

Testimony before the Legislation and National Security
Subcommittee of the Committee on Government Operations

of

AMBASSADOR MICHAEL KANTOR

UNITED STATES TRADE REPRESENTATIVE

1993 Title VII Review of
Foreign Country Procurement Discrimination
Against U.S. Goods or Services

June 10, 1993

I would like to thank you, Mr. Chairman, and the members of this subcommittee for the opportunity today to describe Administration efforts to open foreign government procurement markets to U.S. suppliers, as well as our actions this year under Title VII of the Omnibus Trade and Competitiveness Act of 1988. This is my first appearance before this Committee, and I welcome the occasion to become more familiar with your concerns and those of other members of the Committee.

At the outset, I would like to emphasize that this Administration is resolved to take strong and appropriate action to ensure comparable market access for U.S. firms in foreign government procurement markets, with the objective of creating trade opportunities for American companies and jobs for American workers. Since assuming my responsibilities as USTR, I have repeatedly expressed my commitment to enforcing the law as Congress has written it, and to ensuring that our trading partners adhere to trade agreements that they enter into with us.

We have made significant progress in our first few months, reaching an historic agreement with the European Community that opens a \$20 billion market for heavy electrical equipment (closed to U.S. suppliers for more than 30 years) and that provides the impetus to conclude multilateral negotiations on an expanded GATT Government Procurement Code. At the same time, we have shown our determination to use the tools provided by Title VII, including for the first time actually closing a portion of the U.S. government procurement market in retaliation for continuing EC discrimination against U.S. suppliers in the telecommunications sector.

We remain extremely concerned about discriminatory practices in Japanese government procurement in a number of areas and have formally identified Japan as discriminating under Title VII in the procurement of construction, architectural and engineering services.

Although I realize that some of our actions are not necessarily within the jurisdiction of your committee, I wanted to point out that the administration has begun, for the first time, to review our entire inventory of trade agreements with and trade practices of other countries with a view to self-initiating reviews of violations of those trade agreements or unfair trade practices under Section 301 of the 1974 Trade Act. We have also initiated out-of-cycle reviews under Special 301, as well as implemented immediate action plans under that statute. We are closely reviewing our GSP program for compliance. These actions demonstrate that this administration views enforcement of U.S. laws and trade agreements as an important way to achieve our objective of opening markets and expanding trade.

The U.S.-EC Memorandum of Understanding

The previous administration identified the EC in 1992 under Title VII for discrimination in procurement of telecommunications and heavy electrical equipment. One year after the identification, the discrimination remained. In early February, the President directed USTR to announce our intention to impose Title VII sanctions if negotiations with the EC over removal of this discrimination failed. Over the course of the next few months, USTR conducted intensive negotiations with the EC. On April 21, we reached an agreement that opens a key EC market -- heavy electrical equipment -- to U.S. suppliers for the first time in more than 30 years.

The U.S.-EC Memorandum of Understanding on Government Procurement, which went into effect on May 25, expands on a bilateral basis the coverage of the Gatt Government Procurement Code (the Code) beyond goods to services and construction. The MOU applies to U.S.G. executive branch contracts for goods and services above a threshold of \$176,000 for goods and services and above \$6.5 million for construction and comparable EC member state contracts. This represents a significant expansion of bidding opportunities for U.S. firms.

In addition, the EC removed the application of the discriminatory provisions of Article 29 of the EC Utilities Directive to procurement of U.S. goods by EC electrical utilities. (Article 29 applies a three percent price preference and allows bids to be rejected completely if they contain less than 50 percent EC content.) At the same time, the U.S. removed the Buy America Act price preference on procurement of goods and construction by the federally-owned electrical utilities -- Tennessee Valley Authority and the Power Marketing Administrations of the Department of Energy. For these agencies, the applicable threshold is \$450,000 for goods and \$6.5 million for construction. As a result, the EC will provide U.S. suppliers with access to \$20 billion in procurement by power generation entities, while the U.S. will provide EC suppliers

with access to approximately \$2 billion in procurement by federally-owned electric utilities.

As part of the MOU, the U.S. and the EC agreed to undertake a joint study of the procurement opportunities offered and requested by each side in the ongoing renegotiation of the Code. The U.S. has always been concerned about the possibility of entering into an unbalanced agreement, where we would provide significantly greater bidding opportunities to foreign suppliers than would be available to U.S. suppliers. As a result, we have been reluctant to agree to expanded Code coverage without hard facts about the value of our trading partners' offers. This study will provide those facts about a key trading partner and thus will enable us to overcome a major stumbling block to conclusion of an expanded Code.

Another element of the MOU is a commitment by both sides to integrate the MOU into a significantly expanded and balanced multilateral Code. The MOU is illustrative of the spirit of building market access opportunities that will give impetus to, and serve as a model for, concluding a new Code. The final element is a commitment to continue bilateral negotiations on telecommunications procurement.

Title VII Sanctions against the EC

Regrettably, our negotiations with the EC failed to produce an agreement on government procurement of telecommunications equipment that would have eliminated the EC discrimination, which exists in sharp contrast to the wide-open U.S. market. As a result, the previously announced Title VII sanctions, reduced to be commensurate with this remaining discrimination, went into effect on May 28. This is the first time that sanctions have been applied under Title VII. The sanctions affect most areas of federal procurement that are not covered by (1) the Code or (2) the U.S.-EC MOU. The three elements in the sanctions package are:

- (1) Goods: all goods contracts by federal agencies valued at less than \$176,000 and all goods contracts by federally-owned electric utilities valued at less than \$450,000;
- (2) Construction: all construction contracts by federal agencies and electric utilities valued at less than \$6.5 million; and
- (3) Services: all services contracts by the electric utilities, all contracts by federal agencies for services sectors excluded from the U.S.-EC MOU and all contracts by federal agencies valued at less than \$176,000 for services covered under the MOU.

Services that are excluded from the U.S.-EC MOU include: legal services, research and development, management and operation, telecommunications and investigatory and security services. The sanctions do not apply at all to contracts made in the interest of national security (including all DOD contracts) or to goods and services that are procured and used outside the U.S. Finally, the sanctions do not apply to goods and services of Greece, Spain or Portugal, since the EC Utilities Directive does not apply to these countries at this time and we received assurances from each that they do not discriminate against U.S. goods and suppliers in procurement of telecommunications equipment.

The sanctions are a measured response to the discrimination at issue. They apply to approximately \$29 billion in potential bidding opportunities, which indeed is about double the value of bidding opportunities denied U.S. goods and suppliers. At the same time, the sanctions do not significantly disrupt U.S.-EC trade at a time when we are working together to ensure successful completion of the Uruguay Round. We will press forward with the negotiations in the Round and Government Procurement Code.

Conduct of the 1993 Title VII Review

In conducting this year's Title VII review, the Administration used all available information on the procurement practices of foreign countries. We received reports from our embassies and comments from the private sector as a result of a Federal Register notice. In an attempt to gather information from smaller U.S. companies about their experiences, we solicited comments through a notice in the Commerce Business Daily. We also used information gathered for and contained in the annual National Trade Estimate report.

With the help of the Departments of Commerce and State, we collected information on about 35 countries, focussing most of our attention on our major trading partners. We applied the criteria for identification provided in the statute to each country's practices and policies on procurement. Our failure to "identify" a country does not signify that that country does not engage in some discriminatory government procurement practices. Rather, it means that not all the statutory criteria for identification were met. In those cases, however, we have provided information in our report to Congress on the procurement practices that concern us.

Results of the 1993 Title VII Review

This year, we continued the identification of the EC because of its failure to remove the discriminatory provisions of the EC Utilities Directive with respect to telecommunications utilities. We also identified Japan under Title VII for non-Code-covered

discrimination in procurement of construction, architectural and engineering services. Despite years of negotiations and two trade agreements, the Japanese construction market remains fundamentally closed to foreign firms. We are scheduled to meet with representatives of the Japanese Government to begin consultations next week. During these consultations we will address the practices we cited in the report, including the anti-competitive practices, the designated bidder system and issues related to the Major Projects Agreement.

In our report to Congress, we noted that we remain gravely concerned that the Government of Japan may not be adhering to the terms of the 1990 Supercomputer Agreement. Over the coming months, pursuant to Section 306 of the Trade Act of 1974, USTR will undertake a special review of Japanese Government behavior under the Supercomputer Agreement thus far and will scrutinize closely expected procurement. If USTR finds that Japan is not in compliance with the Supercomputer Agreement, it will take action against Japan under Section 301 of the Trade Act of 1974.

We also provided information in our report about Japanese practices in procurement of computers and telecommunications equipment. We hope to resolve the definitional issue that has prevented us from measuring progress under our 1992 computer agreement with Japan.

In the telecommunications area, we renewed our 13-year old bilateral procurement agreement with Nippon Telegraph and Telephone (NTT) in December 1992 for an additional three years. NTT's three subsidiaries have agreed to abide by that agreement. We will continue to address issues relating to non-NTT procurement, such as greater transparency of information about purchasing plans and streamlining pre-registration requirements.

In the Title VII report, we also provided information on the procurement markets of Australia and China. We intend to monitor developments closely in these markets in the coming months.

With regard to Australia, we are pleased that Australia has removed its offset requirements. Australia has established, however, preselected panels for all federal procurement of information systems technology. While we have not received any complaints from U.S. companies about the operation of the panels, we are concerned that the criteria for selection could discriminate against U.S. suppliers. We will be holding discussion with the Australians today and tomorrow on this program and potential Australian accession to the Code.

With few exceptions, Chinese Government procurement practices do not include open and competitive bidding. In fact, most government procurement is by invitation only. In October 1992, China committed to improve its procurement practices by

publishing prior to October 1993 all of its rules and regulations related to trade and all projects included in state plans and by not enforcing any law or regulation that is unpublished.

Finally, our report expressed concern that European countries that are associated with the EC or have entered into free trade agreements with the EC might be required to adopt the discriminatory measures contained in Article 29 of the EC Utilities Directive. We will monitor their actions over the coming year and review the situation in our next annual Title VII review.

Conclusion

This Administration has achieved a significant breakthrough in opening government procurement markets of interest to U.S. suppliers in its first few months. The U.S.-EC MOU provides a "down-payment" on the successful completion of an expanded Code, which we believe is the best way to ensure that foreign government procurement opportunities become available to U.S. suppliers. Even an expanded Code, however, will not address all discriminatory practices faced by U.S. suppliers. This Administration is serious about achieving improved access to our trading partners' government procurement markets and, to this end, will continue to use the tools provided by Title VII, as it has done this year.

"NORTH AMERICAN FREE TRADE AGREEMENT
MEANS BIG BUSINESS FOR GEORGIA"

STATEMENT OF AMBASSADOR MICKEY KANTOR
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE ATLANTA CHAMBER OF COMMERCE

JUNE 16, 1993

Atlanta, Georgia

I am very pleased to be here in Atlanta to visit what Fortune magazine has called "the most energetic Chamber in the country."

I am a great admirer of many of your progressive and innovative programs, such as your International Department and the Forward Atlanta marketing and economic development initiative. A Chamber is only as strong as its leadership, and yours is blessed with some of the finest and most successful business people in the nation. And I would like to thank Pepe Cummings, Tracy Green, and Bill Crane for their hard work in making it possible for me to speak to you today.

