

**Testimony of
Ambassador Michael Kantor
United States Trade Representative
Before the
House Appropriations Committee
Subcommittee on Commerce, Justice, State,
The Judiciary and Related Agencies
March 8, 1994**

Mr. Chairman, I appreciate your invitation to appear before you to present the Fiscal Year 1995 appropriation request for the Office of the United States Trade Representative.

It has been nearly one year since I first testified before the Subcommittee. This morning, I would like to describe some of what we accomplished last year -- and the important tasks that lie ahead.

1993 Accomplishments

Mr. Chairman, last year the United States enjoyed the most successful -- and important -- year in trade in our history.

In one year, President Clinton achieved the main goals of his 1993 trade agenda. His Administration accomplished the following:

- After years of gridlock, we concluded the Uruguay Round, the broadest, most comprehensive trade agreement in history, which will stimulate the U.S. and the global economy, and create a new organization -- the World Trade Organization -- that will support a fair global trading system into the next century;
- We negotiated supplemental agreements to the North American Free Trade Agreement (NAFTA) and saw its approval by Congress;
- At the G-7 Summit in Tokyo in July, the President reached a market access agreement with the "Quad" nations -- the European Community, Japan, Canada, and the United States -- which provided a jump-start for the Uruguay Round, and agreed to establish with Japan the Framework for a New Economic Partnership to achieve reform in Japan's economy, open the Japanese market and correct macroeconomic imbalances which inhibit global growth and prosperity;
- President Clinton led a successful meeting of Asian nations -- the fastest growing economic region on earth -- in Seattle, and culminating a year of U.S. leadership of the

Asia-Pacific Economic Cooperation, which will lead to expanded trade in the region;

- We negotiated key agreements which opened previously closed markets to U.S. companies -- a heavy electrical equipment agreement with Europe, a construction agreement with Japan, and a telecommunications agreement with Korea -- which represent a further step in our effort to create jobs and foster growth; and
- We negotiated dozens of bilateral agreements with countries from Cyprus to Venezuela that help ensure U.S. workers and companies can compete fairly in the global economy.

By leading the effort to open markets abroad and expand trade, the President has laid the foundation for prosperity into the next century. As a nation increasingly interdependent with the global economy, the ability of the United States to expand trading opportunities is essential to the economic health of our nation. His presidency is committed to reviving the American Dream, and these steps are integral to that effort.

FY 1994 and FY 1995 Agenda

This year and the next will be every bit as challenging as 1993. What we do in the coming months may be less visible than what we did last year, but it is just as important and will take the same commitment of resources. We need to build on the momentum gained, and take advantage of the great opportunities we face. Let me share with you our agenda.

Uruguay Round

The Uruguay Round agreement reached in December by no means ends the work we must do. Several critical tasks lie ahead. First, after we work with the Congress to ratify the Uruguay Round this year, we must get the new world trade organization up and running.

Second, we have a golden opportunity to negotiate market access with countries seeking accession to the WTO, including China, Taiwan, Saudi Arabia and many of the new republics from the former Soviet Union.

And third, we want to look at a new agenda in trade, which should be fostered by the new World Trade Organization, but needs to be sustained through bilateral and regional alliances as we build toward a truly world trading system. We also need to build on an effective dispute settlement mechanism in the WTO and make sure the United States government ensures that this mechanism works and works well.

Japan

As you know, on February 11, President Clinton announced that we had been unable to conclude negotiations with Japan on four new trade agreements called for under the U.S. - Japan Framework of July 1993. The announcement followed six months of intensive negotiations.

Under the Framework, we had agreed with the Government of Japan to pursue trade agreements which would lead to "tangible results", results which would be measurable through the use of "objective criteria". In the end, the Japanese would not follow through on incorporating these key principles in a meaningful way. For our part, we declined to conclude agreements without these principles, out of concern that any such agreements would be cosmetic and fail to lead to real change in the Japanese market. Too many of our past trade agreements have fallen into this pattern.

At present, we are assessing the appropriateness of the Framework in serving as the primary forum for addressing our trade policy concerns with Japan. We are also examining other options, including those provided by Congress under the Trade Law.

Subsequent to impasse in the Framework talks, but relevant to our concerns about the efficacy of past agreements, USTR on February 15 announced a determination under section 1377 of the Omnibus Trade and Competitiveness Act of 1988 that Japan had not complied with a 1989 agreement to open its cellular telephone market to foreign manufacturers. This action resulted from a clear-cut failure of Japan to live up to a series of agreements dating back to 1986 and span two trade agreements and a commercial understanding. We are now in the process of drawing up a list of Japanese products on which to levy sanctions in the wake of the determination.

China

In China, we have a market access agreement that is working in some respects. They are lifting quantitative barriers on about 256 items and goods, but they are not opening up in agriculture as fast as we would like. Last month, we reached a textile agreement with the Chinese and we need to make sure that this is enforced, to stop the transshipment of textiles and apparel circumventing both U.S. law and international law. China wants GATT accession and in order to achieve that the Chinese need to work with the United States and others to make sure they are adhering to world trade regimes.

Latin America

There is no greater opportunity we have than in Latin America, the second fastest growing economic region in the world.

It is the one region in the world where we have a large trade surplus because they are importing huge amounts of capital and other goods in order to build their industries and their economies.

That is important for us as we try to build on to the NAFTA. We will use a "building block" approach, using bilateral agreements as well as the NAFTA, to try to build an expanded trade zone in the hemisphere.

It is incredibly important that we not rest on our laurels with the NAFTA, and that we not forget that living south of Mexico are about 320 million people in the second fastest growing economic region in the world.

European Union

We have a number of items on the agenda with the European Union, but given our agreement in the Uruguay Round, our relations with the European Union have never been better in the area of trade. We have issues -- such as the broadcast directive and opening up the telecommunications market, which is about 20 billion dollars a year -- which we will address.

Generalized System of Preferences

We plan to seek legislative renewal of the successful Generalized System of Preferences program. Authority for GSP ends on September 30, 1994, and we will propose an extension that expands benefits for the least developed countries, while retaining conditionality and lowering the thresholds for product and country renewal for other beneficiaries.

APEC

Through FY 1995 and beyond, we will also build on our success from APEC -- the Asia Pacific Economic Cooperation. Asia is not just Japan and China. It is the ASEAN nations, New Zealand, Australia, Korea and Hong Kong. Collectively, APEC countries are the fastest growing economies in the world. With the Seattle summit last year, we set up a good trade and investment framework with the APEC, but we need to extend that framework even further.

Other Agenda Issues

As we negotiate bilaterally and multilaterally to open new markets and eliminate trade barriers, we will also work hard for a better environment, for better workers' rights and enhanced labor standards.

International trade does not occur in a vacuum. Trade is no longer just about lower tariffs. Trade affects the environment, labor standards, and human rights. Competition policies which

effectively block U.S. exports have an impact on trade. Through Fiscal Year 1995 and into the future, we are going to have to look at all of these issues, as well as continuing trade issues like investment, intellectual property and illicit payments. As we negotiate trade agreements and work through the newly established World Trade Organization and the OECD, we will work for improvements in each of these areas.

FY 1995 Budget Request

As you can see, Fiscal Years 1994 and 1995 are demanding times for USTR. This is a vitally important period for the agency and for trade because of the great opportunities we face. Exploiting those opportunities will draw on all of our energies and our budgetary resources.

We are requesting today an FY 1995 budget which allows USTR to capitalize on the opportunities and challenges before us, yet which also carries out the President's program for budgetary restraint throughout the Federal government.

The FY 1995 budget request is for \$21.0 million and 168 Full Time Equivalent staff. Our request maintains USTR staffing at the FY 1994 FTE level and decreases the appropriation level by \$225,000 below FY 1994.

The \$225,000 funding decrease is a net reduction resulting from a number of offsetting factors. Highlights of these changes are:

- ** a \$228,000 increase for a new Tied Aid program, to be administered by the Department of State, but financed by Federal trade and foreign affairs agencies, like USTR;
- ** a \$501,000 decrease in travel and transportation expenses, reflecting the extraordinarily busy travel demands in FY 1994, and the return to more traditional levels in FY 1995;
- ** a \$227,000 reduction in printing expenses, also reflecting the unusually high FY 1994 costs resulting from the completion of two major agreements that year (NAFTA and the Uruguay Round);
- ** a \$412,000 net decrease in office rent and other administrative overhead (partially offset by rising costs from inflation), which is part of our ongoing efforts to curb administrative expenses; and
- ** a \$234,000 reduction from personnel savings that stem from more restrictive hiring practices and tighter management of job vacancies.

Conclusion

Mr. Chairman and Members of the Committee, our budget request meets the dual tests of first providing the budgetary resources we need to meet the work agenda for FY 1995, and second carrying out the President's program for budget restraint.

I would be remiss if I did not mention this morning that in my opinion the American taxpayer gets no better "bang for the buck" than from the investment in USTR employees. Virtually all of the funds in USTR's budget pays for employee salaries and work expenses. They are the hardest working staff I have seen in Government or the private sector, and there is no doubt that the \$21 million investment in this agency's budget will pay dividends for American business and workers many times over for many years into the future.

This concludes my statement and I would be pleased to answer any questions you have.

Testimony of Ambassador Michael Kantor
Status of U.S. - Japan Trade Relations
Subcommittee on Trade
Committee on Ways and Means

March 15, 1994

Mr. Chairman, I am pleased to be here this morning to discuss with you the status of the U.S. - Japan trade relationship. The bilateral economic relationship with Japan is the most important in the world for the United States and also for the world economy and for the world trading system. That is why this relationship, together with NAFTA and completion of the Uruguay Round, has ranked as a top trade priority from the outset of this Administration. In all of these areas, our formula has been simple and consistent. The U.S. is committed to achieving greater economic growth at home and abroad through opening foreign markets to trade and investment.

The President himself underscored the importance of Japan's trade relationship with the United States and the world during the visit to Washington of Prime Minister Hosokawa last month. He noted that as the world's second largest market, Japan is a vital potential partner in our efforts to boost global growth. As the President also stated, Japan remains less open to imports than does any other member of the G-7 group of industrialized countries.

The President made these remarks during a press conference with Prime Minister Hosokawa on February 11. The comments of the two leaders focussed primarily on the inability of U.S. and Japanese negotiators to resolve a set of negotiations on four sectors which had been taking place under the U.S. - Japan Framework Agreement over the previous six months. I was personally engaged in the effort to bring these negotiations to a successful conclusion, together with Japanese Foreign Minister Hata, until 4:30 am on the day of the meeting between President Clinton and Prime Minister Hosokawa. The Administration decided against the alternative of concluding last minute agreements that would have glossed over our differences with Japan on the need for Japan to take credible action to address its global trade imbalances. It was a serious decision, but as the President said, the issues between Japan and the United States are so important for our own nations and for the rest of the world that it was better to have reached no agreements than to have reached empty and ineffective agreements.

