

1 Senator Danforth. Well, the Executive Branch
2 agreed to that, but as you know, international trade
3 agreements are within Article 1 of the Constitution.
4 There is congressional prerogatives.

5 And this was something that was never agreed to
6 by Congress. In fact, we had a sense of the Senate
7 resolution, didn't we? We did. I mean, it was my
8 resolution.

9 [Laughter]

10 Mr. Kantor. I am quick to agree that you must
11 have had one.

12 Senator Danforth. The agreement, however, what
13 passes as an agreement or what is alleged to be an
14 agreement would do nothing about the past \$26
15 billion of subsidies.

16 In other words, if the countervailing duties
17 were imposed, they would be able to cover the \$26
18 billion in past subsidies. However, the nature of
19 the agreement condoned the \$26 billion in past
20 subsidies and allows certain future subsidies.

21 Mr. Kantor. It does for development, as you
22 know, up to 33 percent.

23 Senator Danforth. And the full \$26 billion is
24 forgiven.

25 Mr. Kantor. Under the agreement -- and I do

1 not mean to be defensive. I did not negotiate this
2 agreement. Under the agreement, let me be careful
3 to add that we have a right to certain information
4 which we have now requested which shows that the day
5 after the President spoke in Seattle, we wrote to
6 our European counterparts and asked for
7 consultations as quickly as possible and to provide
8 the information that were due under the agreement to
9 determine whether or not the \$26 billion or the
10 direct subsidy is being paid back at the proper
11 interest rate or is being paid back at all.

12 One of the problems we have, of course, is the
13 accounting practices of the four partners in this
14 are somewhat murky to say the least. We are going
15 to have those meetings in late March.

16 Now, let me indicate without going any further
17 because I haven't seen -- we obviously have not had
18 access to the information that we have every right
19 to. If the information indicate that the money is
20 not being paid back or the interest rate is not
21 being applied, that we have every right then to look
22 at the agreement in terms of whether or not it
23 should stay in force.

24 So, in fact, we do have some options here that
25 might not appear so clearly at first.

1 Senator Danforth. All right. I would simply
2 say that it would be my hope, particularly based on
3 the President's recent statements that the
4 Administration would take a very hard look at that
5 agreement with the view toward enforcing rights that
6 were previously negotiated with the subsidies code,
7 and that the only reason to negotiate a subsidies
8 code is to use it for the best interests of the
9 United States. Otherwise, any kind of international
10 agreements are not worth anything at all.

11 Mr. Kantor. Let me just add to that, if I
12 might, Mr. Chairman and Senator, that it is one of
13 the things we are looking at closely in the Uruguay
14 Round is the subsidy section because we are not
15 satisfied with -- they have a green light, dark
16 amber, yellow light, green light section.

17 And if you want to look at that green light
18 section and see if whether or not it is too liberal,
19 in fact, allowing subsidies.

20 The Chairman. Thank you, Senator Danforth.

21 Senator Daschle.

22 Senator Daschle. Thank you, Mr. Chairman.

23 Mr. Ambassador, out of fear of sounding a
24 little bit like a broken record, I raise again the
25 issue of agriculture.

1 There is a concern all the way along this
2 process that it really has not been a very bright
3 blimp on the radar screen for a lot of people, your
4 predecessor. And I guess the jury is still out as
5 to what degree this Administration will be looking
6 at the agriculture provisions of this agreement.

7 And I suppose, as I said earlier, the biggest
8 concern that we have is the degree to which we lock
9 in this ability on the part of the Canadians to
10 subsidize their products with an inability on our
11 side to do much about it.

12 There is a concern about how we resolve
13 disputes when they have agreement, we have an
14 agreement, and those agreements offer advantages and
15 disadvantages. And as we try to resolve disputes
16 related to those agreements, it is very unclear to
17 me how we are going to do that.

18 Secondly, even if we can come to some
19 conclusion about the advantage, perhaps the
20 Canadians -- not perhaps, but the Canadians have
21 locked in with regard to subsidization, the degree
22 to which we understand that advantage is related
23 directly to the degree that we know their is
24 subsidization is continuing.

25 And so we have no ability necessarily, as I

*Canada
ag*

1 understand it without price transparency, of coming
2 to grips with that question, even to take it to a
3 dispute resolution mechanism.

4 And then, there is a third issue. Assuming for
5 the moment that we really cannot look at price
6 transparency with any satisfaction, how do we deal
7 with it? How do we deal with it in a dispute? How
8 do we deal with it unilaterally? Is it considered
9 countervailable?

10 We talked about this earlier. And I think for
11 the record, it would be very helpful for this
12 Administration to explain their understanding of our
13 options outside, of course, of using subsidies of
14 our own.

15 But I would like for you to address those
16 points to begin with.

17 Mr. Kantor. Thank you, Senator. Yes. I would
18 be happy to do so. And I cannot speak to my
19 predecessors in this job, but I hope you understand
20 that we have paid some attention to this and spent
21 some hours on this.

22 We do not have a lot of options with regard to
23 Canadian wheat durham, we have discussed. The
24 Binational Panel, of course, came down with a
25 decision which I was disappointed in, as I know you

*durham
wheat*

1 were and Senator Conrad and other of your colleagues
2 were disappointed in, but that is not the end of the
3 ball game, as they say. We have not come to the
4 ninth inning yet.

5 In April, I am meeting as a co-chair of a panel
6 to review this decision. I have very limited power
7 in this review, but one power I do have is to
8 implement the panel's recommendation that we have an
9 audit with the Canadian Wheat Board and their use of
10 rail and other matters that have helped their wheat
11 farmers and have made their wheat, I think, amounted
12 to a large subsidy for Canadian wheat.

13 We would like to implement that audit as soon
14 as possible, not the seven-year timeframe that seems
15 to be the point of the realm in international
16 agreements, but as soon as possible, hopefully in a
17 90 or 120-day timeframe, if that is rational, bring
18 in a third party, a neutral party to audit these
19 matters.

20 If they find what we believe to be there, we
21 are prepared and ready to bring a new case in front
22 of a binational panel based upon evidence which was
23 not available to us, as you know, because we could
24 not force that evidence, and then be able to deal
25 with the problem, we hope.

*Canadian
wheat*

1 Now, that is, I think, the most viable way for
2 us to proceed.

3 And let me just say, let me answer your third
4 question, yes, it is countervailable, if we find
5 there has been a violation.

6 Senator Daschle. Well, you said in answer to
7 an earlier question that you would walk away from a
8 bad agreement. I would hold out this as Exhibit A
9 that we have under these circumstances, at least as
10 far as agriculture goes, a questionable agreement.
11 And I am very concerned about our inability, even
12 using the audit procedure that you outline, and I
13 would recognize that it is an option for us, but the
14 audit procedure takes so long.

15 And given that length of time, our inability to
16 deal directly with this issue prior to the time we
17 have to resolve the overall agreement leaves many of
18 us with a great deal of concern.

19 What if the audit doesn't produce anything?
20 What if we have additional disputes in the future
21 and really a lack of understanding as to how we
22 resolve those disputes on a three-party basis?

23 But I am very concerned about that. And I am
24 not sure the audit frankly is going to be good
25 enough. And I would hope that we could find another

1 way, that we could resolve this issue with the
2 Canadians prior to the time many of us are called
3 upon to vote on NAFTA itself because it is a very,
4 very big concern.

5 I am also concerned about their ability
6 ironically even to use our own export promotion
7 program. And so I would be interested in knowing--
8 in what brief time I have left--what your view is.

9 [Laughter]

10 Senator Daschle. Given the ability to extend
11 the 10 minutes.

12 But how you view the use of end-use
13 certificates. Would you be supportive of utilizing
14 end-use certificates to ensure the Canadians are not
15 able to use the export subsidies that we have?

16 The Chairman. Senator, would you help us?
17 What kind of certificate?

18 Senator Daschle. Mr. Chairman, these are end-
19 use certificates.

20 The Chairman. End-use.

21 Senator Daschle. That documents where the
22 grain has come from in order to ensure that as
23 subsidies are applied that whether or not those
24 subsidies are applied to U.S. products or to foreign
25 products.

1 Mr. Kantor. Let me say two things. One,
2 Secretary Espry is looking at the end-use
3 certificate situation right now and will be
4 consulting on that. I think we both would be happy
5 to come see you and talk with you about that.

6 Number two, in the Uruguay Round, if, in fact,
7 we can get a market access package in agriculture
8 that makes sense, clarify these non-tariff barriers,
9 that has potential -- that has potential.

10 Let me not overstate the case. It will not
11 solve all the problems, but it has potential for
12 verification of some of the problems we are talking
13 about in lowering those barriers and being helpful
14 as well. So we are not without some options.

15 Let me say, I am as frustrated as you are with
16 this problem. I find that I do not have as many
17 options with this particular problems as I have with
18 others.

19 The Chairman. Thank you, Senator Daschle.

20 Senator Chafee.

21 Senator Chafee. Thank you, Mr. Chairman.

22 Mr. Kantor, I referred to page 12 of your
23 testimony on the bottom there. And I am extremely
24 interested to discover that we currently have a
25 trade surplus of \$6 billion with Mexico, but one of

*U.S.
Market
Access*

1 the experiences that you have before this committee,
2 Mr. Ambassador, is that there are some members of
3 this committee who rail against any Nation that has
4 a trade surplus with us.

5 Somehow it is all right for us to have a trade
6 surplus with another Nation, but it is per se evil
7 for the other Nation to have a trade surplus with
8 us. And so I am very pleased that we this trade
9 surplus with Mexico.

10 I would also like to stress that the accent
11 always seems to be on those who attack the NAFTA, on
12 the American companies that are fleeing to Mexico.
13 And you well know that they can go there now
14 already. And, indeed, some have.

15 But I think what we have to accent here is the
16 tremendous market that Mexico represents to U.S.
17 products, U.S.-made products, not only the \$6
18 billion surplus, but the fact that over the past
19 five years, our exports to Mexico have grown over
20 300 percent.

21 And you yourself say that on page 12. And that
22 is the point it seems to me that we have to accent.
23 And that all represents jobs.

24 I must say, Mr. Ambassador, I am very, very
25 concerned over these side agreements you are going

1 to attempt to negotiate. And that concern has been
2 voiced here earlier.