You all have done much to make Atlanta one of the most attractive places to start, or just conduct business in America. Whether it is the thrill of watching the Braves in a pennant race -- and don't worry, I predict they will be in the thick of things come September -- or the honor of hosting the Olympics, "Hotlanta" is a bustling city.

The key to increasing and expanding Atlanta's economic success -- and the rest of the country -- is in opening up the global marketplace. Only by tearing down trade barriers will we provide new and exciting opportunities for U.S. businesses to compete in the new global economy.

We are seeking these opportunities through the negotiation and enforcement of new trade agreements with our trading partners. We are using all of the channels available to us--multilateral, regional and bilateral.

One of our most exciting efforts is the North American Free Trade Agreement (NAFTA), which will open the markets of Canada and Mexico to U.S. companies, and create the world's largest market - a \$6.5 trillion economy with 370 million people. Building upon the U.S. Canada Free Trade Agreement of 1989, NAFTA is a natural counterpart to emerging regional integration in Europe and the Pacific Rim.

Let me give you an example of what NAFTA will mean for businesses. Later this afternoon I am going to visit the Atlanta Saw Company (ASC), located in southern Atlanta. Many of you may be familiar with it already. They manufacture the saw blades and cutting edges used in heavy meat cutting. They are a typical small business trying to compete successfully in the global economy. They employ 240 people and are 80 percent employee

owned. They export to over 80 countries.

Mexico is ASC's fifth largest market. Their exports to Mexico increased sixfold from \$29,000 in 1989 to \$195,000 in 1992 after the Mexican government started to lower some trade barriers. NAFTA will mean their sales should increase even more.

But NAFTA will affect them in another way. Back in 1975 ASC began manufacturing in Mexico through a joint venture. Because of high tariffs, it was cheaper to supply the raw materials and technology to the joint venture for sales in Mexico. With NAFTA they are planning to dissolve the joint venture and bring those jobs to Atlanta. The high skills and productivity of their employees here means it will be cheaper to manufacture here. Jobs will come home.

Notice this is the opposite of what critics of NAFTA say will happen. They predict a mass exodus of jobs to Mexico. But companies like the Atlanta Saw Company have found their overall costs of production are higher in Mexico than in the United States.

I could give other examples, but these companies tell an important story -- NAFTA means opportunities for businesses and the workers who make them thrive.

GEORGIA AND MEXICO

Now this may come as a shock to you, but when most people think about U.S. trade with Mexico, Georgia does not immediately come to mind. Yet Georgia has already become a major beneficiary of liberalized trade with Mexico. In fact, Georgia ranked thirteenth among all the states in the value of exports to Mexico in 1992.

During the past five years, Georgia's exports to Mexico have increased an incredible 328%, with total exports exceeding \$463 million in 1992. The percentage increase in exports to Mexico far exceeds Georgia's 99% growth in exports to the rest of the world during the period from 1987 to 1991.

NAFTA AND JOBS IN GEORGIA

Job growth in the United States has proceeded in parallel with export growth. Jobs related to exports to Mexico have grown from 275,000 to 700,000 over the last five years, with another 200,000 predicted by 1995 if the NAFTA is implemented. Those jobs are in every region of the country and in virtually every sector of industry.

Here in Georgia, manufactured exports to Mexico and Canada now support over 38,000 jobs. More than 19,000 of those were created in just the past five years. Further liberalization of trade with Mexico can result in even more trade and jobs for Georgia in the decade ahead.

The new jobs that have been and will be created in Georgia as a result of increased exports to Mexico are good jobs, too. Jobs related to exports to Mexico pay about 12% more than the average U.S. wage.

Many of the new jobs associated with the NAFTA will be in industries where Georgia is competitive, such as computers, industrial and electronic manufacturing, transportation, and food processing. Service industries, such as banking and insurance, will also see growth in the years ahead as they gain access to the multi-billion dollar Mexican market. Georgia is well positioned to get a healthy share of the growing Mexican market for U.S. goods and services.

The real story of NAFTA is what it means to working men and women in communities from Valdosta to Dalton; from Columbus to Augusta; and right here in Atlanta. There are already a sizeable number of your friends and neighbors who work for companies that are taking advantage of the opportunities that have opened up in Mexico in recent years.

SMALL AND MEDIUM-SIZE COMPANIES

Obviously, large companies like Coca-Cola, Delta Airlines, AT&T and others will have new opportunities to market their goods and services in the growing Mexican market as a result of the NAFTA.

But NAFTA will be of particular benefit to small and medium-

sized companies. And that is especially good news for the United States. Two out of every three new jobs created in this country are created by small and medium-sized businesses. High tariffs, complex licensing requirements and other barriers to trade are particularly hard for small business to overcome. They do not have the luxury of large legal staffs dedicated to finding the loopholes that make exporting through a maze of barriers profitable. Nor do they have the profit margins that allow them to ignore the impact of 10 to 20% tariffs.

Once barriers to trade are removed as a result of the NAFTA, small businesses will have great opportunities to compete in the Mexican marketplace. Many are already beginning to see those opportunities and take advantage of them. We need to encourage them and help more small businesses to enter the international trade arena. NAFTA will help us do that.

STATUS OF THE NAFTA

Clearly there are major benefits to be gained from the NAFTA. But, as with most things in life, there are also risks associated with the Agreement.

Concerns have been raised regarding labor standards, environmental standards, and import surges which we are in the process of addressing with a series of supplemental agreements. Negotiations with respect to those agreements began on March 17 and are continuing. We are confident that these agreements will make the NAFTA even better, and strengthen the partnership that

it creates.

LONG TERM BENEFITS

The trade opportunities that will flow to U.S. from the NAFTA will not just produce short-term benefits. The Agreement will also give America greater leverage in dealing with the huge emerging trading blocs in Europe and the Pacific Rim. A strong U.S. economy depends upon our ability to compete internationally, and the North American Free Trade Agreement will give us a stronger base from which to compete in regional markets around the world.

But creating new opportunities for international trade, through the NAFTA and other trade agreements, will not strengthen the U.S. economy if we do not, or cannot, capitalize on those opportunities. Creating the jobs of the 21st century won't do us any good if our workforce is not trained to perform those jobs. World-class schools and high quality worker retraining programs are critical to our ability to succeed in a rapidly changing and increasingly competitive world economy. In order for the U.S. to remain positioned as an international economic leader, what we do at home is at least as important as what we do abroad.

The world is coming to Georgia in 1996. Here in Atlanta you will have the chance to see first-hand the commitment, energy, effort and enthusiasm which world-class athletes put into their sports. The winners that will step up onto the Olympic platform to receive their gold medals will all have something in common. They will be men and women who unafraid of tough competition; in

fact they will have been driven to even higher levels of achievement than even they thought possible in response to that competition.

If we as a nation are to compete effectively in the global marketplace we must have those same characteristics. Competition should not frighten us; it should inspire us to higher levels of productivity and excellence. The North American Free Trade Agreement will help the U.S. and Georgia become even more competitive in the tough arena of international trade. And the businesses and the working men and women in this country will be the real winners in that competition.

Thank you very much.

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JOINT STATEMENT ON THE UNITED STATES-JAPAN FRAMEWORK
FOR A NEW ECONOMIC PARTNERSHIP

JULY 10, 1993

Reaffirming their understanding at their meeting of April 1993, the Prime Minister of Japan and the President of the United States agree to establish the United States-Japan Framework for a New Economic Partnership, as described below.

Basic Objectives

The Framework will serve as a new mechanism of consultations for United States-Japan economic relations. This new economic relationship must be balanced and mutually beneficial, and firmly rooted in the shared interest and responsibility of the United States and Japan to promote global growth, open markets, and a vital world trading system. These consultations will take place under the basic principle of two-way dialogue.

The Framework provides a structure for an ongoing set of consultations anchored in biannual meetings of the Heads of Government. The goals of this Framework are to deal with structural and sectoral issues in order substantially to increase access and sales of competitive foreign goods and services through market-opening and macroeconomic measures; to increase investment; to promote international competitiveness; and to enhance bilateral economic cooperation between the United States

and Japan.

Japan will actively pursue the medium-term objectives of promoting strong and sustainable domestic demand-led growth and increasing the market access of competitive foreign goods and services, intended to achieve, over the medium term, a highly significant decrease in its current account surplus, and to promote a significant increase in global imports of goods and services, including from the United States. In this context, Japan will take measures including fiscal and monetary measures as necessary to realize these objectives.

The United States will also actively pursue the medium-term objectives of substantially reducing its fiscal deficit, promoting domestic saving, and strengthening its international competitiveness.

Steady implementation of these efforts on both sides is expected to contribute to a significant reduction in both countries' external imbalances.

The United States and Japan are committed to an open multilateral trading system that benefits all nations. Benefits under this Framework will be on a Most Favored Nation basis.

Consultations will be limited to matters within the scope

and responsibility of government.

The two Governments are committed to implement faithfully and expeditiously all agreed-upon measures taken pursuant to this Framework. Both Governments agree that tangible progress must be achieved under this Framework.

The two Governments will utilize this Framework as a principal means for addressing the sectoral and structural areas covered within it. If issues within these areas arise, both sides will make utmost efforts expeditiously to resolve differences through consultations under the Framework or, where appropriate, under applicable multilateral agreements.

Sectoral and Structural Consultations and Negotiations

Japan and the United States will engage in negotiations or consultations to expand international trade and investment flows and to remove sectoral and structural impediments that affect them. Initial areas include the following issues of interest to both countries:

- o Government Procurement - Measures undertaken in this area should aim at significantly expanding Japanese government procurement of competitive foreign goods and services, especially computers, supercomputers,

satellites, medical technology, and telecommunications. The U.S. Government will encourage U.S. firms to take advantage of opportunities created by the Government of Japan. The U.S. Government reconfirms that it is the policy of the U.S. Government to provide non-discriminatory, transparent, fair and open opportunities consistent with its obligations under the GATT Agreement on Government Procurement. The U.S. Government will consult with the Government of Japan upon request concerning such policies, and areas of particular interest.

- o Regulatory Reform and Competitiveness - Measures undertaken in this area will address reform of relevant government laws, regulations, and guidance which have the effect of substantially impeding market access for competitive foreign goods and services, including financial services, insurance, competition policy, transparent procedures, and distribution. The United States will undertake efforts to promote exports to Japan, including business facilitation measures and other measures to further enhance U.S. international competitiveness.

- o Other Major Sectors - Measures undertaken in this area will address other major sectors, including the

automotive industries. Efforts in this area, including existing arrangements, such as MOSS, will have the objective, *inter alia*, of achieving significantly expanded sales opportunities to result in a significant expansion of purchases of foreign parts by Japanese firms in Japan and through their transplants, as well as removing problems which affect market access, and encouraging imports of foreign autos and auto parts in Japan. The U.S. Government will promote the export of autos and auto parts to Japan and will encourage U.S. companies to pursue more actively market opportunities in Japan.

- o Economic Harmonization - This area will address issues affecting foreign direct investment in Japan and the United States. In addition, this area encompasses issues such as intellectual property rights, access to technology, and long term buyer-supplier relationships between companies in the two countries.