At this juncture, it is important that we review the dimensions of Japan's economic asymmetries; the cost of these asymmetries to the U.S. and to all trading nations; and how we are trying to deal with these issues under the Framework. I would also like to take this opportunity to discuss the status of some specific sectoral issues with you, notably the determination that Japan

had not complied with the 1989 Third Party Radio and Cellular Arrangement, and the resolution of this issue.

This Administration has great respect for the tremendous advances in the Japanese economy since the end of the Second World War. American firms have gained much from the example of Japanese manufacturing techniques. We must recognize, however, that the Japanese "economic miracle" was not achieved without cost. In recent years, these costs have been borne in part by Japan's trading partners, who faced rising deficits and formidable Japanese market access barriers; and in part by Japan's consumers population, who tolerated enormous price differentials in the name of providing a secure domestic market from which to boost the overseas competitiveness of Japan's export industries. Japan's trading partners, and many Japanese, believe that it is no longer appropriate for Japan to impose these costs at home and abroad now that the Japanese economy is the world's second largest.

In the last two or three years of weak world growth, Japan's large current account surpluses have served to remove stimulus from the economies of some of Japan's trading partners, including the United States. Last year, this surplus reached 131 billion dollars, or about 3 percent of Japan's gross domestic product. This surplus is a major asymmetry in the world economy today. It serves as a drag on global demand and slows the pace of economic expansion and job growth in other nations. It has been estimated that a decline in this surplus to its still-high level of about 2 percent of Japan's GDP would mean an additional 50 billion dollars in demand for goods and services from Japan's trading partners. The U.S. economy could realize up to 15 billion dollars of exports from such a shift; that could represent as many as 300,000 American jobs.

I am also deeply concerned by another measure of the burden Japan's economic imbalances place on the world economy; Japan's persistent lack of receptivity to the import of manufactured goods. Expressed as a share of gross domestic product, Japan's manufactured imports stood at only three percent in 1992, a figure less than half that of the United States and only about a third to a sixth of that of the remaining members of the G-7. Put another way, Japan's consumption of imported manufactures as share of total manufactures in the economy is about six percent. In the U.S. and Germany, this figure is about 15 percent.

Japan's lack of receptivity to foreign direct investment also sharply affects its imports of foreign manufacturers. In 1991, Japan's share of the total world stock of inward direct investment was 0.7 percent, as compared to the 22 percent hosted by the U.S. and the almost 40 percent based in the European Community. The huge impact of this extraordinary imbalance on trade flows is apparent when looking at the relationship between

trade and investment in the context of Japanese investment in the U.S. Approximately 75 percent of Japanese imports to the U.S. are bought by the U.S. affiliates of Japanese companies. The vast discrepancy in investment stock in Japan limits U.S. and foreign firms use of this channel to boost exports to Japan.

Among the G-7 nations, indeed, even when compared to some newly industrialized countries, Japan also ranks consistently low in measures of intra-industry trade. Intra-industry trade refers to the propensity of most industrialized economies to import products similar to the products they export. One measure of intra-industry trade based on 1990 data calculated that 58 percent of Japan's trade were exports and imports within the same product category. The comparable figure for the U.S. was 83 percent, those of other members of the G-7 ranged up to 79 percent. Japan's lower level of intra-industry trade is a factor consistent with other evidence pointing to relatively closed Japanese markets.

Low foreign market share in some key high technology sectors may be a reflection of this problem. For example, the foreign share of Japan's market for telecommunications equipment in 1991 was five percent. In the U.S., this figure was 28 percent. Among the other members of the G-7, this number ranges from 11 to 38 percent. In semiconductors, the foreign share of Japan's market was 18.1 percent in the third quarter of 1993. In the United States, foreign share is about 30 percent. In the EC it is about 64 percent. Such low foreign market share levels may be an indicator of trade barriers in place around specific industries; they are a sign that Japanese manufacturers enjoy a relatively safe home market, and that Japanese consumers are denied the price benefits to be found in a market open to products from foreign producers.

Japan's sectoral barriers against foreign products and services raise problems for the U.S. quite apart from any concerns over our bilateral trade deficit. They affect our domestic economy by restricting the composition of our trade with Japan; by limiting the sectors to which we can and cannot export. These practices deny the U.S. and other foreign countries the benefits to be expected under an open global trading system. Output and jobs in our most competitive sectors -- high technology and others -- are lower than they would otherwise be because of Japanese practices.

This is obviously unacceptable to this Administration, as it should be to any Administration, which places a very strong emphasis on building competitiveness. Such a policy cannot fully succeed if the Japanese market; our largest potential export market in many important sectors, is selectively closed to our exports. In fact, even if our bilateral trade numbers with Japan were reversed, that is, if we were running a major trade surplus with Japan, we would still have to address these sector specific

barriers in the Japanese economy in order to enhance the quality of our exports and export related jobs.

This Administration recognized from the outset that both of these economic imbalances, Japan's multilateral current account surplus and its sectoral and structural barriers to imports, required an immediate response. Our drive to address both issues was reflected in the U.S. - Japan Framework Agreement, agreed to by President Clinton and then Prime Minister Miyazawa in Tokyo in July 1993.

Under the Framework, on the macroeconomic side, the United States promised to reduce its budget deficits and improve its competitiveness. We pledged to keep our markets open. It is beyond argument that the United States has kept these commitments, and the result has been strong growth and jobs.

For its part, Japan committed to pursue objectives promoting sustained demand-led growth and increased market access for competitive foreign goods leading to a highly significant decrease in its current account surplus over the medium term, and to promote a significant increase in global imports of goods and services. Given Japan's present policies, it remains to be seen whether it will realize the "highly significant decrease" in the current account surplus as called for in the Framework. The macroeconomic dialogue is being conducted largely in the context of ongoing G-7 discussions, under the auspices of my colleague Secretary Bentsen.

The Office of the USTR has been primarily concerned with the sectoral and structural aspects of the Framework. In particular, as I noted earlier, from September 1993 until the early morning of February 11, 1994, USTR and other agencies, particularly the Department of Commerce, were engaged in an intensive series of negotiations to reach new agreements in four sectors designated as priorities under the Framework. These sectors are Japanese Government procurement of telecommunications and medical technology; insurance; and automobiles and auto parts. In parallel to these talks, discussions in other areas of the Framework, such as deregulation and anti-competitive practices, foreign investment in Japan and concerns over Japan's inadequate protection of intellectual property, were also under way on a less intensive basis with a deadline for completion in July.

These four priority sectors are each very different, and I would be reluctant to oversimplify the degree to which all four negotiations tracked each other. In general, however, what we sought from the Japanese in each sector was procedural reform that would lead to significant increases in access and sales in Japan of competitive foreign goods and services in these sectors: "tangible progress" in the language of the Framework. In plain language, we wanted results. Also as we had agreed to under the

Framework, we sought objective criteria, both quantitative and qualitative, as a means of measuring the success of the agreements. Finally, the agreements reached under the Framework would be on a most favored nation basis; the dividends of increasing openness would be available all of Japan's trading partners who are competitive vendors in these sectors.

Throughout the intensive negotiations, while some limited progress was made on procedures and process, Japanese negotiators failed to acknowledge in any meaningful way these key principles that our heads of state had agreed to last July -- results orientation, that is, the need for tangible progress -- and measurement through the use of objective criteria.

The Japanese negotiating position on these issues was confined essentially to one statement: "no numerical targets". In uttering this statement again and again, attempted to label the U.S. position as a call for managed trade. Nothing can be further from the truth. First, our goal, and here we are in agreement with Prime Minister Hosokawa and many voices in Japan, is to unmanage the most managed economy in the industrialized world. Second, under our Framework talks, we never sought numerical targets as the Japanese were suggesting. We never sought a single, fixed market share goal to be achieved by a given deadline. Rather we were looking for a set of qualitative and quantitative criteria, that, in the aggregate, would permit us to assess implementation of an agreement. The Japanese approach, was, in essence, to deny that the term "quantitative criteria" had any bearing on the Framework talks.

The Framework established the February 11 meeting between the President and Prime Minister Hosokawa as the date for reaching these four new agreements. In the weeks leading up to this deadline, we attempted to engage senior Japanese political leaders in an effort to convince the Japanese to acknowledge the key Framework principles in a manner that would enable us to bring the negotiations to a satisfactory conclusion. Secretary Bentsen visited Tokyo on January 23 enroute home from China. He conveyed a desire to see the talks conclude successfully, but also delivered a message of U.S. resolve. Secretary Bentsen noted that to be successful, the agreements reached under the Framework had to be credible, and to be credible, they had to yield real change in the Japanese market.

I visited Tokyo during the first week in February, where I reiterated this message with the Japanese Prime Minister, members of his cabinet, and senior political leaders. With hours left until the Clinton - Hosokawa meeting, I continued to work with Foreign Minister Hata in an effort to get the Government of Japan to embody in the agreements what they had already agreed to in the Framework. It was the inability of the Japanese Government, at any level, to take this step, which led to the impasse in the

talks announced by the President.

On March 12, I announced that the United States and Japan had reached a results-oriented agreement that will provide U.S. cellular telephone systems comparable market access to Japan. As a result of this agreement, I am suspending further action under my February 15 determination under section 1377 of the Omnibus Trade and Competitiveness Act of 1988 that Japan had not complied with the 1989 agreement to open its cellular telephone market to U.S. manufacturers of cellular telephone equipment. The determination will be terminated in 30 days upon completion of a detailed deployment plan for the system.

The announcement was the result of the determination on February 15 concerning the failure of the Japanese government to honor the cellular telephone agreement and had no direct relationship to the Clinton - Hosokawa meeting of the previous week; in fact, we had decided on the date of the announcement as early as December. But I think that the circumstances surrounding the determination, and the agreement that was reached last weekend, illustrate some of the sectoral barriers we are trying to address in the Framework, and support the Administration's approach to our trade agenda with Japan.

The determination resulted from a clear-cut failure of Japan to live up to a commitment to grant U.S. industry "comparable access" to the Japanese market under the Third Party Radio and Cellular Agreement. In fact, our efforts to address market access barriers in this sector spanned almost a decade and included two trade agreements and a commercial understanding. While "comparable access" was pledged, the Japanese Government consistently supported actions which impeded such progress. Most notable was the forced selection of a Japanese firm to develop a system in the Tokyo - Nagoya area of Japan, using Motorola's technology, when the Japanese firm in question already had a major investment in the construction and subscription of a competing Japanese system.

While the Japanese firm completed construction of the competing system, construction of the system using Motorola technology languished, with the Japanese partner refusing even to take delivery of necessary equipment for two years. At the time of the determination, this behavior had led to the virtual exclusion of U.S. industry from the Tokyo - Nagoya market, a market equivalent in size to that of the Washington - Boston corridor in the U.S. With only about 40 percent of the promised area covered, the Motorola based system had been able to sign up only about 12,000 subscribers, as against 1.2 million for the fully completed competing systems in the same region, including 308,000 for the competing system built by Motorola's partner in this ill fated shotgun marriage.

