducted by a European Central Bank. The euro can be an important stimulus for further EU integration.

Beyond these reforms, European Union leaders have agreed that before the next enlargement round is completed, there must be further reform of the Union's institutions and decision-making processes. For example, the European Council arrives at decisions through consensus on many important issues, including external relations. With members representing disparate nations, this often leads to a lowest common denominator policy. The practical effect is that the EU can be slow to respond in a crisis, and while this procedure is difficult with fifteen members, once the European Union expands to 21 members, the process could be further complicated.

We expect EU institutional reform to address three key issues: the number of Commissioners, the weight of votes for each member state in the Council, and the extension of qualified majority voting to more policy areas.

Currently there are 20 Commissioners, with the five largest countries each having two. EU leaders must decide how this formula can be revised to ensure that a larger European Union can still operate efficiently. Member states have indicated that a larger Commission would be too unwieldy. The EU has been trying to design a formula that would accommodate new members without increasing the number of Commissioners.

The member states must also re-assess the weighting of their relative voting power in the Council at the same time; they may also extend "qualified majority voting" to most of the policy and legislative decisions they take. This would mean less reliance on achieving unanimity. This, in turn, will increase the speed and efficiency of the decision-making process and would be a welcome development.

With the advent of the Amsterdam Treaty on May 1 we are witnessing a dramatic shift in power. The European Parliament now has a greatly enhanced role in EU decision making. Under the Treaty, the European Parliament enjoys equal say or "co-decision" with the Council of Ministers on more than two-thirds of all EU legislation, compared with less than one-third before May 1.

The European Parliament's views will now matter much more than ever before. We will need to consider this as we work with the Europeans on our trade, agricultural, environmental and other interests. In this vein, Mr. Chairman, I strongly support your groundbreaking work to create the Transatlantic Legislators' Dialogue. It will provide the opportunity for unmatched direct exchange on bilateral issues of concern. It will also help us to resolve irritants in our relations before they become major problems. I valued the suggestions and views that you, your fellow members of Congress and your European Parliament colleagues shared at our meeting with the TLD last month.

The Amsterdam Treaty will also result in major changes in the way the European Union conducts its foreign policy. A new "High Representative" for the Union's Common Foreign and Security Policy (CFSP) will give the EU greater visibility on the international scene. The European Council has named NATO's Secretary General Javier Solana to become the first High Representative for CFSP. We look

forward to working with him in this new capacity. He has been an excellent Secretary General of NATO, and we believe he will perform equally well at the EU.

An EU with an effective CFSP would be a power with shared values, and strong transatlantic ties with which we could work globally to solve problems. Now we do well coordinating with the EU on long term programmatic issues. A better-integrated CFSP would enable the EU to act effectively in crises as well. We anticipate that the new "Special Planning and Early Warning Unit" will permit greater coordination of U.S. and EU policies. In the near future, more foreign policy decisions will be taken by qualified majority voting instead of unanimity. A new type of decision -- the "common strategy" -- will be introduced to establish general policy guidelines and give greater coherence to EU foreign policy. The EU has decided to focus initially on a common strategy with respect to Russia.

Commission Crisis

Perhaps there is no better example of the rising authority of the European Parliament than the recent crisis faced by the European Commission last month. In response to a highly critical wise person's report tasked by Parliament on fraud, nepotism, and mismanagement in the Commission, the entire Commission resigned on March 16. This is an unprecedented event in the history of the European Union. It has put us in uncharted territory.

Member states, especially the German presidency, have worked to resolve the Commission crisis, and EU leaders at a special Summit chose former Italian Prime Minister Prodi as the next Commission President. Now confirmed, Prodi will work with the member states to select his Commission. The EU is aiming to have that new Commission confirmed by the newly elected Parliament in July. Commission legal experts tell us that under the Community treaties, the current Commissioners will remain on duty until replaced. Throughout this period, we have been able to continue our regular consultations with the EU on the full range of issues before us. We realize progress could become more difficult. The current "caretaker" Commissioners have announced, for example, they will not introduce new legislation. Thus, we may have to wait several months

until legislative fixes can be introduced on important trade items of interest to the U.S.

We know Mr. Prodi and have worked well with him before, and have great confidence in him. We look forward to working with him in his new role as Commission President.

In many ways, the resignation of the Commission reflects the major institutional change the Union is undergoing. It represents a change that will propel further change. The Commission itself has become the object of calls for significant internal reform. Subjects currently under consideration include tighter controls over spending, more transparent procedures for awarding contracts, stricter accountability standards, and disciplinary procedures for Commission officials.

There is a groundswell to bring the European Union back to its citizens, to address the EU's so called "democratic deficit" effectively. We are working to ensure that our relations with the European Union are strengthened by the outcome of these events. We will continue to use our influence to encourage the European Union to become a more responsive, open, and reliable partner for the United States.

TRADE ISSUES

It is worth remembering that we often let the immediacy of our current trade disputes blind us to the very real benefits the U.S. and EU enjoy from access to each other's market, but obviously there is a tough road ahead. We are pleased that the WTO has found in favor of the U.S. in cases on the EU's banana regime and the EU's ban on U.S. beef. We hope that both of these disputes can be put behind us soon, but the EU must implement these rulings without further delay. Nonetheless, with a relationship that is as interdependent as ours is with the EU, new problems are sure to arise. We must do a better job of using the bilateral and multilateral mechanisms we have to find solutions to transatlantic problems. All too often, the EU takes actions--such as its unilateral hushkits regulation or its counterproductive response to the previous WTO panel on bananas and beef--that exacerbate trade tensions unnecessarily. Prior consultation with the U.S. in these cases may well have avoided debilitating and

unnecessary transatlantic flare-ups. It is time to develop an "early warning system" to identify such problems before they burst into full-scale disputes. The Transatlantic Legislators' Dialogue can play an important role in identifying and solving transatlantic disputes before they grow into larger problems.

As the global economy becomes more interdependent, decisions made in Brussels affect more and more Americans here at home. We must also understand that the EU is engaged in a politically difficult process of reforming its budget and its structures. It is embarking on a daunting enlargement, and it has just faced a crisis among European Commission leadership. These changes may complicate our efforts to work with the EU to resolve upcoming trade challenges. But, we continue to watch these fundamental changes to the shape of the EU, and we will adjust our strategies to fit the new political landscape.

TRADE DISPUTES

The U.S. and EU are now facing a tough set of trade disagreements on bananas, beef hormones, and biotechnology. In all of these cases, it will be important for us to hammer home the principles of fair and transparent trade rules, of respecting international commitments and of using scientific principles, not politics, to make environmental, health and safety decisions. Relying on these principles is the best way to reduce our frictions with the EU and to remove the emotions that so often cloud what should be technical actions.

Bananas

On bananas, the EU has failed on numerous occasions to develop first GATT and then WTO compliant banana regimes following trade body rulings. The WTO decision supporting U.S. tariff increases on EU products was a test of the WTO dispute settlement process. The WTO, yet again, proved its importance. We were pleased the arbitrators confirmed our rights after the EU's failure to develop a WTO consistent banana import regime. Accordingly, we suspended trade concessions for $190 million in EU exports to the United States on April 19. Our goal, however, is to a WTO-consistent banana regime. We will keep prohibitive tariffs in place until we reach an acceptable solution with the EU.

The banana decision was an important step forward in making the WTO's dispute settlement process an effective tool for eliminating trade barriers. We are pleased that the EU has now chosen to work with us and we hope to reach an appropriate solution that opens EU markets and allows competition on a level playing field.

We can achieve a WTO-consistent banana regime while still maintaining preferred access by Caribbean countries to European markets. We are keenly aware of the importance of bananas to the economies of our neighbors and this will be fully taken into account in our negotiations with the EU.

Biotechnology

The need for a set of clear and rational trading principles may be greatest in the area of biotechnology. As U.S. agriculture and related products - everything ranging from tomato paste to vegetable oil - increasingly involve biotechnology, this issue is one of growing importance to our competitiveness in the 21st century. Based on current trends, within a few years, virtually 100 percent of U.S. agricultural commodity exports will either be genetically modified (GMO) or mixed with GMO products. We support the legitimate desire to assure safety in this area. Our trade in these products should be based on a framework that allows beneficial trade to develop under fair and transparent procedures which address safety on a scientific basis. I have long personal experience with this issue from my time as U.S. Ambassador to the EU. I still bear scars from the bruising fight we had to obtain EU approval of Roundup Ready Soybeans. We barely had time to recover from that process when we were faced with another bloody battle over Bt corn. Now there are new biotechnology varieties on the way and we face the prospect of further problems with the EU.

We, of course, respect the EU's right to have a system of government oversight for GMOs. No government can abdicate its responsibility to have a system in place to ensure the safety of food, feed and the environment. But the system must be predictable, transparent, efficient, and scientifically based -- as WTO rules require. The EU does not now have such a system in place.

The U.S. does not have a separate regulatory system for GMOs; however, GMOs go through the same rigorous review process for safety that applies to all of our food and feed products. Since 1994, 20 genetically modified agricultural products have successfully moved through our regulatory system toward commercialization and marketing. The transparency and predictability of our process goes a long way to explain why these products have largely enjoyed widespread general consumer acceptance.

The situation in Europe is different. Because there is no scientifically based governmental system to approve GMO products, the European public is susceptible to ill-informed scare tactics. Public opinion in Europe is, therefore, far more emotional on this issue than in the U.S. Not all of the roadblocks our exporters face are the result of poor procedures or trade competition. The European Parliament often reflects this public sentiment.

The EU approval system for GMOs is not transparent, it is not predictable, it is not based on scientific principles, and it is all too susceptible to political interference. There are a number of reasons for this. The poor handling of the BSE, or mad cow disease, problem has shaken the European public's faith in its scientific health authorities.

The EU's weak decision-making machinery in this area is also partly to blame. It often allows single member states to throw up roadblocks and stall progress for non-scientific reasons. This was certainly the case in the summer of 1998, when France for political, non-health reasons blocked two U.S. GMO corn products that had already been approved by EU scientific bodies. The products were eventually approved for sale into the EU after heavy pressure was applied by U.S. officials all the way up to President Clinton, but in the meantime, our corn farmers lost $200 million in sales. We expect to lose similar amounts in 1999 as new products not yet approved in the EU enter the U.S. export stream.

The process in Europe is further complicated by misinformation about GMOs in the media. This has so slanted the European public's views on the issue that governments are reluctant to undertake perfectly appropriate, but politically difficult, regulatory decisions. Nowhere is this more evident today than in the

UK, where virulent attacks on GMOs in the press -- both tabloids and mainstream -- have made it difficult to hold a rational debate about the benefits of biotechnology, not withstanding Prime Minister Blair's courageous position.

Problems in the regulatory process have led to a pattern whereby every major, new GMO marketed by the U.S. becomes the subject of a prolonged and bitter battle to gain entrance to the EU market.

But while we have been taking on these specific problems with EU, we have also been working to break this pattern of confrontation. Indeed, there are leaders in Europe who recognize that an EU regulatory system drawn up in accordance with its own international trade commitments would be a boon to both business and consumers. We stand ready to work with the EU as it develops such a system. The time to act is now. We seek to improve coordination between U.S. and EU GMO regulatory processes and thereby reestablish the importance of the principles regarding transparency, predictability and science-based decision making. Some of this work is modeled on the cooperative relationships we now have with Canadian and Japanese authorities. Under the Transatlantic Economic Partnership, the EU and we have set up a Biotechnology Working Group to address bilateral issues related to GMOs. We held the group's first meetings in February and May. We intend this forum to raise our concerns about the inadequacy of the EU's current GMO regulatory system and to continue a dialogue on ways to reform it.

Beef Hormones

Many of the same issues related to biotechnology are also found in other trade disputes we have with the EU. The problems caused by lack of transparency and predictability are very apparent in the beef hormone case.

On June 3, the United States requested WTO authorization to suspend tariff concessions on $202 million worth of EU products, as the EU failed to meet the WTO's May 13 deadline. The EU has challenged this amount. The WTO arbitrator will now rule on the amount of EU products on which we can raise tariffs and the WTO then will authorize us to implement the increases.

We would prefer a negotiated solution. We proposed the EU lift its ban and institute a labeling policy that would let consumers recognize U.S. beef and choose the best product for themselves. We have held consultations but we remain far apart on the issue. We have started a public diplomacy campaign in Europe to educate consumers as to the safety of U.S. beef.

As is the case with biotechnology, EU political opinion portrays this as a health and safety issue despite the broad scientific evidence to the contrary. I fear some in Europe continue to try to find the "right" scientific evidence to support a political prejudice against beef produced with growth hormones. In response to the WTO ruling against its ban, the European Commission initiated 17 separate risk assessment studies on hormones (none of which were called for in the WTO finding).

In May, the European Commission released a report following a non-transparent review, which purports to raise new questions about potential risks from hormone residues in meat. Our scientists and regulators have carefully reviewed the report. They believe that it does not contain any relevant, new information to support claims of health risks. In fact, much of the data appears to be the same as that already reviewed by numerous scientific bodies, including the FAO/WHO Joint Experts Committee on Food Additives (JECFA), and the experts who provided advice to the WTO dispute settlement panel.

We have so far been unable to get any concrete information about the other studies from EU authorities. We do not know who is conducting the studies, how those conducting them were chosen, what evidence they are looking at, nor what procedures they are following. As far as we can tell, there is no consistent opportunity for public comment. Needless to say, this lack of information heightens our concerns that factors other than legitimate environment, health and safety issues may influence the final conclusions. And we wonder when this process will ever end. The EU cannot be permitted to endlessly use the excuse of needing to conduct just one more study that might, this time, possibly find something to justify keeping trade restrictions in place.

The EU's reluctance to comply with the WTO is driven by politics and fueled by irresponsible press stories, as

well as some genuine regulatory failure in Europe. The member states of the EU are concerned about public reaction to a lifting of the ban. We have made clear that as much as we understand the impact of public fears, we cannot base trade rules on emotion. Moreover, we see no reason why American beef producers should pay the price for these internal political calculations, which are inconsistent with WTO principles.

Let me reiterate the importance of successfully resolving the issues before us in Europe - bananas, biotechnology or beef hormones -- to our ability to move forward with an agenda of trade liberalization and opening markets for the American people. We must continue to advance the basic principles of respecting trade commitments, establishing transparent and predictable regulatory processes, and using science-based decision making on environmental, health and safety issues.

In the end, we fully realize that our trade agenda has to rest on a solid foundation of domestic support. We must show Americans that the trading system works for them.

The Future of U.S.-EU Relations

To close, let me look towards the future. Our goal in U.S.-EU relations, as in the broader transatlantic relationship, is to work together to promote our common goals of security, prosperity, and democracy. We share common dreams and principles as shown dramatically by our nations together in Kosovo. We want a partnership in which Europe and the United States act together to promote and defend these common values and interests in and beyond Europe. Together, we can accomplish more than either the U.S. or the EU can by acting alone.

The New Transatlantic Agenda, adopted by our leaders in December 1995, and on which I directly worked, has proven to be a valuable and flexible mechanism for advancing our relations, as well as our common values and interests. However, we believe it is time to build on our experience and explore how we can make this a more effective and equal partnership, particularly taking into account the EU's own evolution and the new challenges we face.

In this regard, we want to: (1) Work more effectively together in fast-breaking crises; (2) Find ways to manage our disagreements before they get out of hand, particularly in the trade area; and (3) Expand areas of cooperation and joint action, especially to those issues that make a difference to everyday citizens, such as fighting international crime and protecting the environment. We have also identified Russia, Ukraine, and southeastern Europe as key opportunities for enhanced cooperation.

We are working with the EU to articulate a vision of the future of U.S.-EU relations and hope to announce the results at the June 21 Summit in Bonn in a Bonn declaration. We would want any conceptual statement of this kind to begin with a strong expression of support for the EU and U.S.-EU relations as pillars of security, prosperity, and democracy in the Euro-Atlantic area and beyond. This would fit with our larger goal of using the 1999 NATO, OSCE, and U.S.-EU summits to strengthen the Euro-Atlantic partnership for the 21st century.

PREPARED STATEMENT OF
AMBASSADOR DAVID L. AARON
UNDER SECRETARY FOR
INTERNATIONAL TRADE
U.S. DEPARTMENT OF COMMERCE

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON INTERNATIONAL RELATIONS

June 15, 1999

INTRODUCTION

Mr. Chairman, I am pleased to be with you this morning to discuss prospects for our economic partnership with the European Union (EU). The EU is one of our most important economic partners and we welcome this Committee's sustained and informed interest in maintaining the health and stability of the U.S.-EU economic relationship. As we have seen in recent weeks the EU and the overall transatlantic economic relationship is evolving rapidly. Therefore, our relationship is very much a work in progress which requires considerable attention, both by government policy makers as well as by the private sector.

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

THE ECONOMIC SITUATION

The United States and the EU share the largest two-way trade and investment relationship in the world. In 1998, the U.S. trade deficit with the EU was $27 billion, an increase of $10 billion from the U.S. trade deficit of $17 billion in 1997. The U.S. Department of Commerce takes this very seriously. U.S. merchandise exports to the fifteen member states of the EU were $150 billion, increasing 6 percent from the level of exports to the EU in 1997. The EU is the first or second export destination for business in 41 of the states of the United States. U.S. imports from the EU were $176 billion, increasing 12 percent over 1997 import levels.

Until recently, our trade with the European Union has tended to balance out, with surpluses in some years offsetting deficits in others. From 1970 through 1995 in fact, our cumulative trade balance with Europe was a deficit of less than $1 billion for that entire twenty-five year period. Since 1995, though, our trade deficit with Europe has soared, cumulating to $60 billion over the last three years. This, however, reflects the difference in economic growth between Europe and the United States, rather than an increase in European trade barriers. The EU needs to strengthen its economy, as I will discuss shortly.

In addition to direct trade, the United States and the EU sustain a longstanding and very large investment relationship. In 1997, U.S. companies had $369 billion in direct investment in the EU. EU companies had a similar investment level in the United States and more than 6 million jobs were directly created together by EU and U.S. investment in each other's markets.

EUROPE'S ECONOMIC POLICIES

While the U.S.-EU economic relationship continues to be a robust one, the growing deficit bears close watching and we are becoming increasingly concerned about the need for the EU to make fundamental adjustments to its policies to address its economic weaknesses -- and to help share the burden of assisting other economies affected by the recent global crisis. One area of particular concern is the EU's continued reliance on export-led growth. For instance, the U.S. current account deficit increased by almost $100 billion from 1996 to 1998 largely as part of the adjustment in the crisis-affected countries in Asia. In contrast, Europe added $5 billion to its external surplus during this period. It would be far better for Europe to foster growth led by domestic demand, a policy path that also is less likely to impose economic burdens on other economies.

Europe has a number of positive alternatives to its current policy of export-led growth including structural reforms of labor, goods, and financial market and tax policies to make them more conducive to investment and employment. Europeans themselves are now acknowledging that high Europe-wide unemployment is due in part to overly rigid employment policies designed initially to address the hardship of unemployment. But reductions in legal working hours, early retirement programs, and restrictions on layoffs have actually made European structural unemployment problems worse. It seems that when companies want to produce more goods or services they are not eager to hire Europeans to make them. Inflexible European labor laws frankly speaking make European workers less attractive to hire no matter how highly skilled and productive they might be.

Such conditions also have led to persistent low levels of domestic European investment, capital outflows and weak aggregate demand, as Europeans and others increasingly see Europe as a less attractive place to invest. To be stronger, Europe needs to promote policies that stimulate employment and domestic investment. This is increasingly true with the advent of the euro and the new reality that Europe's policy choices affect not only Europe, but are starting to affect the rest of the world as well.

ENSURING A HEALTHY ONGOING U.S.-EU RELATIONSHIP

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

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

EU'S DATA PROTECTION DIRECTIVE

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

The European Data Protection Directive prohibits the transfer of personal information from Europe to third countries that do not provide "adequate" data protection. Should the United States be judged not to provide adequate data protection, millions of data transfers from EU countries to the United States could be disrupted. I have been engaged in detailed discussions for over a year with John Mogg, my European Commission counterpart, to address the issues that the EU's data protection presents for our economic relations.

After informal discussions, we determined that our approaches to protecting privacy are highly compatible, but that we need to reconcile a few notable differences. Our discussions since then have shown considerable flexibility and practicality to develop proposals on the individual's access to personal data held by companies as well as the enforcement of the individual's right to protection. The United States proposed that we would establish a set of principles for data protection that U.S. companies could voluntarily use to deal with EU data protection requirements and that these principles would establish a predictable "safe harbor" for U.S. companies who wish to be deemed adequate under the EU's directive. To make these discussions successful, both the Commission and the Commerce Department undertook to make broad contacts in the transatlantic relationship. U.S. officials felt it necessary to discuss our positions directly with member state officials that were implementing the EU's directive and both the Commission and the Department of Commerce have had detailed discussions with a wide range of organizations.

Progress was made during the last round of U.S.-EU privacy talks on May 28 in Brussels. European Commission Director General for Internal Market and Financial Services, John Mogg, and I resolved a number of outstanding issues although several key items regarding the implementation of the safe harbor arrangement remain unresolved.

We may not reach agreement by the Summit on June 21, our self-imposed deadline. At this stage in our talks we have reached agreement on the meaning of the principles. We see eye to eye on the substance of the privacy issues; what we need to resolve is how each side will accept its respective responsibilities to make this agreement work.

As the negotiations turn away from the substance of the privacy principles, attention is focusing on issues such as the role of member states in the implementation of the agreement and the length of the transition period for U.S. companies to comply with the safe harbor. The outcome of our talks will depend on the member states' willingness to assume responsibility for implementing their side of the principles and on a reasonable and practical period of transition.