- o Implementation of Existing Arrangements and Measures - All existing bilateral arrangements and measures will be closely monitored and fully implemented. Specific commitments made under the Structural Impediments Initiative (SII) talks will be absorbed into this basket as appropriate.

Discussions in the above areas will begin as soon as possible. Each basket will be chaired at the Subcabinet level with working groups as appropriate. The two governments will make utmost efforts to agree on measures regarding significant market access problems in government procurement, the insurance market, the automotive industries, and other high priority areas to be determined, at the first Heads of Government meeting in 1994 or within six months of this agreement. Each such issue will be dealt with separately. Agreements on measures in the remaining areas are expected to be announced at the second Heads of Government meeting in July 1994.

Common Agenda for Cooperation in Global Perspective

The two Governments will also jointly pursue positive cooperation in a wide range of global areas and bilateral projects of potentially global application. In doing so, Japan and the United States will build new cooperative relations and thereby contribute to the development of technology and the world economy. The two Governments will pursue a new joint response to the challenge in environment and other common economic issues of global implication. Through this joint collaboration, the two nations will establish a constructive global partnership.

Progress on results arising out of such consultations will be included in the statements at the biannual meetings of the

Heads of Government. Progress reports will be prepared by the Subcabinet group at the pre-Heads of Government meetings.

Discussions will begin as early as possible in the following areas:

1. Environment. The United States and Japan will establish a forum for regular consultations on environmental issues at the sub-Cabinet level. The United States and Japan will collaborate on the following specific environmental priorities: oceans, forests, global observation information network, environmental and energy efficient technologies, conservation of important natural and cultural resources, and environment-related development assistance.
2. Technology. Japan and the United States agree to cooperate on mutually-agreed projects in the following areas of technology development: transport technology, telecommunications, civil industrial technology, and road technology and prevention of disaster.
3. Development of Human Resources. The United States and Japan agree to strengthen bilateral cooperation in the development of human resources in the areas of labor exchanges and the

Manufacturing Technology Fellowship Program.

4. Population. The United States and Japan will work together to enhance the effectiveness of efforts to stem rapid global population growth, including strengthening multilateral population programs. The United States and Japan will work together to use our bilateral programs to enhance the effectiveness of population programs in the developing world.

5. AIDS. The United States and Japan will cooperate to enhance multilateral efforts on AIDS. The United States and Japan will work together to use our bilateral programs to address the AIDS crisis in the developing world.

High-Level Consultations

Both Governments will seek as expeditiously as possible to begin consultations under this Framework, with achievements to be announced at the Heads of Government meetings to be held twice a year.

The two Governments will assess the implementation of measures and policies taken in each sectoral and structural area within each basket under this Framework; this assessment will be based upon sets of objective criteria, either qualitative or

quantitative or both as appropriate, which will be established using relevant information and/or data that both Governments will evaluate. Such assessment will occur at the biannual Deputy Minister level meetings prior to the Heads of Government meetings and, in addition, as determined by the negotiating teams within each basket. These criteria are to be used for the purpose of evaluating progress achieved in each sectoral and structural area, including the collaborative efforts of the two Governments.

At their biannual meetings, the Heads of Government will issue public statements that include reports of results achieved under the Framework on sectoral, structural and macroeconomic issues, as well as a common agenda for cooperation in global perspective.

Deputy Minister level meetings will be held twice a year to prepare reports to be submitted to the two leaders. Meetings can be held as appropriate several weeks before biannual Heads of Government meetings. The first Deputy Minister level meeting will be held within six months of agreement on this Framework.

Consultations will be carried out making use of the existing fora where appropriate, and working groups may be established as necessary in order to facilitate dialogue in this Framework. All relevant agencies will participate.

After two years, both Governments will decide whether to extend consultations in this Framework beyond the fall of 1995.

An update on progress toward reducing current account imbalances and other macroeconomic issues will be included in the biannual Heads of Government statements. Progress will also be reviewed at the pre-Heads of Government meetings. While ongoing talks will be anchored in the G-7 process and central bank dialogue, other contacts between the two Governments will offer the opportunity to discuss these concerns, for example during discussions between the Council of Economic Advisers and the Economic Planning Agency.

Report from the G-7 Economic Summit
Testimony to the House Subcommittee on Trade
Ways and Means Committee
Ambassador Michael Kantor
U.S. Trade Representative
July 13, 1993

I appreciate the opportunity to appear before the committee today to report on the trade aspects of the G-7 summit. For those involved in the formulation of U.S. trade policy, both in the Administration and in Congress, the challenges facing us remain of great magnitude. But I hope that you will share my view that the breakthrough on the Uruguay Round and the agreement on a framework for negotiations with Japan represent major progress for our country, jobs for the American people and a stronger global economy.

President Clinton left for the G-7 economic summit in Japan last week knowing that a successful trip was key to his efforts at reinvigorating the American economy. This Administration's economic policy starts with the President's domestic economic program, dealing with our homegrown problems; deficit reduction, new investment in education and infrastructure, health care, and reinventing government all are critical parts of the program. But the President strongly believes that expanding trade, and creating new markets and opportunities, are essential to our program of economic revival and job creation.

Uruguay Round

Year after year, the G-7 leaders have expressed their view that it was important to finish the Uruguay Round, which began in 1986. As the negotiations languished, it became critically important that this summit go beyond rhetoric, to obtain concrete results which would provide the momentum for completing the Round. I believe that the Quad nations---the U.S., the EC, Japan and Canada---achieved a breakthrough on the Uruguay Round.

We have two major tasks ahead of us to bring the round to a conclusion by year end. We must complete our market access negotiations in goods, services and agriculture and concurrently, we must improve the rule-making agreements contained in the draft "final act." The President's leadership at the Tokyo Summit gives us the opportunity to complete these tasks in Geneva.

I should say that the Tokyo agreement is not a final deal. There is a saying in these negotiations that nothing is agreed until everything is agreed. Nevertheless, the results from Tokyo represent a big step forward where the Quad countries have shown leadership to galvanize the negotiating process in Geneva where our key trading partners now will have to match our efforts to

make the market access package a reality in December. The Quad maintains its high ambitions for major reductions to barriers to market access. Our agreement in Tokyo sets the foundation for a major package of tariff reductions in industrial products.

A key component of the package responds to the tremendous effort and export interests of U.S. industries to eliminate tariffs in eight sectors, and reducing them in many others. For those where we have not yet achieved success -- paper, wood, scientific equipment, non-ferrous metals and electronics -- we are by no means at the end of the negotiation. We have broken the logjam, and taken an indispensable step toward completing the Uruguay Round this year.

As members of this committee know, the agreement on market access is the result of effort that started in the first weeks of the Administration. At that time, President Clinton made it clear that completing the Round, this year, was among his highest priorities. At his instruction, in February, I began working with my EC counterpart, Sir Leon Brittan, on a joint effort to make progress on market access issues, first between the U.S. and the EC, and then with the other Quad nations, with the goal of reaching the outlines of a far-reaching market access package by the time of the G-7 Summit.

The President repeatedly emphasized with other world leaders, and with finance leaders from around the globe, the need for immediate re-engagement of the Uruguay Round, and the importance of achieving agreement on a market access package by the time of the Summit. We found many allies among the leaders of the Quad nations, who shared our belief that completing the Round was crucial for the global economy, and that this year was the last, best chance for doing so.

We sought to underscore our commitment to completing the Round by seeking fast track authority only for that purpose, and only for this year. The Congress, led by this Committee, contributed invaluablely to our efforts by providing advice, insight and clear sense of negotiating objectives, and by giving the President the fast track authority prior to his departure for Tokyo.

In addition, the President engaged world leaders personally and by telephone imploring them to join him in given impetus to this market access package.

The package from Tokyo contains the following: Quad agreement to the elimination of tariff and non-tariff measures in : pharmaceuticals, construction equipment, medical equipment, steel (conditioned on reaching a multilateral steel agreement), beer and, subject to certain exceptions, furniture, farm equipment, and spirits. These are the so-called zero/zero initiatives. Most importantly, we agreed that we would work to add other

sectors to this list.

We agreed that tariffs on chemical products would be harmonized at a low rate, including, in some cases, zero. Those nine sectors currently represent over \$75 billion in U.S. exports -- a figure which should grow substantially under a completed Uruguay Round.

For the remaining products, we set an overall goal of 33 percent -- which was the ultimate tariff reduction goal of the Montreal Accord in 1988 -- but have identified a number of sectors where tariffs could be reduced substantially beyond this level, in some cases, possibly beyond 50%. Our agreement noted that a particular interest of some participants in moving further in such areas as wood, paper and pulp and scientific equipment--- all critical sectors to the U.S. I am committed to trying to go significantly further in reducing tariffs in these areas, as well in the electronics sector, where the EC is willing to consider going beyond 33%, but did not want to do so at this time, and in non-ferrous metals.

Finally, the package addresses "peaks" -- those tariffs that each of the Quad countries maintains that are at or above 15%. Quad countries have on average, fairly low tariffs, but there are some peaks remaining. As you are well aware, there has been attention on U.S. Peaks -- in areas such as textiles, apparel, ceramics and glass. We have offered some reductions in a number of our peak tariffs where our Quad partners are principal or substantial suppliers, after extensive domestic consultations. This approach requires market access as a condition for tariff reductions and MFA phase out, anti-circumvention protections, longer staging and exempts tariff lines in the case where China or Taiwan is a significant supplier.

While the focus in Tokyo was on industrial goods, we agreed that a successful Uruguay Round would require a substantial package of market access commitments in services, the fastest growing part of the global economy and one in which the U.S. has enormous strengths. There has been substantial progress in the services access area. The Quad discussions focused on the remaining areas where further work is needed before success can be achieved: financial services, basic telecommunications, maritime, audiovisual, and movement of personnel. We have a good foundation on which to build in Geneva.

Finally, let me say a word about agriculture, which for the United States remains a central component of a final Uruguay Round package. We agreed in Tokyo that work must proceed in Geneva to finalize country schedules and the details of market access commitments. With the Blair House agreement behind us, market access is the major issue for Geneva negotiations. The United States is at common cause with our trading partners in

Cairns who insist that the access achieved at the conclusion of the Round must be greater than the access that currently is being provided. This is a principle that will continue to guide our negotiations.

We agreed in Tokyo to begin immediately in Geneva to make our agreement the first step toward successfully concluding the Round. Our negotiators began yesterday, in fact, the process of meeting with their counterparts in other nations to explain what was done in Tokyo, and to discuss with them their offers on reduction or elimination of tariff and non-tariff barriers. We have said repeatedly that the United States is prepared to do its share for a successful Round; our Quad partners have demonstrated some of the same determination. But many nations involved are going to have to contribute as well in order to reach the result that will benefit all of us.

The Round is not a favor that we are doing for the rest of the world. DRI, the largest economic forecasting company, projects that for the U.S., above normal expected increases in employment, real wages and productivity, a good Uruguay Round agreement could produce, after ten years, net employment increases of 1.4 million jobs, average productivity increases for labor slightly over 2% and a real wage gain of 1.6%. In addition, the USTR and the Council of Economic Advisors estimated in 1990 that if we assumed a one-third cut in global tariffs and in reductions in non-tariff barriers as well, it would translate into an average additional \$1,700 a year for a typical family of four.