Following the determination, in accordance with the 1377 process, we began to develop a list of Japanese products on which to levy sanctions equivalent to the lost sales to U.S. industry as a result of the market barriers. In this case, these lost sales were in the hundreds of millions of dollars. I had announced that we would publish this draft list for public comment by March 17. Sanctions would have been imposed following this comment period had the situation not been otherwise resolved.

We encouraged the companies involved to seek a resolution that would adequately redress the problem, and we engaged the Government of Japan in order to ensure that the responsible ministries would monitor and oversee the construction of the system, and ensure compliance with the quarterly schedule of actions. Through the extremely hard work of all parties, including an extraordinary effort by Ambassador Mondale in Tokyo and Ambassador Barshefsky in Washington, a satisfactory solution was reached.

Our experiences in this sector reflect broadly on the frustrations we have encountered in our past bilateral trade experiences with Japan and our determination to pursue results oriented agreements, subject to objective evaluation, under the Framework. After ten years and two trade agreements and a major commercial understanding in the same area of the telecommunications sector, we were still compelled to initiate trade action in this case. Key aspects of the 1989 agreement lent themselves to delay and ambiguity in their implementation by the Government of Japan. Use of criteria, such as those proposed within the Framework, might well have averted this latest episode of tension in our trade relationship with Japan.

Accordingly, the March 12 U.S. - Japan Arrangement on Cellular Telephone Systems is a results-oriented agreement which links comparable access to the Japanese market to a specific, verifiable schedule of quarterly commitments. It specifies such terms as:

- A plan containing a schedule of quarterly commitments on the numbers of base stations and voice channels and the ratios of population coverage.
- A deployment plan to be completed within 30 days setting out the precise geographic location of each base station in the Tokyo-Nagoya area.

These commitments will yield 159 new base stations, containing 9900 additional voice channels. These commitments will ensure coverage of 95 percent of the key Tokyo-Nagoya market by December 1995.

We did not call for pledges of a fixed numerical market share for U.S. industry in this sector. But we do have a step-by-step plan of action associated with specific and measurable actions by the Government of Japan and the Japanese commercial entities involved. This agreement validates the results-oriented approach we are pursuing under the Framework. It demonstrates that the U.S. and Japanese Government can work together to achieve tangible results in terms of increased market access in Japan. It highlights the work we have yet to do in other sectors.

Another long-standing dispute with Japan that was resolved recently involved foreign access to the Japanese public sector construction market. In that case, I had determined under Title VII of the 1988 Trade Act that Japan was discriminating against U.S. firms in its public works procurement. However, in January, based upon Japan's new action plan to reform its bidding procedures for public works and an exchange of letters between the two governments, I determined that sanctions were not necessary. Under the new agreement, Japan committed to make major improvements in its procurements of public works.

The new procedures, which Japan will begin to implement on April 1, 1994, will significantly expand access of U.S. and other foreign firms to one of the world's largest construction markets. In 1993, contracts in that sector exceeded \$300 billion. Under the existing U.S. - Japan Major Projects Arrangements, U.S. firms had limited access only to 36 public works projects in Japan. The U.S. and Japan will jointly monitor and assess the implementation of the Action Plan and resolve issues that arise under it

A cycle of ineffective, sometimes cosmetic, trade agreements, lay at the heart of the cellular telephone and construction issues, to name a few. This cycle serves to defer rather than resolve our bilateral trade problems, and it is both frustrating and potentially damaging to our overall relationship with Japan. We have signed over 30 trade agreements with Japan since 1980, and despite that we have had to come back to the negotiating table again and again, often in a sector in which we already have an operative agreement. I do not mean to say that every one of these 30 plus agreements has been completely unsuccessful. We can point to some clear successes, such as the Semiconductor Arrangement, although we have some concerns over this sector that I will go into later in my testimony. While the Japanese are anxious to downplay the effectiveness of this agreement for reasons of their own, the Arrangement did lead to the achievement of a 20 percent foreign market share by the end of 1992, and to close and productive ties between the U.S. and Japanese industries which make both sides stronger and more competitive. We could also point to agreements in, third party radio, and satellite sectors as success stories.

Still, when we look at the body of past trade agreements, it is too easy to come up with examples where the results of a given agreement have not translated into the expected gains in the market. For example, in the glass sector, Japan made commitments in 1992 under the Global Partnership Plan of Action aimed at increasing the foreign share of Japan's consumption of flat glass. In 1991, the foreign share of this market was about 5.1 percent. By the end of 1993, this share had fallen to about 3.5 percent. We also have a 1992 agreement calling for an increase in market access for foreign firms to Japan's 32 billion dollar market for primary paper and paperboard products. In 1991, prior to the agreement, foreign share of this lucrative market was only 3.7 percent. As of 1993, this share held stagnant at about 4 percent. We also have ongoing concerns as to the way Japan is implementing several other agreements, including those covering wood, supercomputers and amorphous metals, to name a few.

Some agreements show mixed results. For example, under the 1992 computer agreement, the Japanese Government committed to expand procurements of competitive foreign computer products and services in Japan. The data we reviewed with the Japanese Government in December of last year showed that although quasi-governmental entities in Japan increased their purchases of foreign computer products from 9.2 percent in 1991 to 25.4 percent in 1992, foreign computer companies' share of the Japanese national government market had decreased over the same period from 4 percent to 3.7 percent. We are particularly concerned with this development given that the national government is the largest and only rapidly growing segment of the Japanese computer products market. The thrust of our future efforts to ensure full implementation of this agreement will center on further efforts by the Japanese Government to open this important segment of the market.

You even have to look at the success stories with some care. For example, in the wake of our 1988 agreement on beef, imports have risen to about 40 percent of consumption. But there is still a tariff of 50 percent, which will gradually be reduced to 38.5 percent, by the year 2000, six years from now. It took us decades of negotiation to reach the beef agreement. We had an accord in 1979 which was supposed to resolve this issue once and for all. Thus, from a broader perspective, even this admittedly successful agreement cannot be given full marks.

As I said before, the Semiconductor Arrangement is also one of our success stories, but we need to remember the difficulties experienced in the implementation of this agreement and the that the improved market access promised in the agreement has been achieved only with great effort. After finally achieving a 20 percent market share in the fourth quarter of 1992, we have seen three quarters of consecutive decline. Our concern with this downward trend led us to request emergency negotiations with

Japan, which were held on January 19. We were extremely disappointed with the outcome of these talks. Japan initially refused to acknowledge the seriousness of the market access situation. Furthermore, they were unwilling to commit to concrete actions to improve the situation. The market share for the fourth quarter of 1993 is currently being calculated. We believe that greater efforts are being pursued and are needed to achieve fully the market access objectives of the agreement. In the coming consultations with Japan, we will be pressing for their commitment to a stronger, more effective plan of action to ensure that these objectives are achieved.

Let me assure you that we will continue to monitor closely implementation of the Arrangement and to impress upon the Japan the need to achieve the "steady and gradual" improvement in market access as provided for in the Arrangement.

This need for constant follow-up and re-negotiation, even in the case of "successful" agreements, is one reason why we placed the entire existing body of trade agreements with Japan in the Framework under the Implementation basket for monitoring and to ensure compliance. And it is the major reason we seek results orientation and the use of objective criteria for evaluation under new agreements arising from the Framework. We hope to break this cycle of frustration and reduce the ambiguity and the confusion that have troubled the bilateral economic relationship.

This is where we stand at present in our trade relationship with Japan. It is appropriate that I give you some idea of where I think we are headed from this point. Parts of the media have trotted out the military lexicon and predicted that we are about to enter a trade war with Japan. This is not going to happen. Our ability to resolve the cellular telephone issue demonstrates that both Washington and Tokyo can work together to settle potential trade disputes in accordance with the Framework principles. The leadership in both Washington and Tokyo have a keen appreciation for the overall importance of our relationship. Our security relationship, as well as our ability to cooperate on many global issues, is strong. But our trade and economic relationship, a key priority of the Clinton Administration, is in serious disrepair. This Administration's approach to Japan will be deliberate and responsible.

While we have not yet resumed discussions under the Framework, we continue to monitor closely our existing agreements with Japan, and to be alert for new areas of possible concern. One such troubling issue, which we are following closely, is the review now underway in Japan on the decompilation of computer software. Specifically, the Agency for Cultural Affairs is undertaking a review which could lead to the weakening of copyright protection now granted software in Japan, a development which would seriously harm U.S. interests and put Japan out of

step with international practice. The Administration has made it clear to Japan that we would view such a development with the gravest of concern.

We believe that the Japanese are assessing their position. We hope that they will take seriously their responsibility to spur global growth through trade. Partnership implies shared responsibility. Recently, Japan has missed a number of opportunities to show a real interest in such a role; in the Framework, in the Uruguay Round market access negotiations, and in the lackluster efforts at unilateral deregulation embodied in the weak final report of the once promising Hiraiwa Commission. To fulfill this role, Japan will have to be dramatically more forthcoming if we are to return to the negotiating table than they have been to date. For our part, we anticipate working closely with Congress as we pursue the goal of ensuring that Japan's markets are open to competitive U.S. and foreign goods and services.

Testimony to the House Committee on Agriculture
Ambassador Michael Kantor
U.S. Trade Representative
March 16, 1994

THE URUGUAY ROUND:
GROWTH FOR THE WORLD, NEW OPPORTUNITIES FOR U.S. FARMERS

Introduction

Mr. Chairman, thank you very much. It is a pleasure to be here today to discuss the Uruguay Round agreement. This historic and far-reaching pact sets the stage for a more competitive and prosperous U.S. economy as we prepare to meet the challenges of the 21st century. I look forward to working with you this spring as we formulate legislation that will implement the Round. I hope the Congress will agree with our conclusion that the Round offers enormous potential for U.S. and global economic expansion.

Mr. Chairman, on December 15, 1993, 117 countries concluded a major agreement to reduce barriers to world markets (in agriculture, manufactured goods, and services) as well as to create a fairer, more comprehensive, more effective, and more enforceable trade rules. In order to ensure the efficient and balanced implementation of the agreements reached, they also provided for the creation of a new World Trade Organization (WTO).

The Uruguay Round trade agreement is the largest, most comprehensive trade agreement in history. The existing GATT system was incomplete; it was not completely reliable; and it was not serving U.S. interests well. The new agreements open up major areas of trade and provide a dispute settlement system which will allow the U.S. to ensure that other countries play by the rules.

The successful conclusion of the Uruguay Round negotiations was an important part of the President's strategy for strengthening the domestic economy. Barely a year ago, President Clinton entered office, faced with daunting challenges in his effort to restore the American Dream.

The economy was stagnant. Unemployment was high, and confidence was down. In just one year, we have turned a corner. Our economy is growing and millions of jobs have been created. People are getting back to work.

But these are just the first steps in preparing our nation for the 21st century. The President is addressing the long-term issues facing our economy.