EU'S HUSHKIT NON-ADDITION REGULATION

On April 29, the EU Council adopted the "hushkit" regulation. This was the final legislative step, and the regulation is now EU law. However, the Council in adopting the regulation, postponed its implementation until May 4, 2000. This gives us additional time to resolve our differences with the EU on aircraft noise standards, specifically hushkit and re-engined aircraft issues.

Our first goal is to work with the EU through the International Civil Aviation Organization (ICAO) to develop new noise standards that will provide genuine relief from aircraft operations. The EU agrees with us that aviation regulations must be developed on a global basis, through the ICAO. We have proposed to the EU an accelerated process to develop the next generation of ICAO noise standards, i.e., "Chapter 4", before May 2000.

The Commerce Department and other agencies continue to oppose the EU "hushkit" regulation because it is based on a design standard rather than a performance standard, targets U.S. products, and fails to recognize aircraft which are compliant with the most recent ICAO noise standards, "Chapter 3". While the EU endorsed the ICAO noise levels when these standards were adopted, its regulation restricts access to the EU of aircraft which meet the ICAO noise standard through the use of hushkits and some re-engining. The regulation achieves no specific noise standard as noisier aircraft/engine configurations will be allowed to be registered in the EU. Most importantly, the regulation undermines the uniform international standards produced by ICAO. The regulation would have a major adverse financial impact on U.S. airlines and manufacturers. The impact is estimated to be at least $1 billion against the United States alone.

To address this issue with the EU, U.S. Cabinet members on several occasions discussed the "hushkit" regulation and its ramifications with their EU counterparts. Secretary Daley and USTR Barshefsky intervened in September 1998, and Secretary Slater met with EU and German officials on this issue in March 1999. I was the lead U.S. negotiator for the various negotiations with EU officials regarding the U.S. industry's concerns about the discriminatory effects of the EU's hushkit regulations. The negotiations resulted in the Council's postponement of the implementation of the EU hushkit regulation until May 4, year 2000.

We were also able to convince the EU to return to the ICAO with a commitment that the United States will address the next level of noise reduction goals in that forum. At the same time, the EU must recognize that it would be difficult for the United States to agree to a new noise standard in ICAO while the EU hushkit regulation is still on the books.

EU REGULATION OF GENETICALLY MODIFIED ORGANISMS

The Administration is increasingly concerned over the question of European market access for U.S. agricultural exports derived from bio-engineering. The United States has long viewed the EU's process for approving new agricultural products through bioengineering as being too slow and non-transparent. Unfortunately, the problem is getting worse. Strong European public opposition to the use of genetically modified organisms (GMOs) in food now threatens to stop the EU from approving any new products produced through bioengineering.

As of last year, there were seven varieties of genetically-modified corn that had been approved in the United States that had not yet been approved in the EU. Four varieties of U.S. developed "Bt", or pest-resistant corn, have been in the EU approval process for over two years. The Commission has not approved any biotech products in a year and it recently announced that it was postponing the approval of Pioneer's Bt corn application because of recent findings on the effects of GMO corn on the U.S. monarch butterfly population. While the United States certainly recognizes the right of the EU to take the steps necessary to ensure the health and safety of its citizens and the environment, we would hope that EU policy would be ruled by sound science and not political pressure on this issue. This is especially important because U.S. farmers are increasingly turning to genetically modified-derived corn varieties at home. Nevertheless, if

we hope to continue to sell U.S. corn to Spain and Portugal, a $250 million annual market for U.S. farmers, we must reach some type of understanding with the EU. To establish agreed rules for trade in biotech products and to foster greater understanding and acceptance of the U.S. approval process for GMOs, the United States is engaged in a number of international and bilateral initiatives. The Transatlantic Economic Partnership's Biotech Working Group is one such forum where the United States is working with the EU to address issues of mutual concern. We have much work ahead of us in this area, but we are committed to finding solutions as the stakes are so high for the United States.

THIRD GENERATION WIRELESS COMMUNICATIONS SYSTEMS

The Administration and U.S. industry have had concerns that EU efforts to be the first to implement third generation (3G) wireless systems were intended to replicate the first-to-market advantage that benefitted European vendors in the second generation and helped lead to widespread adoption of the European-developed Global System for Mobile Communication (GSM) technology. Mandating the use of a single, European-developed wireless standard within Europe well before the International Telecommunication Union (ITU) completes its 3G standards development process later this year could effectively preclude all the candidate technologies from receiving a full, fair and transparent consideration as potential global standards. In addition, the EU's Universal Mobile Telecommunications System (UMTS) Directive on 3G licensing fueled efforts to get the European standard commercialized before other technologies could be standardized.

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

In response to our efforts, the EU went on record in support of the ITU process and an industry-driven approach. The EU also clarified that its UMTS Directive requires member states to reserve a minimum of one 3G license (i.e., not all) for the European-developed technology. In February, the Transatlantic Business Dialogue (TABD), a U.S.-EU industry forum, broke a lengthy impasse on 3G standards by forging consensus on a multiple standards compromise that was satisfactory to U.S. industry. In March, a key ITU meeting in Brazil endorsed the TABD concept of multiple 3G standards. In another positive development, the Finnish government, which issued the first 3G licenses in March, refrained from mandating a technology. These developments seemed to indicate that a market-driven solution to this issue might indeed be

possible -- with governments appropriately taking a secondary role in the technology selection, development and licensing processes.

However, there were indications that Europe might not adopt the TABD/ITU 3G standard as expected and that European governments were moving to defeat any expectation that the TABD/ITU compromise would result in introducing U.S. 3G standards technology into Europe. EU officials met with member states on May 25 to discuss 3G licensing, reminding them that the UMTS Directive only requires that one license be reserved for the European-developed standard and encouraging them to be mindful of their obligations under the WTO Basic Telecommunications Agreement. We continue to relay the message in all meetings with European officials that we expect them to license and assign spectrum for 3G systems based on any and all standards that emerge from the ITU, and that any decision to the contrary would create strong concerns in the United States regarding EU and member states' compliance with their WTO obligations.

Most recently, a 3G Operators Harmonization Group (OHG) concluded a series of meetings with a potentially key agreement on a technical framework for 3G harmonization. The OHG Agreement represents a positive and detailed framework for future harmonization work and is compliant with the February TABD agreement. Virtually all major operators and manufacturers (from 13 countries, including the U.S. and EU member states) have endorsed the OHG Agreement. The Agreement has been forwarded to the ITU, as well as to national/regional standards bodies and the two multi-regional "partnership projects" which are developing 3G standards. We understand that the ITU has endorsed the document, and that standardization work is already underway.

We are pleased that industry has developed, and the ITU has adopted, the harmonized standard proposal put forward by carriers and manufacturers. However, there continues to be some concern that Europe will move slowly on the adoption of the harmonized standard so that its current proposed regional standard will gain a market advantage. The OHG agreement depends in large part on the good faith efforts of the Europeans to make the changes to their existing standard as recommended in the OHG Agreement, and to support the provisions related to the evolution of the U.S. standard in standards bodies around the world. If the Europeans delay or fail to do the work that is recommended in the OHG Agreement, then the harmonization effort could well fail. Thus, although we are cautiously optimistic, given the possibility that pending European licensing or standardization decisions could still cause the OHG Agreement to be moot, we will continue to carefully monitor developments. We believe the TABD can continue to be helpful in both monitoring progress and providing opportunities for the United States and the EU to discuss any issues or problems that might arise.

EU ENLARGEMENT TO INCLUDE CENTRAL AND EASTERN EUROPE

Another issue on which we are actively working to safeguard the interests of U.S. companies concerns the enlargement of the EU. On March 31, 1998, the EU launched accession negotiations with Poland, the Czech Republic, Hungary, Estonia, Slovenia and Cyprus. These countries are in the first tranche of countries to be considered next for EU membership. Those which are slated to join at a later time include: Romania, Latvia, Lithuania, Slovakia and Bulgaria.

The U.S. Government fully supports EU enlargement into Central and Eastern Europe (CEE) in a manner which encourages further economic reforms and facilitates these countries' continued transition to market economies. The EU and the CEE countries are expected to integrate their commercial legislation to provide uniform and effective levels of protection in the areas of public safety, health and the environment, as well as important commercial changes such as better enforcement of intellectual property protection and the adoption of a uniform common external tariff. These changes will greatly benefit the transatlantic market. However, U.S. commercial interests in the region may be negatively affected by the transitional arrangements prior to accession and the final terms of accession. In fact, to a certain extent, U.S. commercial interests already have been affected, as in the case of U.S. export of motor vehicles. This is a matter of great concern to us, and we have been discussing it with several governments in the region. In fact, this week Assistant Secretary for Market Access and Compliance Patrick Malloy is in Central and Eastern Europe discussing precisely this issue with Polish, Hungarian, and Czech government officials. A permanent solution to this issue would be the reduction of CEE countries' MFN tariffs on industrial products to the level of the EU's common external tariff as soon as possible.

Since 1991, the European Union has had association agreements with Poland, Hungary, the Czech Republic, the Slovak Republic, Romania, Bulgaria, Estonia, Latvia, Lithuania, and Slovenia. Some U.S. companies have complained that the association agreements hinder their business prospects in these markets. These agreements grant preferential tariff treatment to EU products and establish schedules for gradually reducing tariff rates on EU non-agricultural products each year until the rates reach zero. For U.S. products, higher most-favored-nation (MFN) rates are maintained at average tariff levels three times higher than the U.S. and EU's MFN tariff rate and, on average, eight percentage points higher than that experienced in EU-CEE trade. These tariff differentials between the EU and CEE countries' MFN rates will exist until these countries' final adoption of the EU common external tariff, presumably for the length of the entire transitional period. Negotiations have just begun for the first six countries, which are not actually expected to join the EU until 2005 at the earliest and the complicated discussions in the EU over internal reforms called "Agenda 2000" do not lead us to believe that accession will be any earlier.

There are sectoral concerns over the EU's process for enlargement including, as I already mentioned, in the area of autos. Another concern we have relates to the pharmaceutical sector. In the case of patent protection, specifically, a transitional ban on exports (resulting from a derogation from the free movement of goods) should remain in effect until such time as the new product patent laws adopted in each CEE country take practical effect locally -- which is 10 years from the date that such protection was formally recognized in each country. In fact, a majority of products on the market will be covered only by process patents until 2010-2015. Process patents are not considered to be adequate or effective protection because they do not protect the product against piracy, but rather the chemical process used in manufacturing them. Further, violation of such process patents is extremely difficult to prove.

The key transitional safeguard measure which the U.S. and European pharmaceutical industries seek is a derogation from the principle of free movement of goods within the EU once the CEE countries become EU members. In effect, this derogation would, for a limited period of time following CEE accession to the EU, ban pharmaceutical exports from the CEE countries (where patents for pharmaceutical products have not been available) to other EU member states (where pharmaceutical products have enjoyed strong patent protection). The derogation would not prevent CEE pharmaceutical companies from exporting generic products which are not under patent in the EU member states.

BANANA AND BEEF HORMONE DISPUTES

The two most publicized U.S.-EU trade disputes this spring, those involving bananas and beef hormones, are progressing according to WTO rules as administered by its Dispute Settlement Body (DSB). Regarding the bananas dispute with the EU, the World Trade Organization (WTO), on April 19, confirmed for the fifth time in six years that the EC's banana regime is not consistent with its international trade obligations. We hope that the EU will finally comply with its WTO obligations. We remain open to negotiating a WTO-consistent solution with the EU. Since the late 1980's Latin American countries and the United States have urged the EU to implement the "Single Market" for bananas in a manner consistent with their international obligations under the GATT (General Agreement on Tariffs and Trade) and the subsequent international agreements under the WTO. Unfortunately, it has taken five international trade panels six years to bring the EU to the point of considering changing its banana regime. The United States now has imposed 100 percent duties on $191.4 million on goods from the EU. These increased duties will remain in effect until the EU institutes reforms of its banana import regime in a manner consistent with its WTO obligations.

On the beef hormone ban, the United States has made it clear to the EU that while we hope to find a way to resolve this dispute, we will move forward to protect our trading rights. You may recall that the EU has effectively blocked U.S. beef exports to the EU since 1989, when it introduced its ban on the importation of beef from cattle treated with hormones. After appealing the 1997 WTO panel's findings against it, the EU was given until May 13, 1999, to come into compliance with a WTO ruling that found the EU's ban inconsistent with the principles of the

Sanitary and Phytosanitary (SPS) Agreement. The EU once again missed the opportunity to show the world that it will respect the results of the WTO dispute settlement regime all Members agreed they would abide by. The real issue continues to be the EU's refusal to comply with the WTO rulings and its unwillingness to honor its international obligations.

Therefore, we had no choice but to exercise our right under the WTO, and, on June 3, requested authorization to suspend concessions in the amount of $202 million, an amount equal to the level of damages that U.S. exports suffer on an annual basis. The EU responded by exercising its WTO right to request arbitration on the amount of our damage estimate. The United States will respect the WTO process and participate fully in this arbitration process, which must be completed by July 12. U.S. implementation of the suspension of trade concessions and publication of the final list will be done after completion of this process and DSB authorization. We are ready to return to negotiations with the EU whenever the EU is ready to make a commitment to lift its ban on U.S. beef.

AUGMENTED OPPORTUNITIES FOR U.S.-EU DIALOGUE

In recognition of the need for close consultation and cooperation on a variety of matters, the United States and the EU inaugurated a series of initiatives since 1996 to identify priority areas that need to be addressed and to provide the fora to make progress.

The "New Transatlantic Agenda" (NTA) was established at the Madrid U.S.-EU Summit in December 1995. It marks the first time that we attempted to establish a high level -- heads of government -- commitment that seeks cooperative action on resolving commercial problems. The NTA is the blueprint for U.S.-EU cooperation into the 21st century and expands our relationship -- not just in commerce, but across the board -- to provide a comprehensive mechanism to resolve problems and to find areas of common interest in which joint approaches can be developed. The Agenda commits the EU -- both the Commission and the 15 EU member states -- and the result has been a broadening of the dialogue with Europe to include in-depth interaction with the member state leadership as well as the traditional Commission contacts.

One of the most important aspects of the NTA is the breadth of its mechanisms, which provide a degree of contact among U.S. and European government officials unparalleled in the past. At the top, the semi-annual U.S.-EU Summits at the Presidential level provide the impetus to keep the relationship moving forward. The Summits are supplemented by meetings of the "Senior Level Group" (SLG), bringing together the senior trade and economic officials of both sides. The SLG in turn establishes discussions to address trade issues at the working level.

We are very pleased, Chairman Gilman, that you have taken the lead in the Transatlantic Legislative Dialogue (TLD). We expect the TLD to add significantly to the richness of transatlantic contacts, and found its inaugural meeting, held during last month's SLG with SLG member present, to be very productive. Although the U.S. Congress has met with the European Parliament, its EU counterpart, for many years, this was the first meeting as a "Dialogue" as

envisioned by the NTA. The TLD will provide a valuable new forum for lawmakers to increase their understanding of societal concerns on each other's side of the Atlantic. We also believe that the TLD will serve as an important vehicle for early warning of possible future trade irritants as all too many of these stem from legislation originating in either the Congress or the EU Parliament that is not well enough understood by members of the other legislative body. We applaud the formation of the TLD and look forward to many more joint meetings between the legislative and executive branches under the banner of transatlantic cooperation.

An important goal of the NTA is to create an eventual barrier-free transatlantic marketplace for trade and investment by working, on a pragmatic basis, to take step-by-step action to identify and eliminate remaining commercial obstacles across the Atlantic. Over the past three years, the NTA has helped resolve a remarkable number of problems and has prevented the escalation of smaller problems into larger ones. The U.S.-EU data privacy discussions were established by this process, as well as efforts to address the recent hushkit issue. The Transatlantic Economic Partnership (TEP) was also established under the NTA with a more formal agenda and time frame to address issues in the service industries and regulatory cooperation, as well as many other elements of bilateral relations.

TRANSATLANTIC ECONOMIC PARTNERSHIP

Since last December, Working Groups continue to meet in all the TEP areas and are implementing a variety of initiatives as called for in the Action Plan. These include the identification of new industrial sectors for mutual recognition of conformity assessment standards; development of a framework for a mutual recognition agreement covering selected services sectors; development of initiatives covering biotechnology, food safety, and plant and animal health; and coordination of positions regarding trade and the environment and trade and labor. The TEP Action Plan also establishes a bilateral dialogue on multilateral trade issues in the World Trade Organization, with the intention of coordinating positions in preparation for the GATS 2000 Services and Agricultural talks, as well as the WTO Ministerial in Seattle.

To date, USTR and the interagency team supporting TEP implementation efforts have worked conscientiously to avoid having any trade dispute spill over that would negatively impact on the TEP. Negotiators continue their efforts towards positive cooperation and mutually beneficial, balanced, tangible results under the TEP. USTR and the European Commission will have more detail to report on the TEP at the June 21 U.S.-EU Summit in Germany.

CIVIL SOCIETY DIALOGUES/TRANSATLANTIC BUSINESS DIALOGUE

In recent years we have found that limiting transatlantic contacts only to government to government dialogues limits our ability to develop a strong economic relationship. Therefore we have encouraged the private sector to establish bilateral discussions addressing important elements of the transatlantic relationship. Notable successes include the Transatlantic Business Dialogue (TABD), the Transatlantic Labor Dialogue (TALD), the Transatlantic Consumer

Dialogue (TACD), and the Transatlantic Environmental Dialogue (TAED).
The TABD, made up of representatives from U.S. and EU companies, offers the business community the opportunity, through a process of developing and submitting specific recommendations to government, to advise us on how we can best move forward with the liberalization of the massive transatlantic marketplace and reduce costs caused by redundant government requirements. The TABD's work has produced a number of significant successes, and continues to provide government with the advice we need. Similarly, the TALD and the other Dialogues allow the U.S. and EU private sectors to work together to identify priority areas to establish improvements in transatlantic relations.

The TABD has consistently told government officials that the main impediments to trade across the Atlantic are divergent standards, testing and certification requirements, as well as other regulatory differences. The TABD has been an important factor in virtually all of the improvements in our transatlantic trade in the past four years. The TALD is developing recommendations on labor standards that are applicable internationally. We expect these Dialogues to develop agendas that they and governments will be able to address to improve U.S.-EU relations.

Under the leadership this year of Xerox and the French company Suez Lyonnaise des Eaux, the TABD has established a very challenging agenda for improving economic relations. We are working now with the TABD to make the next TABD Conference, to be held in Berlin on October 29-30, 1999, one of the chief events for improving U.S.-EU economic relations. Secretary Daley will lead the U.S. Government delegation to the Berlin Conference. Some of the issues gaining momentum for the Conference include: electronic commerce, accountancy standards, priorities for the WTO Ministerial, and expansion of regulatory cooperation.

We also are pleased that the TABD continues to give high priority to 3G Wireless, as I discussed earlier, to ensure that this important issue comes to closure this year, and that it is paying increasing attention to alerting government of possible future trade irritants, as at its recent Mid-Year Meeting where it identified specific regulatory issues that must be addressed soon to head off bigger problems.

EARLY WARNING AND PROBLEM RESOLUTION

Given the recent contentious, headline-grabbing trade frictions between the United States and the EU this spring, the United States and EU have come to realize that more must be done to identify future trade irritants before they become full blown trade problems. Over the past few months, a U.S. Government interagency group, led by the State Department and including the Commerce Department and the Office of the U.S. Trade Representative, has been discussing with the European Commission the development of a bilateral "early warning and problem resolution" process for announcement at the June 21 U.S.-EU Summit.

Through such a process, the U.S. Government and European Commission would seek to coordinate better, both internally and bilaterally, by setting down principles and mechanisms to enable us to identify and solve bilateral problems at an early stage. This process will help address the legitimate concerns of our citizens at a time of an increasingly interdependent economic relationship and closer political cooperation between the United States and European Union.

Early warning is intended to improve the capacity of each side to take the other side's interests into account at an early stage when formulating policy, legislative, or regulatory decisions, without limiting each side's existing decision-making authority. Both sides understand that we are not seeking to create a new bilateral dispute settlement mechanism. We are simply working to identify through an agreed process potential frictions at an early stage, and to resolve them, at the technical level where possible and at the political level, if necessary.

In addition to attuning government officials to work on the early warning concept, we will also invite the Civil Society Dialogues to contribute to this effort by identifying problems and designing proposals for resolution. As you know, the Transatlantic Business Dialogue has been widely recognized as a key private sector contributor in this type of work to date, providing valuable input and assistance to identify potential trade frictions and to resolve a number of trade issues, particularly in the standards and regulatory policy area.

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

Another important area where the EU and the United States are working together is to ensure that the Seattle Ministerial leads to further trade liberalization and an improved and strengthened WTO system. We regularly discuss these issues bilaterally and in the regular Quadrilateral trade meetings involving the United States, the EU, Canada and Japan, and while we may have different views on issues, we share a commitment to further liberalize the world trading system. Of course, there are some areas of disagreement. For example, the EU appears reluctant to endorse the WTO's work on reducing or eliminating tariffs in the package of industrial items agreed to by APEC members, preferring at this point not to commit to sectoral negotiations. The EU is also reluctant to address labor issues in the WTO, although it does agree with us that core labor standards should be more widely respected throughout the world and that it is important for the WTO, ILO, and other international organizations to cooperate more closely on labor issues. We are in agreement with the EU that the next round of trade negotiations should be short -- about three years -- and that we must focus first on ensuring that talks already scheduled in the WTO covering at a minimum the built-in agenda on services and agriculture, and a manageable agenda dealing with institutional reforms, such as transparency, and allowing for ongoing talks like the transparency agreement on procurement. In addition, the EU shares our view that the WTO must move ahead quickly to improve the transparency of its operations and strengthen public confidence in it. We discussed these issues during the Quadrilateral trade meeting held in Tokyo in May, and will continue to work with the EU over the next few months to ensure that the next trade round is a real success.