3 I think it is going into a morass because, as
4 you say, you are not going to alter the basic
5 agreement, but you are going to have these side
6 agreements. I am just not sure what they are going
7 to do.

8 That noted American philosopher, Yogi Berra,
9 said, "You can see a lot by looking." And so I went
10 down and followed his advice and went to Mexico
11 City.

12 And there, for example, in Mexico City, every
13 vehicle in Mexico City has to be checked, not once,
14 but twice a year for emissions, for tailpipe
15 emissions.

16 And that is done through a bullet-proof, bribe
17 proof machine that if you don't pass, it spouts a
18 record that says you don't pass and how you have not
19 passed. If you passed, then, the sticker is on the
20 sheet that comes out of the machine. It is
21 extraordinary.

22 And therefore, every vehicle in Mexico City has
23 to have this sticker on it, indicating that they
24 have been approved for the following six months.

25 And perhaps under the side agreements, somebody

1 in Mexico could go after Los Angeles for not having
2 a similar agreement. I do not know.

3 I am not quite sure how your side agreements
4 are going to work, but I do not want to be harsh,
5 Mr. Ambassador.

6 But I have a feeling there is a lack of a sense
7 of urgency. I think and I know you have mentioned,
8 "Don't worry. We are going to have it done by
9 January 1st" which is the commencement date of the
10 NAFTA, but pretty soon this Senate is going to be
11 choked up on a whole series of measures, whether it
12 is the economic policy or the health care or
13 whatever it is.

14 And I will say, you are not going to be able to
15 satisfy the AFL-CIO on this. Any suggestion that
16 you can, I think is erroneous. They did not approve
17 of the Canadian agreement we entered into. And they
18 are dead set against this. So there is going to be
19 opposition to it.

20 Would you do anything to allay my concerns
21 about this perhaps inaccurate belief I have that
22 your full pressure -- you haven't got a full court
23 press on this. Am I inaccurate? And I would be
24 happy to discover that I am.

25 Mr. Kantor. First of all, I would never say

1 that you are inaccurate, Senator. I would never do
2 that, but I would quote the same philosopher, Yogi
3 Berra, who said, "It's not over until it's over."
4 And that means that we are doing maybe a lot more
5 than meets the eye.

6 Let me just indicate, we have been in office
7 six weeks. Now, you cannot use that excuse forever.
8 And I am not using it. I am going to say what we
9 have done in these six weeks which I think is due to
10 -- not me, but a terrific staff and some wonderful
11 help from this Administration and a push by the
12 President.

13 The President has met with President Salinas,
14 as you know, as the President-elect. I have met
15 with the Chief of Staff, Mr. Cordova. I have met
16 with Serra Puche twice. I have met with the new
17 Mexican ambassador to the U.S.

18 We are going to start our discussions of these
19 issues on March 17 and 18. We have a framework
20 which we worked out yesterday, Minister Serra and I,
21 for timing and also a framework of what should be
22 discussed.

23 We have literally put these things into motion
24 and are underway. I think Senator Bradley has
25 indicated the timetable that makes some sense and, I

1 think, we can adhere to.

2 If you don't think there is a full-court press,
3 then, I have not been articulate enough here today
4 or earlier with you. This is of great concern to
5 this Administration.

6 We want this agreement to be put before the
7 Congress. We want it passed by the Congress. We
8 want it to go into effect. And 1-1-94 is the goal.
9 And the President has made that quite clear.

10 And I do not know who much more to tell you
11 that we could have done frankly during this period
12 of time.

13 Senator Chafee. Well, thank you, Mr. Chairman.

14 And I do want to just reiterate that sometimes
15 the view of this agreement it seems to me gets
16 twisted. It is not an environmental agreement with
17 some trade aspects.

18 It is a trade agreement in which there
19 apparently are going to be some environmental
20 aspects attached to it and labor aspects also, but
21 principally, we are seeking a trade agreement.

22 And I commend you. And certainly we will be
23 doing everything we can to follow it as closely as
24 possible.

25 Thank you very much.

1 Mr. Kantor. Thank you, Senator.

2 The Chairman. Thank you, Senator Chafee.

3 And Senator Rockefeller.

4 Senator Rockefeller. Thank you, Mr. Chairman.

5 I am going to try, Mr. Ambassador, to ask you
6 three questions in five minutes, but not before
7 commenting on something that you said about your
8 general counsel who I happen to think that Ira
9 Shapiro is one of the big thinkers on trade issues.
10 I think he has been that for a long time, way back
11 before he came on any of our radar screens, and
12 knows this institution cold.

13 I think you have a really, really good trade
14 person in your general counsel. I congratulate you
15 on that selection.

16 Mr. Kantor. Thank you.

17 Senator Rockefeller. In my opening statement,
18 I talked about this need, in my point of view, to
19 integrate trade policy with competitiveness policy
20 here in our own country and in a sense to try to
21 identify industries that are in the process of
22 getting into trouble, any industrial problems, or
23 you might say, sectoral problems, and then try to
24 deal with those before they become trade problems to
25 the extent that that is appropriate for the

1 government to do.

2 Now, one, are you conceptually thinking about
3 that matter? Secondly, is the Administration
4 willing to structure itself to respond to the
5 conceptual thinking about that matter? Has that
6 been discussed?

7 Thirdly, how does trade policy in your judgment
8 fit into that mix? And fourthly, how does the
9 Committee on Foreign Investment in the United
10 States, CFIUS, with respect to foreign investment,
11 how does that fit into this problem? And is there a
12 relationship between USTR and CFIUS? And if not,
13 should there be?

14 Mr. Kantor. Let me take the first three. And
15 I might even have Mr. Shapiro answer the fourth on
16 that or at least give me some direction on that.

17 Senator Rockefeller. And I have two more, but
18 if you want to --

19 Mr. Kantor. I will very quickly --

20 Senator Rockefeller. Answer the first
21 question.

22 Mr. Kantor. The answer is yes. Conceptually,
23 obviously trade policy is connected to an integrated
24 economic policy, as I indicated in my statement.

25 Two, the structure, in fact, is working very

1 well. The use of the National Economic Counsel and
2 the NSC with a trade person in the White House,
3 frankly, in between the two working with us
4 literally on a minute-to-minute basis has worked
5 very well to integrate both our economic policies
6 and our trade policies.

7 Senator Rockefeller. And the CFIUS one, you
8 can answer in writing if you want to.

9 Mr. Kantor. I would be glad to.

10 [The answer appears in the appendix.]

11 Mr. Kantor. And our trade policies, how they
12 fit in, the President made it clear that when one
13 \$1.6 trillion of our gross domestic product are
14 bound up in trade, trade has become a vital part of
15 what we do and how we do it in terms of growing this
16 economy.

17 Senator Rockefeller. Number two, the Advisory
18 Committee on Trade Policy and Negotiations recently
19 issued a report in which they recommended that we as
20 a Nation adopt something called TQI which is
21 temporary quantitative indicators with respect to
22 Japan, as the only means, in effect, with dealing
23 with non-tariff and invisible barriers.

24 Have you thought about that recommendation? Do
25 you have a sense of your reaction to that

1 recommendation?

2 Mr. Kantor. Yes. In fact, it is a very
3 impressive report done by Chairman J.B. Houghton and
4 under the leadership of Jim Robinson. The fact is
5 that there is great interest in this Administration
6 on that approach, not only with regard to Japan, but
7 in other areas as well, the TQI approach, especially
8 with regard to strategic industries which you
9 referred to earlier, Senator.

10 Therefore, yes, it is on active consideration.
11 The President has spoken of it. The President, in
12 fact, has read that report. And we have spoken of
13 it. And, in fact, he came to the active meeting
14 last week and spent 45 minutes talking to the active
15 members about that and other subjects.

16 I think it is an extraordinary commitment of
17 time by a President with a trade advisory committee,
18 which might indicate his interest and concern for
19 this subject.

20 Senator Rockefeller. I think it surely does.

21 The final one, I have spent a lot of time over
22 the last six years totally fruitlessly, I might add,
23 on the Japanese patent system, the question of slow
24 examinations, narrow claims, a virtual requirement
25 that we have to give up our patents in order to get

1 new business with them.

2 I mean, it is a classic technique which is used
3 there and particular bad in high technology where
4 shelf life is very short. They extend it over a
5 long time.

6 Now, in your judgment, do we have an existing
7 trade law remedy that can be used to prevent or to
8 discourage Japanese companies from using these
9 various techniques which then prevent us from
10 becoming leaders in terms of getting into their
11 country?

12 And then, my final question is that I have, in
13 the event your answer is no, put in a bill, S. 149,
14 that would make these practices actionable, the
15 Japanese patent trade actions, actionable under 301.
16 And I would appreciate if you would take a look at
17 that and respond to me, not now perhaps, but later
18 in writing.

19 Mr. Kantor. Yes.

20 [The information appears in the appendix.]

21 Senator Rockefeller. But the question is, is
22 there a trade policy that can be applied to Japanese
23 or other patent practices, particularly Japanese?

24 Mr. Kantor. The answer is, if there is, it
25 would not be easy. And I do not believe there are.

1 That is my horseback, legal estimate.

2 I would be pleased to discuss with you and
3 respond to your future legislation. It is an
4 obvious problem and one which will not get less, but
5 will get bigger in the future frankly.

6 Senator Rockefeller. Thank you, Mr.
7 Ambassador.

8 Thank you, Mr. Chairman.

9 The Chairman. Thank you, Senator Rockefeller.

10 I suppose the question is responding to
11 inaction which is a difficult thing to locate.
12 There you are. You are not doing anything.

13 Senator Grassley.

14 Senator Grassley. I think he was here before,
15 Mr. Chairman.

16 The Chairman. It has been a matter of some
17 complexity. You were at the earlier meeting.

18 Senator Grassley. Well, if that qualifies me
19 to go first, I sure want to go first. Thank you.

20 I want to -- Mr. Ambassador, if I can, because
21 sometimes when we on this committee tend to maybe
22 bring up calculations and things like that, I want
23 to say first of all that I feel that NAFTA is very
24 good. And maybe these will detract from the overall
25 goals that I seek.