All of the elements of the President's economic strategy -- reducing the deficit, reforming education, the President's re-employment program, and health care reform -- are geared towards creating jobs and making our country more prosperous. All of the parts work in tandem, each reinforcing the other.

An essential element in this strategy is to open and expand foreign markets. Expanding trade is critical to our ability to compete in the global economy and create high-wage jobs. That is why the President focused so much attention in 1993 on the Uruguay Round, the North American Free Trade Agreement, the Japan Framework and the Asia Pacific Economic Cooperation conference.

The U.S. economy is now an integral element of the global economy. Over a quarter of the U.S. economy is dependent on trade. Where we once bought, sold and produced mostly at home, we now participate in the global marketplace. By expanding our sales abroad, we create new jobs at home and expand our economy.

The United States is positioned economically, culturally and geographically to reap the benefits of the global economy.

Economically, because our farmers and workers are the most productive in the world, and our economy is increasingly geared towards trade.

Culturally, because of our tradition of diversity, freedom and tolerance will continue to attract the best and brightest from around the world, ensuring that we will never stagnate as a people.

Geographically, because we are at the center of a nexus between our historic trading partners in Europe and Japan, and the new dynamic economies in Latin America and Asia.

Our trade policy is guided by a simple credo. We want to expand opportunities for the global economy, but insist on a similar responsibility from other countries.

Trade is a two way street. After World War II, when the American economy dominated the world, we opened ourselves up to help other countries rebuild. It was one of the wisest steps this country ever took, but now we cannot have a one way trade policy. The American people won't support it and the Administration won't stand for it.

For other nations to enjoy the great opportunities here in the U.S. market, they must accept the responsibility of opening their markets to U.S. products and services. Ultimately, it is in their own self interest to do so, because trade fosters economic growth and creates jobs.

The Uruguay Round ensures American producers are trading on a two-way street; that they benefit from this new globalized economy; that they can sell their products and services abroad; and that they can compete on a fairer playing field.

President Clinton led the effort to reinvigorate the Uruguay Round and to break the gridlock, which had stalled the negotiations despite seven years of preparation and another seven years of negotiations.

We did not accomplish everything we wanted to in the Uruguay Round. But, the final result is very positive for U.S. producers and companies. It helps us to bolster the competitiveness of key U.S. industries, to create jobs, to foster economic growth, to raise our standard of living and to combat unfair foreign trade practices. The agreement will give the global economy a major boost, as reductions in trade barriers create new export opportunities, and as new rules give businesses greater confidence that export markets will remain open and that competition in foreign markets will be fair.

More importantly, the final Uruguay Round agreement plays to the strengths of the U.S. economy, opening world markets where we are most competitive. From agriculture to high-tech electronics, to pharmaceuticals and computer software, to business services, the United States is uniquely positioned to benefit from the strengthened rules of a Uruguay Round agreement that will apply to all of our trading partners.

The Uruguay Round

The Uruguay Round is the right agreement at the right time for the United States. It will create hundreds of thousands of high-wage, high-skill jobs here at home. Economists estimate that the increased trade will pump between \$100 and \$200 billion into the U.S. economy every year after the Round is fully implemented.

This historic agreement will

- cut foreign tariffs on manufactured products by over one third, the largest reduction in history;
- protect the intellectual property of U.S. entrepreneurs in industries such as pharmaceuticals, entertainment and software from piracy in world markets;
- ensure open foreign markets for U.S. exporters of services such as accounting, advertising, computer services, tourism, engineering and construction;

preserve the important elements of U.S. antidumping and countervailing duty laws;

- ensure that developing countries live by the same trade rules as developed countries and that there will be no free riders;
- create an effective set of rules for the prompt settlement of disputes, thus eliminating shortcomings in the current system which allowed countries to drag out the process and to block judgments they did not like; and
- open a dialogue on trade and environment.

This agreement will not:

- impair the effective enforcement of U.S. laws;
- limit the ability of the United States to set its own environmental or health standards; or
- erode the sovereignty of the United States.

The Uruguay Round agreement will create a new organization -- the World Trade Organization -- that will support a fair global trading system into the next century and replace the General Agreement on Tariffs and Trade (GATT).

Agriculture: U.S. farmers are the envy of the world, but too often they were not able to sell the products of their hard labor abroad, because the old GATT rules did not effectively limit agricultural trade barriers. Many countries have kept our farmers out of global markets by limiting imports and subsidizing exports. These same policies have raised prices for consumers around the world.

The agriculture agreement is a marvel both for its scope and its breadth. It will reform policies that distort the world agricultural market and international trade in farm products. By curbing policies that distort trade, the World Trade Organization will open up new trade opportunities for efficient and competitive agricultural producers like the United States.

For the first time, non-tariff import access barriers, internal supports and export subsidies on agricultural products will be fully brought under the disciplines of the GATT. No longer will members be able to freeze out imports with protective trade barriers or use their national treasuries to gain market share at the expense of non subsidizing exporters.

When the Uruguay Round began in 1986, there were a myriad of problems in agricultural trade. Indicative of this is the fact

that in the early 1980's, eighty percent of the disputes in GATT were on agricultural trade issues, and most of these involved disputes between the United States and the European Union. It was readily apparent that the exceptions which permitted import restrictions and export subsidies on agricultural products when the GATT was entered into in 1947 were no longer appropriate for the agricultural trading environment of the 1980's.

Aided by the impervious variable levy, the European Union over the previous 10 years had gone from a net importer to a net exporter of most agricultural commodities. Moreover, because EU internal prices were higher than world market prices, export subsidies were used extensively to move surpluses into the world market. In 1985, the EU spent \$6 billion on agricultural export subsidies. Unable to negotiate meaningful disciplines on export subsidies, the United States initiated the Export Enhancement Program in 1985 in order to compete. In recent years, this program has made available approximately \$1 billion of export subsidies each year.

Non subsidizing exporters were frustrated at having to compete in world markets with national treasuries rather than other farmers. Import restrictions, prohibitions and high tariffs in countries such as Japan were also motivations for a broad, trade liberalizing Round on agriculture.

The Punta del Este Declaration set the goals for the agricultural negotiations, It said..."Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines..."

The agreement we reached in December is truly remarkable in its conformity with the objectives that were only envisioned at the time of Punta del Este. The agreement brings into play a new accounting system, i.e., tariffication which converts non-tariff measures affecting import access into tariff equivalents. Likewise, trade-distorting internal support, whether it is provided through direct payments to producers or by market price support, is put on a common denominator basis through calculations called "aggregate measures of support."

Tariffication and aggregate measurement of support provided a way to evaluate the impacts of very different import and domestic policy systems on a common basis, thereby facilitating the negotiations. However, the immediate benefits of the agreement are in the commitments. The most important of these are:

- o Members will reduce tariffs and tariff equivalents by 36 percent on average with a minimum reduction of 15 percent

for each tariff line item. For developing countries the commitments are 24 percent and 10 percent, respectively.

- o For products with tariff equivalents, minimum access and current access opportunities are required.
- o With tariff equivalents, all import access barriers will now be on a tariffs only basis, with two temporary exceptions. All tariffs will be bound--meaning all agricultural products are now covered by the GATT.
- o Domestic support programs which have no, or minimal, trade distorting or production effects ("green box") are exempted from reduction commitments and from countervailing duties.
- o Direct payments to producers that are linked to production-limiting programs will not be subject to reduction. However, trade-distorting support programs must be reduced by 20 percent. (Due to the farm support reductions contained in the 1985 and 1990 Farm Bills, the United States has already met the 20 percent requirement and will not need to make additional changes to farm programs to comply with the Uruguay Round commitments.)
- o Export subsidies are to be cut by 21 percent in volume and 36 percent on the basis of budgetary outlays.

The relative simplicity and straightforwardness of the commitments on export subsidies belie the difficulties in reaching agreement with the European Union. In both 1990 and 1991, the Uruguay Round failed to conclude because of EU intransigence on export subsidies. Last year, EU negotiators tried to back away from a deal that had been struck in 1992, but we were able to strike an agreement that was to our mutual benefit. The reductions in export subsidies can be made in equal installments from the 1991-92 marketing year if subsidized exports have increased from their base levels. This permits both the EU and the U.S. to smooth out the reduction slope for certain agricultural export subsidies. However, at the end of the six year implementation period, export subsidies will still have to be reduced by 21 percent and 36 percent, respectively, from the volume and budgetary outlays of the 1986-90 period.

An important achievement in the agreement is the commitment to continue the process of liberalizing agricultural trade in the fifth year of the agreement. A strong incentive to make further reforms in trade distorting support, import barriers and export subsidies is provided in the peace clause of the agreement. After nine years, "green box" support programs will no longer be exempted from countervailing duties; domestic supports programs which account for more than 5 percent of the value of production will no longer be exempted from the serious prejudice findings of

the subsidies agreement; and export subsidies on agricultural products will no longer be exempted from the prohibition on export subsidies in the subsidies agreement. Negotiations to extend the peace clause will be the opportunity to secure greater agricultural trade liberalization in the future.

Sanitary and Phytosanitary Measures: The Agreement on the Application of Sanitary and Phytosanitary ("S&P") Measures will guard against the use of unjustified S&P measures to keep out U.S. agricultural exports. S&P measures are laws, regulations and other measures aimed at protecting human, animal and plant life and health from risks of plant- and animal borne pests and diseases, and additives and contaminants in foods and feedstuffs. They include a wide range of measures such as quarantine requirements and procedures for approval of food additives or for the establishment of pesticide tolerances. The S&P agreement is designed to distinguish legitimate S&P measures from trade protectionist measures. For example, S&P measures must be based on scientific principles and not maintained without sufficient scientific evidence and must be based on an assessment of the risk to health, appropriate to the circumstances.

The S&P agreement safeguards U.S. animal and plant health measures and food safety requirements. The agreement clearly recognizes and acknowledges the sovereign right of each government to establish the level of protection of human, animal and plant life and health deemed appropriate by that government. Furthermore, the United States has a long history of basing its S&P measures on scientific principles and risk assessment.

In order to facilitate trade, the S&P agreement encourages the use of international standards as a basis for S&P measures. However, each government remains free to adopt an S&P measure more stringent than the relevant international standard where the government determines that the international standard does not provide the level of protection that the government deems appropriate.

Dispute Settlement: The Dispute Settlement Understanding (DSU) creates new procedures for settlement of disputes arising under any of the Uruguay Round agreements. Representatives of the soybean industry who were involved in the U.S. challenge to EC oilseed subsidies will immediately recognize the value of this agreement. The new system is a significant improvement on the existing practice. In short, it will work and it will work fast. The process will be subject to strict time limits for each step. There is a guaranteed right to a panel. Panel reports will be adopted unless there is a consensus to reject the report and a country can request appellate review of the legal aspects of a report. The dispute settlement process can be completed within 16 months from the request for consultations even if there is an

appeal. Public access to information about disputes is also increased.