CONCLUSION

In conclusion, I would again like to thank the Subcommittee for holding these hearings to allow us to discuss the many important initiatives that we are pursuing to liberalize transatlantic commercial relations and present the many means that we have developed, and are continuing to develop, to make progress on these issues. Recently, there has been some concern expressed that the EU's attempts to undertake internal reforms could affect the ability of the United States and the EU to address important and pressing bilateral and multilateral issues. Some have expressed concern over the resignation of the European Commission -- an event without precedent in the nearly 50-years existence of the EU and its predecessors. While there was uncertainty when this first happened, in the almost three months following, we have continued to work with our European Commission colleagues to make progress on many issues.

But, we face a problem almost as intimidating here in Washington which I would like to bring your attention because I know of this Committee's keen interest in international economic issues such as these. For several years, the Congress has tended to look at the Commerce Department's trade role as being principally export promotion, and has not yet given priority to funding the Commerce Department's Market Access and Compliance functions. For several years the Congress has provided substantially less funding for this function than has been requested in the President's budgets. In fact, since 1996, our Market Access and Compliance unit has been underfunded by a total of $14 million from the Administration's requests -- or about 20 percent of the total resources spent on this function. The consequence has been a shrinkage in the amount of staff we have been able to apply to market access, monitoring and compliance. The EU Affairs unit that deals with the issues that are discussed today has shrunk from 11 to 6 people.

The President's budget proposal for FY 2000 seeks to remedy this situation and places a higher priority on compliance and enforcement of our trade agreements. I commend to your attention the Market Access and Compliance budget initiative, as adequate funding for access and compliance will pay dividends in increased exports.

The Commerce Department's Trade Development unit, which addresses industry-specific trade and commercial issues, including such critical U.S.-EU issues as 3G wireless and data privacy, also must be fully funded to ensure that we address industry concerns. This is especially crucial as we consider a new trade round under the WTO where Commerce is a key member of the interagency negotiating team led by the Office of the U.S. Trade Representative.

Let me close by emphasizing that the U.S.-EU relationship is too important to allow it to languish. The U.S.-EU commercial relationship is key to both our international trade strategies. Not only is our bilateral commercial relationship the largest worldwide, the United States and the EU also are partners in working for liberalized trade and investment throughout the world -- in Asia, Latin America, and in Africa. Without our strong joint leadership, much less would be accomplished in multilateral fora to advance the trade agenda. The broad contacts developed

with EU member states and with the private sector in the new Dialogues like the TABD broaden our ability to contribute to trade liberalization.

Accelerated work under the NTA over the past three years has brought about some impressive successes, such as the conclusion of the U.S.-EU Mutual Recognition Agreement, which cuts costs for U.S. business operating in the transatlantic environment. There is much work to be done on other important issues, such as genetically modified organisms, but I am optimistic that workable solutions can be found. I am especially pleased with work to develop early warning through government and private sector groups, such as the TABD, to keep our relationship on track. The relationship is simply too important for us to allow issues to go on without effective solutions that will address trade issues today and, over time, will actually strengthen the bond between our peoples.

European-American Business Council
1333 H Street NW
Washington, DC 20005
T 202.347.9292
F 202.628.5498
www.eabc.org

STATEMENT OF
WILLARD M. BERRY
PRESIDENT
EUROPEAN-AMERICAN BUSINESS COUNCIL

before

HOUSE INTERNATIONAL RELATIONS COMMITTEE
"THE FUTURE OF OUR ECONOMIC PARTNERSHIP WITH EUROPE"
June 15, 1999

INTRODUCTION

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

Trade and investment flows between the US and Europe provide real benefits for Americans. More than six million US jobs depend on European investment in the US, including 3.1 million Americans directly employed by European-owned companies. In fact, 12.5 percent of US manufacturing jobs are supported by European investment. One quarter of all US exports go to Europe and those exports support 1.5 million jobs. Two-way trade between the US and Europe reached $484 billion in 1997, as Europe purchased more than $240 billion worth of US manufactured goods. Cross investment between the US and Europe is more than $846 billion, which is split almost evenly between US investment in Europe and European investment in the US.

Europe is the largest foreign investor in 41 of 50 US states and the number one or number two export market for 44 states. Just to cite one example, Mr. Chairman, your home state of New York sold $12.6 billion of goods to Europe in 1997. European investment in New York supports about 220,000 jobs.

OVERVIEW

Last month the entire European Commission was forced to resign as a result of allegations of fraud, mismanagement and nepotism. With a new Commission still not in place, it is difficult to

predict how this surprising event will affect US-EU economic relations. It is encouraging that the Member States have moved quickly in designating a new president for the Commission. President-designate Romano Prodi and other EU leaders have agreed that the incoming commissioners should be chosen for their political and economic expertise, and that the Commission should be made more accountable to discourage the kinds of abuses which led to the current situation.

Perhaps the most remarkable aspect of our trade and investment relationship with Europe is that it is balanced and free of the long-term deficits that have characterized our relationship with Asia in particular. Of course, any relationship of this size will always have its share of disputes and the relationship between the US and Europe is no exception. Although we cannot head off all trade disputes we can address some of the systemic issues that continually cause problems. Many recent disputes have centered on agricultural products, largely because of a lack of confidence by European consumers in their governments to ensure food safety. We have seen US exports to Europe blocked because of concerns about beef hormones, genetically modified plant commodities, and sanitary procedures for poultry.

Many of the trade problems between the US and the EU have been intractable because they involve issues unrelated to business and where the two sides have different priorities. Where disputes are caused by different views on food safety, or for that matter on protection of the environment or aid to developing countries, it is often difficult to find an economic solution. The classic confrontational approach of trade negotiators and the threat of trade sanctions are often not the best way to handle such problems, as we have seen in the banana dispute and others. Instead, the US and EU should continue to improve their dialogue on these issues in the hope of finding common ground.

At the same time, both industry and governments need to redouble their efforts to educate consumers. It is easy to see why consumers in Europe, in particular, are concerned about food safety. From the outbreak of mad cow disease to last month's revelation that some Belgian meat products were contaminated with dioxin, there have been a number of examples of governmental failure to protect consumers. It is incumbent upon European governments to fix their regulatory processes to prevent future problems and restore confidence in the system. If the problem of

consumer confidence is not addressed we will never resolve disputes over hormones and genetically modified food products.

Today I would like to discuss these and some other bilateral disputes and offer some proposals on how to resolve them. I would also like to contrast them with other issues that have been handled more constructively. Undersecretary of State Stuart Eizenstat said recently that we are entering into a "crucial period" in our economic relationship with Europe. I believe this is true, because both the US and the EU have allowed a few narrow disputes to dominate our entire trade agenda and threaten more important positive initiatives. The US and EU must be able to cooperate to advance their bilateral agenda and to advance the agenda of the World Trade Organization, which will launch a new round of trade negotiations this year.

I testified before the House Ways and Means Subcommittee on Trade last summer, at which time US-EU relations seemed to be on a very sound footing and headed in a positive direction. At the May 1998 US-EU Summit the two sides had reached an agreement that significantly eased problems arising from US sanctions measures. In addition, the US and EU had just launched the Transatlantic Economic Partnership (TEP), an ambitious plan to eliminate bilateral barriers to trade and investment and increase cooperation on multilateral issues. Since then longstanding disputes such as those over beef and bananas have escalated, and new problems, such as the dispute over hush kits, have emerged.

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

To their credit, the Administration and the European Commission are working to create an early warning system to head off potential trade disputes, much as you are doing, Mr. Chairman, through your leadership in the Transatlantic Legislators Dialogue. Government officials will meet periodically to identify potential disputes and discuss solutions. The EABC supports the creation of an early warning system -- we have seen with the dispute over hush kits that a lack of timely discussion of potential trade disputes can lead to minor regulatory procedures becoming huge problems. Most of the US-EU disputes of recent years, however, have come with plenty of

warning. Therefore, the EABC cautions that new fora for US-EU discussion may be helpful, but are unlikely to bring a dramatic lessening of tension.

BEEF HORMONES

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

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

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

BIOTECHNOLOGY

The EABC has been a strong advocate of the need to improve transatlantic trade relations in biotechnology products and has been an active participant in the TABD agricultural-biotechnology working group. The US and EU should make every effort to implement the recommendations of the TABD in this area. The EU's failure to approve some genetically modified corn, which blocked about $200 million of US corn exports to the EU last year,

demonstrates the need for timely, predictable and science-based regulatory processes. US corn exports are likely to be blocked again this year because some genetically modified varieties have not been approved in the EU. To make regulatory processes more transparent and predictable, with the ultimate goal of compatible US-EU regulatory requirements, the US and EU should act on the following recommendations of the TABD:

- The US and EU authorities should reach agreement on a clear "pathway" for the respective regulatory decisions and provide this to all affected parties.
- The US and EU authorities should agree on a common data set for risk assessments and regulatory decisions.
- The US and EU authorities should develop estimated regulatory approval timelines for respective US/EU approvals to be used as guidance for commercial decisions by industry.

BANANAS

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

Today, retaliatory tariffs meant to block $191 million in annual EU exports are in place and may remain in place for some time. Many companies that have nothing to do with trade in bananas, including some EABC members, have been directly hurt by the US retaliation.

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

ONLINE PRIVACY

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

TRANSATLANTIC ECONOMIC PARTNERSHIP

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

Recently the two sides have been discussing the possibility of mutual recognition agreements (MRAs) on cosmetics, marine safety and medical equipment. Hopefully by the June US-EU Summit the two sides will be able to agree on these and additional sectors and also make progress on improving regulatory cooperation. The US and EU should also redouble their efforts to move forward on MRAs in several service sectors, which would be of great benefit on both sides of the Atlantic. Discussions under the TEP on a pilot project for approval of biotechnology products is also encouraging. The US and EU should build on these efforts and seek agreements in other areas of the TEP to meet the deadlines in their joint action plan.

SANCTIONS

Despite last year's agreement, the proliferation of economic sanctions in the US continues to strain the US-EU relationship. The Council opposes the use of unilateral economic sanctions, especially when they are extraterritorial in nature, because they cause numerous problems for companies that operate internationally. Economic sanctions, while rarely having any of their desired impact in influencing other countries' policies, mainly restrict the activities of multinational companies, to the detriment of US workers, US exports, and investment in the US.

The 1998 agreement on expropriated property and secondary boycotts that is meant to defuse the dispute over Helms-Burton and the Iran and Libya Sanctions Act is not a final resolution of the dispute, but it is an important step toward that goal. The EABC strongly urges Congress to amend Helms-Burton so that the President can waive Title IV, which requires that executive visas be denied for companies investing in expropriated US property in Cuba. Congress' cooperation on this matter would allow the US and EU to continue their cooperation in addressing the issue of illegal expropriation without using unilateral sanctions.

The EABC also recommends that Congress enact the bill introduced by Senator Lugar and Congressman Crane to reform the process of considering new economic sanctions. This bill would provide for a more deliberative and disciplined approach for policymakers considering economic sanctions proposals. The bill strives to maximize US foreign policy flexibility, calling for all future sanctions measures to include Presidential waivers for national interest, sunset provisions, protections for contract sanctity, and mandates that a cost analysis be made of any sanctions bill before it is passed.

Sanctions measures by state and local governments are also an increasingly important problem in the US-EU relationship. It is especially disturbing that state and local governments continue to move forward with various sanctions measures modeled on Massachusetts' Burma sanctions law, which has been ruled unconstitutional. The Administration's own ability to conduct foreign policy is threatened when each state, city and county feels the need to set its own foreign policy and to take actions against foreign governments it finds objectionable. Congress also should oppose efforts by state and local governments to enact sanctions measures and maintain its own role in the conduct of foreign policy.

WORLD TRADE ORGANIZATION

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

CONCLUSION

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

Statement of Robert E Robeson, Jr.
Vice President, Civil Aviation
Aerospace Industries Association of America, Inc.

Before the
Committee on International Relations

U.S. House of Representatives

June 15, 1999

Washington, D.C.

Mr. Chairman, Ranking Member Gejdenson, and Members of the Committee, I am pleased to have this opportunity to discuss the numerous problems with the so-called EU Non-Addition rule. Before elaborating, let me first express our gratitude for the leadership shown by the Chairman, the Ranking Member, and members of this committee on this issue. Your efforts have no doubt been instrumental in convincing the EU of the importance of this issue to the United States.

As the trade association representing the nation's leading manufacturers of aerospace products, AIA and its members have a vital stake in access to the world's markets. We are the nation's leading export sector. For civil aircraft and related products, exports account for about two-thirds of our production. Thus, we are extremely sensitive to any measures that would adversely affect our access to foreign markets.

The Non-Addition Rule is just such a measure. This regulation, which was adopted this spring and, if not rescinded, will take effect on May 8, 2000, would bar certain hushkitted and re-engined aircraft from flying to, from and within the EU despite that fact that these aircraft meet the highest internationally recognized noise standards. We are deeply concerned that there is no scientific basis for the regulation, that it unfairly discriminates against U.S. industry, and that it undermines the integrity of global noise and emissions standards developed by the International Civil Aviation Organization.

The Regulation is Not Scientifically Based

The regulation aims to reduce noise at congested European airports, a seemingly admirable goal. The first of many problems with the regulation is that it infers that hushkitted or re-engined aircraft are noisier than the newer aircraft. In reality, aircraft which have been re-engined or equipped with hushkits have noise performance comparable to that of modern widebody aircraft that would not be impacted by the rule.

The first chart in your written material illustrates this point. It is a compilation of official noise data from aircraft certification tests. The green marks are re-engined or hushkitted aircraft that are recertificated after modification to meet the latest noise

standard called Chapter 3. The blue marks are aircraft that meet Chapter 3 as first manufactured. As you can see, recertificated aircraft are well mixed in with the originally certified aircraft. Recertificated aircraft are not a unique threat to the peace of the airport community.

Secondly, the regulation selects a design rather than a performance standard to determine which aircraft will be barred from operating in the EU. Under the regulation, aircraft equipped with engines having a bypass ratio of less than 3.0 would be banned from Europe, no matter how good its noise performance would be.

However, ranking aircraft by their engines' bypass ratio is not an effective way of identifying the noisiest aircraft. Figure 2 is a plot of cumulative aircraft noise versus bypass ratio. There is no direct correlation between bypass ratio and aircraft noise. If there were such a correlation, the points would be aligned along a line sloping up or down to the right.

Finally, despite several requests, the EU has not produced any analysis that demonstrates the regulation will result in noise abatement at European airports. It is unlikely that any significant noise abatement can be demonstrated because heavier, noisier aircraft are likely, for many applications, to take the place of aircraft that will be excluded by the rule.

The Regulation Discriminates Against U.S. Industry

Significantly, the rule has been written such as to affect only U.S. products. Every engine and every hushkit affected by the rule is manufactured in the U.S. By using a bypass ratio of 3.0, the EU was able to ensure that the European aviation industry was not affected by the rule. The EU made a careful note of this fact in the Impact Assessment prepared for the rule, which stated:

> *In addition, there are no manufacturers of hushkits established in the Community. Therefore, the impact*
>
> *- on employment;*
>
> *- on investment and the creation of new business;*
>
> *- on the competitive position of business*
>
> *will not be significant.*

Source: *Impact Assessment*, appended to Proposal for a Council Directive 98/0070 dated 9-3-98

That this is, in effect, protectionism is demonstrated in Figure 2. Figure 2 has a line drawn at bypass ratio 3.0. Recertificated aircraft with engines to the left of the line are affected by the rule; those to the right are not. All engines to the left of the line are made in the U.S. Those engines just barely to the right of the line – with bypass ratios of 3.0 and 3.1 - are all EU products.

In addition, aircraft noise is a function of many factors, including aircraft weight. Heavier aircraft are generally noisier. But the EU rule focuses exclusively on lighter narrowbody aircraft already subject to the most stringent noise regulations precisely because they are light. This approach is not consistent with a rule said to be aimed at reducing noise in the airport community.

One AIA member company, Pratt & Whitney, conservatively estimates its losses as a result of this rule to be $1 billion. This is comprised of lost sales of new engines and lost spare part sales due to early aircraft retirement.

Other U.S. manufacturers are also affected. Losses for hushkit manufacturers are expected to be comparable. All hushkits made for aircraft affected by this rule are manufactured by U.S. companies. In addition, U.S. producers of replacement parts for this equipment will feel the effects of the rule.

Moreover, the rule's disruption of the aircraft resale market and reduction of airline fleet values will be felt disproportionately by U.S. airlines. First, the rule itself assures EU operators of a better market for aircraft sales than will be available to U.S. operators. U.S. operators cannot sell recertificated aircraft to an EU operator for operation in Europe. However, an EU operator can freely transfer recertificated aircraft to any other EU nation without losing the right to operate the aircraft in Europe. An EU operator wishing to lease an aircraft and transfer its registration has the opportunity to obtain an exemption from the rule so the aircraft can retain its ability to service Europe. No such exemption exists for non-EU operators.

The EU rule further affects U.S. airlines that have relied on ICAO standards and chosen to invest heavily in hushkitting and re-engining as a means of complying with the Chapter 3 noise requirements. In the EU market, operators have relied less on hushkitting and more on acquiring originally certified (i.e. new production) Chapter 3 aircraft. Now, in the last few months before the U.S. fleet becomes 100% compliant with the Chapter 3 standards, the EU has changed the rules. In order to qualify an aircraft for operation after April 1, 2002, an operator must prove the aircraft operated in to the EU between April 1, 1995, and May 8, 2000. Many U.S. registered aircraft will never have qualified under the EU rule for operation within the EU after April 2002 and those that have qualified will lose that right if sold outside the U.S. The potential resale market for such aircraft will now exclude any EU operator or any operator who may wish to operate to the EU.

The result of this loss of resale markets for U.S. owners of recertificated aircraft is a significant reduction in the value of their fleet. This devaluation increases the cost of

aircraft financing as financial institutions realize that ICAO certification standards cannot be relied upon and that the useful life of an aircraft may be subject to the whim of every national government in the world. This diminishes airlines' ability to acquire new aircraft and increases operating costs - making them less competitive and more vulnerable during economic downturns.

The EU Rule Threatens the System of Global Noise and Emission Standards

Our fundamental concern with the EU rule is that if implemented it will deal a devastating blow to international acceptance of and concurrence with ICAO's role as the sole entity with authority to set global aviation environmental standards. A global aviation industry must have global environmental standards in order to be economically viable. ICAO's work on progressively more stringent noise standards has produced an average reduction of 40% in aircraft noise since 1970.

If this rule is enacted it will stand clearly for the proposition that any country or region can ignore its international obligations and confer an advantage to its own industry by passing an "environmental regulation" without a shred of evidence of any environmental benefit. The result can only be a patchwork of conflicting regulations that will inflict serious damage on the strongest industrial sector in the U.S.

Undermining the integrity of international standards will also complicate ongoing efforts to achieve international consensus on new, more stringent, international noise and emissions standards. The achievement of new international noise standards is a delicate process of balancing the disparate political, economic and environmental needs of many nations. Compromises are based on trust that no country will change the rules to suit its own ends after leaving the negotiating table.

Companies engaged in the design, manufacture and operation of civil aircraft must be confident of their ability to predict how long their products will remain in service. For manufacturers, an important part of this equation is our ability to generate revenue from spare part sales. That is tied directly to the life of the product. Without the stability of global standards, the ability of the aviation industry to make the investments in noise reduction technology that are the basis of all real progress in this field will be reduced.

The EU Regulation is the first serious departure from the ICAO process since the first global noise standards were set in 1969. If it is enacted its most enduring effect may be the lost opportunity for further progress in noise reduction.

The EU Rule Will Violate Member States' International Obligations

The Chicago Convention on International Aviation requires EU member states to recognize U.S. certificates of airworthiness for aircraft that meet all ICAO standards. By refusing to permit the operation into their territories of recertificated aircraft that comply with all ICAO standards the EU member states would be in violation of this obligation.

Further, most of the EU member states have bilateral air service agreements that allow limits on the type of aircraft operated only *if applied under uniform conditions,* consistent with the non-discriminatory provisions of the Chicago Convention. The EU rule is not uniformly applied and so violates these bilateral agreements.

Conclusion

The EU rule is a political gesture that does not really provide an environmental benefit but does impose an economic burden outside Europe. The EU should withdraw the rule and commit itself to work within the ICAO process. AIA supports the efforts of the U.S. government to work with the EU in ICAO to develop new, more stringent international noise standards. We are also looking for a public commitment by the EU to work within ICAO, and to identify what they would consider to be an acceptable solution to their problem. In our view, the goal of new international standards is meaningful progress to solve the real problem of aircraft community noise. We support a firm position by the U.S. to preserve ICAO's authority as the sole aviation standard setting body for aircraft noise, which will in turn assure the future development of new standards that would produce actual, measurable noise reduction benefits.

Because of our reliance on access to foreign markets, our industry would suffer severely if we become embroiled in a trade war. For this reason we have supported efforts by the Administration to avert a trade war on this issue. However, we are concerned that the EU has done little to address the trade implications of their unilateral action. For this reason, AIA wrote to Ambassador Barshefsky requesting that the Office of the United States Trade Representative self-initiate an investigation to determine whether this regulation is actionable under Section 301 of the Trade Act of 1974. A copy of our request is included in my statement as attachment 3. You may be interested to know that the Air Transport Association has made an identical request, and the General Aviation Manufacturers Association also supports such an action. This is a measured response that should signal to the EU that the United States takes this issue seriously and expects its trading partners to live up to their international obligations. We would welcome your support of our request in any communications you have with the Administration on this subject, and would be pleased to work with you at your convenience.