It is long past time to finish the Round. We cannot tolerate a situation where trade agreements languish for seven years. The world is moving too fast now. Governments come and go, technologies change, and economies evolve in that amount of time.

Framework for U.S.-Japan Negotiations

The other order of business in Tokyo was the effort to agree on a new framework for negotiations with Japan on the sectoral and structural issues that have hampered our exports, and those of other nations, to Japan, and caused damage to what may be our most significant bilateral relationship. An agreement on a new framework was reached, only hours before the President left Tokyo.

Along with completion of the Uruguay Round and the NAFTA, the principal trade policy objective of this Administration has been real progress in improving the unbalanced trading relationship we have with Japan. The President, and everyone who works for him, has always recognized that many factors contribute to our bilateral trade deficit with Japan. We recognize the effect of our budget deficits, low savings rates, and historic emphasis on

military, rather than, civilian R&D, and a host of other factors. We have great admiration for what Japan has accomplished: the quality and determination of its work force, the excellence of its education system, and the products that are produced there.

But beyond all that, Japan still represents a market that is dramatically less open than ours, and significantly less open than it should be given the size of its economy and the state of its development. The relative absence of tariff barriers is less significant than the bewildering array of non-tariff barriers that make success in the Japanese market so hard to come by. In case after case, U.S. products and services which are coveted around the world achieve negligible success in Japan. Many of our trading partners have suffered the same experience.

At the same time, we recognize that Japan is a more open economy now than it was five or ten years ago; that it is in fact the second leading recipient of U.S. exports (after Canada); and that the U.S. and Japanese economies, which together account for 40% of the world's GDP, are closely linked and increasingly interdependent. Moreover, as the President stated eloquently in his Waseda University speech, as we seek a more open, consumer-oriented Japanese economy, we are taking steps that benefit not only the U.S. but the people of Japan, who are being deprived of the rewards they deserve for their hard work and accomplishments.

For these reasons, we have sought a framework for negotiations with Japan that would allow us to make steady and significant progress toward opening the Japanese market, without the degree of acrimony that has been so corrosive for the relationship over the past decade. The framework we sought would allow us to focus on priority sectors and practices, as well as structural macro-economic issues; would enable us to begin negotiating on key issues under tight time frames (6 or 12 months) and would establish meaningful objective criteria, i.e. benchmarks, for assessing progress made. We started from a strong position in the negotiations, because President Clinton's economic program has attacked the budget deficits and domestic weaknesses that Japan cites as the main reasons for the trade imbalance between our nations.

This agreement commits the Japanese government to achieving tangible progress and to quantitative and qualitative measures to determine success.

The framework we agreed upon commits Japan to significant reductions in their current account surplus with the world, significant increases in their global imports, and the U.S. to a significant reduction in our budget deficits. It sets the stage for negotiations on autos and auto parts; government procurement; and regulatory reform. It provides for full implementation of existing agreements and commitments. The framework also

envisions cooperative efforts by the two countries to enhance foreign direct investment, access to technology, intellectual property rights, and the environment. Progress will be monitored through objective criteria at biannual meetings between the President and the Japanese Prime Minister.

The agreement addresses the four basic concerns articulated by the President:

- 1) a results oriented policy;
- 2) quantitative and qualitative measures;
- 3) the intersection of sectoral and structural approaches within each basket; and
- 4) articulated time frames to complete negotiations.

This is a framework for future negotiations. By itself, it constitutes no market opening, guarantees no future success, and represents no panacea for the bilateral differences that have characterized our relationship with Japan. Hard bargaining on important issues remains, including the enforcement of agreements already in effect. We intend to make progress, and recognize it will not always be easy. We are committed to the utmost efforts to obtaining results under this framework, but if the consultations and negotiations under the framework do not make the requisite progress, we will not hesitate to use other approaches that Congress provided in the trade law.

Conclusion

I recognize that for the recent college graduate looking for his or her first job, or the young African American in an inner city trying to escape a vicious cycle of poverty, or the mill worker who's been laid off, or the farmer in the midwest struggling to make ends meet, the Uruguay Round and the Japan framework may seem to have little relevance to their lives.

But as I said at my confirmation hearing in January, there is nothing academic or theoretical about the job that the President has asked me to do. Every billion dollars of exports creates twenty thousand new jobs in the United States. These are good jobs, too; a majority of them are in the manufacturing sector and earn, on average, almost \$3,500 more than non-export jobs. For service workers in export-related fields, their paychecks are 20 percent higher than average service worker's salaries.

The world has changed in the past few years in ways we could never have dreamed of before -- the Cold War has ended and new countries are being formed in its wake. The economic world has changed, too. Technology and mobile capital resources have

created a global economy. Our prosperity and that of our children depends on our ability to compete in the new global economy, in which the United States is inextricably linked.

We are the world's largest exporter; we set the standard for the world in areas as diverse as computers, machinery, movies, agriculture, architectural services. We have nothing to fear from open markets and expanded trade, because we are such strong competitors. The objective of trade policy is to insure that our trade laws are enforced, that nations are held to the agreements they reach with us, and that the markets of other nations be as open to our products and services as our market is to theirs.

HEARING
OF
HOUSE COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON RURAL ENTERPRISES, EXPORTS, AND
THE ENVIRONMENT

THE OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE'S
ROLE IN U.S. TRADE DEVELOPMENT

JULY 26, 1993

STATEMENT
OF
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Good morning Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to briefly discuss the role and views of the Office of the United States Trade Representative (USTR) as a member of the Trade Promotion Coordinating Committee (TPCC).

It cannot be overstated that successful trade policies contribute to our economic well-being by stimulating output of goods and services, better paying jobs, and international competitiveness. In turn, the capital generated in such a milieu enables productive investment in human and material resources.

To this end, USTR, which is responsible for developing and coordinating U.S. trade policy, continues to pursue vigorously, through its trade negotiating authority, the elimination or reduction of the market access barriers of our trade partners. For example, this is carried out multilaterally via the Uruguay Round, and regionally via the NAFTA and initiatives such as Asia Pacific Economic Cooperation (APEC), chaired this year by the United States.

However, the successful elimination of foreign market access barriers does not in itself guarantee the scenario of economic well-being to which I alluded a moment ago. Rather, efforts must be made to cultivate the gains secured, and it is in this regard where the Trade Promotion Coordinating Committee (TPCC) should play its most constructive role. While the TPCC Strategic Plan has not yet

been finalized, I would emphasize two points.

First, U.S. Government (USG) resources and policies should be managed in a manner that assists U.S. firms in gaining access to emerging markets. This would help increase U.S. export volume and, in turn, bring forth the capital formation essential to the creation of new businesses (especially small firms) and the new jobs that attend them.

Second, the creation of a streamlined USG export promotion program driven by customer requirements, as opposed to preconceived notions of services required, could eliminate unnecessary interagency function overlap and result in a more targeted and economic allocation of USG funds.

It goes without saying that it will take time to effect properly the changes intended by the TPCC, but we are confident that with well-organized, cooperative interagency efforts, the TPCC will go a long way toward realizing an export promotion program that will make a sizeable contribution to the economic well-being of all Americans.

Thank you very much.

**Announcement of NAFTA Supplemental Agreements
on Labor and the Environment
Statement by Ambassador Mickey Kantor
U.S. Trade Representative
August 13, 1993**

Today, I am very pleased to announce that the governments of the United States, Mexico and Canada have reached agreement on supplemental accords on labor and the environment to the North American Free Trade Agreement (NAFTA).

With this historic agreement we can reform a trade relationship with Mexico that has been driven more by accident than design.

High tariff and non-tariff barriers have meant U.S. goods have a difficult time entering the growing Mexican market. U.S. business have been virtually forced to move operations to Mexico.

Meanwhile, U.S. trade preference laws, along with the implementation of the Maquiladora program in Mexico, allowed U.S. companies to move to northern Mexico, to import U.S. component parts virtually duty free, and to return the assembled products while avoiding U.S. tariffs. The development of that border resulted in environmental problems as well.

NAFTA eliminates these barriers, setting the stage for new economic growth. And that means jobs are created -- we estimate a gain of 200,000, just in the first two years.

It will create the world's largest market: 370 million people and \$6.5 trillion of production. Why is that important? Because the growth that will come from creating such a large market enhances our ability to compete with Japan and the European Community.

NAFTA brings us a step closer to President Clinton's goal of creating a high wage, high growth economy prepared for economic challenges as we enter the next century.

President Clinton sees NAFTA with the supplemental agreements as a part of his strategy of economic renewal. But he was always concerned that there were major flaws. He endorsed the agreement last October during the campaign in a speech at North Carolina State University, but he set out a series of principles which he wanted to see incorporated in the agreement.

He made a promise to the American people which he has now kept: that he would make sure economic growth with Mexico does not come at the expense of the environment and that the trade agreement addresses issues of basic workers' rights -- protection against child labor, health and safety, minimum wage, and industrial relations concerns.

He has kept those promises -- and gone farther. Specifically, the supplemental agreements will help insure that:

- enforcement of domestic environmental laws and work place standards and requirements is strengthened;
- no nation can lower labor or environmental standards, only raise them, and all states or provinces can enact even more stringent measures;
- the process of consultation, evaluation and dispute settlement will be open to the public;
- upgraded safeguards protecting against import surges are provided;
- access to justice and due process rights are extended to environmental and labor issues, and administrative remedies as well as court procedures are available -- this further guarantees labor and environmental standards will be enforced;
- establishment of commissions on labor and the environment which will evaluate and settle disputes.
- enforcement proceedings have real "teeth," assuring compliance;
- we strengthen border clean up and infrastructure development;
- cooperation on the environment and labor is established which allows for the continual upgrading of standards throughout North America.

NAFTA, with the addition of the supplemental accords, is a groundbreaking agreement: for the first time a free trade agreement covers workers' rights and the environment. This will serve as a model.

But more importantly, this is a momentous agreement because with it, we can raise the standards of living for the people of all three countries. Economic standards rise from new growth and job creation. Labor and environmental standards rise from new assurances of enforcement of domestic laws.

There is much work yet to be done. We look forward to working with Congress to insure the passage of NAFTA.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

**NAFTA SUPPLEMENTAL:
AGREEMENT ON LABOR COOPERATION**

HISTORIC UNDERTAKING: This is the first labor agreement negotiated specifically to accompany and build on a trade agreement. NAFTA will create the largest market in the world, grow jobs in America, and enhance the region's competitiveness. The Agreement on Labor Cooperation will promote improved labor conditions and strong enforcement of national labor laws in all three countries of North America.

LABOR COMMISSION: The Agreement creates a new Commission on Labor Cooperation, with each country represented on a *Council* by its top, cabinet-level labor official.