After a panel report is adopted, there will be time limits on when a Member must bring its laws, regulations or practice into conformity with panel rulings and recommendations, and there will be authorization of retaliation in the event that a Member has not brought its laws into conformity with its obligations within that set period of time.

The automatic nature of the new procedures will vastly improve the enforcement of the substantive provisions in each of the agreements. Members will not be able to block the adoption of panel reports. Members will have to implement obligations promptly and the United States will be able to take trade action if Members fail to act or obtain compensation. Trade action can consist of increases in bound tariffs or other actions and increases in tariffs may be authorized even if there is a violation of the TRIPS or Services agreements.

The DSU includes improvements in providing access to information in the dispute settlement process. Parties to a dispute must provide non-confidential summaries of their panel submissions that can be given to the public. In addition, a Member can disclose its submissions and positions to the public at any time that it chooses. Panels are also expressly authorized to form expert review groups to provide advice on scientific or other technical issues of fact which should improve the quality of decisions.

Environment: Comprehensive as it is, the Final Act does not cover every aspect of trade policy of great importance to the United States and to this Administration. Our trading partners recognize that the work of shaping the World Trade Organization to the needs of the 21st century must continue without pause.

In December, the Uruguay Round participants decided to develop a program of work on trade and environment to present to the ministers in Marrakech in April. We begin with the agreed premise that international trade can and should promote sustainable development, and that the world trading system should be responsive to the need for environmental protection, if necessary through modification of trade rules.

The United States will seek a work program that ensures that the new WTO is responsive to environmental concerns. International trade can contribute to our urgent national and international efforts to protect and enhance environmental quality and conserve and restore natural resources. At the same time, we will continue to advocate trade rules that do not hamper our efforts to carry out vital and effective environmental policies, whether

nationally or in cooperation with other countries. We will be working closely with environmental organizations and business groups, as well as the various agencies, and of course this Committee and others in Congress, as we define our trade and environment objectives.

Conclusion

Mr. Chairman, Congress will be considering the Uruguay Round implementing legislation at an auspicious time for America. The U.S. economy is expanding; investment is increasing; jobs are being created; and optimism about the prospects for our economy is soaring. This economic expansion reflects the fact that this country is moving in the right direction. The policies of the Clinton Administration, starting with our budget plan; the adjustments made over the last several years by our workers and companies-- all of our efforts make us as a nation stronger and more competitive.

In setting the negotiating objectives for the Uruguay Round, Congress clearly signalled its belief that strengthening the multilateral rules of the GATT would make America more competitive in world markets. We succeeded. We met those objectives; and I am convinced that the new multilateral rules agreed to in the Uruguay Round will work together with our ongoing efforts to increase regional cooperation. America is uniquely positioned to benefit from expanding trade-- in this hemisphere and in the world. The Uruguay Round builds on our strengths. It will benefit us, and the world economy as a whole.

This transcript has not yet been checked against videotape and cannot, for that reason, be guaranteed as to accuracy of speakers and spelling of names. (JPM)

CHARLIE ROSE Transcript #1075

March 17, 1994

CHARLIE ROSE, Host: Welcome to our broadcast, tonight from Washington. Trade representative Mickey Kantor will be here, talking about his breakthrough in the Japan trade dispute, also the man who called for the congressional hearings on the Whitewater affair, Republican Senator William Cohen of Maine.

U.S. Trade Representative Mickey Kantor

CHARLIE ROSE: We begin with this. U.S. trade representative Mickey Kantor is arguably the most unpopular man in Japan today. He's spearheading the Clinton administration's new get-tough policy on trade, the results of which are critical for the future health of the American economy. He's also an old friend and fierce defender of Bill and Hillary Clinton. In this segment we'll talk with America's tough cop on trade and introduce to you Mr. Mickey Kantor.

Welcome.

MICKEY KANTOR, United States Trade Representative: Thank you, Charlie.

ROSE: It's great to have you here. You said to me before we started, you think— why do you think you've got the best job in the government?

Amb. KANTOR: Oh, it— because I'm allowed to deal in domestic and foreign policy with every agency of the United States government, with the Congress, and also to work with the American people, the American workers, to try to expand our economic base. It's a terrific job, and it certainly fits into my background — I'm a negotiator — and I get to work directly with the President as well, so I couldn't ask for more.

ROSE: Yeah. Did you bring any— it seems to people who talk about you and write about you that— that the skills you brought were not the skills of someone steeped in trade policy, but a lawyer's negotiating skills, and you view that as your role and that your client is Bill Clinton.

Amb. KANTOR: Well, my client is Bill Clinton and the American people, and that's correct. Just like civilians should run the Defense Department, I think civilians should also run trade policy. You know, this is not an ideology or philosophy, this is about practical and pragmatic approaches to making sure we grow jobs, grow our economy, and make sure trade is on a level playing field all around the world, not only for the United States, but for all the countries of the world, because that's how we're going to grow the global economy.

ROSE: All right, I want to talk about that—

Amb. KANTOR: Sure.

ROSE: —and what Bill Clinton believes, with respect to a global economy and how it plays an equal role today, in terms of the foreign policy of the nation and international policy. This is from *The Washington Post*, "As a Japanese diplomat"— "Ask a Japanese diplomat why the summit conference between President Clinton and Prime Minister Hosokawa failed last week, and the answer usually comes back quickly: Mickey Kantor." True?

Amb. KANTOR: Oh, I'm not sure— that's a vast overstatement. It didn't fail, number one, it succeeded. Why did it succeed? Because we now have a much more mature and honest and candid relationship with the Japanese government. This President is the first president to stand up and say to the Japanese: "No, we're not going to take a cosmetic agreement. We're not going to paper over our differences. We can have a strong strategic and political relationship and disagree on trade. You have a closed economy. You're shutting out not only U.S. products, but all foreign competitive products in key sectors, key sectors — not every sector, key sectors — and we are bound and determined to open that economy up." It's the second-largest economy in the world. It's in our interest that we do so, and also in the interest of Japanese consumers, and also, frankly, in the interest of Japan becoming more competitive.

ROSE: Just a couple of numbers. Their trade surplus, exporting more goods than they import, for last year was about what, \$130-some billion?

Amb. KANTOR: A hundred and thirty-two billion with the world, and \$59.8 billion with the United States.

ROSE: So almost a half of it is with the United States?

Amb. KANTOR: That's right.

ROSE: How much leverage do you have? You got them to change on cellular. What are they going to do for you? Are they going to respond to the pressures you are applying, use of Super 301 or whatever you bring to the battle?

Amb. KANTOR: It's not winning or losing. You know, that implies somebody wins, somebody loses. When you open markets and expand trade, everybody wins. This is not a zero sum game. What we're trying to do is say, not only to the Japanese, but to the world, we have got to join this global economy, we've got to level a playing field. Trade is a two-way street, not a one-way street. So when we begin to apply pressure and say to the Japanese in this situation, we're not saying it's because we want to be tough, it's because we are resolutely committed to making the framework agreement to open their markets be effective. That's all we're trying to do. It's in everyone's interest that we do so. But I've got to tell you, when you go out to Detroit to go to Atlanta or go up in the Northeast and talk to workers, they know what's going on. They know it hurts them when this economy remains closed to their products.

We've never been more competitive as a society. Our workers have never been more productive. The most productive workers in the world are now in the United States of America. Now's the time to open these markets and take advantage of our skills.

ROSE: Okay. Let me just talk about one point, then—

Amb. KANTOR: Sure.

ROSE: —and maybe things have changed. But the huge— largest percentage of that trade imbalance has to do with automobiles and automobile parts, correct?

Amb. KANTOR: Yes.

ROSE: A significant part of it.

Amb. KANTOR: Significant.

ROSE: Critics constantly say American automobile manufacturers first weren't making a competitive product, and secondly, they weren't designing a product that was made for the Japanese. Therefore, no wonder they didn't sell cars in Japan.

Amb. KANTOR: Well, first of all, let's start with auto parts. There are no right-hand or left-hand drive auto parts. They're interchangeable. And the fact is, in a \$100-billion Japanese auto part market, do you know how much foreign competitive goods was sold there? Two billion, the lowest among all developed countries in the entire world by percentage. That's got to open up.

Second, our industry's now competitive. We're making right-hand-drive automobiles. We're trying to get them into Japan. Do you know that every U.S. car off a boat in Japan is individually inspected and torn down before it can be shipped to a dealer? That's impossible. It adds about \$1,000 to the cost of the automobile and slows it down—

ROSE: And that's the reason they do it?

Amb. KANTOR: —well, I don't want to talk about intent or motive. All I can tell you, this is characteristic of the way the Japanese handle their entire economy in areas where there are— they export critical products, they close their markets to foreign competitive products in order to what, create a sanctuary for their companies.

ROSE: And President Hosokawa says to you, and he says to the President, "Give me time — this is a larger issue than you think it is — give me time to make some changes. Give me time to make some reforms, and perhaps we can do something about the trade imbalance."

Amb. KANTOR: Well—

ROSE: You don't seem to be willing to give him, to respect the effort he's making.

Amb. KANTOR: —we reached the framework agreement in July 1993. Both countries committed themselves to reach an agreement in four sectors, as you know, as of February 11th. That was not done, due to the fact that the Japanese did not live up to their obligations. We've been waiting for 30 years. At the beginning of this relationship, after the Second World War, it made sense for the United States to open its markets and allow Japan to protect its infant industries in order to grow their economy as a bulwark, frankly, against Soviet expansionism in the Pacific area. That was smart, it worked. But now we have a tripolar economic world: the European union, which is one of the biggest markets in the world, NAFTA, or the United States and the North American Free Trade Agreement, which is the biggest market in the world, and Japan, the second-largest coun-

try in the world, in terms of their economic output. We each have an obligation not only to take the opportunities that a new global system offers, but to also take responsibility, and that's what Japan is not doing.

ROSE: Are you being as tough— I mean, what you want to do is to reduce the trade surplus. You want to even set numerical standards, so you can measure performance, correct?

Amb. KANTOR: Measure performance. You've got it exactly right. You're one of the few people who's gotten it right. We don't want market share. That's not what we're doing. We want to measure whether or not deregulation efforts in Japan are successful or not. Makes good sense to [crosstalk].

ROSE: What you're trying to do is create demand in Japan for American products.

Amb. KANTOR: No, we're not trying to create demand.

ROSE: Because you want to—

Amb. KANTOR: We're trying to be put on a level playing field. If then Japanese consumers want to buy our products, fine. If they don't and we're not competitive, they won't. But we at least want to make it fair. That's all we're asking.

ROSE: All right. Here is what some— Hobart Rowen [sp?] said in *The Washington Post* in a column this morning, which you may have seen. He basically said — I'm going to have to paraphrase if I don't have it, and I may, in fact, have it — he said, "The unremitting pressure placed on Japan by American officials is unhealthy between two partners with an important and detailed global agenda," saying, ease up, don't put so much pressure on them, because we need them, because North Korea is— has the nuclear capability, things aren't going so well with China, we'd better not forget who our friends are and not let trade dictate our strategic partnership.