That concludes my statement. Thank you for your attention, and I would be pleased to answer any questions at this time.

Hushkits and Re-engining Significantly Reduce Noise to Levels Produced by Other Modern Aircraft Currently in Production

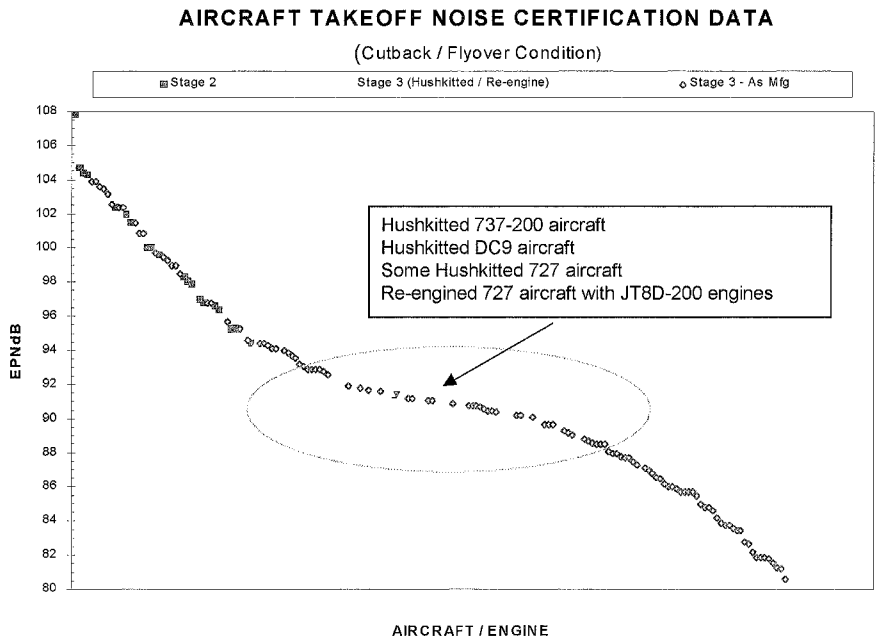
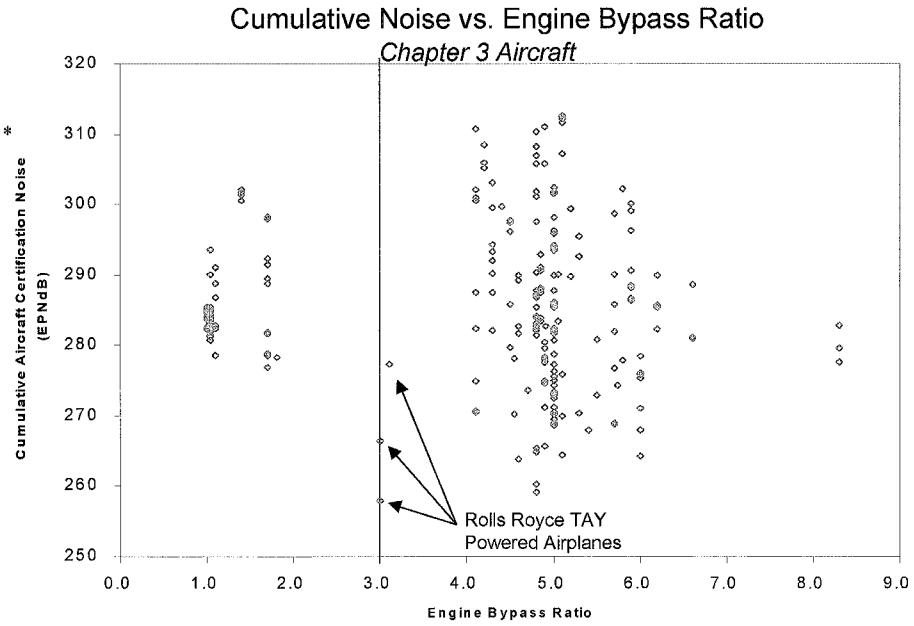


Figure 1

All Currently Compliant Chapter 3 Airplanes

Discriminating Between Aircraft on the Basis of Engine Bypass Ratio Is Not an Effective Means of Reducing Noise



* Summation of Aircraft Noise at Three Noise Certification Measuring Points: Sideline, Takeoff, Approach

Figure 2

Attachment 3

John W. Douglass
President

June 2, 1999

Ambassador Charlene Barshefsky
U.S. Trade Representative
Winder Building
600 Seventeenth Street, N.W.
Washington, D.C. 20508

Dear Ambassador:

The Aerospace Industries Association and its member companies urge the Office of the U.S. Representative to initiate an investigation to examine the European Union's recently enacted Council Regulation 952/1999, the EU Non-Addition Rule. This request is consistent with our March 19, 1999 filing to WTO Notification G/TB/Notif.99.75 whereby AIA established its interest in, and opposition to the European Common Position (EC) No. 66/98 which became Council Regulation 952/1999 on April 29, 1999.

Contrary to the stated purpose for the regulation of protecting the environment, and especially noise, energy efficiency and pollution, the European regulation is not founded on technical merit nor has it been supported by technical studies to establish benefits. Rather, it is a non-technical exercise that economically advantages European products and services.

By its action, the European Union and its Member States discriminate against non-European aerospace manufacturers and operators. No state or region of the world can unilaterally prohibit the movement, ownership, maintenance, and sale of aircraft that have been certificated as meeting all applicable requirements without derogating its obligations under numerous international treaties and agreements.

Accordingly, AIA urges the Office of the U.S. Trade Representative to initiate an investigation in accordance with 19 U.S.C. 2412 to determine whether this matter is actionable under Section 301 of the Trade Act of 1974, as amended. It is critical that the U.S. government enforces its rights under its international trade agreements in response to this unfair trade practice by the European Union.

AIA appreciates your attention to this important matter and looks forward to working with you in seeking to resolve this trade restriction.

Sincerely,

John W. Douglass

JD:ha

Aerospace Industries Association of America, Inc.
1250 Eye Street, N.W., Washington, D.C. 20005-3924 (202)371-8400

Statement of the American Farm Bureau Federation

TO THE
HOUSE INTERNATIONAL RELATIONS COMMITTEE
REGARDING
U.S. – EU TRADE

Presented by

Stephen Weber
President
Maryland Farm Bureau

June 15, 1999

600 MARYLAND AVENUE SW • SUITE 800 • WASHINGTON, DC 20024 • (202) 484-3600 • FAX (202) 484-3604
225 TOUHY AVENUE • PARK RIDGE, IL 60068 • (847) 685-8600 • FAX (847) 685-8896
Internet: http://www.fb.com/

As the national voice of agriculture, AFBF's mission is to work cooperatively with the member state Farm Bureaus to promote the image, political influence, quality of life and profitability of the nation's farm and ranch families.

FARM BUREAU represents more than 4,800,000 member families in 50 states and Puerto Rico with organizations in approximately 2,800 counties.

FARM BUREAU is an independent, non-governmental, voluntary organization of families united for the purpose of analyzing their problems and formulating action to achieve educational improvement, economic opportunity and social advancement and, thereby, to promote the national well-being.

FARM BUREAU is local, county, state, national and international in its scope and influence and works with both major political parties to achieve the policy objectives outlined by its members.

FARM BUREAU is people in action. Its activities are based on policies decided by voting delegates at the county, state and national levels. The American Farm Bureau Federation policies are decided each year by voting delegates at an annual meeting in January.

STATEMENT OF
THE AMERICAN FARM BUREAU FEDERATION
TO THE
HOUSE INTERNATIONAL RELATIONS COMMITTEE
REGARDING
U.S. – EU TRADE

Presented by

Stephen Weber
President
Maryland Farm Bureau

June 15, 1999

Good morning Mr. Chairman and members of the Committee. I am Stephen Weber, President of the Maryland Farm Bureau and a third generation fruit and vegetable farmer from Baltimore County. The American Farm Bureau represents more than 4.8 million member families in the United States and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on access to customers around the world for the sale of over one-third of our production.

U.S. – EU Trade

The European Union (EU) is the second largest market for U.S. agricultural exports, comprising 16 percent of U.S. agricultural export trade. Agricultural exports to this region reached nearly $8.8 billion in 1998 but are estimated to dip to less than $8 billion in 1999, based on the current low commodity price environment. The EU is a primary export market for U.S. soybeans and corn gluten feed and represents an important market for several other commodities. However, EU trade policies and agricultural support programs inhibit U.S. export growth and potential to this region.

Reform of the EU's Common Agricultural Policy (CAP), announced in late March, falls far short of the reductions needed in EU agricultural spending and sets a poor precedent for the next round of trade talks in the World Trade Organization (WTO). EU leaders approved a CAP reform package that delays changes in the dairy sector until 2005 and cuts beef prices by only 20 percent and cereals by a mere 15 percent. Moreover, direct payments to farmers to offset lost income from price reductions will actually be increased as part of the CAP reform. In short, the reforms do not eliminate agricultural price supports, products and export subsidies and farm income supports linked to production. In addition, the proposed price reductions will not be large enough to eliminate the need for export subsidies. U.S. producers cannot compete against the mountain of support that farmers in the EU receive.

The EU spends in excess of eight times the level of domestic and export subsidies as the United States. Data from the U.S. Department of Agriculture and the EC show that total EC domestic and export subsidy expenditures for 1997 exceeded $46 billion compared to $5.3 billion spent by the United States (see Attachment A). This level of spending distorts world trade and undermines U.S. producers' competitiveness in vital export markets. The CAP should be further reformed to break the linkage between EU production and support. In addition, Congress and the Administration should closely monitor EU export subsidy commitments under the Uruguay Round Agreement on Agriculture to ensure EU compliance with its international obligations and should press the EU to fully eliminate export subsidies in the next round of negotiations on agriculture in the World Trade Organization. Finally, the use of an "inward processing" export subsidy scheme utilized by the EU should be continually reviewed to determine whether or not the EU is circumventing its export subsidy commitments for skim milk powder and butter by allowing processed cheese to be exported using export subsidies for components of processed cheese.

Further, the Administration and Congress should push for significant reductions in tariffs by the EU as part of the upcoming WTO negotiations on agriculture. As you know, the EU is now engaged in accession talks with several Central and Eastern European countries. It is well known that the EU cannot maintain price supports for agriculture at current levels once these countries become members of the EU. The U.S. government should use this fact, as well as the growing support in the WTO, to further liberalize agricultural trade and to leverage further market oriented reform of the CAP.

It should be noted that the recent changes in the CAP did not include changes in support prices for olive oil, fresh fruits and vegetables, or changes in policies affecting sugar or wine. Without additional reform, U.S. agricultural producers cannot compete on fair and level terms with their EU competitors in the international marketplace.

Recent Developments with the European Commission

In March, the chief executive of the European Commission (EC) and 19 other senior officials resigned their positions following allegations of fraud and mismanagement. Their departure, and the uncertainty that lingers as most of the commissioners serve in caretaker roles until their replacement is named late this summer, casts serious doubt on the resolution of several outstanding trade problems in our bilateral trading relationship. Increased diplomatic efforts by U.S. officials and Congress must be undertaken to ensure that EC officials do not use disarray in their political system to delay progress on important trade issues.

U.S.-EU Bilateral Trade Problems

There are a number of significant trade problems in the U.S.-EU agricultural trading relationship. Among the most vexing issues are the EU's recalcitrance in implementing the WTO ruling on its banana import regime, the EU's refusal to implement the WTO ruling on the beef case effective May 13, 1999, the EU's non-transparent, market

disrupting process of approving genetically modified organisms, a proposed EU ban on antibiotics in feed and efforts by the EU to prevent importation of U.S. beef and pork products.

EU Beef and Bananas

The United States has brought more dispute settlement cases before the WTO than any other nation. We must take all action necessary to ensure that our trading partners comply with WTO rulings. The obligation of compliance should not be taken lightly. Our trading partners cannot be allowed to unilaterally weaken the very principles that we negotiated in the Uruguay Round Agreement.

American agriculture will not have confidence in the multilateral trading system if WTO members are permitted to disregard dispute settlement findings, as the European Union is now doing in the banana and beef cases.

The United States and the European Union have been embroiled in a lengthy dispute regarding the European Union's compliance with the WTO ruling on bananas. This case is important to agriculture for many reasons. It is the first ruling to set limits on the application and administration of agricultural tariff rate quotas. It is the first action against the European Union – one of American agriculture's largest trading partner. Perhaps most importantly, it is the first case to test the effectiveness of the WTO when a losing party refuses to come into compliance with a WTO ruling. As such, it sets a crucial precedent for the WTO beef hormone case, in which the European Union has also made known its unwillingness to come into compliance. Even though retaliation is now in effect on bananas, EU officials continue to put forth reform options that are not consistent with WTO trade rules. The United States should adopt a carousel approach for retaliation wherein the list of targeted EU products is rotated periodically to ensure that specific concessions are suspended for all member countries.

Every effort should be made by U.S. officials to thwart the adoption of the EU's approach to WTO implementation which favors continual relitigation in the WTO. U.S. agriculture supported ratification of the Uruguay Round in part because more stringent rules for dispute settlement were incorporated into the new Dispute Settlement Understanding. However, litigation of early agricultural cases in the WTO has revealed a weakness in the process: the amount of time necessary for WTO cases to be litigated and implemented is far too long. Now, the EU is attempting to lengthen the process further, if not indefinitely, by codifying its endless loop theory in the WTO. Moreover, the EU has stridently refused to implement WTO rulings, much as it repeatedly ignored rulings under the WTO's predecessor the GATT. As a result, we strongly support the U.S. retaliation efforts now underway.

It is also critically important that the Administration adhere to the timeline to retaliate against EU imports for noncompliance with the WTO ruling on beef. According to that timeline, the Administration has committed to suspension of concessions no later than mid-July following a ruling by the arbitral panel on damages. As with the banana case,

the United States should adopt a carousel retaliation approach for beef. In specific, the carousel list should target the largest EU member states as the "first up" for retaliation in this exercise. As we learned with the original beef retaliation in the late 1980's, targeting smaller member states is ineffective in pressuring the EU to lift its beef ban. The Administration and Congress should also be mindful that the EU is likely to alter its already heavy subsidization of agricultural products to mitigate the effects of the prohibitive duties to be levied on their agricultural imports into the United States. If this occurs, the prohibitive duty should be adjusted to eliminate the offsetting increase in subsidy levels by the EU.

U.S. agriculture is outraged by the EU recalcitrance in adopting WTO rulings that are against their interests. The upcoming WTO negotiations on agriculture, and the review of the Dispute Settlement Understanding now underway in the WTO, present excellent opportunities for the United States and its allies to shorten the dispute settlement process and to ensure that WTO members adopt panel rulings in a timely manner.

GMO Approval Process

One of the most contentious trade irritants in the U.S.-EU agricultural trading relationship is the EC approval process for genetically modified organisms (GMOs). Significant delays and a lack of transparency in the EC regulatory approval process for GMOs have had a substantial impact on U.S. exports of soybeans and corn to the EU. U.S. exporters have been repeatedly shut out of the EU market due to the EC approval process. Positions taken by EU officials in the Biosafety Protocol negotiations last fall and the lack of approvals for any GMO product during the past year, are further evidence of the EU's intent to block trade in bioengineered products.

The EC's regulatory process for GMOs is a nontariff trade barrier that disregards scientific findings regarding the safety of bioengineered products and the potential to use bioengineering processes to feed an ever growing global population. Moreover, EC regulations concerning labeling of GMO products do not provide meaningful information to consumers, lack empirical and scientific bases for labeling and lack procedures to ensure enforcement on a non-discriminatory basis.

U.S. negotiators should place the issue of biotechnology high on the agenda of emerging issues to be addressed in the upcoming negotiations on agriculture in the WTO.

Specified Risk Materials (SRM) Ban

The EU is considering a ban on "specified risk materials" aimed at removing certain animal parts that could carry Bovine Spongiform Encephalopathy (BSE). If such a ban is enacted in September 1999, as planned, products containing certain animal parts would be banned from the European market. Such a ban would significantly impact U.S. exports without justification. No cases of BSE have been found in the United States.

Prior to the September implementation date, the EU will assign countries to one of four categories depending on their levels of BSE risk. Because BSE is not known to occur in the United States, every effort should be made to prevent the EC from designating the United as a country at risk for BSE.

Third Country Meat Directive-Veterinary Equivalence

Under the EU's Third Country Meat Directive regulation, EU inspectors grant export approval to U.S. meat processing plants based on arbitrary factors such as the color of plant walls. The regulation is a blatant nontariff barrier designed to prohibit U.S. meat exports to the EU. The random enforcement of this regulation has resulted in a complete cut-off of U.S. poultry exports and has reduced U.S. pork and non-hormone treated beef exports to a trickle. The regulation is highly discriminatory in that European plants are not subject to the same requirements as foreign plants.

In response to a section 301 petition filed by the U.S. meat industry, the EU and the United States negotiated a Veterinary Equivalence agreement which was to have been implemented in October 1997. To date, the EU has not implemented the agreement and has linked its implementation to U.S. approval of a proposed rule that would recognize certain regions in the EU as free of hog cholera. U.S. officials should ensure a sound scientific basis before proceeding with the proposed rule.

Moreover, a comprehensive review of the U.S.-EU trading relationship is called for given the lack of willingness by the EU to accept beef and pork imports from the United States. It is clear that the EU is erecting roadblock after roadblock to ensure that U.S. exports of beef and pork are never approved for entry into the European market. Congress and U.S. officials should ensure that agricultural trade, and in particular trade in meat products, is two way before further concessions are granted to EU exporters.

Proposed Ban on Animal Feed Antibiotics

The EU has proposed a ban on four antibiotics in animal feed, purportedly to minimize human resistance to these antibiotics. This proposed ban has no scientific basis and is another attempt by the EU to exclude competition in its domestic meat market. Denmark, the largest supplier of pork to the EU, is leading the charge in pushing for the implementation of the ban. In short, Danish pork producers have concluded that they cannot compete with U.S. pork producers and are seeking a means to restrict trade.

Transatlantic Economic Partnership (TEP)

The Transatlantic Economic Partnership (TEP) establishes a regular dialogue between the United States and the European Union to seek to reduce trade barriers and to ensure closer cooperation in preparation for the 1999 WTO Ministerial Conference. Whereas the concept of the plan is commendable, on close examination, the TEP provides little that is new or substantive for agriculture. Moreover, elements of the plan cover areas of

extreme importance to agriculture including food safety, plant and animal health, biotechnology and standardization of certain regulations that directly affect agriculture.

The American Farm Bureau remains very concerned about environmental, labor and other provisions of the plan and related dialogues that do not include U.S. agricultural representation. It is critical that Congress and the Administration closely review elements of the TEP to ensure that U.S. agricultural interests are adequately represented and that agricultural exports are not negatively impacted.

In summary, EU import trade policies and agricultural support programs have significantly impacted the ability of U.S. agricultural producers to export to the EU. The EU is a large trading partner of the United States, but growth has been stagnant due to protectionist policies of the EU. Reform of the CAP, increased agricultural trade liberalization in the WTO and aggressive enforcement of EU implementation of WTO rulings and international obligations are areas that should be addressed in order to foster growth in U.S. agricultural exports to the EU.

Thank you.

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 1996:

Name: Stephen L. Weber, Pres., Maryland Farm Bureau, Inc.

Address: 2930 Liberty Road, Randallstown, MD 21133-4295

Telephone: (410) 922-3426

Organization you represent (if any): American Farm Bureau Federation

1. **Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 1996, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source:_____ **Amount:**_____

Source:_____ **Amount:**_____

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 1996, as well as the source and the amount of each grant or contract:**

Source:_____ **Amount:**_____

Source:_____ **Amount:**_____

Please check here if this form is NOT applicable to you: X

Signature: Catherine Vetter for Stephen L. Weber, Pres of Maryland Farm Bureau

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnessess who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Maryland Farm Bureau, Inc.
8930 Liberty Road, Randallstown Maryland 21133-4295
(410) 922-3426 • (410) 922-6871 (Fax)

BIOGRAPHY

Stephen L. Weber, current president of the Maryland Farm Bureau, is a third generation fruit and vegetable grower from the Cub Hill area of Baltimore County. For many years, his family has grown produce on the 85-acre property, which is now surrounded by development. In addition to giving Mr. Weber nearby customers for his year-round roadside market, this gives him a unique perspective on current agricultural issues, such as right-to-farm and property values.

A 1971 graduate of the University of Baltimore, Mr. Weber holds a bachelor of science degree in Business Management. He has served as president of the Maryland Roadside Market Association and sat on the Baltimore County Economic Development Commission from 1988 to 1994.

In Farm Bureau, Mr. Weber served as president of the Baltimore County Farm Bureau from 1985 to 1991 and as First Vice President of the state organization from 1991 to 1997. He also served as Public Affairs Chairman with the Maryland Farm Bureau, working on environmental and water quality issues with the General Assembly in Annapolis and througout the state.

Mr. Weber has four grown children and lives with his wife, Jo-Ann, in Baltimore County.