1 Mexico happens to be Iowa's seventh largest
2 trading partner. And I think maybe NAFTA is darn
3 good for corn. It is pretty good for soybeans. And
4 I think darn good for pork.

5 And agriculture is central to our economy
6 because even though we export more manufactured
7 stuff than we do agriculture stuff, dollar-wise, it
8 is still out of our economy probably. Six jobs --
9 even though only 10 percent of our people farm, six
10 jobs are probably related to agriculture very
11 directly.

12 So I want to say that I think NAFTA overall is
13 pretty good. I think -- I see it as kind of a
14 banquet cake just waiting to be cut and served. I
15 think maybe some of our colleagues see it as a
16 cupcake that is going to provide dessert for a few.
17 I hope it is really very good for all of America.

18 And maybe also a comment on the Uruguay Round
19 before I ask you some questions about NAFTA. It
20 seems to me that we ought to keep the process going.
21 I hope the Congress will give the President the
22 authority he needs to continue.

23 And maybe something related to my State and
24 agriculture again is the fact that if we don't keep
25 the Uruguay agreement going, I think, maybe the

1 agreements that we have made on oil seeds in
2 November for the European community which, of
3 course, France is threatening to veto, may be a
4 problem if we don't keep it going.

5 On the other hand, I hope your Administration
6 feels like I do and the previous Administration did
7 that a good agreement in agriculture is very
8 important for an overall GATT agreement before we
9 reach agreements in other areas. And I hope you
10 feel that agriculture ought to continue to be a part
11 of it.

12 Now, to some specific questions, and the first
13 question deals with something that just happened
14 last Friday by the Mexican Government. And if you
15 cannot answer because it is so close, feel free to
16 say so and respond in writing.

17 But just last Friday, the government through
18 their Secretary of Commerce and Industrial Trade,
19 initiated a dumping investigation against the U.S.
20 pork industry. And Iowa is number in pork
21 production.

22 In the dumping case, the government will
23 attempt to establish dumping margins on all pure-
24 bred live hogs, all fresh, chilled and frozen pork
25 products, and edible pork meat.

1 The Mexican Government has named five U.S.
2 companies in El Paso, Texas as a target of the
3 investigation.

4 My understanding is that should the dumping
5 margins be established on any pork product from any
6 U.S. company, then, under Mexican trade law, the
7 determined margin will apply to all U.S. pork
8 products in that category that are exported to
9 Mexico.

*Pork
Mexico*

10 Given the existence of the current 20 percent
11 tariff on live hogs and pork and pork meat products
12 in Mexico, it is difficult to understand how a
13 dumping margin could be established.

14 Therefore, what do you believe is the rationale
15 of this action by Mexico? And how will the
16 Administration respond to what I consider
17 questionable charges of dumping?

18 Mr. Kantor. As you know, it just came up on
19 Friday. I am concerned about it. The first thing I
20 would do is I would raise the issue with Trade
21 Minister Serra. We'd like to get back to you on
22 that and work with your office on that situation.

23 As far as the 20 percent tariff and so on, one
24 of the major reasons we need NAFTA is to get rid of
25 those tariffs.

1 You are absolutely right. The NAFTA itself, it
2 gets lost sometimes in the discussion of parallel
3 agreements which are obviously important, but we are
4 getting rid of tariff and non-tariff barriers. And
5 this is just one of them that you just cited.

6 But I would like to get back to you on this
7 particular action.

8 Senator Grassley. It seems to me that that 20
9 percent tariff would be one less reason for Mexico
10 to have to take specific action against a specific
11 company, which, in turn, then, under -- as I see
12 their trade law, would apply then to all.

13 The second one would be the home appliance
14 industry that I have spoken to you twice before you.
15 Could you tell me what the status is of negotiations
16 regarding side agreements in NAFTA? And
17 particularly, what is being done about the home
18 appliance industry problem?

19 And if I need to explain that, they -- we are
20 going to allow them to send products into this
21 country under no tariff. And for 20 years, we are
22 going to have a slow phase out.

23 Mr. Kantor. It is 10 years. It is not 20.

24 Senator Grassley. Ten years?

25 Mr. Kantor. It is 10 years.

1 Senator Grassley. Ten years. All right. That
2 10-year slow phase out will put our companies in
3 jeopardy, our industry in jeopardy.

4 Mr. Kantor. Well, this may not be a
5 satisfactory answer to you, Senator, but we do not
6 want to reopen and will not reopen the agreement
7 itself. There is a 10-year phase out on our side of
8 that. And we are going to stick to that.

9 Senator Grassley. Well, then, that is
10 conclusive.

11 Mr. Kantor. That is conclusive. If we -- let
12 me say with all candor that if we opened up, whether
13 it is home appliance or other areas or sugar, others
14 here, I think, would like to reopen on sugar and
15 other matters, we would never get a NAFTA.

16 We would never meet the timeframe we are
17 talking about. We would never reach this agreement.
18 We would never open up this 100-million person for
19 the United States. We would never take care some of
20 the environmental and worker standards problems we
21 are talking about.

22 Frankly, it would become a mess. And I would
23 like to always give everyone the answer they are
24 looking for, but I think in this case, I cannot. I
25 have to tell you that we just could not reach that

1 without reopening the agreement. And once we did, I
2 think, we would be in for a large measure of
3 trouble.

4 Senator Grassley. And that is in all these
5 areas, you suggest, where you have had complaints
6 coming in. You mentioned sugar?

7 Mr. Kantor. Yes.

8 Senator Grassley. And those are always treated
9 the same?

10 Mr. Kantor. It is difficult, very, very
11 difficult to reopen any area without reopening the
12 agreement itself.

13 Senator Grassley. I would like to submit
14 another question.

15 The Chairman. Of course.

16 Senator Grassley. Or two other questions.

17 Mr. Kantor. Sure.

18 [The questions appear in the appendix.]

19 The Chairman. I think we all agree that not
20 every answer we get from you, Ambassador, is all we
21 would wish, but you are eloquent, as it is. You are
22 keeping to your statement that we cannot open the
23 agreement as such. And there you are.

24 I would like to take this moment to point out
25 that in February, we read one morning that the

*Mexican
Investment*

1 Mexican Government was participating in a financial
2 enterprise that was going to lure American firms to
3 go to Mexico and take advantage of low-wage rates
4 and the government subsidy that might be involved
5 with the financing.

6 And I think you put a stop to that in about 24
7 hours. And I want to thank you for doing it. That
8 is the spirit which -- and I think they agreed that
9 it was inappropriate.

10 Mr. Kantor. Yes, they did. And they operated
11 literally within an hour and a half after our
12 meeting. It came up the night before. The Mexican
13 Government had agreed to withdraw from that
14 investment.

15 The Chairman. Well, that is a good sign about
16 a situation where government has enormous amounts of
17 power in trade and all activities and not the least,
18 economics.

19 Senator Conrad, I note that a vote has been
20 called as previously understood at noon on the
21 question of invoking closure.

22 Senator Conrad.

23 Senator Conrad. Thank you, Mr. Chairman. I
24 will try to be brief.

25 We remain very concerned about what is

1 happening with Canadian wheat pouring across the
2 border, durham and other wheats as well.

3 Just to put it in context, in 1986 no durham
4 came into the United States from Canada, none. Now,
5 they have 20 percent of the U.S. market, since the
6 so-called Canadian Free Trade Agreement. *durum*

7 I call it so-called because in my judgment, it
8 was not a free trade agreement at all. It was
9 negotiated trade. And with respect to agriculture,
10 the previous negotiators lost the negotiation.

11 Now that they have 20 percent of the U.S.
12 market, costing us hundreds of millions of dollars,
13 the question is, did they do that fairly? Was it
14 fair competition?

15 If it is fair competition, we have no
16 complaint. This is not fair competition. They have
17 a transportation subsidy that amounts to 75 cents a
18 bushel on wheat that sells for \$3.50. That does not
19 count.

20 They are able to come in here and sell secretly
21 through the use of the Canadian wheat board. We do
22 not know what their prices are. They know our
23 prices every minute of every day on our markets.

24 And now, we have a binational panel ruling that
25 says that's okay because our previous negotiators

1 undercut the plain and clear language of the
2 agreement by comments they made. Our own
3 negotiators undercut our position.

4 So now, we have an unfavorable binational panel
5 ruling. And I hear talk that we are going to have
6 an audit of the Canadian wheat board. Frankly, I do
7 not think that will do us a bit of good.

8 And I do not think it will do us any good
9 because very frankly, we are going to have to audit,
10 I assume, on the basis of that binational panel
11 ruling which says, when you look at the acquisition
12 price of Canadian wheat, forget about the
13 transportation subsidy.

14 Well, if you forget about 75 cents on a \$3.50
15 bushel of wheat, you have given away the store
16 before we ever get to the question of what is fair
17 and equitable and right.

18 So I say to you, I think the audit is supposed
19 to be held out to us as something that is going to
20 do some good. I do not think it is going to do any
21 good. I think that is chasing a rabbit that leads
22 nowhere.

23 I would say to you, the only way we are going
24 to get a result is either tell our friends in Canada
25 that until this is worked out that, there is not

1 going to be NAFTA, or number two, that we self-
2 initiate through Commerce countervailing duty
3 action.

4 And I am saying to you, this is costing our
5 producers hundreds of millions of dollars. It is
6 intolerable. It is not fair. And I intend to vote
7 against this agreement, fight against it every step
8 of the way unless we get some resolution to what is
9 so clearly unfair.

10 I just wanted to make that presentation to you.
11 Perhaps, you have a response.

12 Mr. Kantor. I understand your frustration. We
13 have talked about it on many occasions. We are
14 taking every avenue, as you know, we can pursue that
15 is available to us.

16 As I said, not being defensive, we did not
17 negotiate this agreement. We will do the best we
18 can in pursuing those. And we would be glad to
19 follow up on your last suggestion and discuss that
20 as well.

21 Senator Conrad. All right. Let me just ask
22 quickly. I read in the Journal of Commerce last
23 week that the Canadians could undercut the entire
24 NAFTA agreement, the concessions that we have gotten
25 if they devalued.