- o The Council has a *broad mandate* to work cooperatively on labor issues, including occupational health and safety, child labor, benefits for workers, minimum wages, industrial relations, legislation on formation and operation of unions and the resolution of labor disputes, and many others.
- o The Council will be able to obtain *public advice and assistance* in these activities.
- o An independent *International Coordinating Secretariat (ICS)* will provide technical support to the Council, and will itself report periodically to the Council on a wide range of labor issues, including labor laws and their enforcement, labor market conditions such as average wages and labor productivity, and training and adjustment programs in the three countries. The ICS will be headed by an Executive Director appointed by consensus of the parties for a fixed term, and the Executive Director will appoint the staff.
- o Each country will also appoint a *National Administrative Office (NAO)* that will be a point of contact between other Commission entities and national governments and that can also consult with the other NAO's to seek and exchange information on labor matters. Each country has a right to determine how its own NAO is staffed, and what powers and functions it will have beyond the minimum requirements to serve as a point of contact for public input and unit for gathering and disseminating information on labor matters.

LABOR PRINCIPLES AND OBJECTIVES: The objectives of the agreement include promotion of improved labor laws and standards, effective enforcement of these laws, encouraging competition based on rising productivity and quality, and the promotion of key labor principles that will be set out in an annex.

- o These principles include such vital issues as protection against child labor, the right to strike and to bargain collectively, freedom of association, minimum employment standards, including minimum wages, elimination of employment discrimination, and prevention of occupational accidents and diseases.

TRANSPARENCY AND DOMESTIC ENFORCEMENT: Each country undertakes to ensure transparency of its laws and to enforce those laws through several means:

- o Publication of laws, regulations and procedures *and* promotion of public awareness of these laws and regulations, so that workers and employers will know their rights and responsibilities;
- o promotion of compliance with laws and enforcement through appropriate tools, including:
 - o appointment and training of inspectors,
 - o monitoring and on-site inspections,
 - o encouragement of voluntary compliance,
 - o mandatory reporting, and
 - o enforcement actions.

ACCESS TO FAIR DOMESTIC PROCEDURES: The Agreement establishes detailed requirements, consistent with U.S. law and process, to assure fair administrative and judicial review, including commitments to:

- o provide effective means for binding domestic enforcement of rights granted under its labor laws (including collective bargaining rights) for all groups with a legally recognized interest under that country's laws;
- o maintain domestic administrative and judicial processes that are independent and impartial, comply with due process, allow parties to be heard and present evidence, and normally are open to the public
- o providing for a right to seek independent review as appropriate of administrative determinations.
- o providing a right for those who are parties to a proceeding to seek remedies for the enforcement of labor rights, including remedies, as appropriate, from compliance agreements to penalties, fines or injunctions.

ENCOURAGING EFFECTIVE ENFORCEMENT BY GOVERNMENTS: The Agreement has several avenues to encourage effective national enforcement of labor laws:

- o *The ICS* will be reporting periodically on labor laws and their enforcement in each country;
- o The *NAO's* can also consult and exchange information on enforcement, as well as providing information to the Council and the ICS;
- o The *Council* can consult on any labor matter, including enforcement questions on any labor law;
- o An *Evaluation Committee of Experts (ECE)*, composed of independent experts, will be convened at the request of any party to examine a matter involving a pattern of practice; the ECE will report and make recommendations on the matter as it is treated in each of the member countries;
- o *Dispute Settlement Panels, backed ultimately by fines and trade sanctions*, can be invoked if a party believes that another is demonstrating a persistent pattern of failure to effectively enforce labor laws.

The intent of these many processes is to encourage voluntary improvement of enforcement through exposure of problems. Trade sanctions are truly a last resort, since the intent is to encourage parties to enforce their law, not to establish new trade barriers. Canada in fact has agreed to make dispute settlement panel judgements on fines and remedial actions automatically enforceable in its domestic court, which obviates any need for trade sanctions vis-a-vis Canada.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

**NAFTA SUPPLEMENTAL:
AGREEMENT ON ENVIRONMENTAL COOPERATION**

HISTORIC UNDERTAKING: This is the first environmental agreement negotiated specifically to accompany and build on a trade agreement. NAFTA will establish the largest market in the world, create jobs in America, and enhance the region's competitiveness. The Agreement on Environmental Cooperation will ensure that economic growth is consistent with goals of sustainable development.

NEW INDEPENDENT ORGANIZATION: The Agreement creates a new Commission on Environmental Cooperation. The three countries' top environmental officials (the EPA Administrator for the United States) will comprise the Commission's *Council*.

- o A *Joint Advisory Committee* made up of nongovernmental organizations from all three countries will advise the Council in its deliberations.
- o The heart of the Commission is its *Secretariat*, housed in a single location and operating under the direction of an Executive Director. He will take broad direction from the Council, but maintain a high degree of independence.

ENVIRONMENTAL OBLIGATIONS: The NAFTA partners commit themselves to undertake important environmental policies regarding the development, implementation, and enforcement of their environmental laws.

- o Countries guarantee their citizens *access to national courts* to petition governments to undertake enforcement actions and to seek redress of harm.
- o Countries will ensure the openness of judicial and administrative proceedings and *transparent procedures* for the creation of environmental laws and regulations.
- o Canada, Mexico and the United States pledged to ensure that their laws and standards continue to *provide high levels of environmental protection* and to work cooperatively in enhancing protections.
- o They have committed to *effectively enforce those laws*, a commitment backed up by a dispute settlement process.

- o The agreement does not affect the *rights of states and provinces* under the NAFTA to maintain standards at levels higher than the federal governments.
- o Countries are obligated to *report on the state of their environments*, and to promote environmental education, scientific research, and technological development.
- o They will work toward *limiting trade in toxic substances* that they have banned domestically.

THE COMMISSION'S AGENDA: A major goal of the Commission is to broaden cooperative activities among the NAFTA partners. The Commission will have an aggressive and important workplan.

- o It will consider the environmental implications of process and production methods, or, as the agreement states, "environmental implications of products throughout their lifecycles."
- o It will promote greater public access to information about hazardous substances (what we call "community right-to-know").
- o It will consider ways to promote the assessment and mitigation of transboundary environmental problems.
- o The Commission will serve as a point of enquiry for public concerns about NAFTA's effect on the environment, and be an avenue for NAFTA dispute settlement panels to obtain environmental expertise when faced with environmental issues.

PUBLIC PARTICIPATION AND DISPUTE SETTLEMENT: Transparency is the hallmark of the agreement, and citizens of all three countries will be free to make submissions to the commission on their concerns related to the full range of environmental issues.

- o The Commission's secretariat will act on submissions appropriately to develop fact-finding reports. The reports will be made public if two of three Parties concur (i.e., the complained against party cannot bar publication).
- o The agreement creates a consultative process for the Council to discuss issues, including those brought to light through the public submission process and the Secretariat's fact-finding activities.
- o Special attention is given to matters involving non-enforcement of a nation's environmental law when consultations fail to resolve the matter.

- o In the event that one Party considers that another Party has persistently failed to effectively enforce its environmental laws (affecting a sector involving traded goods or services), the matter may be referred to a dispute settlement panel.
- o The dispute settlement process provides, in the end, for sanctions if countries have failed to correct problems of nonenforcement.

SCOPE: The Agreement has a broad, inclusive scope.

- o Any environmental or natural resource issue may be addressed through the work program, and any environmental concern or obligation of the agreement may be the subject of consultations between parties.
- o Understandably, the realm of issues subject to dispute settlement panels and possible sanctions is more circumscribed, focused on whether the Parties are effectively enforcing their environmental laws, and whether that nonenforcement is related to trade or competition among the Parties.

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
PUBLIC AFFAIRS**

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TESTIMONY OF AMBASSADOR MICHAEL KANTOR
United States Trade Representative

before the House Ways and Means Committee
September 14, 1993

THE ADMINISTRATION'S CASE FOR NAFTA

Mr. Chairman, members of the Committee, I am pleased to appear before you today, along with Labor Secretary Reich and EPA Administrator Browner, to set forth the Clinton Administration's case for the North American Free Trade Agreement with the recently negotiated supplemental agreements. Tomorrow, Secretary of State Warren Christopher, Secretary of the Treasury Lloyd Bentsen and I will appear before the Senate Finance Committee to supplement the presentation today. These two days of hearings will leave no doubt why the approval of NAFTA is strongly in the national interest.

NAFTA and the Administration's Economic Strategy

Against a background of intense debate, a mountain of misinformation, and considerable hyperbole, it is important to remember NAFTA really does a very simple thing. It eliminates over time tariffs and non-tariff barriers among the United States, Mexico and Canada, creating the world's largest market: 370 million people and \$6.5 trillion of production.

That vast new market makes us more competitive against Europe and Japan and will result in the creation of new jobs. And it is a vital element of the President's overall economic strategy.

President Clinton and this Administration are committed to building the strongest, most productive, most competitive economy in the world. By doing so, we will expand high wage and high skill job opportunities for United States workers and for their children who will be entering the work force.

We are finally facing the fact that our economy, as well as the global economy, is changing.

As all of you are all too aware, over the last twenty years, real wages and job opportunities for unskilled workers in manufacturing have declined. But at the same time, technological advances have made American workers more productive. Technology has revolutionized the world, as well. Our economy is no longer self-contained. We compete in a global economy, where capital and technology are mobile. These trends are here to stay. The question is not whether we adapt to them, but how.

Our economic strategy started with the President's economic package: putting our economic house in order by attacking the budget deficit, increasing public and private investment, and undoing some of the unfairness in the tax code by making upper income taxpayers pay their fair share of the burden. We are beginning to see the benefits of Congress's approval of the package last month: interest rates at a thirty year low, job creation and a growing economy.

Our drive for health care reform is fundamentally motivated by the desire to secure for every American access to the health care that they and their families need. But the soaring cost of health care also makes our strongest corporations uncompetitive and threatens the existence of many small businesses. Similarly, our initiative to reinvent government is intended to make government more effective and accessible, but it will also reduce the size and cost of government, freeing up resources that can be used for productive investment.

These initiatives -- along with welfare reform, changes in education, worker training, investing in technology -- all work in pursuit of the same objective: to build a more productive and competitive economy.

Our trade policy, including NAFTA, is an essential part of that strategy. Since we are producing more with fewer workers, opening up new markets is the key to new job creation and economic growth. Closing ourselves off from the world does nothing to improve our competitiveness and only deprives us of new economic opportunities. As President Clinton has said, we must compete, not retreat behind our borders.

This is, of course, precisely what our competitors are doing. The European Community is expanding trade with Eastern Europe and the countries of the former Soviet Union. Japan is searching out new opportunities in China, Malaysia, Indonesia and the rest of Asia.

In this intensely competitive global economy, NAFTA presents an opportunity to compete freely in a vast new market: 90 million people in Mexico, in a fast growing area, hungry for U.S. goods. It is also a step to an even larger market -- 400 million people throughout Central and South America and the Caribbean.

The United States seeks to open markets everywhere and trade and compete worldwide. We have nearly \$200 billion each year in two-way trade with the EC; through APEC, we seek expanded trade with the rapidly growing nations of Asia. Japan is a major market for U.S. products, despite the major and persistent barriers that we are committed to breaking down. Completing the Uruguay Round -- taking down tariff and non-tariff barriers worldwide, and writing new rules for the international trading system -- remains a top priority for us.

But it is no accident that Canada is our number one trading partner, despite having a population of only 27 million, and Mexico has become our third leading trading partner, despite its historic policy of maintaining a closed economy. Shared borders and geographical proximity do matter, even in this globalized economy.