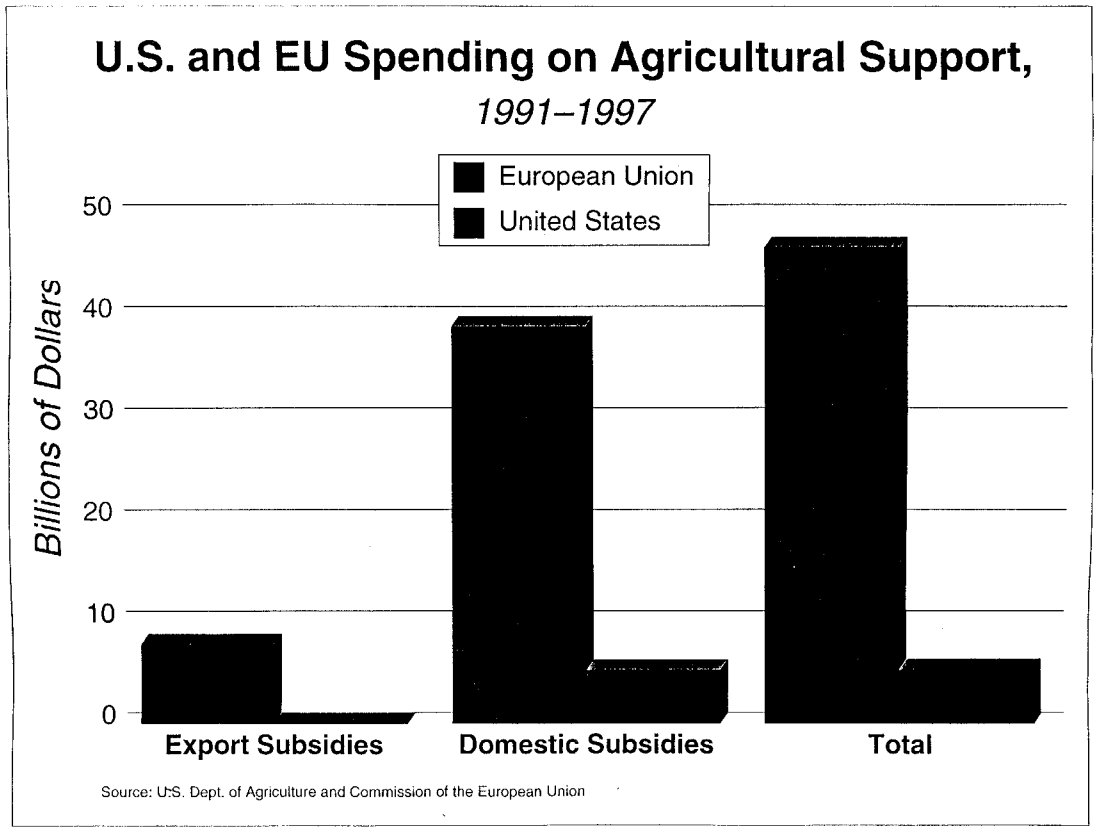

U.S. and EU Spending on Agricultural Support,
1991–1997
European Union
United States
Billions of Dollars
50
40
30
20
10
0
Export Subsidies
Domestic Subsidies
Total
Source: U.S. Dept. of Agriculture and Commission of the European Union

Table 21. A Comparison of U.S. and EU Spending on Agricultural Support, 1991-1997

European Union	$Billions						
	1991	1992	1993	1994	1995[e]	1996[e]	1997[e]
Export Subsidies [a]	11.860	7.980	10.840	10.650	9.290	8.820	7.752
Domestic Support [b]	30.800	36.060	34.500	37.480	32.470	36.040	39.078
Total	42.660	44.040	45.340	48.130	41.760	44.860	46.830
United States	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Export Subsidies [c]	1.260	1.630	3.060	1.980	0.340	0.025	0.056
Domestic Support [d]	9.590	10.3310	13.970	10.140	6.030	4.921	5.253
Total	10.850	11.960	17.030	12.120	6.370	4.946	5.309

Source: U.S. Dept. of Agriculture and Commission of the European Union.

e=estimate

[a] EU export subsidies include export refunds (amounts paid to traders who bought at high internal market prices and sold at world market prices), but exclude food aid.

[b] EU domestic support includes expenditures for intervention purchasing and other price support measures, production and processing subsidies, set-aside and income support, monetary compensatory amounts, and stock depreciation. Conservation Reserve Program spending is excluded.

[c] U.S. export subsidies include CCC export outlays (the Export Enhancement Program and Dairy Export Incentive Program), transfers to the General Sales Manager, and Export Credit Guarantee Programs. Foreign food aid is excluded.

[d] U.S. domestic support includes net CCC outlays, including 1988-1991 crop disaster relief, interest payments, and operating expenses, minus CCC export outlays.

THE STERN GROUP INC.
3314 Ross Place, NW
Washington, DC 20008
TEL: (202) 966-7894
FAX: (202) 966-7891
E-MAIL: paulastern@aol.com
International Trade Advisors

The Transatlantic Business Dialogue: A Paradigm that Delivers©

By: The Honorable Paula Stern

Prepared for The European Institute Transatlantic Seminar on Trade and Investment, Washington, DC

November 5, 1998

©Not for publication without the express permission of the author.

Paula Stern, former Chairwoman of the U.S. International Trade Commission, has counseled the Transatlantic Business Dialogue since its inception. The author wishes to acknowledge the contribution of Sheri A. Pitigala to the preparation of this article.

Executive Summary

The new Transatlantic Economic Partnership (TEP), launched by the United States and European Union at their bilateral summit in May 1998, is designed to strengthen transatlantic economic ties, as well as joint cooperation in multilateral fora. The Transatlantic Business Dialogue (TABD), given its demonstrated success in advancing the goal of trade liberalization, is geared up to support a genuine effort by the United States and European Union to eliminate trade barriers that continue to hinder bilateral and global trade.

In four years, the TABD has developed from being almost an afterthought proposed in a speech delivered by the late U.S. Secretary of Commerce Ronald Brown in Brussels in November 1994 to a powerful catalyst for trade liberalization advancing toward the ultimate goal of a New Transatlantic Marketplace. A revolutionary trade liberalization format - one that is business- and not government-driven - the TABD was instrumental in building the new Information Technology Agreement (ITA) and the U.S.-EU Mutual Recognition Agreement (MRA).

In a U.S. Department of Commerce survey, prior to TABD's formation, the U.S. and EU business communities identified regulatory barriers to trade, such as heterogeneous manufacturing standards and product certification bodies, as barriers between the two economies.[1] *The survey sparked momentum in the U.S. and EU governments to tackle those issues and set the stage for creating this new paradigm for trade liberalization that is proving to be a faster and more consensus-based method than traditional government-driven negotiations.*

The TABD is demonstrating that a regional forum can be a platform to expand its objectives multilaterally just as the Uruguay Round of the GATT, which fostered the World Trade Organization, was built upon provisions in the U.S.-Canada and NAFTA arrangements.

This article maps the progress of TABD since its inception in late 1995 and outlines an ambitious future agenda to deepen and widen TABD's activities in both the bilateral and multilateral arenas.

Introduction

At the May 1998 London U.S.-EU Summit, U.S. President Bill Clinton, EU Commission President Jacques Santer and British Premier Tony Blair announced the Transatlantic Economic Partnership (TEP). The TEP developed out of the 1995 U.S.-EU Summit in Madrid, where Presidents Clinton and Santer announced the launching of a New Transatlantic Agenda (NTA) and established the Transatlantic Business Dialogue (TABD) to define the trade and investment agenda required to bring about a New Transatlantic Marketplace.

Today, the U.S.-European trade relationship is not only the largest and most important bilateral trade relationship for the United States and the European Union, accounting for over 20% of total U.S. and 17% of total EU exports, but is also the largest two-way trade and investment relationship in the world, accounting for $2 trillion in goods and services.

The TABD is a unique example of entrepreneurial diplomacy by American and European businesses to expand transatlantic trade and investment. This business driven exercise ferrets out concrete obstacles to trade that the U.S. and EU governments can eliminate in an efficient time frame that is understandable to pragmatic business people as well as to the public, which is at best skeptical about the work of government trade negotiations.

The TABD, since its inception in late 1994, has transformed into a powerful catalyst for trade liberalization in the bilateral arena, advancing our two economies toward the ultimate goal of a New Transatlantic Marketplace. "In fact, virtually every market-opening move undertaken by the United States and the EU in the last couple of years has been suggested by the TABD."[2] As stated by David L. Aaron, Undersecretary for International Trade at the U.S. Department of Commerce:

> "...The TABD's work has produced a number of significant successes and continues to provide government with the advice we need.
>
> This government-business dialogue is unique in the world and has contributed immensely to the reduction of trade barriers across the Atlantic. No other forum has risen so rapidly to become as effective as the TABD. It has become the single most important channel through which business can help shape the bilateral trade agenda of governments."[3]

The TABD is also demonstrating that a regional forum can be a strong platform from which to expand its agenda in the multilateral arena, breaking down barriers and expanding trade on a global scale. The nature of the TABD-government dialogue encourages a more cooperative economic relationship between the U.S. and EU, fostering the type of concerted action by the two bodies required to liberalize trade globally, such as the expansion of the WTO Information Technology Agreement (ITA), progress on the OECD treaty criminalizing corporate bribery, and the implementation of the WTO Technical Barriers to Trade Agreement.

With the upcoming TABD CEO Conference this week in Charlotte, North Carolina, the two business communities will continue their groundbreaking work. Deepening and widening its agenda, the TABD will build on its successes, identifying key obstacles to trade and formulating practical and effective solutions to them, both bilaterally and in the multilateral arena.

The Transatlantic Business Dialogue

The Transatlantic Business Dialogue, a "virtual organization" of private business from both sides of the Atlantic, uses an open and flexible framework to tackle issues ranging from the Information Technology Agreement (ITA) to harmonization of technical standards via the June 1997 U.S.-EU Mutual Recognition Agreement (MRA). Its ultimate goal is a New Transatlantic Marketplace and eventually a liberalized global system.

The TABD is organized into four working groups: *Business Facilitation* works towards regulatory convergence in areas including electronic commerce, accountancy standards, export controls and product liability. *Global Issues* focuses on ways to leverage the transatlantic relationship to develop the global trading system vis-a-vis the WTO. *Small and Medium-sized Businesses* aims to boost trade opportunities and links at those commercial levels. The *Transatlantic Advisory Committee on Standards and Regulatory Reform,* the TABD's permanent and core working group, is detailed next.

The Transatlantic Committee on Standards and Regulatory Reform (TACS): a Business-Driven Agenda for Standards and Regulatory Reform

Continuing to lower tariffs between the two governments via the WTO enhances the U.S.-EU trade relationship, but the existence of heterogeneous standards and duplicative regulatory requirements on both sides of the Atlantic places a heavy burden on trade and business. Of the approximately $110 billion of U.S. merchandise exports to the EU, one half or $66 billion required some form of EU certification in addition to any domestic certification requirements.[4] Such redundant testing and certification increase the base cost of exports by up to 15 percent.

The costs of such testing can also mean lost business opportunities. For example, a 1991 U.S. Environmental Protection Agency study on the costs of environmental testing reported that costs of accreditation averaged over $4000 per audit, audits that are required every three years. When separate testing is required for each market, the costs can quickly skyrocket. For example, a typical U.S. machine manufacturer may spend $50,000 to $100,000 annually complying with foreign regulatory requirements - an overwhelming burden, particularly for small- to medium-size exporters. The consequences of such requirements are higher prices and, where the additional costs become prohibitive, foregone export sales and lost jobs.

The question is not whether private industry ought to be regulated - often it must in the interest of consumer and worker safety - but how to do so most efficiently. In the era of the transnational corporation and rapid global economic integration, the nation-based regulatory

regime is no longer rational or efficient. National regulatory regimes can act as *de facto* trade barriers, denying foreign access to a national economy, and in the case of the most protected sectors of world trade like agricultural products and food, national health and safety standards may merely mask pure protectionism.

The primary goal of the TACS -- also known Working Group I -- is to eliminate trade barriers that result from standards and regulatory requirements, including duplicative product testing, redundant standards certification, and differing technical regulations. Duplicative regulations, whether legitimate or not, provide no value-added protection to workers and consumers, rather they add costs to the producer and, ultimately, to the consumer. The ultimate goal of the committee is to fulfill the principle "*approved once, accepted everywhere in the Transatlantic Marketplace.*" The instruments recommended by the TACS to achieve this principle include:

1. Mutual Recognition Agreement (MRA) for standards testing to eliminate duplicative procedural requirements;
2. Greater acceptance of Manufacturer's Declarations of Conformity to standards and technical regulations;
3. Harmonization of technical standards and regulations;
4. Increased transparency and regulatory cooperation between the two economies; and
5. Use of functional, performance-based standards rather than design specifications.

The TACS operates sectoral working groups that seek to identify and prioritize action items sector by sector. In June 1997, the U.S.- EU succeeded in reaching agreement on its first MRA covering more than $47 billion in two-way trade.[5] The MRA is expected to boost U.S. exports by eliminating costs equivalent to a two or three point reduction in tariffs.[6] The MRA covers network and electromagnetic compatibility (EMC) for telecommunications and information technology equipment and radio transmitters, EMC and electrical safety for electrical and electronic products, good manufacturing practices inspections for pharmaceutical products and certain medical devices, and the safety of recreational marine craft.[7] While the bilateral MRA agreement is a step in the right direction, implementation by the two governments has been disappointingly slow. It is hoped that the renewed political commitment expressed by the new Transatlantic Economic Partnership will accelerate the implementation of this long-awaited agreement.

Non-Economic Benefits: a New Paradigm for Trade Liberalization

The implementation of the MRA signed in 1997 will be a win-win situation for businesses, consumers and workers in both the U.S. and EU. Beyond the purely economic gains to be realized through the fulfillment of the TACS recommendations, the unique business-driven TABD working groups have also produced recommendations on a broad range of issues including taxation, customs facilitation, product liability and international business practices.

The approach of TABD has yielded a an even more fundamental public policy contribution by providing a *new paradigm for trade liberalization*. Such a strategy helps to build consensus between businesses, domestically and between regions. While competitors in commerce, the companies involved in the TABD process are learning that there are many issues, particularly in the area of standards and regulatory policy, which can best be solved through cooperation. These issues are not firm-specific, though they are often sector-based. It has been recognized that the solutions, too, are often best pursued at the sector-wide level, and sector specific cooperation has been extended across the Atlantic. The joint recommendations presented by American and European businesses in the annual Mid-Year Progress Reports are testimony to the great achievement derived from this new paradigm.

These Progress Reports symbolize how the Transatlantic Business "Dialogue" transformed itself, effectively, into a Transatlantic Business "Combined Chorus" directed at the two governments. With businesses on both sides of the Atlantic presenting a united front vis-a-vis their respective governments, government negotiators feel hard-pressed to argue against the benefits of such proposals to their domestic industries.[8]

The structure of the TABD, itself, *reinforces the trade expansion constituency.* Although the TABD has relied on the role of U.S. and EU CEOs, and their individual companies in the process, it has also taken advantage of existing business organizations and associations in both the U.S. and the EU. The result is a built-in constituency, with strong organizational structures, that is technically knowledgeable and politically available to push for changes in regulation and legislation. In the U.S., the National Association of Manufacturers, the U.S. Chamber of Commerce, and the European-American Chamber of Commerce are active participants in the TABD process, providing recommendations, administrative support, and outreach programs to business and industry. Likewise, on the European side, a number of industry organizations - including the Unione des Confédérations de l'Industrie et des Employeurs d'Europe (UNICE) and the Transatlantic Policy Network - are actively involved in the process, mobilizing their members and providing input. In addition, the process has empowered the European business community vis-à-vis the European Union apparatus in Brussels. Many of the groups involved in the TABD help to provide a bridge across the Atlantic. The TABD has effectively utilized this ready-made support-network for the trade liberalization process to impact and respond to government action.

TACS' sectoral organization provides clarity and concreteness to its proposals, a feat rarely achieved in traditional trade negotiations. By making its recommendations on a sector-by-sector basis, the result promises to be a *regulatory system* with *more clear and enforceable rules* of the road. Often disputes over trade agreements result from misunderstandings over exactly what is or is not covered. The more detail included in the future regulatory road map means more clarity, less room for misunderstanding and, thus, fewer disputes down the road. In addition, such specificity is more meaningful to businesses by addressing issues that are specific to their given sectors. While the broad goal of the TACS remains regulatory harmonization, harmonization can mean very different things for different industries. In the automotive sector one goal has been "functional equivalency," a performance-based standard in which there has been substantial progress. In accountancy services, the goal was the mutual recognition of qualifications, an objective largely achieved through the WTO's July 1997 accountancy qualifications recognition

guidelines.[9] Meanwhile, the telecommunications equipment, information technology products, medical devices, pharmaceuticals, and marine sportscraft sectors are harmonizing by means of an MRA on testing standards. Through sector-by-sector negotiations, such specifics can be hammered out in detail.

In addition, by giving industry not just a voice, but the initiative in trade negotiations, the agreements reached will more likely fulfill the *requirements needed by industry to maintain its global competitiveness.* As a business-driven agenda, the TABD can realize the benefits of "subsidiarity", the decentralization of responsibility to those most affected by a given issue, a concept more than familiar to the Europeans and complementary to American federalism. It is more efficient to give the responsibility of identifying barriers to trade and of supplying recommendations to eliminate them to those that are most intimately affected by - and, therefore, more intimately knowledgeable of - such issues. And when CEOs - whose talents combine decisiveness and organizational skillfulness - sit down to work together, *decisions get made decisively.* Business knows best what is in its best interests, what is needed to be globally competitive.

A Brief Background

The TABD was launched at Seville, Spain in November 1995 at a conference attended by more than 100 U.S. and EU business leaders, the U.S. Secretary of Commerce and senior EU representatives led by the Commissioners for Trade and Industry. At Seville, harvesting "low hanging fruit" in the form of transatlantic trade barriers most visibly affecting the bottom lines of U.S and EU companies, emerged as a key theme for the TABD.

In November 1996, TABD members met in Chicago to expand and deepen the process. The Chicago conference succeeded on several fronts. It significantly influenced the results of the WTO conference in Singapore in December 1996, which led to the new ITA and produced a resolution on EU business practices with respect to Cuba which became a key factor in allowing the Clinton Administration to avoid Title 3 suits pursuant to the economic sanctions required by the Helms-Burton Act. One of the most important outcomes of the Chicago conference was the agreement reached to base an MRA on the assumption that existing certification mechanisms in the U.S. and EU are mutually trustworthy. Establishing and maintaining trust and confidence on both sides of the Atlantic is just as critical to the TABD's success, and in turn U.S.-EU relations overall, as the technical language of the MRA itself.

The next TABD conference, in November 1997 in Rome, brought TABD members together once again to advance their agenda. The most important achievement was the result of TABD's continued efforts to encourage their respective governments to sign the agreed package of Mutual Recognition Agreements, which reaped fruit in May 1998 as both governments signed the Agreement. In addition, the TABD strongly influenced the U.S. and EU member countries of the OECD to conclude a convention to criminalize the bribery of foreign officials; the ratification process in national legislatures is currently underway. The TABD also played an important role in the conclusion of the WTO Financial Services Agreement. Overall, close to one-third of the

TABD recommendations made over the past three years have been met by concrete action by the U.S. and EU administrations and more than half are under active discussion between the business and government communities.

In addition to the annual conferences, mid-year meetings have been held each year to review progress and to present new recommendations to the two governments. The 1998 mid-year report reflected the business community's emphasis on a need for government accountability. It featured a "scorecard" which detailed the degree of the government's responsiveness to each of the TABD recommendations. At the 1998 meeting, *TACS'* main priorities were the rapid implementation of the concluded MRAs, continued efforts to harmonize technical standards and conclude additional MRAs, as well as the reduction of product marking requirements to a single global symbol showing conformity to an international standard. *Global Issues* encourages the U.S. and EU "to develop an ambitious and progressive agenda for the 1998 and 1999 WTO Ministerials that reaffirms continued improvements in market access."[16] *Business Facilitation* made progress on electronic commerce, recommending market-driven and self-regulatory solutions, as well as the elimination of any new taxes on electronic commerce.

The next TABD CEO conference is scheduled for the first week of November 1998 in Charlotte, North Carolina. CEOs and their staffs have laid the groundwork for that meeting. The second half of this paper poses a number of key issues that should remain at the forefront of the transatlantic agenda.

Obstacles to Reform

While a major goal of the TABD has been achieved in the form of the MRA, many issues remain to be addressed. First, the existence of two different regulatory systems in the U.S. and EU, each with its own structure and history will continue to complicate regulatory convergence. The regulatory framework in the EU, established in 1985 as part of the move toward the Single Internal Market, was intentionally created as a "global approach" to standards creation, making it more amenable to the principles behind an MRA. Technical rules and standards are the means to two ends: (1) to ensure product and worker safety, and (2) to remove internal trade barriers within Europe. Three standards bodies, operating under mandates from the European Commission - the European Committee for Standardization (CEN), the European Committee for Electrotechnical Standardization (CENELEC), and the European Telecommunications Standards Institute (ETSI) - have control over standards-setting within the EU for their respective sectors. Conformity assessment is conducted by "notified bodies" which are private testing and certification services approved by the relevant standards-setting bodies. A "CE Mark" - which stands for *Conformité Européenne* - is legally required for the distribution or sale of manufactured goods within the Single Market. The mark certifies that products conform to given standards and ensures the free movement of goods within the European Union.

While the highly centralized EU system lends itself to the coordination necessary for government-to-government MRA negotiations, the EU's system reflects fundamental differences

with the U.S. framework which relies far more on private testing and certification through a loosely organized network of independent testing laboratories and certification bodies.

A second obstacle to the creation of the Transatlantic Marketplace stems from *pressures within the regulatory bodies themselves*. Testing services and certifying bodies on both sides of the Atlantic can feel threatened by regulatory change. Some organizations - including those in the U.S. that operate at the federal level such as the FDA, FCC, and OSHA - strive to maintain control over the certification and standards-setting process, fearing that their respective jurisdictions could be usurped by the implementation of an MRA that allow exporters to fulfill regulatory requirements without certification directly from these bodies. In addition, such organizations are often more sensitive to Congressional concerns that represent disparate domestic constituencies rather than global interests. For example, in the U.S., the FDA maintains its preference for internal review procedures versus third-party certification. And the EPA currently has no policy mandate requiring the agency to consider harmonization with international standards in its regulatory activities. These agencies naturally resist reform that might compromise their sovereignty over regulatory matters. However it should be noted that an MRA was finally achieved in June 1997, with the FDA acquiescing partly because it recognized that the MRA reinforced internal reform and helped the FDA cope with budget restraints. In this way, the MRA neither undermines nor supersedes the authority or mission of regulators, but rather strengthens both.