Amb. KANTOR: First of all, Prime Minister Hosokawa made it quite clear on February 11th, in his press conference with President Clinton and in private, that our strategic and political relationship is separate from our economic problems, that we continue to grow our political and strategic relationship and it is stronger than it ever has been. These two leaders are working well together in that area. While we have agreed to disagree to some— in the trade or economic area, great nations and great allies can disagree. We disagree with the European union or Canada all the time, and no one says trade war or we're breaking our relationship. That's the relationship we should have with Japan, a mature relationship among allies who are moving forward on one area, strategically and politically, but have agreed to try to work out their differences in the other area, that is trade.

ROSE: Let me ask you one question before I leave Japan. The point has been made about Motorola, in this same piece by Hobart Rowen, who is a distinguished commentator and columnist and reporter—

Amb. KANTOR: And a very nice man.

ROSE: —commenting on economic and trade matters, he says that Motorola, which was dying for access to that

market and felt like they had a deal and then it was denied by the Japanese, and because of pressure by you they now are going to have some access — and it's more complicated to explain than I have time or knowledge — but he also says they don't make those things in Japan — in America anyway, so they're not creating jobs for Americans, they're not creating an outlet for American products, because the products are made in Kuala Lumpur.

Amb. KANTOR: Factually incorrect. Motorola makes nothing in Kuala Lumpur. They used to make pagers there; they don't anymore. One hundred percent—

ROSE: They've never made—

Amb. KANTOR: Not one cellular telephone has ever been made there. Every base station, every switching system, every cellular telephone, every element of the system that will be introduced into the Tokyo-Nagoya region, that's what we're talking about—

ROSE: Right, right, [crosstalk].

Amb. KANTOR: —is 100 percent made by American workers in this country.

ROSE: And what was the— what's going to happen now that— because the American pressure and the American government going to bat for an American company, what's going to happen now?

Amb. KANTOR: Well, we're going to continue to go to bat for American companies and American workers. That's our job, and that's what the President is committed to do, because if we don't, what we're not doing is not only not serving the people who sent us here, we're not growing the global economy, we're not making trade a two-way street. We're not, in fact, doing something about this trade deficit. But more important, Charlie — let me make one critical point — even if we had a trade surplus with Japan, even if we did, we'd be just as intent on opening these markets, because what they do is make us less competitive because we can't get into critical areas, whether it's cellular telephones, or computers or supercomputers, or wood, or paper, or glass, you name it, we have not been able to get into the Japanese markets. We have agreements in all these areas, over 30 trade agreements with Japan. In wood, paper and glass, we had— our market share has actually gone down since we entered those agreements. We've got to change this relationship and make it [crosstalk].

ROSE: Is it any different for European manufacturers than it is for American manufacturers?

Amb. KANTOR: No.

ROSE: And are they screaming and complaining as much as the Americans are? And are the Europeans getting as tough with the Japanese? Because you would assume, if somebody has a \$130-billion annual trade surplus, that multilateral countries— that there will be a multilateral opposition to their economic policy.

Amb. KANTOR: Frankly—

ROSE: And that could make them change.

Amb. KANTOR: —frankly, there is, but others like to see the United States go out there and get our nose

bloodied, and they're happy to hold our coat. Our approach has been somewhat more aggressive and I guess you'd say a little bit more resolute than the European approach has been. Frankly, we have had discussions with them, and we'll probably be getting together with them in the near future to discuss a broader approach to this problem. But let me just tell you, there is frustration around the globe with the second-largest economy in the world, meaning Japan, being virtually closed to everyone, not just the United States.

ROSE: Right. And you are sure on this point, this is from *The Wall Street Journal*: "Critics believe America needs many years of close Japanese cooperation on critical issues, North Korean nuclear ambitions, an emerging China, global problems of environment and poverty. Beating on Tokyo about specific commercial disputes won't solve broader economic problems, but could turn Japan into an ally like France under de Gaulle, says one former U.S. ambassador, and that's really not what Washington needs."

Amb. KANTOR: Wrong. Wrong on every count. The fact is that our strategic relationship is just fine. In fact, at the same time that we agreed to disagree on the framework on February 11th, we reached a global partnership agreement with Japan in critical areas such as population. That's number one. So that's just untrue. The facts are just the opposite.

Number two, if we don't open this market, if we don't begin to ship critical products to Japan, thus making us less competitive and not— and not— and the Japanese economy less— less stimulated, less growing, the standard of living remaining low because prices are so high, we have hurt both Japan and the United States. We're going to stick to this policy, and we're going to make it work.

ROSE: Okay. And you believe that, in fact, it will help the American economy and therefore it'll help the political future of your boss, President Clinton.

Amb. KANTOR: This has to do with the American economy and the American workers. It has— it may or may not have anything to do with the political future of my boss. The fact is that his commitment is to the job he's sent here to perform, that is, grow jobs in this economy.

ROSE: Okay. Let me talk a little bit about NAFTA before I go to China.

Amb. KANTOR: Sure.

ROSE: What's been the consequences since this has been signed? As you remember, Ross Perot went across this country talking about the "giant sucking sound" of jobs being sucked into Mexico. Has it happened? Because there's a story out today that says, in fact, what's happened after NAFTA — and it may be too early to tell—

Amb. KANTOR: Right.

ROSE: —is that Mexican companies are buying American companies, because they want to manufacture in America.

Amb. KANTOR: Frankly, that's what has happened, to some degree, but it's much too early to tell.

ROSE: Too early.

Amb. KANTOR: Working pretty well. The first thing was, of course, is to get your tariff schedules out and open your borders, and make sure Customs worked correctly and we protected, on one hand, on the law enforcement side, with regard to any indication that maybe this could be— we could affect drugs coming into this country, where there's no evidence that has happened whatsoever. On the other hand, making sure we handle the border correctly. That's working quite well both with Canada and Mexico. We're going to grow the economy of this entire— of this *[crosstalk]*.

ROSE: How many jobs do you think we'll lose because of NAFTA in the next year?

Amb. KANTOR: We're going to grow jobs.

ROSE: You're convinced of that.

Amb. KANTOR: Oh, absolutely. There's no doubt in my mind.

ROSE: Okay. China. Warren Christopher went to China, stopped off in *[unintelligible]* and went to China, and said, "Unless you change your human rights policy, you, because of what the President's policy is, you will not have most favored nation status." The Chinese said, essentially, "Stuff it. We don't care, and you're not going to dictate our human rights policy, and if you want to play that, we'll play the same game, and we're not going to let you attack our sovereignty." And people are looking at this and saying the President now is between a rock and a hard place. The rock is, is that the Chinese have said, "We're not going to take your pressure, and if you don't want to give us most favored nation status, fine." On the other hand, if the President pulls back in order to satisfy them, he looks weak and vacillating and without backbone.

Amb. KANTOR: Where we are right now is, in fact, Secretary Christopher engaged this discussion at the highest level. That's helpful. Number two, he did make some progress. Number three, the Chinese have moved forward—

ROSE: Not much.

Amb. KANTOR: —have moved forward in some areas, especially in southern China, in terms of more rights for their people and less abusive practices. The fact is, it's not all as bleak as, frankly, as has— as the press has painted it.

ROSE: Well, tell me why it's not? I mean, what— I mean, we all heard what the prime minister and the foreign minister of China said about this. I mean, they—

Amb. KANTOR: Well, first of all, it's not June, and let me just say—

ROSE: It's not what, it's not June, *[crosstalk]*?

Amb. KANTOR: —June is when the President has to make a decision. But let me go back, let me use an example in trade.

ROSE: Just let me explain. So June is when you've got to make the decision on the most favored nation.

Amb. KANTOR: That's right.

ROSE: So you've got until then—

Amb. KANTOR: That's when the executive order says you have to make a decision.

ROSE: —to make a— so you've got a lot of wiggle room between now and then.

Amb. KANTOR: Well, it's not wiggle room. It is for the Chinese to respond. They already have, to some degree. But let me give an example of how a country responds, and what happens. In late December, we tried to reach a new bilateral textile agreement with China. China had been circumventing our laws and illegally shipping textiles and apparels above their quotas into this country. They've been transshipping through other countries to—

ROSE: What was the word I heard quota?

Amb. KANTOR: We have quotas, yes, on textiles and apparels, under the multifiber arrangement. That's been going on since 1962, that's nothing new. Yes, that's absolutely correct.

ROSE: So the United States — and we fully *[crosstalk]*.

Amb. KANTOR: No one in the world—

ROSE: The Japanese are not the only people who stop other people's products from coming or impose tariffs.

Amb. KANTOR: There is not a completely open economy in the world except maybe Singapore. May be the only completely open economy in the world.

ROSE: Yeah.

Amb. KANTOR: Every economy has some barriers. We have less than any other large nation. Let's me go back.

ROSE: And we were willing to make— create even more at the time of the NAFTA treaty in order to get that passed, were we not?

Amb. KANTOR: Well, in what way?

ROSE: Some of the dealmaking that went— took place, didn't we not—

Amb. KANTOR: No. We didn't do anything.

ROSE: Okay.

Amb. KANTOR: All we did is try to make sure it was fair to not only— to U.S. business, as we move forward, that's all we did in the NAFTA *[crosstalk]*.

ROSE: Okay. Go ahead, talk about China.

Amb. KANTOR: Let me go back. In China, we had this problem of negotiating this new treaty. We wanted to make sure that what they had done in the past was recognized, i.e., evading and avoiding our laws. But number two, we wanted a better relationship in this area in the future. The Chinese said, "We will not do that, we will not negotiate that treaty, you're getting involved in a situation that we can't control, never, never, never." So we said, "Okay, we're going to invoke sanctions." We published it in the federal register. Five days later, we had a treaty. What did it do? Zero growth in textiles and apparel from China in year one, only 1 percent growth the next four years, as compared to 15 percent growth which has been occurring in the last number of years, and for the first time, a cap on the shipment of silk apparel into the United States from China. A very good agreement for us, including language which prevents any circumvention in the future, and if it does happen, we get treble damages. The fact is that every country takes negotiat-

ing positions which you have to look at in the context of the total relationship. You cannot be misled by a country's position publicly and what they are likely to do in the future, based upon the actions of this country or any other.

ROSE: All right. Let's—

Amb. KANTOR: So it's a little more sophisticated than some of these newspapers would allow you to believe.

ROSE: Well, the newspaper I'm now going to quote is *The Economist*, and basically, the article— and they quote Senator Baukus [sp?] as saying, Senator Max Baukus, a Democratic senator whom you like and admire, as saying that, "If, in fact, what looks on the surface we fail to grant most favored nation status, and they then retaliate with respect to not allowing the United States to have access to what everybody agrees is the fastest-growing economy in the world—" [crosstalk], 1.2 billion people—

Amb. KANTOR: No doubt about that.

ROSE: —that we will have the equivalent, he says, "the trade equivalent of dropping a nuclear bomb." I mean, is it that serious if we don't come to some agreement with the Chinese?