1 And, in fact, there may well be an intention to
2 do precisely that, devalue the currency, undercut
3 the tariff reductions that have been negotiated.

4 As I understand, there is nothing in this
5 agreement about exchange rates. Is it possible,
6 could it conceivably happen that Mexico would
7 devalue, undercut the tariff concessions we have
8 gotten here?

9 Mr. Kantor. Well, I think that is always a
10 possibility. As you know, in 1985 or 1986, this
11 country devalued its currency in order to help our
12 -- we had a very bad problem, as you know, with
13 trade, trade deficits.

14 Yes, that is possible. I do not think it is
15 probable or even likely. I do not think it is in
16 the best interests of the other two countries'
17 economies or in the best interest of this agreement.

18 Let me say just to a friend, I believe that the
19 Canadians and Mexicans are committed to this
20 agreement and want it to work. I think they see it,
21 not only in their interests, but the interests of
22 the North American growth in general and so do I
23 with the proper parallel agreements.

24 I understand your frustration over the wheat
25 question. And I am not minimizing that at all. All

1 I am saying is to lower these tariff barriers and to
2 get rid of them, to lower then non-tariff barriers
3 and to get rid of them, then, do such. To really
4 protect intellectual property in Mexico especially
5 will have enormous, positive effects on the U.S.
6 economy and U.S. jobs.

7 Therefore, that is why the President supports
8 the NAFTA with the parallel agreements.

9 I understand your frustration about the wheat.
10 And we will try to work with that in a way that
11 hopefully is not chasing rabbits, but is maybe
12 chasing elephants.

13 Senator Conrad. I would just conclude, I hope
14 that there is some way that we can protect on the
15 exchange rate question as well. I am very concerned
16 about that.

17 I thank the chairman.

18 Senator Baucus. Thank you, Senator.

19 Ambassador, I want to associate myself with, as
20 Senator Conrad also said and Senator Daschle,
21 respect to the agriculture problems that this
22 country has, particularly with Canada, somewhat with
23 Mexico, but particularly with Canada.

24 Generally, when we negotiated the FTA, the Free
25 Trade Agreement with Canada, by and large and for

1 all intents and purposes, agriculture was off the
2 table. There were a couple of provisions that
3 really did not amount to much.

4 Second, when the prior Administration, not
5 yours, but the Bush Administration negotiated the
6 North American Free Trade Agreement with Canada and
7 with Mexico, as you well know, the Canadians asked
8 that all agriculture issues be taken off the table,
9 "Let's not negotiate it."

10 And the Bush Administration agreed and took
11 agriculture off the table.

12 That is galling in many respects. Number one,
13 essentially, the prior Administration told the
14 American agriculture community that it would surely
15 address agriculture issues if it could get the
16 agreement of the American agriculture community to
17 support the request for fast track extension.

18 Now, that the prior Administration exceeded to
19 Canada's request to pull it off the table, they went
20 back on their word, but more importantly, did not
21 address very deep and very difficult issues.

22 It is not only the context of NAFTA not dealing
23 with the subsidies questions and Canada, frankly,
24 there are other issues that make it more difficult
25 for American agriculture producers.

Agreement

1 One is frankly this Administration's economic
2 plan which asks for deep cuts in American
3 agriculture, which is tantamount to unilateral
4 disarmament in negotiating with the Europeans in the
5 Uruguay Round.

6 It reduces American leverage. When we
7 negotiate with the Europeans, we go in and sit
8 across the table from them and say, "Hey, by the
9 way, we just cut our agriculture program that much
10 more."

11 Do you have any response to that?

12 Mr. Kantor. Yes. It is difficult. The
13 President's economic package is critical. And we
14 need to get it through. And I know you support it.
15 And there is pain to be shared by a number of folks,
16 including the latest action that would cut, I guess
17 in some ways, COLAs for retired military personnel.

18 That does not mean that agriculture has gotten
19 as good a shake as it may have wanted or needed.
20 That is why the market access situation in the
21 Uruguay Round is so critical.

22 And that is why, rather than look at a short-
23 term extension of fast track, which we spoke about
24 earlier where we could not get that on the table, I
25 think, successfully and get it negotiated, we need

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1 enough time to get a market access package for
2 agriculture, including tariffication,
3 disaggregation, starting at a base level which is at
4 least equal to higher than we are right now with the
5 Europeans in order, as you know, to modify the great
6 advantage European farmers now have over American
7 farmers.

8 We compete because we are more effective and
9 more efficient, as you know, our farmers, but only
10 because of that. The internal supports, the
11 external subsidies, the variable levies in Europe
12 have given them enormous advantages.

13 In 1975, the greatest net importer of
14 agricultural goods in the world was Europe, in 1985,
15 the greatest net exporter of agricultural goods in
16 the world.

17 Senator Baucus. I have often pointed out many
18 times.

19 Mr. Kantor. Right. And what we need to do is
20 to come back with a market access package to this
21 Congress and the American people that makes sense in
22 agriculture as well as industrial products.

23 Senator Baucus. I appreciate that, but I
24 really have two questions here. One is the NAFTA.
25 The other is the Uruguay Round. And I just urge you

1 very strongly in the context of the NAFTA to address
2 the concerns that I and many other Senators have
3 raised with respect to agriculture.

4 It is a subsidy problem with Canada, potential
5 CVD action. It is end-use certificates. It is the
6 use of the Export Enhancement Program to regain lost
7 market share in Mexico.

8 There is a whole series of issues that have to
9 be addressed while we are negotiating and concluding
10 hopefully a successful NAFTA agreement.

11 In addition, while we are on agriculture,
12 briefly, is this Administration willing to address
13 the implementing legislation problems with respect
14 to sugar?

15 Mr. Kantor. You mean, in regard to NAFTA?

16 Senator Baucus. Yes. Right.

17 Mr. Kantor. Let me speak about sugar just for
18 a second. As you know, for the six years, the sugar
19 quotas remained exactly as EPH 7,235, I think it is,
20 metric tons, if I am not mistaken.

21 If they have become a net exporter, it goes up
22 25,000 tons up until the year 15. It is a 15-year
23 phase out. Right now, sugar prices in Mexico and
24 the U.S. are virtually the same.

25 Sugar quality in Mexico is less than the U.S.

1 In fact, sugar production in Mexico has gone down
2 and exports have increased.

3 I did not negotiate -- we did not negotiate
4 this agreement, but there are a lot of protections
5 for the sugar industry already in this agreement.
6 That is not to say every protection is there.

7 If you look at Pages 720, 721, and 722 of the
8 agreement itself, what you will find is fairly wide
9 ranging protections for the industry. There is one
10 thing that was left unstated.

11 And without committing this Administration, we
12 have spoken about it earlier. And that is
13 substitution.

14 Senator Baucus. Right.

15 Mr. Kantor. And the substitution problem is
16 one that is just left silent in the agreement
17 itself.

18 Senator Baucus. Right. A major concern of
19 U.S. industry.

20 Mr. Kantor. It is a major concern. I
21 understand it. We are looking at that. We have
22 dealt closely with you and your colleagues on it.
23 And we will continue to do so as we move into these
24 negotiations.

25 Senator Baucus. I appreciate that.

1 Second, with respect to wine, as you know,
2 Mexico concluded its own free trade agreement with
3 Chile with respect to wine. It phased out wine
4 tariffs at a rate much more quickly than the phase
5 out of wine tariffs in NAFTA.

6 Is the Administration willing to include as
7 part of the side agreement an agreement for Mexico
8 that the tariff reduction schedule be the same?

9 Mr. Kantor. With all due respect, Senator, I
10 think that will be reopening the agreement. I think
11 that is one we cannot legally get around and deal
12 with because in the former issue we are talking
13 about, their silence is not silence on this issue.

14 That is not to say I either support or do not
15 support what was --

16 Senator Baucus. What about a summation of
17 tariff reduction table?

18 Mr. Kantor. Well, in fact, under the
19 agreement, you can do so. We can have negotiations
20 and consultations subsequent to the signing or the
21 implementation of the agreement.

22 Senator Baucus. Right.

23 Mr. Kantor. We could do that. And so we would
24 look at that, but only under those auspices.

25 Senator Baucus. With respect to the Uruguay

1 Round, as you well know, under Article 1, Congress
2 has trade policy. And the 1988 Trade Act, when
3 Congress delegated fast track negotiating authority
4 to the Administration, it included in that bill
5 Super 301 and other measures.

6 Is the Administration, when it sends up its
7 request to extend fast track negotiating authority,
8 willing to also request the inclusion of the Super
9 301 and the Trade Agreement Compliance Act?

10 And I say that because those measures are both
11 market opening. While negotiating the Uruguay Round
12 agreement or other free trade agreements, it seems
13 only logical that we also include Super 301, the
14 Trade Agreement Compliance Act to be sure that any
15 agreements we reach with other countries under the
16 Uruguay Round or other free trade agreements, in
17 fact, do open markets. And those two measures I
18 indicated would help to accomplish that result.

19 Mr. Kantor. We are in the middle of our
20 process. We are almost at the end of our process on
21 fast track in the Administration beginning with the
22 Trade Policy Staff Committee and then the Trade
23 Policy Review Group and then to the NSC.

24 Let me assure you that both Super 301 and TACA
25 were part of that discussion on fast track. And we

1 will be coming to a conclusion -- the President will
2 be coming to a conclusion quite soon.

3 Let me say that both of those, I agree with
4 you, are market-opening devices. Both are well
5 thought out. And I would commend you on the TACA
6 legislation, but we have not come to a final
7 conclusion.

8 Again, I do not want to get out in front of the
9 President of the United States, but let me assure
10 you that they have been under active consideration,
11 as we have looked at the fast track extension, in
12 fact, something you suggested, a two-tier extension.

13 Senator Baucus. I see my time is up, but
14 before I turn it to Senator Riegle, I think it is
15 important to emphasize that Super 301 and the Trade
16 Agreement Compliance Act are totally market opening.

17 Mr. Kantor. Yes.

18 Senator Baucus. There is not one scintilla of
19 protectionism in either one. The goal and the
20 intent and the effect is to open markets. I think
21 that point has to be underlined many, many times
22 because there is some misinformation amongst some
23 that those two measures are at the aura of
24 protectionism when, in fact, there is not one shred
25 of evidence to suggest that.