Third, *the two governments' regulatory regimes each have their own supporters who resist change*. In the U.S., strong grass-roots, citizens' organizations and their Congressional champions wish to maintain a major say in regulatory policy-making. These groups have over the years successfully achieved legislation -- such as the Administrative Procedures Act, the Freedom of Information Act, the Federal Advisory Committee Act, and general rights of representation to sue -- that give ample time for comment, input, and representation by any interested party but also have the effect of retarding or even blocking regulatory change. These groups, including Ralph Nader's Public Citizen and the Consumers' Union, fear the loss of national sovereignty in regulatory matters. Assuming standards were harmonized, they fear that they would need to get permission from EU bureaucrats to promulgate legitimate regulations that may be needed in the future. Likewise, on the EU side, there is a strong constituency that resists regulatory harmonization. There, the opposition tends to come from sectoral trade associations and consortia that have had the privilege of setting industry and product standards.

Fourth, the TABD faces *resistance by government career negotiators unaccustomed to dealing with standards*, which had been mostly overlooked in the pursuit of other more high-profile initiatives. In the past, some inside the U.S. Trade Representative's office have voiced reservations about the value of expending so much time and bureaucratic resources on the MRA which required specialized technical knowledge as well as a strenuous final political push to seal the agreement. These skeptics question how long it will be to see benefits materialize. Some U.S. career negotiators felt uncomfortably diverted onto the recent MRA negotiations and away from their traditional work agenda at the OECD and WTO. Furthermore, in negotiating the MRA, U.S. negotiators had to work with regulators from other U.S. agencies like the FDA, which was unfamiliar terrain. The MRA exercise thus highlighted the need for enhanced interagency coordination. The U.S.T.R. has increasingly become engaged with TABD's

priorities. Given U.S.T.R.'s responsibility to advance inter-agency coordination, its commitment going forward is a critical ingredient to achieving timely negotiations.

On the European side, some negotiators have expressed fear *that the implementation of MRAs may slow the process toward global standardization* because the agreement applies exclusively to the U.S. and EU. However, the standards bodies involved have played and will continue to play an important role in the movement toward standards harmonization globally. *When the U.S. and EU can agree on a standards issue, this forms a firm platform for universal agreements.* All have worked closely with the International Standards Organization (ISO), the international standards and certification body, in an effort towards global harmonization. The American National Standards Institute (ANSI) has developed a working relationship with the European standards bodies to facilitate the movement toward the harmonization of manufacturing and technical standards. Rather than an impediment, the TACS sees harmonization that emphasizes functional equivalence as an important first step with universal applicability.

A fifth obstacle *are those observers mired in "old think" who try to doom TABD politically by saying that what is good for business must be bad for labor. Business*, in the case of the TABD, is *not* a synonym for "management" but encompasses both management and labor in pursuit of more "business" - in other words, more trade, commerce, customers, markets, and economic expansion.

Sixth, there has been some concern on the part of *consumer, environmental, and labor advocacy groups that the TABD process is moving too fast*, leaving such organizations unable to digest and respond effectively to the dialogue's recommendations. This problem must be addressed by governments' sponsoring hearings and individual businesses' sponsoring dialogues with their customers (e.g. consumers) and workers (e.g. labor). The July 1996 public hearings on the recommendations in the automotive sector are a model for providing organizations the opportunity to participate without slowing progress unnecessarily. Similarly, in October 1996, the Food and Drug Administration (FDA) held an unprecedented hearing for interested parties to comment on the U.S. pharmaceutical MRA proposal. The U.S.T.R has also pushed for formation of a Transatlantic Consumer Dialogue and a Transatlantic Labor Dialogue.

What is also *needed is a public relations and press campaign to educate* the public, labor, government officials, regulators, legislators, and consumer and environmental special interest groups about the unequivocally negative effects of regulatory trade barriers. The TABD states clearly that its intention is *not* to lower levels of protection for health, safety, and the environment; regulatory *reform* is not the same as *deregulation*. Instead, the goal is to eliminate the costs of duplicative testing and standards certification which offer no additional health or safety protection to the consumer, only higher prices.

Last, and perhaps, most important, *the two governments must make the political commitment to continue acting on future TABD recommendations.* The TABD originated as a joint initiative of the two governments, and the two business communities rapidly organized themselves to take advantage of the unique opportunity they were offered. The business communities of the TABD have committed themselves to the process. The conclusion of the

annual mid-year Progress Reports, their continuing efforts to deepen and widen their agenda, and the significant planning taking place for the Charlotte CEO conference in November 1998, are all testimonies to their commitment.

The Transatlantic Economic Partnership

The two governments have taken an important step in demonstrating their commitment to the process. In May 1998, President Clinton, President Santer and Prime Minister Blair launched a new bilateral framework, the Transatlantic Economic Partnership (TEP), building on the New Transatlantic Agenda signed in Madrid in 1995. A new agenda was set to strengthen our bilateral economic ties, expanding trade and investment across the Atlantic and reinforcing cooperation within multilateral fora. The key objectives underlined in the new bilateral agenda reflect many of the priority goals promoted by the TABD. In fact, the TABD, bottom-up formula has been made a key component of the new Partnership.

The TABD recognizes the opportunities for advancing its agenda by intensifying the bilateral relationship through this new TEP framework. However, *the measure of success of the TEP is success*:

> "To the degree that the TEP initiative accelerates implementation of TABD recommendations already undertaken by the two government authorities, and deepens government commitment to carry out recommendations that the TABD hopes to continue to generate, is the degree to which TABD supports the process..."[11]

The TABD has urged TEP negotiators to complement and support the pragmatic, results-oriented approach of the TABD by providing a stable framework for the transatlantic marketplace and continuing in their commitment to facilitate further progress on TABD recommendations. Feedback on progress to date by the two governments, as well as a timetable for the future is expected at the upcoming Charlotte conference. TABD participants are eagerly awaiting for the two governments to prove that the political commitment expressed in the TEP agenda - by demonstrating true progress as well as a practical timetable for the future - is genuine and will not prove to be as frustratingly protracted as the MRA process.

Setting the Future Agenda for TABD, A Unique Platform for Trade Expansion -- Thinking Big, Bigger, and Biggest

Planning for TABD's future requires thinking big. It also demands thinking pragmatically in keeping with TABD's approach of "harvesting low hanging fruit" first. The following recommendations are my personal views for TABD's future. They are designed to:

a) be consistent with the goal of trade expansion in both the Transatlantic context and globally;

b) be constructive from a commercial viewpoint for both American and European-based firms;
c) be compatible with other goals of consumers and worker protection in both regions; and
d) reinforce both U.S. and European foreign policy goals.

They are organized as "big, bigger, and biggest" ideas - not necessarily as short versus long-term plans.

"Big" - Stick With Technical Barriers

- Ombudsman for the MRA*:* Although signing the U.S.- EU MRA was a great achievement, ensuring its effective implementation is a task equal to its arduous negotiation. Progress to date on its implementation has, indeed, been disappointingly slow, as differences in interpretation and bureaucratic inertia have impeded its implementation. As its principal sponsor, the TABD should *act as an ombudsman*, nurturing its creation until potential implementation dangers are past.

- MRA II**:** The establishment of the TACS was recommendation "number one" at the 1995 Seville Conference. The achievement of an MRA in 1997 between the U.S and EU was a clearly visible sign of the TACS' influence at work. *Appropriately then, the preeminent "big" idea is to launch a phase two to follow on the MRA.* An MRA II would expand the MRA scope to include other important products and sectors not covered by the first phase, for example chemicals and biotechnology products.[12] MRA II would also deepen agreements for the first products covered in MRA I. In some of the sectors such as medical devices, phase one of the MRA covers a limited number of products while a substantially greater number could be identified as candidates for MRA treatment.

- Focusing the World Trade Organization on Global Technical Barriers to Trade (TBT): The critical efforts made to date on the bilateral MRA between the U.S. and EU have created valuable momentum for multilateralizing that shining effort, and point towards an even larger role for TABD and its work in this area. While trade barriers in the form of tariffs and other traditional trade impediments are issues that dominate the radar screen today, just over the horizon lies another huge task in global trade liberalization: the elimination of technical barriers to trade (TBTs) - a task that the TABD is pioneering.

  The Uruguay Round of the GATT included a formal TBT Agreement that has been incorporated into the WTO. The purpose of the Agreement is to ensure that technical regulations, standards, and testing and certification procedures do not create unnecessary trade barriers. The Agreement requires that procedures for determining the conformity of products to national standards be transparent and in particular that domestic and their equivalent foreign products be given the same (national) treatment. Each member must also provide a single source of information at "national enquiry points" on standards and regulation information for exporters worldwide. In addition, the Agreement encourages,

but does not require, the mutual recognition of conformity assessments, and includes language to the effect that governments should respect each other's determination of standards conformity, thereby eliminating duplicative testing.

Work on eliminating TBTs has been overshadowed by other ideas for future WTO work. The Singapore Ministerial of December 1996 which was intended to highlight priorities in the WTO's work program did little to emphasize the increasing importance of TBTs now that more traditional trade barriers are coming down worldwide. Only one third of all signatories have even established procedures for implementing the Agreement's administrative architecture. At the April 1997 triennial review of the TBT Agreement at the WTO in Geneva, member governments submitted issue papers, but no concrete steps were taken to strengthen TBT's provisions.

One of the main objectives of the existing TBT is "portability of certification". This concept refers to the ability of manufacturers to have products tested and approved once in a single market and then be accepted without further testing in all other member markets. The TBT promotes the use of international standards like the ISO 9000 and 14000 series to achieve this goal, but has no mandatory provision for the international recognition of certifications. Thus, most members currently using international standards continue to maintain local certification requirements.

The TABD can advance the goals of the TBT through the WTO by:

1. Raising the profile of the TBT within the WTO. The TABD should urge the elevation of Technical Barriers to Trade at future WTO committee meetings and ministerials.

2. Urging all WTO members to sign and implement fully their prior TBT undertakings. A proliferation of non-multilateral MRAs would run counter to the global spirit of the WTO. Indeed, some WTO members that have not yet implemented the TBT administrative architecture implementation procedures are setting up MRA negotiating mechanisms. U.S.T.R. officials also cite the EU for not honoring the TBT's mandatory transparency provisions in the promulgation of standards and regulations by failing to notify the WTO of what standards and regulations the EU is developing. The TABD should advocate that all signatory countries fully implement existing TBT provisions.

3. Calling for draft MRA guidelines: In the wake of the U.S.-EU MRA, Canada's MRA with Europe, the New Zealand/Australian MRA, and the ongoing negotiations between Europe and New Zealand/Australia, it would be useful for the WTO to sponsor a discussion among members that have concluded MRAs and to draft global guidelines for future MRAs. The TABD's speedy and far-reaching work on the U.S.-EU MRA gives the TABD a natural platform to push the WTO TBT committee to launch this initiative.

The Information Technology Agreement (ITA) that has recently become a key part of the WTO is a model for similar multilateral sectoral proposals. The signatures of 38 nations to the ITA sprang from a much more modest bilateral reciprocal tariff semiconductor agreement between the U.S. and Japan reached in the 1980's which led to a push by the U.S. and EU for broader coverage, which in turn led the U.S. to use Asia Pacific Economic Cooperation (APEC) to push the EU to further liberalizations in the ITA and Basic Telecommunications Agreement. *Similarly, the TABD could place the proverbial grain of sand in the oyster that becomes the pearl of a worldwide technical standards harmonization and product certification agreement.* The potential for TABD success should not be underestimated given the proven speed and effectiveness of its business-driven format.

- Information Technology Agreement II: Assisting in expanding the Information Technology Agreement is a highly suitable mission for the TABD. Instrumental in building the basis for the ITA, the TABD can claim a significant knowledge base from which to expand the ITA into an "ITA - II".

  In Building ITA II, the TABD should advocate:

  1. Accelerating the timetable for elimination of tariffs in the EU and U.S.;

  2. Marrying tariff liberalization with the non-tariff goals of standards harmonization;

  3. Targeting electronic commerce and standards to advance regulation harmonization. In May 1998, the TABD Mid-Year Report made recommendations in this area. Since then, President Clinton has ordered the Trade Representative and Secretary of Commerce to resist governmental efforts that require technical standards for the Internet or use technical standards as non-tariff trade barriers. In addition, in a July 1997 memorandum, President Clinton directed the U.S. Trade Representative to ensure that the Internet becomes a free trade zone within a year as part of an ITA II. The U.S. has submitted a proposal to the WTO to ensure a tariff-free environment for electronic commerce. The EU has expressed its support for this initiative. The TABD should continue to press for a WTO Agreement on Duty-free Cyberspace.

  4. Addressing data protection, essential for biomedical research, information technology, and financial services as well as across a wide range of other industries. *The TABD's work on ITA I, and overall familiarity with standards and technical regulations makes TABD's guidance in data protection in electronic commerce particularly valuable.*

- A global Automotive Agreement to eliminate trade barriers and harmonize regulations: In April 1996, automotive firms from around the world called for the establishment of a global forum for the harmonization of auto regulations and for the development of means for reaching functional equivalency of standards and certification procedures. The

automotive manufacturing sector is the largest in the world, employing over 10,000,000 people and generating over $1 trillion a year in business. The TABD has strenuously advocated functional equivalency in the U.S. and EU automotive sectors. Achieving that goal would create yet another TABD-based platform from which to reach a multilateral functional equivalency agreement in this critical sector of world trade. *A tariff-free trade agreement in automobiles married to progress in functional equivalency would be a bold step for the TABD given the millions of jobs and industries with attendant standards and certification bodies involved in the automotive industry.*

"Bigger": Thinking in Some Controversial Arenas

- Coordinating export sanctions: One of the more fractious issues in the bilateral relationship related to the increase in Congressional mandates to impose unilateral export controls against third countries, often as a means for achieving political ends.[13] The dispute with Europe over the Helms-Burton Act and similar legislation targeted against Cuba, Iraq and Libya provide valuable cases in point. While unilateral trade sanctions and embargoes must remain an option for the President to protect American security interests, such policies should be used with the overall welfare of America in mind, including the impact on the domestic economy and international trade. To ensure the effectiveness of trade sanctions, the State Department, which is responsible for the formulation of such policies, should utilize the vast store of knowledge from private industry. A State Department advisory committee of industry leaders could estimate the costs of export controls for domestic industry and the economy as a whole. This committee could also draft recommendations that include the latest information on available technology. Sanctions formulated with this information in mind could be far more effective and efficient.

  Unilateral sanctions can disadvantage domestic producers when foreign competitors, including Europeans, move in to fill the export gap. While extraterritoriality is designed to prevent this, it damages the U.S. relationships with others - the costs of which often outweigh any benefits derived from the imposed sanctions. The United States and Europe, important economic allies and NATO security partners, are also two of the most important producers of advanced, technologically sensitive or strategic products. Transatlantic cooperation would stabilize and enhance this relationship. Therefore a bilateral understanding to advance a multilateral strategy incorporating industry input could result in economic sanctions that are both more effective and efficient, minimizing the costs to the world economy while increasing the possibility of successfully achieving their objectives. *The creation of a TABD sponsored advisory committee of U.S. and European business leaders could advance a more effective export sanctions policy.*

- Competition policy harmonization: While the Transatlantic Committee on Standards and Regulatory Harmonization (TACS) addresses technical standards and certifications in specific product sectors, competition policy harmonization is an area in which the TABD should increase its attention. The TABD endorsed the U.S. Department of Justice's "positive comity" policy, and assisted with the 1998 U.S.-EU agreement. Positive comity

obliges countries participating in the program to undertake antitrust investigations of companies in their jurisdiction if the U.S. Justice Department affirms that it believes it has enough evidence in the U.S. to go ahead with an investigation and vice versa. *Transatlantic competition policy harmonization could have trade liberalizing effects similar to the TACS standards harmonization through enhanced transparency and predictability.* Such regional harmonization would also spark momentum toward global harmonization.

The 1997 Boeing/McDonnell Douglas merger controversy in July 1997 points to the need for more work in this area. The high profile merger passed antitrust scrutiny in the U.S., but EU officials nearly blocked it, President Clinton intervened personally, Boeing made some last minute concessions, and a trade crisis was narrowly avoided. Intra- and international mergers are an increasingly common phenomenon as globalization accelerates. To facilitate the merger process, reduce unnecessary costs incurred in having to operate under multiple legal systems and reduce friction from extraterritoriality, competition policy harmonization is needed. Boeing Chairman Philip Condit stated, "[I]n a global economy, a single set of global rules is, in fact, preferable."[14] *Competition policy has traditionally been government's exclusive domain, but the concrete, pragmatic focus of TABD might be a desirable forum to explore areas of common interest regionally that might eventually have universal applicability.*

- International business practices is another issue previously broached by the TABD. Corruption undermines trust, which retards business and commerce which, in turn, eventually corrodes societies on both the giving and receiving ends. The November 1996 Chicago Conference urged governments to fulfil their commitments to fight corruption and bribery through their criminalization. In May 1997, the 29 member countries of the Organization of Economic Cooperation and Development (OECD) agreed to ratify an international treaty criminalizing corporate bribery to win business - the ratification process in national legislatures is currently underway. The EU has adopted further legislation outlawing tax deductibility for bribery expenses. *The TABD should continue its involvement in the fight against corrupt business practices by sponsoring and carefully monitoring the progress of these new measures undertaken in the EU, OECD, and parliaments of individual member states.* In light of the financial crisis that has rocked all regions of the globe this past year, the ills off "crony capitalism" has demonstrably threatened all.

"Biggest"

- Metric-only labeling: In 1989 the EU adopted legislation requiring metric-only labeling beginning January 1, 2000 on all products sold in the EU, America's largest export market.[15] The new requirement affecting more than $260 billion in bilateral trade threatened disruption to a broad range of U.S. and EU companies that is both unnecessary and antithetical to the global movement towards open markets. U.S. and EU companies exporting to each other's markets expressed concern about developing separate ingredient

measurements, packaging, labeling, and warehousing and inventory systems. Manufacturing metric-only batches separate from products prepared for metric and imperial (inch/pound) systems threatens to raise the cost to the manufacturer and consumer on both sides of the Atlantic. To make matters worse, the U.S. prohibits metric-only products from being sold in the U.S.[16] While the U.S. should surely become more metric-literate, it serves neither region to enforce a 1989 EU law that hampers globalization in the 21st Century.

The 1989 legislation provided a 10-year "supplemental labeling" grace period to permit both metric and imperial labeling. *Last year, the TABD's unique format and capabilities were deployed to persuade the EU to extend the supplemental labeling provision indefinitely to the mutual benefit of both European and American-based firms producing for both systems. However, the Eu is still dragging out a decision on whether to delay implementation for 10 years or for a shorter -- and therefore less desirable -- period.*

- Adjusting TABD to the Post Cold War Geography of Europe: U.S. foreign policy toward Europe has been largely shaped by the geography of the membership of the North Atlantic Treaty Organization (NATO) which will celebrate its fiftieth anniversary in 1999. NATO has been enlarged to include three former Soviet bloc nations, Poland, the Czech Republic and Hungary. Military and security issues, to be sure, will remain important in the Twenty-first century, but U.S. leadership also must adjust policy to the ever-growing importance of trade in *every* part of the globe. While businesses forge ahead, government must keep up. It is absolutely unacceptable for U.S. trade policy planners to treat the European trade relationship as merely a source of bilateral agricultural conflict, or at best, an afterthought. Congress must act too; Rep. Robert Matsui (D.-CA) observed that in his 18 years of service, he cannot recall a single Ways and Means Committee hearing on U.S.-Europe trade.[17] In addition to raising trade negotiators' consciousness to U.S.-EU relations, the TABD should initiate a dialogue that expands beyond the old 1945 lines drawn in Yalta to include the emergent European economies in Poland, Hungary and the Czech Republic.

  Half a century ago, the Marshall Plan resurrected Europe from the Second World War. That era is long gone. Big government programs have been supplanted by private foreign direct investment. Invigorating the economies of Europe, especially those nations about to enter NATO, requires another form of economic outreach, one that is business and commercial, not government sponsored. *Just as NATO expansion brings security, TABD's equivalent expansion to include the new NATO economies enhances trade and prosperity, while also serving as a natural agent for helping the new NATO countries modernize their economies.*

  This initiative is critical from both the EU and the U.S. foreign policy points of view. U.S. relations with the emerging markets of Europe requires *more* than bilaterals and more than an indirect policy of encouraging the European Union to take in new members from the East. When the EU expanded to include Greece in 1981, Portugal and Spain in 1986 and Austria, Finland and Sweden in 1995, it disadvantaged American commercial interests and

created a rippling of trade frictions across the Atlantic. Further EU expansion has been distracted by the exercise in deepening EU integration via the European Monetary Union. However, in July 1997, the European Commission recommended that the EU admit as new EU members Poland, Hungary, the Czech Republic, Cyprus, Estonia and Slovenia on various timetables. Meanwhile, U.S. commercial interests are being compromised when EU entities enjoy preferential tariff treatment from EU applicant nations at the expense of American business. For example, the U.S. accounts for one fourth of all foreign investment in Poland, and yet EU members face a preferentially lower tariff duty than the 15 percent average levied against U.S. companies. This disadvantages U.S. imports, and discourages American retail investment because European retailers can more cheaply source Western European imported goods. *The TABD acting as a forum to discuss the prospective membership of these Eastern European countries could avert such problems. The TABD should also play a helpful role in the expansions of both the NATO and the EU. For example, the TABD might assist by advancing intellectual property rights protection and harmonizing the new economies' technical standards with those of the U.S. - EU MRA and other means of aligning standards.*

Conclusion

The TABD process has so far proven to be a faster, more consensus-based method of setting priorities than traditional government-to-government negotiations and has the potential to produce agreements that are more politically sustainable. Despite the formidable obstacles still facing the TABD and the TACS, their accomplishments to date are a testimony to the effectiveness of the bottom-up, business-driven approach to trade talks. The TABD is a model of efficiency and action. The breakthrough MRA demonstrated that this dual business-driven agenda could result in government action in both the U.S. and EU. The utilization of existing industry organizations and associations has provided valuable input and a built-in constituency able to influence and respond to government action or inaction. The process itself has fostered a collaborative relationship between firms, domestically and across the Atlantic, to find common solutions to common problems. The implementation of the TACS' recommendations to reduce regulatory barriers to trade will lead to more exports, higher economic growth and more jobs across the Atlantic. In turn, the Transatlantic case serves as a significant basis for eventual multilateral expansion -- a win-win situation for all.