Amb. KANTOR: First of all, Max Baukus is the chair of the trade subcommittee, the trade committee of the United States Senate. He's done a terrific job and we work quite closely with him. We understand the seriousness of the situation. Certainly Secretary Christopher and the President have worked closely on this situation. We understand what's at stake. The fact is, is human rights in China is a serious problem, as is nuclear proliferation, as is the proliferation of missile shipments to Pakistan, as well as our trade problems with them. We're looking at all of these matters. The President made the decision in June of last year that we would not renew most favored nation status with China, i.e., give them the benefit of lower tariffs, is all that is—

ROSE: Right. Right, right.

Amb. KANTOR: —if they did not adhere to seven different areas of human rights concerns. Frankly, in a number of those they have already responded well, and some they haven't.

ROSE: And while you're— if I could just interrupt you—

Amb. KANTOR: Yeah.

ROSE: —and while your guy was over there from the State Department explaining what the standard is, what would be the referent standard for measuring progress—

Amb. KANTOR: Right.

ROSE: —they were out arresting dissidents, correct?

Amb. KANTOR: No, I think they arrested maybe one, and then let him go on Monday.

ROSE: But he was [crosstalk].

Amb. KANTOR: And I understand. The message is being sent back and forth. Let's not get too panicked over what happens in March. We're moving towards June. We're going to make progress there, and I fully believe we'll avoid any kind of— any kind of dust-up with the Chinese over this issue. However, the President is ab-

olutely committed to making sure the Chinese make significant progress in human rights, and we're going to stick to that policy. It's important. That reflects American values. And if we don't reflect American values, we're not doing our job.

ROSE: So in order to reflect American values, we are willing to risk, are willing to risk to reflect American values the closing of China as a market for American manufacturers, because we will not grant them MFN status.

Amb. KANTOR: Let me make a prediction.

ROSE: Well, but— okay.

Amb. KANTOR: Our trade relationship with China is going to grow, and going to grow geometrically. We are mutually interdependent. Thirty-eight percent of China's exports come to the United States.

ROSE: Yeah.

Amb. KANTOR: We'll resolve this problem and resolve it quickly.

ROSE: Why are you so confident?

Amb. KANTOR: Because I see the mutual relationship between the two countries, and our— and our goals are the same.

ROSE: It's almost like—

Amb. KANTOR: The fact is—

ROSE: —it's almost like you're saying, "We've got too much at stake not to make this work." That's almost what you're saying.

Amb. KANTOR: Well, because I think the Chinese are going to make this work.

ROSE: Without any apparent reason how you can do it.

Amb. KANTOR: I think the Chinese are going to make it work.

ROSE: You know what they're saying? They think you're going to make it work. That's what they're saying. Because they have stated their position. Who's going to back off? Because clearly you have got to grant them MFN status, right? That's got to happen. So if somebody has got to do something—

Amb. KANTOR: I'm not going to prejudge what the President is going to do. Obviously, you've looked at the executive order issued last year—

ROSE: Right.

Amb. KANTOR: —in June of last year.

ROSE: Right.

Amb. KANTOR: He's going to stick to it, that's our policy, and we'll see what happens in June.

ROSE: Let me talk about one last thing here.

Amb. KANTOR: Sure.

ROSE: You were chairman of the President's campaign effort. Some said, I mean, you obviously relish the job you have. As we said, some said you thought you wanted to be, you know, you might have wanted to be attorney general, you might have wanted to be chief of staff, whatever you wanted to be—

Amb. KANTOR: I'm where I wanted to be.

ROSE: You're where you wanted to be. You also got to know a lot of the people from Arkansas, Webster Hub-

bell, Mack McLarty, others, who came to work here for the President.

Amb. KANTOR: Absolutely.

ROSE: Vince Foster.

Amb. KANTOR: I've known a number of them for years.

ROSE: Yeah. What's going on? What do you think the problem is at the White House in the way they've handled Whitewater?

Amb. KANTOR: Well, first of all, I don't think there is a problem. There has been no violation of law, either civil or criminal, certainly not criminal. The people you mentioned—

ROSE: How about—

Amb. KANTOR: —the people you mentioned are the most ethical, brightest, able, dedicated people I have ever met. You know, it's interesting, because it happens to be Arkansas, no one can believe that they may have the same kind of abilities that people from Cambridge or maybe west Los Angeles or the East Side of Manhattan.

ROSE: New York City, right.

Amb. KANTOR: But Charlie, you're from North Carolina—

ROSE: Right.

Amb. KANTOR: —and I'm from Tennessee.

ROSE: Right.

Amb. KANTOR: I certainly don't believe I'm an inferior, that I have an inferior education, or can't compete.

ROSE: Right. Right.

Amb. KANTOR: Nor do you feel that way. The fact is, the people you've [unintelligible], starting with the President of the United States, I have never met people of greater ability, more integrity, and more accomplishments. And so—

ROSE: Are you saying, then, that you don't see any problems with the way the Whitewater affair has been handled in the White House?

Amb. KANTOR: You know what? The President said it, the First Lady said it, of course we've made mistakes. All administrations make mistakes. None of us are perfect. We understand that. Have we made some political mistakes along the way in here? Absolutely. No doubt about it. But is there any underlying problem the American people should be concerned about? Absolutely not. This President, this First Lady, the people you have mentioned, are of the highest integrity, they're dedicated to public service. They could care less, care less about money. What they're interested in is moving this country forward, and they've dedicated their lives to it. And frankly, it angers me when these stories continue to be raised. And I think it angers the American people.

ROSE: And who do you think is continuing the stories? Is this a problem, you think, of the American press, of the Republican Party?

Amb. KANTOR: Oh, I don't see any giant conspiracy. I'm not a conspiracy theorist.

ROSE: Well, conspiracy is the word that Mrs. Clinton used, actually.

Amb. KANTOR: Well, I'm not a conspiracy theorist, I don't think it exists. The fact is, the story begins to feed—

ROSE: No, nor do I think she really thinks that, either.

Amb. KANTOR: —the story begins to feed on itself. We get so hysterical about any kind of charge or allegation. One of these newspapers wrote — let me just say about Vince Foster, who was a wonderful man, and a decent, caring person, and his family deserves to be left alone, frankly, we ought to stop this, we ought to just stop it now — the fact is, they wrote a story that his safe was searched right after his death, or the knowledge of the death became public. He had no safe.

ROSE: In his office.

Amb. KANTOR: He had no safe at all. What in the world— and yet, it's become a matter of fact now in the press, that somehow his safe was searched immediately after.

ROSE: No. I agree, but—

Amb. KANTOR: Just wrong.

ROSE: —in that you point to something that you are absolutely right. On the other hand, though, now you had the legal counsel to the President there, going to his office and taking things that were not turned over to the people who were investigating his suicide, the Park Police, and was handed over to the President's— it was handed over— it was kept from the people doing the investigation. That wasn't right either, was it?

Amb. KANTOR: Well, the fact is—

ROSE: And that's what led to suspicion.

Amb. KANTOR: —what's personal, what's private, what is a client's documents versus what is a lawyer's documents becomes very technical.

ROSE: Yeah.

Amb. KANTOR: No one was trying to cover up anything. Can you imagine the emotions surrounding the death of someone who was so dearly loved and respected in the White House? Did anyone make a mistake? I don't know, but I can tell you this. The people who handled that, starting with Bernie Nussbaum and others, did everything they thought was proper and right. These are people whose reputations are impeccable. Only when they came to Washington and were in the glare of publicity, and when you're subject to the scrutiny you should be, frankly, we all should be, because we work for the American people, was their integrity or their background or their ability ever called into question.

And what happens here is politics takes over. The political analysis begins to drive the story, not the underlying facts. And if you look at the underlying facts, I don't believe there's any indication any law was broken of any kind, at any time, by anyone in the situation.

ROSE: When you talk that way, when you talk that way, you are putting a criminal standard of reference—

Amb. KANTOR: No. I'm talking civil or criminal.

ROSE: —rather than the question of— well, okay, but—

Amb. KANTOR: Or ethical.

ROSE: —the question of— so there's no question in your

mind that there was no ethical violation, in terms of anything that has been done with respect to any of these things that have come under public scrutiny. Not with respect to what led to the death of Vince Foster, who everybody believes, as you do, that that is a very personal tragedy that should be left alone. It's not that that's at issue. What seems to be at issue is what happened with respect to things after his death, what has gone on after his death, and what might have been withheld from public disclosure, and those kinds of issues. That's number one.

Number two, you now have Webster Hubbell going back, and as I understand from reports, not because you told me, is that you were a kind of intermediary between Webster Hubbell and the President, with respect to his leaving. Is that correct?

Amb. KANTOR: Number one, I never talked to the President about this until after Web Hubbell made his decision. Number two, I've been his friend for gosh, nine or 10 years now, and we met not through the Clintons, because we were— happened to be hired by the same client to handle a trial in Indiana and a trial in Arkansas, frankly. Number three, there's no person of greater integrity I've ever met in my life. Number four, he found himself in a situation that is private nature, doesn't involve any kind of public funds or public responsibility, with his former law firm, but yet, as a public official, it is going to be dragged out into the public. It would have affected his family, affected the President's program, and frankly, affected his ability to carry out his job. He decided on his own to leave the government because he didn't want this to happen. And the fact is, he showed a tremendous courage and resolve, commitment to the President, but also commitment to the Department of Justice.

You know, if that department has been— the career lawyers there, to the person, will tell you he was the glue there. The attorney general said that.

ROSE: Right, she did.

Amb. KANTOR: He did a marvelous job in public service, and it's shameful that he had to leave.

ROSE: And everybody is saying that.

Amb. KANTOR: Just shameful.

ROSE: But it wasn't because of anything in Washington. This was because of pressure back from the Rose law firm, was it not?

Amb. KANTOR: But that's a private matter, should have been kept private, did not need to be dragged into the public. But in this atmosphere—

ROSE: But how do you think it got public? I mean, it wasn't because somebody went up there and put a gun to the head of the Rose law firm and said, "Tell us what's going on."

Amb. KANTOR: I can't answer that. I have no earthly idea. Obviously, I don't know.

ROSE: But were you, in a sense, a kind of conduit there? I mean, was he talking to you rather than to the— with respect to leaving *[crosstalk]*

Amb. KANTOR: Well, we would naturally talk, we're close friends, and obviously we talked all through the weekend.

ROSE: One last question about all of this.

Amb. KANTOR: I was more of a sounding board than I was anything else.

ROSE: And the President said he probably made the right decision, considering the circumstances and the atmosphere, and you agree with that?

Amb. KANTOR: He did, he made the right decision. I'm so sorry we lost his services in this government. We need people like Web Hubbell.

ROSE: Does the White House need a change, in terms of the staff, to bring new people with different perspectives in there, to surround people who come— you've obviously had some changes, you've got Harold Ickes there, you've got Lloyd Cutler come in there for a temporary period of time. Do they need to make more changes, and will we see more changes on the staff of the President in the White House?