1 Mr. Kantor. I couldn't agree with you more.
2 In fact, if you look at putting people first, which
3 I know you have--I am sure it is right by your bed
4 stand--I think it is Page 77. It could be Page 57,
5 that, we support, the President has supported,
6 Governor Clinton supported, and now President
7 Clinton supports the Super 301.

8 Senator Baucus. Thank you very much.

9 Senator Riegle.

10 Senator Riegle. Thank you very much, Senator
11 Baucus.

12 Mr. Ambassador, nice to see you today. And I
13 appreciate very much the fact that you made the
14 visit to Michigan the other day and I know had a
15 long meeting with the heads of the automobile
16 companies and then met with leaders of the United
17 Auto Workers.

18 And I appreciate the personal effort and your
19 willingness to help us think through and deal with
20 some of the very serious trade problems we have.

21 Clearly, those problems in autos and auto parts
22 are manifest in our persistent-type trade deficits
23 with Japan. Most of those trade deficits are
24 running nearly \$50 billion a year, as you well know,
25 are in automobiles and automobile parts.

*Japan
Auto*

1 And we think that problem has to be solved. We
2 got to get that down to a balance of trade over a
3 period of time. And I think the Japanese need to do
4 far more than they have done in order to really
5 enable that to happen.

6 But again, I thank you for that, but I want to
7 go to the NAFTA situation and talk about that here
8 today. And in doing so, I want to put it in the
9 context of the President's economic plan.

10 And I salute the President for coming forward
11 with a comprehensive economic plan to deal with
12 several key objectives in our country at once, the
13 main objective being to bring into being in the
14 private sector of the economy some 8 million new
15 jobs over the next four years, sort of the driving,
16 central purpose of the economic plan, and at the
17 same time to start to bring down government spending
18 and to reduce the Federal Government deficit and to
19 begin to get the kind of positive effect in the
20 financial markets.

21 We have seen long-term interest rates coming
22 down, which is already now beginning to help us, but
23 with respect to the jobs, as you know, we have had a
24 very tough time getting job creation going in the
25 private sector.

1 We saw some job growth in the last monthly
2 figures principally, however, in part-time jobs.
3 And as you may know, a person in America is counted
4 as employed if they work as little as one hour a
5 week. And so having people in part-time jobs as
6 opposed to full-time jobs is not really the same
7 thing.

8 With respect to NAFTA, I put a chart together
9 here that I want to show you in terms of where we
10 are in manufacturing. Now, this takes all
11 manufacturing.

12 And so I could talk to you specifically
13 elements in the electronic parts and in auto parts
14 and so forth, but it shows what the percentage
15 changes have been in the employment levels of
16 manufacturers who are in the international business,
17 who are really the multinational players, and in
18 terms of what has happened in the United States and
19 how the multinational companies in America who have
20 Mexican affiliations, what we have seen in job
21 growth.

22 Now, this is in percentages, coming off
23 different bases as we know, but you see almost
24 nonexisting job growth in the United States over the
25 period of time, 1987 to 1990.

1 I think the more recent data is even worse, in
2 fact, but you see a very substantial increase in the
3 increase in manufacturing jobs, off the base down
4 there in manufacturing.

5 If you look at autos specifically, Ford,
6 Chrysler, and GM now have over 70 plants located in
7 Mexico. My belief is that with a free trade
8 agreement, that creates an incentive to put more
9 plants there.

10 Those plants were put there, in effect, without
11 a free trade agreement. I think a free trade
12 agreement increases the incentive to go there.

13 Frankly, I do not think we can afford to lose
14 the jobs. And I think the competition between
15 workers in this country that earn \$6, \$7, \$8, \$10,
16 \$12 an hour versus workers down there that are
17 earning maybe \$1 or \$1.25 an hour is an irresistible
18 attraction for business firms to pull up, leave the
19 United States, and go south.

20 You have the case of Smith Corona that has done
21 that from upstate New York. And we have certainly
22 seen it in the manufacturing sector.

23 Now, I see a major problem here in the fact
24 that, I think, our main export to Mexico is likely
25 to be jobs and not products per se. There is a big

1 debate about this. And we will debate that out as
2 time goes on.

3 I do not think we can afford to export jobs to
4 Mexico or say to our young people who are preparing
5 themselves, maybe coming through high school, going
6 on, and then maybe for a college education, coming
7 out, in many cases, with college degrees, "Sorry.
8 We have no work for you." or, in effect, "You have
9 to go to Mexico to find a job."

10 I mean, that is not a practical answer given
11 the problems and the need for job creation here in
12 the United States.

13 I am very concerned about this company, this
14 investment firm that has been coming into the United
15 States and buying up companies for the express
16 purpose of buying up companies and shutting them
17 down and moving them to Mexico.

18 Now, while I was out of the room voting, I know
19 Chairman Moynihan raised the question of this entity
20 that has been discovered doing that.

21 And I understand that Chairman Moynihan noted
22 that the Mexican Government was involved in this
23 fund to buy U.S. companies and to move the jobs to
24 Mexico.

25 And I know you acted promptly to protest that.

1 And so the Federal Government in Mexico stepped back
2 from it, but that is not sufficient quite frankly
3 because my understanding is, unless you have
4 additional information that I have not heard, that
5 the regional government that covers the Yucatan
6 peninsula where a lot of these jobs are moved to is
7 still participating.

8 And my understanding is that the Secretary of
9 the Treasury for the State is still involved in
10 this. And, in fact, the fund -- even though the
11 Federal Government may be out of it, but the fund is
12 still in place, still operating, still has the same
13 purpose, still undertaking to buy American
14 companies, move them down into Mexico.

15 In fact, I do not know if you have, I assume
16 you have, seen the brochure that they have out. And
17 the gentleman I am talking about is a fellow named
18 Mr. Perez.

19 Mr. Kantor. Yes. I have seen that, Senator.
20 Senator Riegle. In this document, they make it
21 very clear what their purpose is. I mean, their
22 purpose is to essentially raid companies here
23 through this investment fund and move them down
24 there.

25 I mean, I cannot tell you how high my

1 temperature goes when I read this. And if we
2 tolerate one instance of this happening, \$1 spent
3 this way, and whether it is one tier of government
4 down there or another, to me, it is all the same.

5 I mean, it is unacceptable. And it is wrong.
6 And if that is happening, as I have reason to think
7 it still is happening, unless you can give me an
8 ironclad assurance to the contrary, I think it has
9 to be stopped.

10 And if there is any ifs, ands, or buts about
11 it, I think, we need to have all that out on the
12 table so we know exactly where we are.

13 Mr. Kantor. Let me respond to that, Senator.
14 The day before Minister Serra was here the first
15 time, he was here yesterday the second time, 11:00
16 o'clock at night, I was made aware of that piece of
17 paper you have in your hand.

18 We met at approximately 8:30 the next morning.
19 I raised this issue with him immediately, told him
20 we could not go forward with discussing the
21 framework of negotiations and discussions in light
22 of this very serious issue.

23 Let me say not by way of defense, but by way of
24 explanation, by noon that day, not only had the
25 Mexican Federal establishment, but the State that

1 was involved and the investment bank--it is a State
2 investment bank, Mr. Chairman--had agreed to
3 withdraw from the fund and are in the process of
4 doing so right now. They had a \$3.5 million
5 investment in this fund.

6 That is being done. I asked Minister Serra
7 yesterday. And he said that that is an ironclad
8 assurance it has been done. It will be done at the
9 State level or at the Federal level in Mexico.

10 Senator Riegle. Now, does the fund still
11 exist?

12 Mr. Kantor. The fund is a private fund. And
13 there is not much -- it is frankly a U.S. fund, as
14 you know. It is not a Mexican fund. It has private
15 U.S. investments.

16 Senator Riegle. And it is not a Mexican fund
17 since the Mexican Government has decided to
18 withdraw?

19 Mr. Kantor. To withdraw. That is right. And
20 they had frankly a minority share of that fund, not
21 a majority share of that fund. Therefore, there is
22 nothing we can do about a private U.S. investor
23 carrying on activities in this right, not in the
24 trade office at least.

25 Senator Riegle. We have to find some way to

1 deal with it because I think it cuts exactly against
2 the national interest of this country.

3 Mr. Kantor. I do not disagree with your
4 statement and philosophically what you are saying,
5 but a private U.S. investment fund is very
6 difficult, of course, for us to deal with legally.
7 They have every right to make investments.

8 Let me just go back because I think it raises a
9 larger issue that you raised and not to take too
10 much of the committee's time, but capital and
11 production is mobile.

12 And right now, we have seen, of course, a
13 tremendous number of jobs go to Mexico in the last
14 years without the NAFTA. I think the NAFTA with the
15 proper parallel agreements which protect worker
16 standards and the environment will be helpful to
17 make the situation substantially better, not worse.

18 You and I may disagree about that.

19 Senator Riegle. We do disagree about that.

20 Mr. Kantor. I do not think the NAFTA itself
21 will change what has been a situation. In fact, I
22 think it can help, not hurt.

23 Senator Riegle. Well, if I may just say if the
24 chairman will permit, when we had the hearings last
25 year while the Bush Administration was still in

1 place and we had certain witnesses coming in to
2 testify, we had Boone Pickens here and we had the
3 head of American Express, it became very clear to me
4 in those hearings that this agreement as it has been
5 worked out is principally a sort of safeguard
6 capital investment, property rights, and to sort of
7 look after the holder's capital as opposed to the
8 holders of jobs, this country or that country. But
9 I am a lot more concerned about the holders of jobs
10 in this country.

11 And I think that is where the basic flaw is. I
12 would just raise one other issue in that context,
13 and that is the advertised balance of payment
14 surplus in our favor, \$6 billion being talked about.

15 Many of the items that are counted in that --
16 it is a very arcane accounting situation. It would
17 take a mind like Senator Moynihan's to track all
18 this down. I mean, you have to really have a very
19 complex mind to be able to understand how this all
20 works.

21 But many of the goods from the United States
22 are shipped down to Mexico. A certain amount of
23 processing is done down there. And then, they are
24 shipped back.

25 And the way that all of this accounted for,

1 there is a real question as to whether or not there
2 even is a surplus in the trading accounts if the
3 NAFTA is done accurately.