And we have a natural advantage, and a great opportunity, to expand trade and investment with Mexico, and then with the rest of Central and Latin America and the Caribbean. Many of those countries have chosen, in recent years, to cast off the controls on their economies and the shackles on their political systems. They took these steps at the urging of the United States.

Tariffs have fallen and non-tariff barriers have been reduced. Since 1989, U.S. exports to Latin America and the Caribbean increased over 50 percent and are growing at over twice the rate of U.S. exports to the rest of the world, making this region our second fastest growing market. They have become a growing market for U.S. products; 43% of Latin American imports come from the United States.

Chile, Venezuela, Argentina and many other nations are intently following the NAFTA debate. The possibility of NAFTA accession provides an incentive for further trade and investment liberalization in the region. The decision to reject NAFTA would have profoundly negative economic and political consequences throughout the hemisphere.

The companies, farmers and workers of the United States are world-class competitors. We lead the world in everything from airplanes and computers, to wheat and soybeans. Without fanfare, and with much pain from adjustment, we have returned to being a world class manufacturer of automobiles and steel. We have regained our position as the world's leading exporter. But expanding our access to markets and assuring that the markets of other nations are as open to our goods and services as ours are to theirs is absolutely critical to our success at creating economic growth and jobs.

Indeed, one of the reasons this administration supports this agreement so strongly is that we have heard from U.S. workers and businesses so many positive stories of how they are benefiting from trade with Mexico and expect to expand those opportunities with NAFTA.

Recently I visited the Atlanta Saw Company, a small, 80 percent employee-owned company that employs 240 people making high quality saw blades. In 1975, Atlanta Saw entered into a joint venture to manufacture in Mexico as the only means of accessing that market due to the existence of a 40% tariff on their products. As tariffs have dropped over the past few years, Atlanta Saw's exports to Mexico have increased sixfold. More importantly, with the NAFTA, the company intends to close down its joint venture and concentrate all its production in Atlanta, which will create jobs for Atlanta.

Or consider Quaker Fabric Corporation, located in Fall River, Massachusetts, which manufactures upholstery fabric for the furniture industry. Over the last two years, Quaker's Mexican export operation has created 125 new jobs in Fall River. The NAFTA will eliminate the 15% duty that Quaker is currently paying which will make the company even more competitive in that market.

These are just a couple of examples of what businesses and workers experience now

when trying to trade with Mexico: excitement with the great opportunities in a huge, fast-growing market of 90 million people that is hungry for U.S. goods; and the frustration that comes from having those opportunities limited with high tariffs and non-tariff barriers.

In the new global economy, there are challenges and risks, as well as great opportunities. I am confident that American workers are up to that challenge -- and will reap the benefits. One reason I am so confident is that we are not going into NAFTA blindly. We do not have to speculate about the results from this change; we have gone through a seven year trial run.

Job Growth and Trade with Mexico

Starting in 1986, Mexico, recognizing that its economic policies had been disastrous, began to lower trade and investment barriers. The results have been dramatic for the United States:

- From 1987 to 1992, we transformed a \$5.7 billion trade deficit with Mexico into a \$5.4 billion trade surplus.
- U.S. exports to Mexico increased from \$12.4 billion in 1986 to \$40.6 billion in 1992, with increases coming across the board from computers to services to agriculture.
- Mexico has become our third leading export market, and our second leading market for manufactured exports (\$34.5 billion) and our third largest market for agricultural products (\$3.7 billion).
- 84% of this growth in exports has been exports for Mexican consumption.
- 400,000 U.S. jobs related to exports to Mexico were created.

The success of the past seven years has occurred even though Mexican trade barriers -- tariff and non-tariff -- remain far higher than ours. Bringing down the remaining barriers, which is what NAFTA does, will ensure continued growth of U.S. exports to Mexico, which have been such a bright spot in our economic picture for the past seven years.

Virtually every responsible study -- and there have been over two dozen -- concludes that NAFTA will produce a net gain in jobs or an increase in real wages in the United States. The consensus is that with NAFTA, an additional 200,000 jobs related to exports will be created in the U.S. by 1995. While the studies acknowledge that there will be some jobs lost in certain sectors, they agree that the jobs lost will be a relatively small number compared to the jobs that are lost in the United States overall, because of defense conversion, corporate downsizing, and technological change. This is true because Mexico's economy is only one-twentieth the size of ours and our tariff and non-tariff barriers are already low.

On September 1, 284 economists, including 12 of the living American Nobel laureate economists, wrote to the President saying:

While we may not agree on the precise employment impact of NAFTA, we do concur that the agreement will be a net positive for the United States, both in terms of employment creation and overall economic growth. Specifically, the assertions that NAFTA will spur an exodus of U.S. jobs to Mexico are without basis. Mexican trade has resulted in net job creation in the U.S. in the past, and there is no evidence that this trend will not continue when NAFTA is enacted. Moreover, beyond employment gains an open trade relationship directly benefits all consumers.

Despite the overwhelming evidence, some have argued that 5.9 million U.S. jobs are "at risk" if NAFTA is adopted. They got that number simply by calculating the number of U.S. jobs in industries where wages account for more than 20% of the value of output. It includes high wage, high skill sectors such as sonar equipment, aerospace, medical equipment and telecommunications where credible studies agree that there will be a future job gain due to NAFTA. It also includes non-traded sectors, such as bakers, which do not compete with Mexico at all.

We believe the critics are looking at the future through a rear view mirror. To the extent that there has been job loss to Mexico, it is precisely because of trade distortions in the current trade relationship with Mexico, which we seek to change through NAFTA.

NAFTA and the Status Quo

The status quo in our trade relationship with Mexico is, quite simply, unacceptable. NAFTA will level the playing field for U.S. workers. It makes the rules fair and ends an unbalanced trading relationship that has existed between the United States and Mexico that has worked to disadvantage U.S. companies and workers producing in the United States.

Historically, Mexico has been a closed, state-controlled economy. To shield its industry and agriculture from competition, it relied on tariffs as high as 100% and a full range of non-tariff barriers, including domestic content requirements, restrictions on investment, performance requirements to keep out exports, and import licensing requirements. The result was that Mexico was largely closed to imports. Its economy was characterized by inefficient, protected producers, which contributed to widespread poverty and did not serve the interests of Mexico's people.

Perhaps the closed Mexican economy reflected the historical Mexican mistrust of, and antagonism toward, the United States. For whatever reason, Mexico remained largely closed to U.S. business until U.S. and Mexican law combined to produce the maquiladora program. But this program hardly resulted in an open Mexican market.

The maquiladora program resulted in trade preferences and incentives for companies to locate assembly plants in Mexico to produce for the U.S. market. It gave products assembled in Mexico these preferences while at the same time maintaining all of Mexico's trade and investment barriers. In fact, these maquiladora plants were not allowed to sell in the Mexican market. The program thus created an artificial "export platform" in Mexico, with products assembled in maquiladora plants being required to be exported to the U.S. By 1992, there were over 2,000 maquiladora factories operating in Mexico, the overwhelming number of which were established by U.S. and Mexican corporations, employing more than 400,000 Mexican workers.

In addition, Mexican import protection and rules requiring firms selling in the Mexican market to locate in Mexico made it difficult if not impossible for firms producing in the U.S. to sell into Mexico. Non-tariff barriers -- licensing, citizenship requirements, and a host of other regulations were especially hard on small businesses in the U.S., which do not have the resources to navigate through the bureaucratic maze in Mexico.

The result of the maquiladora program and Mexican protection has been to distort U.S.-Mexican trade, limiting exports from the U.S. to Mexico and exaggerating exports from Mexico to the U.S. NAFTA transforms the situation by opening Mexico's market and eliminating the distortions created by the maquiladora program. Under NAFTA, Mexico eliminates its import protection and the maquiladora program is also effectively eliminated, permitting firms to sell in the Mexican market without restriction.

Much of the opposition to NAFTA reflects justifiable concern about the policies of the past that have disadvantaged U.S. workers. Despite Mexican progress in voluntarily opening markets, Mexican tariffs remain, on the average, 2.5 times higher than ours. By contrast, over 50% of our imports from Mexico already enter duty-free. Our average tariff on imports is only 4%.

Mexico currently has no obligation to continue recent market-opening moves on which thousands of U.S. jobs already depend. NAFTA will not only lock in current access but expand that access.

NAFTA will require relatively little change on our part -- while requiring Mexico to sweep away decades of protectionism and overregulation. NAFTA will eliminate especially burdensome tariffs and non-tariff barriers in a number of key sectors where the U.S. is competitive vis-a-vis Mexico, such as autos and agriculture.

NAFTA lets U.S. workers compete on a level playing field with fair rules. And we are confident, in those circumstances, U.S. workers will succeed.

Major Features and Benefits of NAFTA

Reduction of Mexican Tariffs: Under NAFTA, half of all U.S. exports to Mexico

become eligible for zero Mexican tariffs when NAFTA takes effect on January 1, 1994. Those exports which will be tariff-free include some of our most competitive products, such as semiconductors and computers, machine tools, aerospace equipment, telecommunications equipment, electronic equipment, and medical devices. Within the first five years after NAFTA's implementation, two-thirds of U.S. industrial exports will enter Mexico duty-free. That makes U.S. products more competitive.

Looking at the reduction in Mexican tariffs required by NAFTA, the major companies of the computer industry, including Apple, Hewlett-Packard, Sun Microsystems, IBM, and Compaq wrote on June 11:

One of the concerns often expressed about the NAFTA is that it will result in production and jobs moving from the United States to Mexico. For the computer industry, just the opposite is true. Today, U.S. tariffs on computer and computer parts are 3.9% and 0%. Mexican tariffs on the same products range from 10-20%. The NAFTA will reduce those Mexican tariffs and make it more economic and efficient to serve the Mexican market through exports from the U.S.

The NAFTA will also foster Mexican economic development in a way that will increase the ability of Mexican business and consumers to purchase our products. With the sharply reduced Mexican tariff structure, the NAFTA means increased opportunity, increased U.S. production and an increase in U.S. jobs.

Removing Mexican non-tariff barriers. NAFTA reduces or eliminates numerous Mexican non-tariff barriers which today require U.S. companies to invest in Mexico or manufacture in Mexico in order to supply the Mexican market. For example, NAFTA will eliminate the requirements that force U.S. companies to purchase Mexican goods instead of U.S.-made equipment and components. Moreover, NAFTA abolishes the requirements that force our companies to export their production, usually to the United States, instead of selling directly into the Mexican market. Requirements that make U.S. companies produce in Mexico in order to sell there will also be phased out.

Opening up Trade in Services. NAFTA will open new markets for the delivery of U.S. services to Mexico and Canada, where service companies are already large and growing. NAFTA will allow U.S. service firms to provide their services directly from the United States on a non-discriminatory basis, with any exceptions clearly spelled out. Furthermore, U.S. service companies will benefit from the right to establish, if they so choose, in Mexico or Canada. NAFTA opens the Mexican market to U.S. bus and trucking firms, financial service providers, and insurance and enhanced telecommunications companies, among others.