Critical to the long term success of the TABD are member confidence, resolution, and above all patience in the eventual implementation of its recommendations. Clearly, the business community and government are two very different animals with different agendas and objectives. The business community must be patient with governments that do not operate at the speed of business; international agreements -- with all their constituent interests represented -- do not happen overnight. Meanwhile, government must appreciate that when it comes to setting priorities in commercial policies, business does have a very definite comparative advantage.

ENDNOTES

---

1. U.S. Department of Commerce Subcommittee on Europe. *Europe White Paper*, November 3, 1995, p.1.

2. Acting Undersecretary for Commerce for International Trade, Timothy J. Hauser, Testimony before the Subcommittee on Trade of the House Committee on Ways and Means, Washington D.C., July 23, 1997.

3. Undersecretary for Commerce for International Trade, David L. Aaron, Testimony Before the Subcommittee on Trade of the House Committee on Ways and Means, Washington, DC, July 28, 1998.

4. John Wilson, "Standards, Certification, and Regulatory Policy", Information Technology Industry Council, p. 1, November 1996.

5. U.S.T.R. press release, May 28, 1997.

6. Dept. of Commerce press release, June 13, 1997.

7. Each new aircraft model must currently undergo $50,000 of electromagnetic compatibility testing in order to assure that such equipment does not harm networks or other devices. The MRA will make only one set of these tests necessary since test results in the U.S. will be recognized in the *EU* and vice versa. The Journal of Commerce, June 20, 1997.

8. As stated by Sir Leon Brittan, Vice President of the Commission of European Union , and EU trade commissioner, "Where [businesses] agree, there will be a powerful incentive for the EU and U.S. to act on their recommendations....If [both sides] are able to identify areas which they think [the two governments] should work on, the pressure on governments to proceed will be almost irresistible." It is incumbent on the two governments to explain why they do not act when the U.S. and EU business executives, who are competitors in the marketplace, can agree on recommendations for government action.

9. The WTO Council on Trade in Services approved a set of guidelines that are intended to overcome the national differences in accountancy licensing systems and to facilitate the recognition between member countries of the licensing, certification, education and experience of accountants. These guidelines are voluntary and non-binding, and may be useful for other professions that are interested in facilitating their international presence. U.S.T.R. press release, July 2, 1997.

10. Transatlantic Business Dialogue 1998 Mid-Year Scorecard Report.

11. Joint TABD Response to the Federal Register Request from the Office of the United States Trade Representative for comments on the TEP, July 6, 1998.

12. These sectors were waiting in the wings during the last MRA negotiating round.

Undersecretary of State for Business, Economic and Agricultural affairs, Stuart Eizenstat, Speech to the U.S. Chamber of Commerce, Washington D.C., June 20, 1997.

13. Optimally, the U.S. should formulate trade sanctions within a multilateral framework, such as the Wassenar Group which is the post-Cold War successor to the Coordinating Committee for Multilateral Export Controls (COCOM).

14. Philip Condit, The Washington Post, July 24, 1997.

15. Article 3 of Directive 80/181 of 12/20/79, amended by Council Directive 89/617 of 11/27/89.

16. Exceptions are small seed packages, camera film, video and audio recording tapes, and media for retail sale.

17. Representative Robert Matsui, (D-CA), Remarks at the Subcommittee on Trade of the House Committee on Ways and Means Testimony, Washington D.C., July 23, 1997.

THE STERN GROUP INC.

3314 Ross Place, NW
Washington, DC 20008
TEL: (202) 966-7894
FAX: (202) 966-7891
E-MAIL: paulastern@acl.com

International Trade Advisors

Testimony before the House International Relations Committee on:

"The Future of our Economic Partnership with Europe: *Debalkanizing the Balkans*"

By the Honorable Paula Stern

June 15, 1999

Part I: **Introduction**

Part II: **The Atlantic Alliance: The Role of Institutions of the European Union and NATO**

Part III: **Is the Transatlantic Economic Partnership a Name Only? Prospects for the U.S. – EU June Summit**
- Cooperation between the U.S. and the EU
- Bickering Over Bananas, Beef, and Dispute Settlement Mechanism of the WTO
- Bilateral Competition Policy Harmonization
- Implications of EU Assertiveness in Eastern Europe

Part IV: **Macroeconomic Underachievement in Western Europe, and the Euro**

Part V: **Political Lessons Learned from the Marshall Plan**
- A Brief Political Economic Analytic History of the Marshall Plan
- The Political Economy of Post World War II
- Private vs. Governmental Efforts
- The Importance of Politics and Process

Part VI: **The Role of the TABD vis a vis Eastern Europe: An Opportunity to Advance an Important Initiative to be a Forum for Private Sector Dialogue.**

Copyright © 1999 by Paula Stern. All rights reserved.

Paula Stern, President of The Stern Group, Inc., an international trade advisory firm, is a member of the President's Advisory Committee on Trade Policy and Negotiations (ACTPN). A former Chairwoman of the U.S. International Trade Commission, she presently serves as Co-Chairperson of the International Competition Policy (Antitrust) Advisory Committee to the Department of Justice. She has also advised the Transatlantic Business Dialogue (TABD) since its beginning in 1996.

The author wishes to acknowledge the contribtion of Marcellus Harper to the preparation of this testimony

Part I: Introduction

Looking to the future in this post Kosovo conflagration period, *debalkinizing the Balkans* is the most prominent project in the United States' economic partnership with Europe. The Balkans have exported the word balkanize. The American Heritage dictionary defines balkanize as "dividing (a region or territory) into small, often hostile units. [From the political division of the Balkans in the early 20th century.] -- balkanization *n.*"

Today, most people believe the world is in the grip of globalization, not "balkanization"[1]. But contrary to conventional wisdom, our world is not as globalized as it was in the 19th century. Deterioration in the Balkans, which ushered in the first World War, in effect, balkanized the rest of Europe. The wounds never healed, providing conditions for the festering of the Holocaust and World War II. The Iron Curtain which added an ideology divide between the capitalist and communist world may have come down, but many other divisions remain as the legacy of the 20th century.

Today, the job of a foreign policy maker is to break down barriers to ethnic, national, and regional cooperation – to debalkanize the world, including the Balkans itself. Security partnerships, economic and political development, and cooperation in trade – if administered skillfully and guided wisely -- are means to this end. Guided by the wisdom of history, we can achieve these means by negotiating correctly, administering skillfully, and understanding the fundamental political truths.

In this critical hour of the post-Kosovo era, this much is publicly known. The EU, with the U.S.'s approval, is taking the lead of establishing a "stability pact" for the Balkans, under which the EU will provide financial aid and a special European liaison to deal with the region. Distant hopes of eventually extending EU associate status and even membership to countries in the Balkan region have been floated. Having provided an estimated 60% of the military sorties and 50% of humanitarian aid, the U.S. is willing to see Western Europe pay the lion's share for reconstruction and dominate the decision making process, so long as the U.S. has a "seat at the table".

The EU – working with the World Bank – are assessing needs in Kosovo, in former Yugoslavia, in the Balkans, and in Southeast Europe broadly speaking. They have their job cut out for them in Kosovo, whose plight is even worse than Bosnia's. NATO's military successes in Bosnia, and now in Kosovo, should not lull us into underestimating the difficulty of making peace – of reconstruction – in Kosovo.

---

[1] See for example the attention paid to Tom Freidman's recent book, The Lexus and The Olive Tree.

Copyright © 1999 by Paula Stern. All rights reserved.

Paula Stern, President of The Stern Group, Inc., an international trade advisory firm, is a member of the President's Advisory Committee on Trade Policy and Negotiations (ACTPN). A former Chairwoman of the U.S. International Trade Commission, she presently serves as Co-Chairperson of the International Competition Policy (Antitrust) Advisory Committee to the Department of Justice. She has also advised the Transatlantic Business Dialogue (TABD) since its beginning in 1996.

Kosovo was the poorest part of Yugoslavia when communism collapsed, and to date has suffered untold destruction. Other than mineral resources, the region is poor. Kosovo will need more than just money. It needs a new public service administration, including police and judiciary. They, in turn, will be effective only with a new code of law and free media. A banking system is lacking, as is a basic understanding of private enterprise. Serbia's idea of the "free market" is really "crony capitalism".

We have learned from the Bosnia experience that it is unrealistic to expect local politicians to manage reforms of its own, at least at first. And we have learned from other experiences in economic development – most prominently – the Marshall Plan, that our efforts should be guided by certain fundamental political truths about the role of all warring parties being part of the process of planning for peace.

Part II: The Atlantic Alliance: the Role of Institutions of the European Union and NATO

The U.S. and Europe are on the right Atlantic partnership path reflecting cooperation in NATO, in the "stability pact", and on the Transatlantic Economic Partnership (TEP) trade talks. NATO's 50th anniversary summit in Washington in late April reaffirmed renewed Atlantic alliance, growing in size and scope, as the foundation of Europe's security.

Fifty years ago, the Marshall Plan resurrected Western Europe from the ruins of the Second World War. NATO's military pact reinforced security which is a foundation for free markets to expand. Today, the more quickly the new NATO members of Poland, Hungary, and Czech Republic are integrated into the NATO economies, the sooner they will meaningfully contribute to European security. Several other countries, mostly ex-Soviet republics such as the Ukraine, Georgia, and Azerbaijan, have expressed strong interest in getting as close to NATO as geopolitical prudence will allow. In addition, nine "wannabe" countries had also been seeking entrance into NATO including Slovakia, Romania, Slovenia, and Bulgaria, where new governments are struggling to advance reforms. The extremely vulnerable Balkan states of Albania and Macedonia, were drawn into the Kosovo vortex, are also included in this group. Invigorating these economies of Europe requires a business and commercial, more than a government sponsored economic Marshall Plan outreach. At the time of the Marshall Plan, the seeds of private enterprise had already been planted in Western Europe, despite the fact that Nazi Germany and its national conquests had harnessed the private sectors to the Nazi World War II effort. Nevertheless, there are important political lessons to be learned from the 1948-51 U.S. Marshall Plan. The Plan extended through Western Europe to the lines drawn at Yalta and was sealed by the Iron Curtain. Now is the moment to apply the fundamental political wisdom of the Plan to any economic planning for Kosovo, the Balkans, and Southeastern Europe.

Another difference between today and 1949 is that sustaining Western Europe economic revival, in which American aid played such a critical role, is now an important U.S. national interest. Western Europe economic clout makes it harder for America to

revert to isolationism. To quote the April 29, 1999 Economist, "America's interests would be bound to be damaged if its prosperous European allies descended into chaos, crash, or war."

Part III: Is the Transatlantic Economic Partnership (TEP) a Name Only? Prospects for the US—EU June 1999 Summit

Cooperation Between the U.S. and the EU

Military and security issues, to be sure, will remain important in the Twenty-first century and America's military might has paid dividends in the cauldron of ethnic hate in the Balkans. But America's superpower status in economics must also be reflected in trade relations. This is true for every part of the globe, Europe included. While businesses forge ahead, government must keep up. It is absolutely unacceptable for U.S. trade policy planners to treat the European trade relationship as merely a source of bilateral agricultural conflict sectoral bickering, or at best, an afterthought. Congress must act too; in November, 1997, Rep. Robert Matsui[2] (D.-CA) observed that in his 18 years of service, he cannot recall a single Ways and Means Committee hearing on U.S.-Europe trade. This kind of hearing today is a welcome gesture, as is the growth of the Transatlantic Legislative Dialogue (TALD).

Bickering Over Bananas, Beef, and Dispute Settlement Mechanism of the WTO

Do the U.S. and EU have a Transatlantic Economic Partnership in name only? The U.S.—EU commercial relationship is not only the largest and most important bilateral trade relationship for the united States and the European Union, accounting for over 20% of total U.S. and 17% of total EU exports, it is also the largest two-way trade and investment relationship in the world, accounting for $3 trillion in goods and services. That represents a lot of transactions, a lot of cooperation, a lot of ideas and interests, and respect for rules held in common. But the U.S.—E.U. government trade relationship is dominated by trade disputes on everything from bananas to beef hormones. This is not simply reflecting newspaper headlines. Rather, it is a serious problem when government negotiators, as well as the top leaders are distracted by commercial disputes. Upon approval by the WTO, the US recently imposed $191.4 million in retaliatory tariffs in response to the EU's illegal banana import regime. In response, the EU has filed a case with the WTO questioning the legality of US trade laws such as Super 301 and Special 301. The WTO last year ruled that the EU's ban on imported hormone injected beef is illegal due to insufficient scientific evidence to justify the ban. As a result of this ruling, the US has threatened to impose $202 million in duties on imports from the EU. The US has responded similarly in the banana dispute. The EU was forced to modify its banana import practices to comply with the WTO, which found the EU's import practices illegal. Until the issue is resolved and modifications made to the EU banana import system, the US will impose 100 percent duties on specific European imports.

---

[2] Representative Robert Matsui, (D-CA), Remarks at the Subcommittee on Trade of the House Committee on Ways and Means Testimony, Washington, D.C., July 23, 1997

Behind the headlines there is admittedly promising work on the Transatlantic Economic Partnership (TEP). EU and US authorities are presently teeing up agreements that can be announced at the upcoming US EU summit in Bonn on June 21, 1999. In recent weeks, the US and the EU are working on a common approach at dispute settlements at the World Trade Organization. They are seeking an overall understanding that a losing party cannot increase the time frame for coming into compliance with a WTO dispute settlement finding. It appears that 15 months would be an optimal length reflecting the time necessary either for regulatory compliance or new legislation. (In general, U.S. rule making takes approximately 15 months.)

The TEP agenda holds potential for agreements across a wide range of sectors, benefiting US and EU companies and workers. No matter how long the current controversial disputes stretch out, the US and EU should make advancement of the TEP agenda their highest priority, if only to avoid the bad crowding out the good and poisoning the atmosphere for collaboration in other important arenas.

The two sides have recently been discussing the possibility of mutual recognition agreements (MRAs) on cosmetics, marine safety and medical equipment. Hopefully, by the time of the Summit later this month, the two sides will be able to agree on these and additional sectors as well as make progress improving regulatory cooperation. U.S. and EU negotiators should redouble their efforts to move forward on a MRA framework that would apply to services, as well as goods. Discussions under the TEP on a pilot project for approval of biotechnology products by both U.S. and EU authorities is also encouraging, and should not be derailed by ideological differences over the EU's flirtation with precautionary principles of risk that is not science based.

Bilateral Competition Policy Harmonization

The International Competition Policy Advisory Committee to the Attorney General and the Assistant Attorney General for Antitrust (ICPAC), which I am co-chair, is currently considering U.S. competition policy in a global economy. It is focusing on three key issues: the legal and operational challenges stemming from multijurisdictional merger review; the interface of trade and competition issues, i.e., market access problems stemming from private anticompetitive restraints; and future directions in enforcement cooperation between the U.S. and foreign antitrust authorities. Clearly, the U.S.-EU relationship has played and will continue to play an important role as a laboratory for improved antitrust cooperation. Based on testimony and interviews that the Attorney General's Advisory Committee has held, I am convinced that the U.S. and EU have many opportunities for enhancing competitive policy joint initiatives. Again, negotiators in the U.S. and EU are dwelling more on their differences with regard to the coverage of competition policy matters in future World Trade Organization (WTO) negotiations, than on common bilateral efforts.

Cooperation between U.S. and EU competition authorities is among the deepest in the international antitrust arena. As such, the U.S.-EU cooperation provides a useful testing ground for future enlargement of global antitrust cooperation, including tasks that

relate to WTO activities. In particular, there is a great opportunity to build on the deepening U.S.-EU cooperation on mergers as well as the relatively new usage of positive comity to address private anticompetitive conduct. Given the high levels of U.S.—EU competition policy convergence, there are many projects that the two can collaborate in vis a vis third world countries.

The current merger wave involves a significant number of transactions involving U.S. and European firms. Cooperation in the merger review process takes place between the U.S. and the European Commission under a 1991 bilateral agreement designed to promote cooperation and coordination between their antitrust enforcement agencies and lessen the possibility or impact of differences in the application of their competition laws.[3] The 1991 U.S./EC Agreement requires each party to notify the other whenever its competition authorities are engaged in enforcement activities which may affect "important interests of the other party," and provides for periodic meetings between officials from the EC and U.S. In the merger context, the EC notifies the United States whenever it reviews a merger involving U.S. firms. The United States notifies the EC whenever it opens a merger investigation involving an EC firm.

Both the U.S. and EC agree that the 1991 U.S./EC Agreement provides a framework for meaningful and useful cooperation. This cooperative process better enables the antitrust enforcement agencies to come to complementary conclusions, while at the same time allowing each agency to take into account facts and law that may be unique to their own jurisdiction. In addition, the frequent contact between the agencies are credited, in part, to contributing toward the creeping convergence of substantive antitrust laws. Further substantive and procedural convergences between the U.S. and EU in merger review may serve as a useful model for other countries as well as benefit both jurisdictions.

It should be noted that the 1991 U.S./EC Agreement does not provide for the sharing of information protected by statute absent a waiver from the parties. Thus, documents and information obtained through the Hart-Scott-Rodino Act premerger notification process (or through Civil Investigative Demands) may not be shared as a matter of course. However, parties involved in a multijurisdictional investigation may provide foreign antitrust authorities copies of statutorily protected material and maintain the authority to waive the confidentiality provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act") to allow discussion of protected material between the Department of Justice (DOJ) or Federal Trade Commission (FTC) and foreign agencies. In order to encourage the granting of waivers of confidentiality, approaches are needed that inspire confidence on the part of businesspeople with respect to how their confidential business information is going to be treated.

---

[3] Agreement Between the Commission of the European Communities and the Government of the United States of America Regarding the Application of their Competition Laws, reprinted in, 4 Trade Reg. Rep. (CCH) ¶ 13,504 (Sept. 23, 1991); 1995 O.J. (L95) 45, corrected, 1995 O.J. (L131) 38 (June 15, 1995) ("1991 U.S./EC Agreement").

The 1991 U.S.-EC agreement also was the first competition law agreement to introduce the principle of positive comity. Positive comity refers to the principle that a country should give serious consideration to another country's request to investigate and remedy anticompetitive conduct within its borders that is harming another country's important interests. The 1998 U.S.-EU positive comity agreement[4] set forth principles for the application of positive comity in certain types of cases.

To date, there has been only one invocation of the positive comity between the U.S. and EU. In April 1997, the U.S. asked that the E.C. investigate activities involving Amadeus, the dominant computer reservation system in Europe, whose main shareholders are three European airlines. In response to the U.S. request, the EC issued its conclusions this past March and announced that it had decided to issue a Statement of Objections after finding several violations of possible abuse of a dominant position by one of Amadeus' shareholders.

While there has been only one formal positive comity referral, the 1991 and 1998 agreements have encouraged requests between the US and EC agencies that amount to "informal" positive comity referrals. While still in its infancy, the U.S.-EU experience with the positive comity mechanism offers a potential model for addressing tensions arising from anticompetitive private practices in one jurisdiction that harm firms in the other jurisdiction. These lessons, in turn can be linked to positive comity agreements with other nations. And eventually this lattice like structure may serve as the basis of a multilateral agreement.

Implications of EU Assertiveness in Eastern Europe

U.S. foreign policy toward Europe has been largely shaped by the geography of the membership of the North Atlantic Treaty Organization (NATO). Many changes have occurred in how policy makers look at the role of institutions. The fiftieth anniversary celebration featured NATO new members, three former Soviet bloc nations, Poland, the Czech Republic and Hungary. Half a century ago, the Marshall Plan also helped to resurrect Europe from the ravages of the Second World War. That era is long gone. Big government programs have been supplanted by private foreign direct investment. Today, invigorating the economies of Europe, especially the three nations that have just become NATO members, requires another form of economic outreach, one that is business and commercial, not government sponsored. Indeed officials of Poland credit their decision not to rely on the help of other governments as contributing to Poland's relative economic resiliency as the Asian financial crisis of the summer of 1997 spread from continent to continent.

But one thing should not change: U.S. leadership is still necessary to any plan for Eastern Europe. This is as true in the economic field as it was proven so recently to be true in the military theatre of Kosovo. U.S. relations with the emerging markets of

---

[4] Agreement Between the Government of the United States of America and the European Communities on the Application of Positive Comity Principles in the Enforcement of their Competition Laws, June 4, 1998. Available at: http://www.usdoj.gov/atr/public/international/docs/.