4 I am not prepared to make that assertion today
5 one way or the other, but we have done enough work
6 on it that I have very grave doubts in my mind that
7 that number is accurate and meaningful.

8 What is meaningful is the flow of jobs out of
9 the United States to Mexico. We cannot afford to
10 have the wholesale movement of jobs out of this
11 country.

12 If the President is going to keep his
13 commitment to the American people, 8 million jobs
14 over four years and not have a hemorrhage of jobs
15 going to Mexico, whether it is a Mexican investment
16 fund with American players in it, coming up and sort
17 of closing down companies and moving them to Mexico
18 or whether it is just American multinationals that
19 say, "Well, here's our chance to get rid of workers
20 that earn \$10, \$8, \$7 an hour and get down and get
21 workers that earn \$1.50 an hour," and here we go.
22 And too much of that already.

23 So I am very interested to see what these side
24 agreements look like.

25 And if I may say one other thing, and that is

1 this, we are going to have in this committee the
2 requirement to move the economic package, an
3 enormously complex task. We are going to have to
4 work probably within the reconciliation
5 instructions, all the tax revenue items in there,
6 and a number of other things.

7 Then, we are going to have health care right
8 behind it. That is coming again right through this
9 committee. It is an enormously complex task.

10 This issue, the NAFTA issue, is in its own way
11 every bit as complex and as contentious. It is
12 going to create major problems when it finally
13 arrives here.

14 I would hope, as a practical matter that the
15 President's two top objectives getting the economic
16 plan through here, which I support, getting the
17 health reform plan through here and enacted, which I
18 support, those things would be done first and not
19 throw a NAFTA situation again on top of it in the
20 middle of all of this and find that we are not able
21 to get perhaps any of the three of these things done
22 properly.

23 The Chairman. Thank you, Senator Riegle.

24 I wonder if I can just suggest to the
25 Ambassador that this question of the Mexican

1 Government participation in capital projects to
2 bring plants from here to there could be a subject
3 of the side agreements which you are now going to be
4 negotiating.

5 I mean, they made a very bad judgment, but a
6 typical judgment in the society in which government
7 has such a preeminent role in capital formation.
8 And we have mixed systems here. Our systems are not
9 comparable.

10 If we think the Canadian wheat subsidy is
11 unusual, think of the dinner party that Mr. Salinas
12 gave last week. For \$25 million you could get
13 yourself a part of the next Administration.

14 It was an agreeable thought. They said that we
15 are trying to raise this money privately instead of
16 taking our campaign monies from the government
17 itself, which is an interesting thought, but that's
18 what comes from having an institutionalized
19 resolution.

20 We wish our neighbors the best of good fortune,
21 but they have a system in which things might seem
22 appropriate to them which would seem hugely
23 inappropriate, not just to Senator Riegle who spoke
24 very well, but to, I think, any member of this
25 committee and you, sir. I believe that is why you

1 responded as you did.

2 Is there a possibility that this might be a
3 subject of these agreements?

4 Mr. Kantor. I think it is quite possible that
5 we could discuss with them an exchange of letters
6 which would indicate quite clearly that not only
7 that this has been withdrawn, which they have
8 assured me it has been.

9 And let me say that they have been people of
10 their word, at least in dealing with me, Senator
11 Riegle. And I think that this is being done.

12 But I think we could exchange of letters on
13 this subject and maybe reach a broader
14 understanding. Let me not raise it to the level of
15 an agreement, a broader understanding about this
16 kind of investment.

17 The Chairman. I think we would like to hear
18 more about that. And I am sure we will.

19 Senator Baucus.

20 Senator Baucus. One brief question, Mr.
21 Ambassador, as you well know, the structural
22 impediments initiative that we have been undertaking
23 with Japan is due to expire in July.

24 Your thoughts, are you going to ask for an
25 extension? Are you going to let it lapse? What do

1 you think?

2 Mr. Kantor. As we begin our discussions on the
3 Semiconductor Agreement, on autos and auto parts
4 with the Japanese, which I know Senator Riegle is
5 interested in and others, it is a critical industry
6 to us, we are taking a hard look at SII and whether
7 or not it has been effective.

8 I have an initial view which may change if you
9 will allow me that flexibility, that we ought to
10 look at parts specific issues, sectoral issues, SII.
11 We shouldn't slavishly adhere to any one approach in
12 this bilateral relationship.

13 I do not think it makes good sense. I think
14 the TQI and the strategic-industry approach makes
15 some sense along with it. And I think we will be
16 looking at all of that as we begin our discussions
17 with the Japanese in April.

18 In fact, it is quite possible that I will be
19 meeting with the Mini Minister this weekend if he
20 makes it here to this country.

21 I do not want to say that SII should be taken
22 off the table. It has not been frankly as effective
23 as we might have hoped.

24 Senator Baucus. I tend to agree. I think it
25 needs careful thought, if it is going to be

1 extended. It does not make much sense to willy-
2 nilly extend it without thinking of a way to make it
3 work much better than it has in the past.

4 Finally, let me just again commend you for what
5 you are doing. I sat in the audience when the
6 President gave his speech at American University.

7 I thought it was an excellent speech, focusing
8 first on putting our own house in order with respect
9 to our economic problems. The second point he made
10 was trade is very much a part of our national
11 security. And you have said that. The President
12 has said that many times.

13 And I think you are doing a good job. These
14 are not easy problems to solve and deal with. But I
15 very much look forward to working with you to help
16 solve them.

17 Mr. Kantor. Thank you for your courtesy.

18 The Chairman. Now, I would like just to second
19 that thought. I hope you felt that we have been
20 responsive to you. We have tried to be candid with
21 you. You have, in turn, been candid with us. That
22 is way this relationship should work.

23 I would ask everybody in the back of the room
24 to just let us conclude for one moment before you
25 rush away.

1 And I want to thank our recorder who has been
2 careful to this.

3 I thank you for bringing all of your people
4 with you. And I want to take the opportunity once
5 again to welcome Marcia Miller back to the
6 committee, having briefly sojourned in the Executive
7 Branch.

8 And until we meet again, which will be soon,
9 good luck on your travels and steady on. You have
10 taken on a huge job. You have obviously started it
11 very well.

12 Mr. Kantor. Thank you, Mr. Chairman.

13 We are in very good shape today because we had
14 Marcia even for a brief time. And if you ever, ever
15 want to let her come back, we will be more than
16 happy to --

17 The Chairman. It is nonnegotiable.

18 [Laughter]

19 Mr. Kantor. Thank you, Mr. Chairman.

20 [Whereupon, at 12:37 p.m., the hearing was
21 concluded.]

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TESTIMONY OF AMBASSADOR MICKEY KANTOR,
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE SENATE COMMITTEE ON FINANCE

March 9, 1993

I welcome the opportunity to appear before the Finance Committee today to discuss the approach and direction of the trade policy of the Clinton Administration. This is my first public appearance before a Congressional committee since I assumed my responsibilities. I am delighted that I can appear first before this Committee, which recommended me for confirmation to the position of USTR.

In his February 26 speech at the American University, President Clinton set forth his vision of America's role in the global economy, confronting the third defining moment of the 20th century. Our role in the world emerges quite clearly from that important speech. As we and other nations struggle to face the new realities in the aftermath of the fall of Communism, the United States will be fully engaged internationally, not turning inward. We see our prosperity bound up with prosperity of our trading partners, in Canada, Europe, Japan and Mexico. We will work with them to promote global growth, aid the development of other less prosperous nations, address the emerging issues of environmental degradation and proliferation, and focus on the central importance of what is at stake in Russia.

Where trade policy is concerned, the United States will continue to champion open markets and expanded trade, but we will insist that the markets of other nations be open to our products and services. As the President said, we will compete, not retreat.

The trade policy of this Administration starts from the same point as its economic policy does: our prosperity and that of our children depends on our ability to compete and win in the global markets.

A little more than a generation ago, American industrial and technological superiority were unquestioned. Our workers, consumers and companies lived almost entirely within the American economy, and prospered there. But those days, when the world was a far simpler place, are long gone. Today, our exports and imports represent more than a quarter of our entire economy. And in the new global marketplace---where capital, management, production, technology and even labor are increasingly mobile---more than 70% of our products face competition from products produced in other countries.

Principles of Administration Trade Policy. Let me start with the principles that will guide Clinton Administration trade policy, as articulated in the President's American University speech.

1. In this Administration, trade policy is a part of integrated economic policy, and the fundamental goal is economic growth and the creation of high wage jobs for American workers.

The trade deficits which have grown up since 1980 are a fair measure of our competitive slippage, but they represent many factors beyond trade policy and trade agreements. If as a nation, we increase public and private investment, if we attack our budget deficits, if we take control over our health care system, if we educate our children and train our workers---we will have taken enormous steps toward prospering in global competition. If we do not take those actions, trade agreements alone will not produce prosperity for our people.

Nothing is more important to our economic prosperity, our competitive success, and our trade policy than the adoption of the President's economic package. Bill Clinton was elected to get the economy back on track, and to fix the track: to insure that we came out of recession in the short term, and to lay the groundwork for long-term prosperity. The lack of investment and the deficits have crippled our economic performance; if unaddressed, they could consign this country and its children to a diminished economic future. America, and all of us in political life, will benefit if we can come together to pass the President's program.

A real attack on the budget deficits will reduce long-term interest rates, leading to increased investment and job growth. U.S. companies choosing where to invest will find contributing to our own country's growth a more attractive option. Over the longer term, increased investment in the education and training of our workers, our transportation and communications infrastructure, and research and development generally, are vital to our ability to compete globally. In that connection, the Administration's New Technology Initiative, unveiled by the President and Vice President Gore on February 24, is a concerted effort to bolster U.S. civilian technology which has too often been slighted because of our traditional focus on defense technologies.

Moreover, the link between the President's program and our ability to promote global growth is inescapable. The economic stagnation of the past few years has not been confined to the United States. Growth will resume through concerted action by the leading economic powers: our attack on the budget deficits, Germany's willingness to lower interest rates, Japan's readiness to stimulate its domestic economy. For each of us, hard steps, with short term costs, are necessary to produce growth and prosperity. President Clinton's call to arms makes it possible for him to enlist other nations in joining us in a concerted effort to promote global growth.