Protecting U.S. copyrights, patents and trademarks. NAFTA will ensure a high level of protection under Mexican law for U.S. owners of patents, copyrights, trademarks, trade secrets, and integrated circuits, including strong safeguards for computer programs,

pharmaceutical inventions and sound recordings. NAFTA obligates both Mexico and Canada to enforce intellectual property rights against infringement, both internally and at the border. By protecting intellectual property rights, NAFTA will increase trade and diminish losses from counterfeiting and piracy.

U.S. motion pictures, music and sound recordings, software, book publishing and other creative industries lead the world, and are crucial to the high-wage economy that we intend to build. The copyright industries are one of the largest and fastest growing segments of the U.S. economy, employing 5% of the U.S. work force, and exporting, by a conservative estimate, \$34 billion in 1990. Eric Smith, Executive Director and General Counsel of the International Intellectual Property Alliance recently wrote:

We expect growth of this magnitude to continue -- aided not insignificantly by the opening of new foreign markets previously closed or limited (as a practical matter) due to piracy. Mexico is one of these markets and piracy is also very high throughout Latin America.

In short, NAFTA will be a key engine of growth in our industry.

The Benefit to Small Business. I have noted the statements of several sectors citing the benefits which will result from NAFTA; that sentiment is widely held in the business community, by businesses large and small. Indeed, small businesses stand to be among the major beneficiaries of NAFTA. Small businesses are not well-equipped to employ attorneys and other professionals to wrestle with the tariff and licensing requirements which presently block the way to the Mexican market. With tariffs reduced or eliminated, and non-tariff barriers coming down, U.S. small business, which makes up a growing share of U.S. exports, will be able to sell into the Mexican market.

Winners from NAFTA. We expect that our exports of a broad range of products and services will significantly increase well beyond levels that were expected without the agreement. Among them are:

- *Telecommunications:* NAFTA will eliminate duties on 80% of U.S. exports immediately, and virtually all will be duty-free within five years. Mexico is our second largest market, and plans to spend \$13 billion over the next decade to modernize its telecommunications system.
- *Autos and auto parts:* access to the Mexican auto market is severely restricted by its Auto Decree. This will be phased out under the NAFTA, and tariff reductions begun immediately. With NAFTA, Mexican tariffs will immediately be removed on light trucks and cut in half on passenger cars. Within 5 years, duties on three-quarters of U.S. parts exports to Mexico will be eliminated.

The benefits of removing non-tariff barriers will be substantial for the auto industry. A maze of Mexican restrictions prevent the export of autos from the U.S. For instance, today there is a "trade balancing requirement" that permits a company to export an automobile into Mexico, only if it exports the dollar equivalent of two out of Mexico. NAFTA changes that trade balancing requirement immediately, making the ratio .8 to 1 instead of 2 to 1. This is further reduced in stages and completely eliminated in 2004. Local content requirements will be eliminated as well.

Today, the Big Three auto companies export only 1000 cars annually into Mexico. The Big Three believe they will be able to export 60,000 automobiles to Mexico in the first year that NAFTA takes effect.

- *Wood and paper products:* for the last five years, over 60 percent of the growth in the U.S. pulp and paper industry was due to expanded exports. The U.S. is well-endowed with the resources that have made it the largest and most modern producer in the world; Mexico, on the other hand, lacks the resources to support a large domestic industry. Wages in this sector are among the highest in the U.S.
- *Financial services:* U.S. banks and securities firms will be permitted to establish wholly-owned subsidiaries and engage in the same operations as Mexican firms.
- *Insurance:* U.S. firms will obtain the right to establish or acquire firms in the \$3.5 billion dollars Mexican insurance market.
- *Agricultural products:* overall, agricultural exports are expected to be \$2.0 to \$2.5 billion higher per year due to the NAFTA. Wheat and soybean exports will grow by 20 percent, corn by 60 percent. Pork and hog exports will double, beef more than triple above 1991 levels. Other sectors benefitting include processed foods; Mexican imports grew 27 percent in 1992, with substantial growth in processed meats, poultry, beverages and oils. Mexico has the world's second highest per-capita consumption of soft drinks.

NAFTA will also create winners in some surprising areas:

- *Steel:* The United States has a growing steel trade surplus with Mexico; with the 1992 surplus of \$655 million four times the 1989 level. During the same period, steel mill exports have tripled to 1.3 million tons.
- *Dairy:* Mexico is the world's largest importer of milk powder, U.S. exports are expected to increase by 50 percent, with a 15 percent increase for other dairy exports.
- *Textiles and Apparel:* United States exports to Mexico of textiles and apparel have

increased 25 percent each year since 1986, and by 63 percent from 1990 to 1992. Exports now total \$1.5 billion. While some exports are assembled for re-shipment to the United States, a larger amount are consumed in Mexico; in 1992 we had a surplus in textiles and apparel trade of \$81 million.

Change and new competition will be challenging for some. For the most sensitive sectors, NAFTA provides an extended transition period to allow manufacturers and workers sufficient time to meet new competitive challenges. Products with the longest phase-out periods include household glassware, ceramic tile, most rubber footwear, canned tuna and brooms made from broomcorn.

The Supplemental Agreements on Labor and the Environment

President Clinton endorsed NAFTA last October during the campaign in a speech at North Carolina State University, but he also set out a series of principles which he wanted to see incorporated into supplemental agreements and related initiatives.

He made a promise to the American people which he has today kept: that he would make sure economic growth with Mexico did not come at the expense of the environment or workers' rights, and that we would be protected from the possibility of import surges.

This morning, President Clinton, Prime Minister Campbell, and President Salinas signed historic agreements on environmental and labor cooperation. In addition, Mexican Trade Secretary Jaime Serra, Canadian Minister of International Trade Tom Hockin and I have concluded the negotiation of an understanding on import surges.

These Agreements are ground-breaking. The fundamental objectives of the labor and environment agreements are to work cooperatively to improve conditions for labor and the environment throughout North America and to improve national enforcement of national laws relating to labor and the environment. They commit all three nations to fair, open and equitable administrative and judicial processes for the enforcement of environmental and labor laws.

Each establishes a Commission, headed by a cabinet-level representative of each government, which will make sure that the concerns of labor and of the environment have no less attention than that accorded in NAFTA to trade issues.

The Commissions will provide the first trilateral forum for addressing environmental and labor problems facing this continent. For example, the environmental commissions can look at the spectrum of environmental issues from migratory and endangered species to transboundary pollution, to advising the NAFTA Commission on disputes on health restrictions. The labor commission will work on matters from worker safety, to worker rights, to improved protection against child labor abuses and improving competitiveness and productivity.

The Cabinet officials will carry out their new responsibilities with the support of a secretariat, and the Commissions will be able to draw on private expertise as well. The environmental secretariat will be centrally located; the labor secretariat will consist of national sections in each country.

To encourage improved enforcement, each of the agreements provides a means by which there can be an independent, objective evaluation and report on the effectiveness of national enforcement of national laws in the environmental and labor areas: by the secretariat (in the case of the environmental agreement) and by an Evaluation Committees of Experts (in the labor agreement).

The agreements also provide for dispute settlement in the event of a persistent pattern of failure to effectively enforce national laws. Where consultations fail to resolve such disputes, a neutral panel of independent experts would be established by a two-thirds vote of the parties. Ultimately, if a panel found that there was such a persistent pattern, and if a party failed to remedy the matter, then there could be fines and trade sanctions. Canada has agreed, in lieu of trade sanctions, to make assessments and other panel-ordered remedies fully enforceable by the Commission in Canadian courts.

The Import Surge Agreement will complement the NAFTA by improving the effectiveness of safeguard provisions that allow action against imports that might cause or threaten serious injury to a domestic industry including the workers of that industry.

These supplemental agreements strengthen NAFTA, and represent an unprecedented commitment to cooperate on these issues in connection with a trade agreement.

Border Cleanup Efforts

When the President announced his conditional support for the NAFTA in Raleigh last October, he also raised the problem of pollution along our southern border and made a commitment to address the issue. The NAFTA did not cause these problems, but it does provide an occasion to address them.

Although negotiators have not yet begun work on the language of a text, we have reached a basic agreement with Mexico on a new institutional structure to promote effective coordination of border infrastructure projects. A hallmark of the institution will be a transparent process which incorporates the views of local residents and non-government organizations. Initially, the institution will focus on projects addressing the serious waste water treatment and water pollution problems along the border. The institution will provide assistance on both the technical and financial aspects of the projects.

The institution will work to mobilize multiple sources of financing, depending on the nature of the individual project, although it will not itself offer bonds initially. To the extent

possible it will turn first to the private sector, and then as necessary to direct government support (loans, grants or guarantees at the federal, state and local level), and a border environmental financing facility.

The Administration's proposal for improving the border environment would mobilize around \$8 billion over the next decade from the following sources:

- \$2 billion from resources currently available for the border states (e.g., state and federal grants for the colonias, EPA state revolving funds, and tax exempt bond issues;
- \$4 billion generated by a new joint financing mechanism that, with equal contributions from the U.S. and Mexico, will be able to leverage participation from the private sector to finance pressing water quality projects that directly benefit the United States, and;
- \$2 billion in proposed financing for Mexico from the World Bank and the Inter-American Development Bank that would complement the Administration's new approach.

The new joint financing mechanism will be under the auspices of the Border Environment Administration, a new institution that will be structured to improve the participation of the local communities along the border. Of the \$4 billion, 50 percent will be financed through grants from both the U.S. and Mexico and 50 percent through debt. User fees will be used to finance the operations and maintenance costs as well as, where possible, debt service. A new facility, the Border Environment Financing Facility will be the principal source of debt financing. It will be capitalized to support \$2 billion in lending or guarantees to the Government of Mexico or the private sector. The U.S. share of this capitalization is expected to be \$225 million over 4 years. EPA will be responsible for the grant financing for the U.S. contribution to the projects, up to 50 percent of the grant or \$700 million over the next decade. This amount will come from existing resources allocated to the border region. (EPA may also seek authority to provide partial guarantees to projects, if needed.)

Worker Adjustment and Retraining

Although virtually every study shows NAFTA will produce a net gain in employment in the United States, there will be some workers who lose their jobs as a result of NAFTA. The Administration is fully committed to a new comprehensive, worker adjustment program that will seek to ensure that no job loser will face unaided the challenge of adapting to economic change, whatever its cause.

The program will make available and provide funding for a wide range of effective re-employment services to all dislocated workers, whether the cause of dislocation is defense

downsizing, technology, trade, or any other source of economic turbulence. The re-employment services to be offered include job search assistance, quality training, and income support. The Administration will soon introduce legislation to authorize this new comprehensive program and will seek Congressional approval this year.

Funding Requirements for NAFTA

The Administration recognizes that implementing NAFTA will have costs for the federal government. The reduced tariff revenue, as required under the Budget Enforcement Act, must be offset. Under the Administration's proposal to create a Border Environmental Administration (BEA), one of its financing mechanisms (the Border Environmental Financing Facility) will also require contributions from the United States, although it will rely primarily on private sector funding. Funding will also be required to assure benefits to workers who lose their jobs as a result of NAFTA. The labor and environment commissions will require modest funding for staffing and operations.