Europe requires *more* than a series of limited bilaterals and more than an indirect policy of encouraging the European Union to take in new members from the East. When the EU expanded to include Greece in 1981, Portugal and Spain in 1986 and Austria, Finland and Sweden in 1995, it disadvantaged American commercial interests and created a rippling of trade frictions across the Atlantic. Further EU expansion has been distracted by the exercise in deepening EU integration via the European Monetary Union. However, in July 1997, the European Commission recommended that the EU admit as new EU members Poland, Hungary, the Czech Republic, Cyprus, Estonia and Slovenia on various timetables. Meanwhile, U.S. commercial interests are being compromised when EU entities enjoy preferential tariff treatment from EU applicant nations at the expense of American business. For example, the U.S. accounts for one fourth of all foreign investment in Poland, and yet EU members face a preferentially lower tariff duty than the 15 percent average levied against U.S. companies. This disadvantages U.S. goods imports of all kinds, and discourages U.S. services and investment. For example, American retail interest are penalized when European retailers can more cheaply source Western European imported goods.

In short, U.S. negotiators must be careful to achieve U.S. parity as the EU negotiates accession with new members to an enlarged European Union

Part IV: Macroeconomic Underachievement in Western Europe, and the Euro

At the beginning of 1999, it was hoped that Europe would join U.S. consumers as the second locomotive for global growth. That did not occur. The launch of the new common currency, along with the outcome of the German election in fall 1997, distracted the continent from its job. Diminishing confidence in two of the EU's major players, France and Germany, coupled with the upward revision of growth prospects in the United States have limited demand for the recently launched Euro. As a result, in the first five months since its inception, the currency has experienced steady decline of over 10% versus the dollar.

Long-term, a positive outlook remains unchanged. The Euro will likely become a major player in the international economy. The lower rates this year may even have been a blessing in disguise. As Asian economies recover and American demand remains strong, the lower prices, in European denominations, have invigorated flagging industries bogged down by accumulating inventories. The exchange rate depreciation contributes a net positive effect and has added as much as one half of one percent to European GNP over the course of this year.

Assuming the euro's initial growing pains are worked out, the most noticeable impact on Americans, will be seen in domestic financial markets. Before the Euro, most European companies financed growth by borrowing from banks, because the securities markets of the current EU nations remained relatively underdeveloped. In these countries, the combined value of equities was approximately 40% of total GNP, versus a

value of over 130% in the U.S. The advent of the Euro allows for the consolidation of these individual securities markets. This expanded European market, it is hoped, will attract international funds that were previously placed in U.S. markets. This increases competition for global capital, which has been invaluable in fueling the growth which U.S. equity markets have experienced over the past several years.

It is also conceivable that the Euro will have an eventual effect on the supremacy of the dollar in foreign markets. Before the inception of the Euro, the United States could finance its now sizable trade deficit quite cheaply, because trading partners overseas were willing to hold dollar-dominated debts. In the future, when these countries have a choice in reserve currencies, the United States will theoretically feel the need to raise interest rates to entice additional investment. This could eventually have a negative effect on U.S. domestic investment.

Probably though, the long-term effects of the Euro will be quite positive to the U.S. and U.S. companies. The common currency will be helpful in easing trade and mergers both on the continent and with others internationally. It will free the European economies from many of the needless inefficiencies that have plagued them in the past and will raise the European Union to a point where it could stand along with America and Japan as one of the three major trading blocs in the world economy. This helps U.S. and European firms, alike.

Part V: Political Lessons Learned from the Marshall Plan[5]

A Political Economic Analytic History of the Marshall Plan

In three short years from 1948 to 1951, the Marshall Plan played a major role in turning Western Europe from a continent in great political and economic danger to an area with great hope on the verge of an economic miracle. When we look at Western Europe today, it is difficult to believe what that rich, industrialized continent looked like half century years ago, shortly after the end of the Second World War. France, Germany, and Italy had been battlefields. Cities were destroyed, public facilities were a shambles. Productive plant was in ruins. Millions of people were homeless, without work, and most important, largely without hope.

Political institutions were not in much better condition. Several of the European countries in 1947 were only embarking on new democratic experiments, after decades of dictatorship. Divisions between the countries and within them were deep and many thought abiding. Communist parties were strong and threatening in Italy and France. Governments in both countries were weak and often stayed in power only a few months.

Their economic and political recovery after World War II was not preordained, nor anticipated. Many observers after the war thought the European countries might always be an economic charge for the United States, a burden to be borne. It is amusing, but also useful to remember that even 10 years after the war, late in the 1950's, the

[5] This portion of Dr. Stern's testimony borrows heavily from a 1982 unpublished manuscript written by Paul London, Ph.D., Washington, DC.

Organization for Economic Cooperation and Development (OECD), the Marshall Plan organization headquartered in Paris, was developing special types of farm machinery for use on the steep slopes of the Alps. Why? Because many doubted that Switzerland, Austria, Italy, and other countries of the region would ever develop the export capacities to purchase food overseas to support their populations. Economic miracles have been achieved in Europe and the Marshall Plan played a key role in them. It would be a mistake to believe that such miracles cannot take place in the Balkans, an area blocked by the Iron Curtain from the benefits of the Marshall Plan and Western European economic expansion through liberalization and economic cooperation.

The Marshall Plan is relevant to an effort which must be made today to promote not only economic development, but cooperation between erstwhile enemies, and the healing of internal divisions within many countries of the region. The Marshall Plan had as its principal objective, not economic development alone, but the use of the advantages of economic development to increase international political cooperation and to foster internal political moderation.

One problem with looking at the Marshall Plan for sign posts is that "the Marshall Plan" is so often invoked. These calls are usually meant as appeals for money, pure and simple. They overlook, by and large, the important *non-financial, self-help, and multi-national planning components which distinguish the Marshall Plan from aid efforts overseas which came later. These non-financial elements need to be stressed because the Marshall Plan was not only or even principally a transfer of resources. It was a program which helped . . .indeed required... Europe to mobilize its own resources.*

It is clear from looking at the world today that economic development is not merely a question of resources. Many regions with resources are not developing, while other nations with apparently poorer prospects have been able to release and harness the energies their people to achieve better lives. An important lesson of the Marshall Plan is that economic development is an organic process which requires the full participation of the people of the regions involved. Europe has proved that economic development is a process closely linked to freedom and democracy themselves.

The Political Economy of Post-World War II Europe

In post-World War II Europe, governments were unable and unwilling to demand greater sacrifices from populations burdened by the pains of World War II. These populations also were distracted by the nostrums of Communists and others who blame economic difficulties on the capitalist "system" rather the objective realities of countries devastated by war.

In 1947 it was almost impossible politically for governments to build and rebuild productive capital plant on the basis of increased sacrifices by ordinary people alone. Rationing, currency controls, and systems of subsidies were a price paid in Europe after World War II for domestic political peace. Food was subsidized in many countries, and incentives for agricultural investment were diminished, and inflationary problems

increased by such policies. Pressures to pour capital into housing and other forms of consumption rather than factories had to be accommodated by political leaders. The problem in Europe, then, was a political one. It was to develop agricultural and industrial productive capacity for the longer haul, without causing drastic short term political upheaval. It was to allow the gradual reduction of unproductive subsidies, and the development of fully competitive self-supporting and self-sustaining economies, while recognizing political experiences. The Marshall Plan made this compromise between economics and politics possible in Europe in a democratic context.

It is a mistake to believe that uneven development in which many members of the society cannot participate, even though it increases a nation's Gross National Product (GNP), will be acceptable politically. In Europe, post war economic development narrowed the gap between the wealthy and the poor. If only for political reasons, private investment must recognize that to be successful it must have a broad sense of support.

It is widely recognized that many recent efforts to promote economic development in less developed countries have widened the gap between the wealthy and the poor. One way to deal with the problem of inequality may be to design a private investment fund which specifically recognizes the importance of capital accumulation and job creation in the mercantile and small business sectors. The small business, trade, and service sectors are the ones which make the lion's share of jobs in developing countries.

Early in the process of structuring a private investment fund, therefore, public and private participants should be encouraged to explore and "catalogue" small business assets and capabilities in the countries of the region and to encourage efforts to provide maximum incentives to this sector. The Stability Pact objectives at World Bank should borrow here from the Marshall Plan experience where countries were required to prepare the famous "Paris Report" which catalogued their assets, as well as their needs.

In Europe after World War II, while much of the focus of attention was on the rebuilding of industry, it is clear that most of the jobs at first were created in relatively traditional areas of the economy like trade and services. One of the major mistakes in many non European developing countries since the war, has been the costly funneling of capital to large industries alone, and to governmental marketing agencies like cooperatives, which have absorbed and wasted capital while the older mercantile sectors of the economy have been allowed to contribute to capital formation and, most important, to job creation.

A Marshall Plan innovation which might be adopted to encourage the development of smaller local businesses, is the use of counterpart funds. European governments were required by the terms of the Marshall Plan to set aside sums in their own currencies equal to the money they received from the United States to be used for local development projects. Such funds could be the seed capital for a whole banking system designed to develop local businesses, or at least as the capital which many of these businesses could use to expand.

A second key experience of the Marshall Plan is that it encouraged international cooperation as a specific condition of assistance. The sovereign nations of Europe were not able to go their separate ways without regard to the needs of the other OEEC countries and their joint plans for greater economic integration. Both U.S. and European economic self-interest and idealism were important in this unusual limitation of sovereignty. Americans, like Secretary Marshall, and his Marshall Plan director, Paul Hoffman, did not believe that the individual European countries could develop successfully without greater economic cooperation. American and European idealism motivated an effort to encourage economic integration. Jean Monnet and other European statesmen had long argued that economic integration could reduce the danger of war in Europe. Their idealism was another powerful factor in shaping the structure of Europe which grew out of the Marshall Plan period.

A practical reason for encouraging regional cooperation and coordination is political. The requirement of cooperation can help politicians to deal with domestic political pressures. In Europe the requirement of cooperation gave politicians in the individual countries a strong argument to use with domestic groups which wanted to get more for themselves. Politicians were able to say to such groups, "yes, we would like to help you, but the Americans and our Marshall Plan partners insist that we follow another course." In this way the narrow demands of various agricultural, industrial, and commercial-interests were made more manageable, although certainly not easily so. Greater attention was paid to efficiency and questions of scale, and less to domestic political pressures for autarchic investment.

But while the Marshall Plan required cooperation, it did not require the austerity and disastrous anti-inflation policies so often identified with the International Monetary Fund. It was, a very political and sensitive effort to achieve economic progress while recognizing political risk. It cannot be an approach left entirely to the economists and professionals who replaced the "new blood" which Secretary Marshall and Paul Hoffman brought to the Marshall Plan effort.

Private vs. Governmental Efforts

The Marshall Plan was essentially a government effort, in which, in the beginning, private investment played hardly any formal role. Extensive exchange programs for private sector leaders and technical assistance to private enterprises in Europe, however, were part of the Plan's early efforts.

A government approach was more appropriate to Europe than it is now. The private sector in Europe was relatively advanced and its ability to deal with government agencies in a balanced way was not in question. This is not the case today in Southeast Europe. The private sector in these countries is weak and under represented in its dealing with government. One of the most important roles to be played by foreign investment in these circumstances is to strengthen the ability of local business to work with governments. While it was possible to ignore the role of private investment in Europe to

some degree, it will not be possible and still achieve balanced and liberal development, which is needed in the region.

The Importance of Process

Most of those who reviewed the Marshall Plan experience emphasize the importance of process. While $13.3 billion of Marshall Plan money was important to Europe, most agree that the Plan's sense of purpose, its requirement of cooperation, the flexibility of its administration, and the commitment of European and American leaders to it was more important. Moreover, the Marshall Plan contributed to the development of European institutions, the European Payments Union (EPU), the OBEC which has become the OECD , the European Economic Community (EEC), the European Coal and Steel Community (ECSC), and others. Many European political and business leaders received useful early experience in Marshall Plan-related organizations, and in leadership and business exchanges encouraged by the Plan. Commentators of the Marshall Plan note that many early assumptions of the Plan were wrong and were abandoned, but the process continued.

The governmental and business leaders of the countries involved should begin now to assess their own assets as European leaders did during the summer of 1947 in response to Secretary Marshall's offer. The first step is to mobilize the private business, labor, and governmental leaders in each country to interact with one another and with those of partner countries. The foreign private investor community should, as a condition of its full participation in this effort, insist that business, large and small, in each of the countries play an adequate role in this planning and discussion process.

Part VI: The Role of the TABD vis a vis Eastern Europe: An Opportunity to Advance an Important Initiative to be a Forum for Private Sector Dialogue.

Testimony by:

J. Michael Farren
U.S. Transatlantic Business Dialogue (TABD) Working Chair
Xerox Corporation

Before the U.S. House of Representatives
Committee on International Relations

"The Future of Our Economic Partnership with Europe"

June 15, 1999
10:00 a.m.
2170 Rayburn House Office Building

INTRODUCTION

Chairman Gilman, distinguished members of the House International Relations Committee, I want to thank you for the opportunity to be here today to participate in this important hearing on our economic partnership with Europe. My name is J. Michael Farren and I am the US Working Chair for the Transatlantic Business Dialogue (TABD) and Corporate Vice President, External Affairs for Xerox Corporation.

I would also like to congratulate the Chairman on his leadership role in the Transatlantic Legislative Dialogue (TALD). The TALD is an excellent forum to bring together the legislative aspects of the US-European relationship, and to enhance understanding between the US and EU.

The TABD was established in 1995 by the late Secretary of Commerce Ron Brown and European Commission Vice President Sir Leon Brittan and European Commissioner for Industry Martin Bangemann. It is an informal business-led process which enables European and American companies to develop consensus US-EU policy recommendations. Our goal is to increase transatlantic trade and investment through the removal of costly inefficiencies caused by excessive regulation, duplication and unnecessary differences in US and EU regulatory procedures. Additionally, the TABD works to promote US and EU cooperative efforts to meet the broad challenges of the global marketplace.

Over the past five years, through close cooperation with the U.S. Government and European Commission, the TABD has proven to be a productive and successful process for eliminating transatlantic trade barriers and encouraging global trade. This year, Richard Thoman, President and Chief Executive Officer of Xerox Corporation, and Jerome Monod, Chairman of the Supervisory Board of Suez Lyonnaise des Eaux, are serving as the CEO Co-Chairs of the TABD.

Particularly this year, with the World Trade Organization (WTO) Ministerial in Seattle and the Transatlantic Economic Partnership (TEP) negotiations between the US and the EU, significant opportunities exist to push forward progressive trade and investment liberalization that will spur economic growth and create jobs in both markets. The TABD is working on identifying ways to capitalize on these opportunities.

The transatlantic trade relationship continues to be the world's largest economic partnership. While several high-profile disputes such as bananas, beef and genetically-modified foods have gotten quite a lot of publicity, we need to recognize that in terms of trade, they are less than half a percent of the total.

The TABD is focused on providing an "early warning" on disputes, and on providing productive solutions to prevent protracted trade disputes. We should not forget the enormous amount of cooperation that occurs between both US and European governments and business communities. It is in this cooperative spirit, led by the TABD, that we are making substantive recommendations and as a result substantial progress in resolving contentious issues such Third Generation Wireless technology, airplane "hush kits", and the protection of personal data in Electronic Commerce.

On May 10, the TABD held its Mid Year Meeting for the first time in Washington, DC, with over 200 industry and government participants. At that meeting, we had the opportunity to assess priorities for 1999 and review progress on implementing the Charlotte Recommendations. I would like to highlight some of the specific priorities and consensus recommendations agreed to at the Annual Conference in Charlotte by the U.S. and European business leaders. At the Mid Year Meeting, we also looked ahead to the priority issue that CEOs will discuss during the October Conference in Berlin.

REGULATORY AND STANDARDS ISSUES

Coordinating standards and regulatory procedures between the US and the EU is a central focus of the TABD. By supporting the principle of "approved once, accepted everywhere" between the two markets, costly barriers to trade and investment can be removed.

Specifically, the TABD has pressed both governments to implement a pilot project on the approval processes for **bio-technology products**. Through this project and by creating a "roadmap" of the regulatory procedures, companies will understand how these processes work, and how governments can better coordinate and streamline the procedures. These projects are a central deliverable of the TEP.

The issue of **Third Generation Wireless standards**, or 3G, is another good example of a TABD success. Through the TABD, transatlantic business is promoting a commonly-accepted international standard, and looks to the governments to ensure that adequate spectrum and frequencies are available to accommodate new wireless technologies which will revolutionize communications. This consensus helped to avoid a potentially serious dispute between the US and EU over the standards governing the use of this new technology.

Additionally, in the aircraft sector, TABD was the primary contact for raising the issue of **aircraft "hush kits**," something the Congress itself was dealing with directly earlier this year. Working together with the European Commission and the US Government, the TABD was able to encourage a one-year delay on legislation in the EU that would have banned aircraft from being resold in the EU with "hush kits." The delay provides time to assess the

environmental impacts of "hush kits" and to prevent the disruption in transatlantic travel and trade flows.

The TABD was also instrumental in working with the European Commission to delay for 10 years a directive requiring **metric-only labeling** for products sold in the EU, a directive that would have been detrimental to both large and small US companies. In the **automotive sector**, the TABD reached out to industry around the world to secure ratification of the Global Agreement on Autos and Auto Parts.

The TABD also would like to congratulate the Congress on passing H.R. 1183 -- a bill that amends implementation of the 1990 Fastener Quality Act. The amendment will allow the Department of Commerce to better implement the Act, and avoid costly regulations that would have disrupted transatlantic trade.

BUSINESS FACILITATION

Many of the issues impeding economic development are based on overly regulatory or duplicative procedures for intra-company processes – such as accounting, product delivery or personnel mobility. Cooperation between the US and EU is needed to facilitate a seamless environment for multinational corporate operations.

The TABD has been pressing governments for an **international standard for accountancy procedures**. In an era of increasing transatlantic mergers and booming stock markets, companies need clarity in the system, and need to reduce inefficiencies by providing transparent, accurate economic data.

Customs coordination between the US and EU is also essential. The TABD committee on customs expects substantial progress this year on issues such as cargo release and the elimination of outdated Chamber of Commerce certificates. The TABD has provided governments with a number of innovative solutions to increase efficiency and productivity in the customs process.

WORLD TRADE ORGANIZATION (WTO)/GLOBAL ISSUES

This year, the business community and US and EU governments have the unique opportunity to shape trade liberalization into the new millennium through the WTO. One particular area-**services** – is of enormous interest as part of the built-in agenda from the Uruguay Round and for its economic weight in today's international trading environment. The TABD is pressing

governments to find significant opportunities for service liberalization within the General Agreement on Trade in Services (GATS) and into the new round of WTO negotiations.

Intellectual property is another area requiring action – particularly in the implementation and enforcement of countries' Trade-Related Intellectual Property (TRIPS) commitments in the WTO. Ensuring protection for intellectual property worldwide is an absolute requirement for a multitude of industries – from pharmaceuticals to media companies, to internet service providers.

China's accession to the WTO remains a high priority for the transatlantic business community. Bringing countries into the global trading system not only increases opportunities for trade and investment, it anchors democratic institutions and stability in developing regions. The TABD has focused on recommendations to promote accessions, providing that they have a high standard of market opening commitments and commercially viable obligations.

As we did with the original Information Technology Agreement in 1996, the TABD support the expansion of **trade liberalization** through the conclusion of the ITA II negotiations. By reducing and eliminating tariffs in a greater range of information technology products, ITA II fosters innovation and advanced development around the world.

The TABD also encourages governments to establish an efficient, transparent and predictable approach to **international competition policy**. We hope to draw on the extensive work of the International Competition Policy Advisory Committee (ICPAC).

Finally, the TABD stresses the need for industry and government to reflect on what happens when there are international commercial or legal **disputes**. The TABD is focused on promoting existing mechanisms for dispute settlement, and on new mechanisms for "early warning" to raise attention to issues before they become protracted and costly trade disputes. The TABD itself has been an effective early warning process on a number of issues and intends to maintain that role.

SMALL AND MEDIUM SIZED ENTERPRISES

The TABD has been keenly aware of the importance of **small and medium sized enterprises (SMEs)** as the base of both the US and European economies. Trade barriers in the transatlantic marketplace have a substantially greater impact on smaller companies, locking them out of valuable market opportunities and stifling growth. For these reasons, the TABD process ensures that the views of SMEs are directly incorporated in our recommendations.

ELECTRONIC COMMERCE

Electronic Commerce is a cross-cutting issue that is beneficial to small and large companies alike, and a major focus of the TABD. The E-Commerce working group has as its goal the development of a global framework to ensure the exponential growth of the digital marketplace, in a clear, predictable fashion that ensures consumer confidence in the electronic medium. The TABD strongly urges US and EU governments to continue to develop industry-led, market-driven, self-regulatory processes that encourage private investment in a competitive environment. TABD will create consensus recommendations for an electronic business framework which highlights industry's commitment and necessary government regulation to ensure the full development of the digital marketplace.

In addition to the overall framework, we are continuing to develop detailed recommendations on a range of specific E-commerce issues – including privacy, taxation, and electronic authentication.

CONCLUSION

Despite the high profile disputes between the US and EU, unprecedented cooperation exists at many levels – particularly between the two business communities.

As I mentioned before, the TABD is uniquely positioned to make recommendations that will allow the US and Europe to capitalize on the opportunities for economic growth available this year. By fostering a consensus between the US and Europe in the area of trade and investment, the WTO Ministerial will have a solid core of global economic activity to ensure progress on trade liberalization into the next decade. Additionally, the TABD will continue to act as an "early warning" system to raise attention on potential disagreements so that they can be dealt with before becoming full blown trade disputes.

I thank the Committee for allowing me to be here today, and look forward to another productive year within the transatlantic economic relationship. I will make available to the Committee our Mid Year Report as background on the many recommendations made by the TABD this year.

Thank you.