2. Past Administrations have often neglected U.S. economic and trading interests because of foreign policy and defense concerns. The days when we could afford to do so are long past. In the post-Cold War world, our national security depends on our economic strength.

In the immediate aftermath of World War II, the United States led the free world in creating a free and open trading system. The Bretton Woods Agreement, the Marshall Plan, the creation of the GATT and the IMF are all testimony to the vitality of the free world in creating a post-war economic framework.

This framework was both geo-political and economic in its origin. The United States recognized the military threat posed by Communism; that our vital interests would almost always be defined in national security terms. At the same time, we realized that the expansion of trade and investment was one of the Free World's most potent weapons.

This policy was virtually painless for the United States. Although the U.S. was the world's economic giant, U.S. trade amounted to relatively little. In 1950, for example, U.S. exports and imports each amounted to only about 4% of the GNP, or

8% for trade as a whole. For Britain and France, on the other hand, trade was their economic life line, representing 30-45% of their GNP.

As a result, the United States tolerated "infant industries" policies in both Europe and Japan and other forms of protectionist economic policy in the post-war environment. Indeed, the creation and support of these economic policies by our allies was seen as an essential element of our national security interests.

Our foreign and economic policy in the post war era deserves credit for its historic accomplishments. We contained Communism, and rebuilt the economic strength of the free world. In the four decades following World War II, growth in the non-Communist world tripled. More importantly, Communism as a political system failed to maintain its toehold in Western Europe.

By the early 1970's, however, our trading partners had begun to come of age, and external shocks, such as the oil embargo of 1973, jolted our economy. The U.S. ran its first merchandise deficit of the century in 1971, and confronted the first wave of popularity of cars from Japan. Accustomed to steady economic growth and a secure domestic market, American business and workers had difficulty adjusting to the new dynamics

of world trade. Equally important, government policy did not change. American jobs and economic interests continued to take a back seat to foreign policy concerns.

The deep recession of 1981-82 took a devastating toll on U.S. manufacturers, but even when the economy recovered strongly, the overvalued dollar saddled U.S. exporters with a serious competitive disadvantage. Confronted with the reality of Japan's trade and industrial policies, the Reagan Administration's principal response was laissez faire and, after the 1985 Plaza Accord, dollar devaluation. By 1987, the U.S. merchandise trade deficit was \$150 billion, \$57 billion of which was with Japan. The weakness infecting basic industries spread to our leading edge high technology sectors as well.

The truth is there is ample blame for everyone. The great majority of U.S. companies were very slow to adjust to the blast of competition; there was no excuse for their failure to see what was happening years ago. But it is also true that U.S. government policy saddled our companies with every conceivable burden: higher costs of capital, increasingly serious health care costs, and, most relevant to us, a trade policy that for many years failed to enforce our laws at home, or open markets abroad.

The fundamental question that I am asked about trade policy is: how much continuity, and how much change? There will be a great deal of continuity, largely because of the six year, bipartisan Congressional effort, in which this Committee was instrumental, which culminated in the Omnibus Trade and Competitiveness Act of 1988. Thanks to that Act, the United States has a trade policy, with clear objectives that have broad support from Congress and the private sector. Obviously, there will be no shortage of difficult decisions to make, but the United States Trade Representative is charged with enforcing the laws and opening foreign markets, and given the tools to do so.

At the negotiating table, I will be representing the interests of American workers, farmers and businessmen and women, just as my counterparts represent theirs. We will continue to play our part in making the international trading system work, but we will insist on our trading partners bearing their share of the responsibility as well.

3. We will compete, and we have proven that we can.

Because of failed government policies, and the difficulty of adjusting to the new global economy, the United States has had serious competitiveness problems in many areas of the economy. But I have no doubt about the ability of our corporations, our farmers and our workers to compete. In many

sectors---computers, aircraft, machinery, agriculture, motion pictures, financial services---American companies and American workers set the standard of excellence in the world. Our universities and our entrepreneurs are the envy of the world. We will build and maintain a strong manufacturing base, and we will manufacture a full range of products from semiconductors to steel. We welcome the products of other nations, but we will not prosper if we are content to simply buy, sell, assemble, and distribute high-quality and low cost goods from abroad.

Export expansion has been the bright spot in an otherwise dismal economic picture over the past few years. From 1985 through 1992, U.S. merchandise exports increased from \$222 billion to \$445 billion, in current dollars, a virtual doubling. We regained our position as the world's number one exporter. By 1990, more than one in six U.S. manufacturing jobs were related to merchandise exports, and the average wages for workers in manufacturing and service exporting sectors, where American products are most competitive, substantially exceed the U.S. average. This dramatic increase in exports has occurred even though 85% of U.S. exports come from only 15% of U.S. companies. The export potential of our vibrant small and mid-sized businesses remain to be realized, and that is a high priority for this Administration.

4. We will seek to expand trade by opening foreign markets, and we will enforce the laws at home. One of my principal responsibilities as USTR is to open foreign markets and break down barriers to U.S. manufactured goods, agricultural products and services. This includes pursuing the strong protection of U.S. intellectual property, so important to our high technology industries. When all is said and done, opening foreign markets is our main objective in the Uruguay Round; it is the impetus, from our standpoint, for the North American Free Trade Agreement (NAFTA); it will be a principal focus of our efforts with respect to Japan and China, as well as in other nations around the world.

We are not a perfectly open market, of course, but because of history, practice, and our concern for maximizing consumer choice, this market will always be basically open. Consequently, we need to use every tool at our disposal--- multilaterally where possible, and bilaterally where necessary--- to make sure that other markets are comparably open to our own. That includes resort, where legitimate and necessary, to Section 301, strengthened by Congress in 1988. Both Super and Special 301, used appropriately, have proven to be valuable tools for breaking down significant barriers to our products and services, including the failure to protect our intellectual property.

It should be understood: while there are many factors beyond trade policy that contribute to trade deficits, trade policy matters. In today's global economy, allowing other nations to promote and protect their industries, building profits from secure home markets, while targeting our open market, is a formula for competitive suicide. We will not stand by and pretend that other nations share our commitment to expanded trade and open markets if the real world evidence suggests that they do not.

5. We will ask companies and workers to join in partnership with government to build competitive industries. Nor will we stand by, indifferent, when companies, workers and communities are hard hit by foreign competition---fair or unfair. In appropriate cases, our Administration will offer trade relief to industries under pressure, but we will expect in return that the affected companies and workers will commit to actions that will build the future competitiveness of the industry. This Administration is asking all Americans to join in the effort to rebuild our country's economic strength; there will be no free rides. We will not protect industries, only to watch them raise salaries for their CEO's and prices for their customers.

Let me address specifically a number of the major issues facing us.

NAFTA. President Clinton has consistently affirmed his support for the North American Free Trade Agreement (NAFTA), provided it is accompanied by effective U.S. domestic economic policies and supplemented by additional agreements and domestic actions to address concerns regarding labor, the environment, and safeguards against import surges. Addressing these concerns does not mean re-opening the NAFTA text. Our goal is rather to negotiate the necessary supplemental agreements and to work with Congress to develop implementing legislation so that the NAFTA and the supplemental agreements and domestic measures can be in place by January 1, 1994. An enhanced NAFTA package can contribute to the ability of our companies and farmers to compete at home and abroad and help improve working condition, living standards, and environmental quality throughout North America.

We have already seen the benefits we can gain as Mexico opens its markets. Thanks to the economic liberalization program enacted by President Salinas, our merchandise exports already have grown from about \$12.4 billion in 1987 to \$40.6 billion in 1992. This export growth has reversed what was a \$6 billion trade deficit in 1987 and turned it into a trade surplus of nearly \$6 billion last year. And these increased exports have come from every region of the United States. Mexico is one of the top 10 overseas markets for 38 states, and 20 states each shipped roughly \$250 million or more to Mexico in 1991.

Mexico is our fastest growing major export market, our second-largest market for manufactured goods, and our third-largest market for agricultural products. Seventy percent of Mexico's imports come from the U.S., and Mexicans already consume more U.S. goods per person than either the Europeans or the Japanese. The NAFTA will open still greater opportunities for US exporter by eliminating Mexican tariffs (which are more than twice as high as US duties, on the average) knocking down other forms of Mexican trade restrictions, and eliminating discrimination against US providers of goods and services.

On March 17 we will begin negotiation of the supplemental agreements on labor standards and safety, the environment, and import surges which the President called for during his campaign. We will pursue these agreements vigorously, let me assure you that we will not sacrifice substance for speed -- nor will we delay our efforts in the name of an artificial timetable. We will not ask you to vote on NAFTA implementing legislation until these negotiations result in comprehensive, enforceable agreements.

In the supplemental agreements on environment and labor, we are looking for concrete improvements. We want the agreements to have mechanisms and provisions to help raise standards where they are deficient, strengthen national enforcement of national laws, improve the U.S.-Mexico border

environment, and ensure, so far as possible, that the NAFTA promotes prosperity and improved social conditions in all three countries.

I am optimistic that we can achieve these goals. My Mexican counterpart, Jaime Serra Puche, has told me that he would like to view these talks not as a negotiation, but a collaboration. Mexico has excellent labor and environmental standards on its books, and President Salinas has repeatedly recognized the need for strengthened enforcement.

I see the labor standards and environmental agreements covering three basic areas:

- improved cooperation on worker and environmental safeguards, including technical assistance, and data sharing, with a goal of attaining the best protections possible;
- improving enforcement of standards and national laws, both through the administrative and judicial processes of each country, and new labor and environmental commissions which will provide independent scrutiny of measures taken to enforce national laws; and
- encouraging a positive impact of the NAFTA on North America's working conditions and the environment.

In these negotiations, we will be breaking new ground for the United States and for our continent. We want to promote the strongest possible improvements in all areas. At the same time, we have to bear in mind that the agreements will apply to us as well as our neighbors. This could raise tough issues for us, including matters of prosecutorial discretion, state/federal relationships, the operations of the courts, and Constitutional guarantees of due process. My staff and I will be looking to you and to our experts in the labor and the environmental communities to find ways to address these problems as the negotiations progress. At the same time, USTR, along with OMB, Treasury, Labor and EPA, will be studying the various options for funding critical environmental cleanup efforts.