The Administration believes that the implementation of NAFTA will expand the U.S. economy (i.e., increase income) over time, bringing in additional revenues through existing taxes. Using current economic studies of NAFTA's effect on the U.S. economy, additional federal revenues in the near term could average \$6 billion. Under the Budget Enforcement Act, however, only the direct effects of legislation (i.e., the loss of revenues through reduction in tariffs) on the federal budget are considered. The reduction in revenues will be, on average \$500 million a year. As part of the cooperative process of developing the legislation to implement NAFTA, the Administration will consult with the Congress over the next few weeks to develop appropriate measures for ensuring that this minimal loss of revenue will not increase the U.S. budget deficit.

Responding to the Opposition

NAFTA was negotiated by a Republican President and endorsed, and strengthened, by his Democratic successor. More than 40 of the nation's governors -- Republican and Democratic -- support NAFTA, and they are the government officials with the most direct responsibility for economic development. Virtually everyone involved in business, large and small, across the board, supports NAFTA. Yet it is no secret that NAFTA is bitterly controversial; that the opponents are well-organized and strongly committed; and that their arguments have been resonating with people across the country.

NAFTA comes along at a time of great economic insecurity in this country. Bill Clinton became President because he had a plan to address weaknesses in our economy, reflecting 20 years in which we followed misguided economic policies and neglected the foundation of our economic strength. Jobs have been lost; our manufacturing base did go through a period of serious erosion; the fact that many companies did move offshore lends a touch of vivid reality

to the frightening arguments of the opponents. But many of the opponents have been playing fast and loose with the facts, dealing with a complex issue through a combination of inaccuracies, misleading statements, and outright falsehoods. It is time to puncture the myths that opponents of NAFTA are trafficking in. I have already tried to dispel some misinformation today, but I wanted to cover a few other areas.

1. *U.S. workers can compete successfully with workers from low wage countries, and they do.*

The premise of NAFTA's opponents is that U.S. workers cannot compete with low wage countries like Mexico. In fact, Mexican wages are not as low as critics indicate and have risen substantially since 1989. Wages for manufacturing jobs in Mexico have more than doubled in dollar terms since 1987. Furthermore, the numbers used by critics don't always indicate the level of benefits Mexican workers received beyond wages.

But more importantly, wages are only one factor in competing. We compete based on the productivity and the skills of our workers, the excellence of our products and services, and the strength of our transportation and communications system. That is the formula for success that Germany and Japan have followed, and that is the natural path for our country. To illustrate just how those factors come together to determine competitive success: despite the wage differential, it actually costs less to sell in the United States an automobile built in Michigan than an automobile built in Mexico.

It was certainly hard for U.S. workers to compete when Mexico's markets were largely closed to our products, as they were prior to 1986. But since Mexico began opening its markets, the U.S. trade surplus with Mexico, the dramatic increase in exports, and the 400,000 jobs created as a result of exports to Mexico, demonstrate just how well we can compete.

2. *The U.S. derives great benefits from breaking down the barriers to the Mexican market.*

The opponents also argue that we have little to gain from access to the Mexican market, since Mexico is a poor country. Nothing could be further from the truth. Mexico is one of the fastest growing economies in the world. It has already become our third largest export market. Mexicans are great purchasers of U.S. products; 70% of all Mexican imports come from the United States. Each Mexican on the average purchased more than \$450 worth of U.S. made products. By contrast, the average Japanese spent \$385 on U.S. products, despite the fact that Japanese incomes average five times as much as average Mexican incomes. As Mexico becomes a wealthier nation, under NAFTA, their imports from us will only rise. Mexico is projected, for instance, to be the fastest growing major market for automobiles, at just the time when the U.S. auto industry has dramatically cut costs and lifted quality.

Moreover, we should understand the likely nature of Mexico's growth in the coming years. Driven by the determination to move from the third world to the first world in a decade, Mexico plans to spend billions of dollars to build the infrastructure of a modern state. It will

be investing in roads and highways, ports, major construction, power generating equipment, telecommunications, environmental protection technology, and countless other projects.

There is nothing theoretical about these possibilities. In 1992, Mexico spent \$2.3 billion on telecommunications equipment alone, nearly 50% of which went to U.S. products. Mexico plans to spend \$13 billion by the decade's end on telecommunications alone.

Today, thanks to the good relations of the past seven years, and the cooperative work on NAFTA, Mexico looks first to the United States as a likely partner in building a modern infrastructure. If we pass NAFTA, and build on the positive trading relationship, we will be ideally positioned to increase exports to Mexico -- in all areas -- as Mexico modernizes and becomes a wealthier nation. If we reject it, we can be sure that Mexico can find other countries as partners in trade and investment, such as the EC and Japan. It is worth remembering that until recently, Germany and France were Mexico's preferred providers of telecommunications equipment.

3. NAFTA safeguards the right of the U.S. Government and our states to maintain and enforce strong environmental, health and safety standards, and NAFTA and the Supplemental Agreements contain provisions to encourage improved standards and enforcement throughout North America.

Next to arguments about possible job losses, no issue has been more emotional in the debate than the unfounded charge by opponents that NAFTA undermines the ability of the U.S. government, and the states, to establish and enforce their environmental, health or safety laws and maintain high standards. Opponents repeatedly raise the specter of Mexican fruits and vegetables covered with DDT or other prohibited pesticide residues, and wrongly suggest that we will not be able to stop their implementation.

The combination of disinformation and playing on people's fears does NAFTA opponents no credit. NAFTA does not require the federal government to lower its environmental, health and safety standards. Indeed, NAFTA makes explicit that each government may establish the levels of protection for human, animal or plant life or health that the government considers to be appropriate and that any work under the NAFTA to make standards compatible among the three countries is to be done "without reducing the level of safety or of protection of human, animal or plant life or health, the environment or consumers." Moreover, under the NAFTA, state and local laws are free to differ from federal laws, and can be more stringent than those laws.

Another favorite scare tactic of NAFTA opponents is to claim that NAFTA will require us (or our states) to adopt international standards. In fact, the NAFTA explicitly provides, in Article 713, that a party can maintain measures more stringent than international standards.

While granting the federal government and the states broad discretion to set their own environmental, health and safety standards, NAFTA does require governments to meet certain

elementary requirements when applying laws and regulations to achieve the government's chosen levels of protection in order to safeguard against blatant trade protectionism in the guise of a health regulation. For example, NAFTA requires that the sanitary or phytosanitary measure used have a scientific basis and be based on a risk assessment appropriate to the circumstances. This is a reasonable requirement. (The term "sanitary or phytosanitary measure" is the technical term for laws and regulations to protect human, animal or plant life or health from such risks as plant or animal pests or diseases or from contaminants in food.)

Our trading partners have repeatedly sought to exclude perfectly safe U.S. products from their markets by citing false "health" pretexts. The NAFTA will help ensure that they cannot unfairly exclude U.S. exports. At the same time, the NAFTA obligations do not threaten U.S. sanitary and phytosanitary measures, since our regulatory system and that of our states already meet the NAFTA requirements.

Consequently, and contrary to the claims of its opponents, NAFTA poses no threat to such U.S. laws as the Delaney Clause. (Under the Delaney Clause, Congress has decided that zero tolerance is the acceptable level of risk from carcinogenic residues.) That is a judgment we are free to make under the NAFTA, which expressly allows each country to choose the level of risk it will accept in sanitary and phytosanitary measures.

Far from weakening environmental, health and safety standards, the NAFTA and the supplemental agreements affirmatively encourage our three countries to improve and enhance protection of health, safety and the environment. The supplemental agreement requires the signatories to "ensure that [their] laws and regulations provide for high levels of environmental protection" and to "strive to improve them", and creates a framework for working cooperatively to harmonize our standards upwards. It also contains commitments for effective domestic enforcement of environmental and labor health and safety laws, as well as a dispute settlement system, backed ultimately by the possibility of trade sanctions, to expose and remedy problems of weak enforcement of such laws.

In short, it is clear that we are far better off in the effort to improve protection of the environment, health and safety with the NAFTA.

4. Rejecting NAFTA will not lead to a "better deal."

Some NAFTA opponents say that we should reject NAFTA and renegotiate a better deal. We intend to show that NAFTA is strongly in the national interest. It is a good trade agreement, and through the supplemental agreements, it breaks new ground in providing assurances that increased trade with Mexico will be accompanied by enhanced environmental protection and improved worker standards and rising wages. Let's be under no illusions. If we reject NAFTA -- an agreement negotiated by a Republican President, and endorsed by a Democratic President -- there will be no further negotiations any time soon.

In the past seven years, the U.S.-Mexico relationship has moved on a path of increasing friendship, cooperation and trust. This has been an historic break from a century most often characterized by mistrust and antagonism. Mexican Presidents de la Madrid and Salinas deserve praise for their willingness to take extraordinary steps to make the change in attitudes, as well as policies, needed to lift their nation. Presidents Reagan and Bush deserve great credit for the enlightened U.S. responses to Mexico. If Congress rejects NAFTA, the U.S.-Mexico relationship will suffer a profound setback, with enormous repercussions throughout the hemisphere.

At bottom, the critics often seem to argue: if this deal is good for the United States, why does Mexico want it so much? The honest answer has two parts. Because Mexico has an economy only one-twentieth the size of ours, the passage -- or rejection -- of NAFTA will have more impact on Mexico than it does on us. But more importantly, this is not a zero sum game. NAFTA can benefit both the United States and Mexico, and Canada as well.

I have confidence that once the issue is fully debated, Congress will see that NAFTA is a positive step for the United States, and an historic step for North America.

Conclusion

All Americans agree that we cannot respond to the challenge of a changing world by drifting, content to accept the result of other nations' trade and economic strategies. We need our own strategy, which builds on our strengths, faces our weaknesses, and responds to the challenges and realities around us.

We would ask the opponents of NAFTA: does walking away from NAFTA seem like good trade and economic strategy? Can you envision Japan or the EC -- if they were in our position -- rejecting a deal like this? Would either of them kick sand in the face of their third biggest, and fastest growing, trading partner? Would they opt for the status quo, the unbalanced relationship, where Mexico keeps the tariff and non-tariff barriers it chooses to keep?

Would they ever be willing, in one unthinking lurch, to throw away the friendship and progress that have characterized the past seven years, dramatically reversing the historic pattern of mistrust and antagonism? Would they conclude, as the NAFTA opponents apparently have, that it would be easier, somehow, to cooperate with Mexico on the environment, controlling drug traffic, or illegal immigration, if NAFTA were defeated?

This Administration did not negotiate the NAFTA. Moreover, Bill Clinton as a presidential candidate was sharply critical of the economic and trade policy of his predecessors. When confronted with the need to make a decision on NAFTA, he approached it very skeptically. There were powerful political reasons for opposing it.

But when he studied it, he found that NAFTA -- particularly if strengthened by supplemental agreements -- would be strongly in the economic interest of the United States. It was not a favor that we were doing for Mexico. It would benefit both countries, and Canada as well. It would not solve all our nation's economic problems, but it would be an important piece of the economic strategy that we were putting in place to build the world's most productive and competitive economy.

The Administration has the responsibility of convincing Congress and the country that NAFTA is in the national economic interest, and we intend to do so. I am confident that by the time Congress votes on NAFTA later this year, the country will recognize that NAFTA is a vital part of the solution to the economic challenges that face us.