In the area of import surges, we are not looking to change the mechanisms in NAFTA, but rather want to ensure that these provisions can be effectively and fairly used for all sectors. I know there are concerns in certain industries about whether NAFTA's provisions could result in an import surge, and I want to address those concerns. At the same time, we should remember that our exports are a much greater share of the Mexican and Canadian domestic markets than are their exports in our much larger economy. So any new measures may be more likely used

against U.S. exports. As with labor standards and the environment, I will be looking to you and the private sector for guidance on these matters.

The Uruguay Round. President Clinton is committed to the successful completion of the Uruguay Round of multilateral trade negotiations which has been on-going since 1986. When Sir Leon Brittan, the EC Trade Minister was here on February 11, I announced the President's decision to seek the renewal of fast track procedures to complete the Round. I indicated at that time that timing of the request and the duration of the authority we would seek would be determined only after further discussions within the Administration, and consultation with Congress and the private sector. We are in the midst of that process, and no final decision on timing or duration has yet been made.

Ambassador Hills, and the staff at USTR, expended enormous effort for four years to reach a strong Uruguay Round agreement. Others committed to the Round, including the Director General of the GATT, Arthur Dunkel, have done the same. Through discussions with the private sector and Congress, we are developing a good sense of the accomplishments to date, and the remaining obstacles to be overcome before the Round is completed. I think we can complete the Round in a way that will benefit the United States and the world economy, but based on our discussions to date, I do not believe that we were as close to completion as

some have reported in early January. I told Sir Leon that our goal was a good agreement, not just a quick one.

Sir Leon pointed out the danger that whatever consensus that has emerged so far behind the draft "Final Act," known as the Dunkel text, could dissipate if quick agreement was not reached and the U.S. and other nations tried to re-open the text to address issues where we have concerns. While I recognize his concern, the fact remains that we are not going to reach agreement until some of our major problem areas with the draft "Final Act" are dealt with seriously and effectively.

Moreover, the question of whether we can reach an agreement depends very much on the market access commitments for goods and services which are still being negotiated. If we reach ambitious agreements on market access---cutting tariffs, breaking down non-tariff barriers---the Round will hold out potential benefits of the magnitude that will inspire enthusiasm in the American business community, and their workers, that has been, to date, muted, at best.

We chose to announce the decision to seek fast track procedures when Sir Leon was here, because the Round depends, in the first instance, on U.S. and EC leadership in setting out the ambitious objectives to be achieved in areas such as market access for goods and services. The three-year deadlock between

the rest of the world and the EC over agriculture stalemated the Round and gave other nations, most notably Japan, the ability to avoid contributing meaningfully to the successful completion of the talks. We will not complete the Round without some leadership by the U.S. and the EC, but we will also not complete it if Japan continues to behave as if it has little stake in the outcome. We also need to see meaningful contributions from other trading partners---the newly-industrializing countries in Asia and Latin America---and the developing countries who owe their economic gains to a strong, open multilateral system. It is time to address the free riders in this Round.

A successful Round would give an immediate boost of confidence to the world economy, sorely in need of one. It would contribute to increased economic growth over the next decade by lowering barriers to trade in goods, bringing new rules and discipline to services, agriculture and textiles, and creating, for the first time, a set of enforceable rules for protecting intellectual property and governing investment. But the Round is not a favor that the United States is doing for the world. If it is ambitious enough, U.S. companies and workers stand to gain a great deal because of lowered barriers in our existing markets, and the creation of new markets.

But our criterion should be clear: despite the sometimes single-minded focus on agriculture, and the

preoccupation with the so-called "new issues" of intellectual property and services, support for the Round in the U.S. will turn on the benefits that result for U.S. exports of manufactured goods, agricultural goods, and services produced by workers and farmers here in the United States. However, in pursuit of those benefits, we will not weaken the provisions of current law such as those that provide remedies for our industries against the unfairly traded products of other countries, and those that protect health, safety and the environment.

European Community. We have our share of current difficult issues with the EC. Despite this, our trading relationship with the European Community is one of the most important in the world and is critical to the integrity and vitality of the multilateral trading system. We are each others' largest trading partners, and maintain a diverse and largely balanced trade relationship. Last year two way-trade amounted to \$197 billion, with the U.S. running a surplus of nearly \$9 billion.

The evolution of the European Single Market (EC-1992), which officially came into effect on January 1 of this year, has been a prominent feature in our trade relations with the EC in recent years. We have welcomed the European project for its elimination of trade barriers between 12 of our most important trading partners, creating a single market comparable in size to

our own. But we insist that European integration legislation and policies treat US firms fairly. When European policies create new barriers to US exports, we will act firmly to protect our interests. I have already moved to address the barriers to US firms created by the newly-implemented EC directive on procurement by utilities. As the EC proceeds to form the European Economic Area with other Western European countries, to deepen its own economic and monetary integration and to add associate members from Eastern Europe, we will continue to make full use of the tools in our international agreements and US trade laws to keep markets open.

Japan. No aspect of our trade policy has proven more complex or contentious than our relationship with Japan. In the past decade, our trade deficit with Japan has totalled nearly \$500 billion dollars. The bilateral deficit peaked at \$57 billion in 1987, and then came down over the next four years to \$43 billion. U.S. exports did increase from \$28 billion in 1987 to \$48 billion in 1991, but have levelled off since, as the Japanese economy has stalled. This year, the bilateral deficit has again increased to \$49 billion. As always, the disproportionate amount of the deficit is made up of autos and auto parts, and electronics.

A year ago, in the immediate aftermath of President Bush's trip to Japan, there was significant anger on both sides

of the Pacific, particularly as the recession deepened. The presidential campaign, which had the potential for inflaming the relationship further, did not. A great deal of credit goes to President Clinton who steadfastly refrained from criticizing Japan and instead ran a campaign focused on dealing with our problems at home to strengthen our economy.

Nonetheless, the U.S.-Japan trade relationship needs immediate and serious attention. Clearly, the Japanese market has gradually become more open to our products and services, and those of other nations, over time, but the progress has not been rapid enough to produce the level playing field that we have sought for years. Numerous barriers remain in Japan which prevent, or dramatically reduce, the sale of U.S. products and services which are highly sought after in other countries around the world.

At the same time, Japan feels that it has been bombarded by demands from the U.S.:---export less, import more, strengthen the yen, negotiate about individual products, negotiate about sectors, talk about structural impediments--- demands that frequently change, but never end. After years of a booming economy, Japan faces its own economic difficulties, making government and business leaders even more hostile to pressure from the United States, even while many in Japan express the view that change can occur only as a result of outside

pressure. Resentments on both sides of the Pacific have built as a result of a decade of almost constant acrimony over one trade issue after another, but despite efforts by both sides, we still find ourselves with an intolerable trade deficit, and still limited access to this critical market.

In the first instance, we must insist that Japan fully implement the range of agreements already negotiated---and implement them in such a way that they provide important and concrete benefits to the U.S. and other non-Japanese suppliers. Very early on, we have a chance to gauge the efficacy of these agreements. In the coming weeks, we will be reviewing the progress on the Semiconductor Agreement, to monitor the progress being made toward the expectation of a 20% market share in Japan for foreign semiconductors. We intend to vigorously follow up on commitments that were made in January 1992 with respect to the auto parts market in Japan. Recent developments in our Supercomputer Agreement are troubling, and we are evaluating our next steps. On all these issues, we will be consulting closely with this Committee and other interested members of Congress.

Above and beyond the series of individual disputes, we need to find a better approach for dealing with Japan trade issues---one that will lead steadily in the direction of a more equitable balance of economic benefits and responsibilities. The beginning of a new Administration is the natural juncture for a careful review of the overall U.S.-Japan relationship, to

underscore the importance of the relationship by collaborating on problems that we can move on jointly, while moving to address the very real bilateral problems between us. President Clinton's commitment to dealing with our problems at home, without blaming Japan or any of our other trading partners, provides a more promising starting point for discussions about hard steps that Japan needs to take on its part.

China. With the highest growth rate in the world over the past decade and an entrepreneurial boom in the south, China has enormous potential as a market for American goods and services. At the same time, China's human rights practices do not conform with international standards; we are concerned that its arms sales behavior jeopardizes our global non-proliferation efforts; significant barriers to our products and services continue while China sends an increasing share of its exports to the United States. All these factors raise serious questions about the nature of our relationship.

These issues have come together in the annual MFN debate in the Congress. The Bush Administration was adamant in rejecting every effort to put conditions on extension of MFN to China. The Clinton Administration will address all of these concerns---human rights, proliferation and trade---and we will address them aggressively. We are currently reviewing our policy

toward China, including MFN, and I can tell you that we will consult closely with the Congress.

On trade, an interagency team was in China last week following up on the two trade agreements that Ambassador Hills negotiated last year on intellectual property rights and on market access. So far, the Chinese are abiding by the terms of the IPR agreements. On market access, there are some problems, and I am following up with my Chinese counterparts. We are leading the process to negotiate China's entry into the GATT, and we will ensure that significant further changes in China's trade regime are made before that happens. Finally, we are looking at other areas, such as services, that were not the subject of earlier negotiations yet are very important to our businessmen. We expect an equitable and balanced trading relationship with China, and we will settle for no less.

The Administration and Congress also face the issue of renewing the Generalized System of Preferences (GSP) program, which we are reviewing carefully as we consider our overall policies of trade and aid with developing and Eastern and Central European countries. As the President noted in his speech, the steady expansion of growth in the developing world is in our interest and theirs as well. We need to do our part to alleviate the grinding poverty which afflicts much of the world; at the

same time, we are building markets for products made by our workers here.

Let me close on a personal note, which I mentioned in my confirmation hearing. There is nothing theoretical about the job I have, or the work that we will do together. I travelled around the country during the last campaign, and I have seen the pain inflicted on people and communities from jobs lost as a result of a changing global economy. I have spoken with many of you, and through you, I have heard the concerns of those you represent. Together, we need to find the mix of policies that rebuild the U.S. economy so that our children have the opportunities that we were fortunate enough to have.