Amb. KANTOR: Here's what's fascinating. This President had the best first year in office of any president since Dwight Eisenhower. He got his family leave bill through. National service was passed. An economic program got through that held down the budget deficit, lowered it significantly, and kept down long-term interest rates and grew our economy. He got the North American Free Trade Agreement through. He finished the Uruguay round of GATT, which is the biggest trade agreement in history. He led a successful Asia Pacific Economic Cooperation forum. He is now about to change our health care system, which is badly in need of reform. He's trying to change a welfare system.

ROSE: Your point is that this is a staff that served him well and he ought to keep it intact.

Amb. KANTOR: They have served him well, they ought to keep it intact. We ought to come back to the *[crosstalk]*—

ROSE: They don't need any more insiders with a different experience to come in there and help them run this *[crosstalk]*?

Amb. KANTOR: Frankly, if you look at the record—

ROSE: Okay.

Amb. KANTOR: —it is a terrific record, and people there ought to be, frankly, lionized, not criticized.

ROSE: Okay. One last question.

Amb. KANTOR: Sure.

ROSE: I said that was the last question, this is the last question. Do you think that because of all the conversations that have taken place, that as Dan Rostenkowski has said, and as Congressman Lee Hamilton has said, and Senator Cohen, who's about ready to join me on this program has said, we need, probably by May or early June, congressional hearings just to clear up all this stuff once and for all?

Amb. KANTOR: What we desperately need is health care reform, welfare reform, a crime bill, a good budget that the administration has put before the Congress. We

need to make sure we ratify the Uruguay round. We need to move the country forward. We need to build jobs and build our economy, reform our educational system, and then we'll all be better off. That's what we need.

ROSE: Hearings, yes or no?

Amb. KANTOR: We don't need hearings on this subject. I think we've talked all too much about a subject that is—that is irrelevant to where the country is going.

ROSE: I want you to come back in June when the President has to make a decision on MFN and explain to me what's happened between now and then that changed things.

Amb. KANTOR: I'll try to, I don't know if I can.

ROSE: Okay. Thanks.

Amb. KANTOR: Thanks very much, Charlie.

ROSE: Mickey Kantor, trade negotiator for the United States government.

We'll be right back. Senator William Cohen is here. We'll talk to him about trade and also about Whitewater and other issues of concern to him, including what's happening in the American intelligence community. Back in a moment with Senator William Cohen. Stay with us.

[Senator William Cohen is also an author. He has published two books of poetry, three non-fiction books, and three novels, one of which was co-authored with former Senator Gary Hart.]

Republican Senator William Cohen

CHARLIE ROSE: Republican Senator William Cohen of Maine was not being impulsive last week when he called for congressional hearings into the Whitewater affair. He has a track record in this area that gives him immediate credibility. In 1973, as a congressman, he was a member of the House Judiciary Committee investigating Watergate. In 1987, as a senator, he was on the Iran/Contra Committee. In 1978, he sponsored the Independent Counsel Law, which has been reauthorized many times. On Capitol Hill he wears many hats. He's the ranking Republican on the Special Aging Committee, he's on the Armed Services Committee, and he is the former vice chairman of the Intelligence Committee, so we have lots to talk about, and I'm pleased to welcome him back.

Thank you for coming.

Sen. WILLIAM COHEN, (R) Maine: Charlie, good to be here.

ROSE: Great to see you. First, trade, because Mickey Kantor was just here. What do you think is going to happen with respect to MFN and the Chinese? And are we at a terrible risk here?

Sen. COHEN: I think that we will find a way, and the Chinese will find a way to back away from the precipice. I don't think it's in our interest or their interest for us to come to this kind of collision. I believe the rhetoric has been such in the past that it makes it more difficult for the President to find ways in which to back away from the threat, at least, of taking away most favored nation

status, but I believe the Chinese will do some things. I think that we will then tone it down and that we will not see a withdrawal of the preferred status.

ROSE: Yeah. So they'll probably get the MFN status and—

Sen. COHEN: I think another year.

ROSE: —and somebody will do something that will allow everybody to have their face saved.

Sen. COHEN: I think that they'll probably get it for another year, and I think that they will take some measures, and we will take some measures, but ultimately, I think what we ought to do is to do less in public and more behind the scenes, as far as diplomacy. I think you get much further in dealing with the Chinese leadership than— keeping the pressure on, but to do so as quietly, in a way that doesn't try to either embarrass them publicly or humiliate them, but nonetheless reaffirming our commitment to human rights and human values as such. But there are ways you can do it without trying to hit them over the head with a public stick constantly.

ROSE: Your colleague in the Senate and former fellow basketball player, the senior senator from New Jersey, Bill Bradley, has criticized the administration with respect to— on the same grounds, for its policy with respect to Japan. Do you think he's right?

Sen. COHEN: I think there's also an element there. Japan is going through a tremendous political transition right now. I think the new leadership does want to change the way in which Japan is perceived by the world and the way in which Japan does business with the world. There's no question in anyone's mind that they've had a one-way street, as far as trade is concerned. But at this particular time, to once again put the pressure on publicly, without giving the new leadership an opportunity to start building some bridges within the vast Japanese bureaucracy creates some problems which may manifest themselves down the line. I think we've got a temporary victory, obviously, with Motorola, but I think we also need to be very careful that we don't put so much pressure on that you allow the bureaucracy, really, to get its back up without the ability of the new leadership to come in and to mold and bend it to change its ways. So I think Bill Bradley is correct, that we've got to find a way to deal with Japan, keeping pressure on, but do so in a way that's productive for both of us.

ROSE: On both counts, you seem to be seeing too much public posturing by the administration, too much saber-rattling.

Sen. COHEN: Well, I think that there's a danger in that. Obviously, it got everyone's attention this time, it was successful this time, as far as the Motorola issue is concerned. But my own view is that you make more progress by sending your diplomats to meet with their corresponding officials, and to do so with a good, frank give and take, without posturing for your respective publics back home. That is true for Japan as well as the United States, so I tend to agree with Bill Bradley that that's

more effective.

ROSE: And what they say, though, is that we've had too much cosmetic covering up of the differences in the past, and somebody needed to say, "We have fundamental differences here, and the public needs to know about, and they are a real problem, in terms of the economic future of both countries."

Sen. COHEN: Well, I don't think there's been any attempt to cover up the differences in the past. I recall going to Japan with Senator Bob Dole back in 1985 and he was very vocal about Japan not opening up its doors. I was vocal during that meeting, and it was very public, and so I think the pressure has been there publicly. We haven't apparently impressed the Japanese that we were prepared to go to the nth degree, as far as really taking some measures, and I give the administration credit on this particular issue, on this one. But I think that if we continue it without giving that new leadership an opportunity to break through and perhaps make some gains within its own bureaucracy, then we may find down the road it'll be counterproductive.

ROSE: Yeah. What has to happen, how much— what needs to be done in the CIA, at the CIA? I mean, with respect to the Aldrich Ames disclosure?

Sen. COHEN: Well, first of all, we've got to remember that just because the cold war is over, intelligence gathering or spying is not. It seems to me that we're pointing fingers at the wrong direction. On the one hand, I am— I can be critical of the Russians, who are reaching out with one hand and asking for financial assistance and with the other they're picking your pocket. There's something that's a bit offensive about that. But nonetheless, we had to understand that they are a country who forewarned us, the former head of the KGB said that he intended to continue collecting information so that Russia could compete on a basis with the western world, as far as their scientific and development programs are concerned. That's a pretty strong signal that they're going to continue this spying activities.

ROSE: Well—

Sen. COHEN: I think what we [crosstalk].

ROSE: —there's probably been no let-up in our spying on them, either.

Sen. COHEN: Exactly. No, exactly right. And it will continue into the future. I think that economic and industrial espionage is going to continue. I think that all of the various countries are going to continue their spying activities, and we have to be prepared for it. What we did not do is take seriously enough the kinds of measures to counter that. For example, Senator Boren and myself worked for over a year with—

ROSE: Your former co-chairman.

Sen. COHEN: —former— he was—

ROSE: Chairman.

Sen. COHEN: —former chairman of the Intelligence Committee.

ROSE: Right.

Sen. COHEN: And we worked with an expert panel

that was headed up by Eli Jacobs that had Warren Christopher, our secretary of state, on it. It had a number of people, Ambassador Saul Linowitz [sp?] and others, including Lloyd Cutler, who helped put together a set of recommendations that would deal with this kind of issue, of how do you preserve the civil liberties of people who work in our government. We don't want to Stalinize our intelligence community as such by hooking people up to lie detector tests or urinalysis and other types of maybe even truth serums from time to time in order to protect our secrets. By the same token, we want to make sure that those people who are granted access to our— the most treasured national secrets really give up something, they give up some of their rights of privacy, that they agree in advance that their financial records should be open to inspection without notice, that the FBI have access to their credit charges and so forth. So I think that we can do that and structure that, and we would have prevented the Ames case had we adopted these measures some three years ago.

ROSE: Bill Safire and others have made a big deal about lie detector tests as a result [crosstalk].

Sen. COHEN: Right. Over-reliance.

ROSE: Over-reliance, too much of a reliance on lie detector tests?

Sen. COHEN: I think they do serve a function. They are something of a deterrent, and not everyone is going to be skilled enough to pass it, although experts in the field disagree, if you take a certain form of Valium or a variant thereof, but I think it's at least one piece of a deterrent. But I think there's been a heavy over-reliance upon the lie detector test and not enough on those items such as the purchase of a half-million-dollar house for cash.

ROSE: Sure.

Sen. COHEN: And the purchase of a \$100,000 car for cash.

ROSE: But when you talk to CIA experts, do they now say, you know, "Look, we read the results wrong" or "The results were wrong"? You know what I mean?

Sen. COHEN: Well, I think you get different interpretations. On the second lie detector test, I think the evidence apparently was there that should have raised a lot of red flags.

ROSE: So what happened? They just didn't want to read it?

Sen. COHEN: It got [crosstalk]. They either didn't read it correctly, or didn't want to read it, but I think that they simply let this one go, and there's probably others that have— are in a similar circumstance.

ROSE: Others that probably should have been a red flag but they didn't read it, and so therefore there may be other people in the CIA who—

Sen. COHEN: There's a real possibility.

ROSE: —yeah.

Sen. COHEN: That— what we're talking about is greed. We've witnessed the decade of the spy during the '80s. Well, it's a decade and a half now, because we see with

Ames, who started in the '80s, it carried over into the '90s. And one can't say this for certain, but one could reasonably conclude that if he were corrupted by the need for money, there may be other people as well.

ROSE: Do you know what stuns me about this? And just show me how naive I am.

Sen. COHEN: Okay.

ROSE: Two and a half million dollars to get the names of 10 agents working for the United States inside the Kremlin is a bargain, and I would think that a government could spread—you know, if they had said to me, "We spent \$250 million to get the names of people who were working inside our government," I'd say that's probably a pretty good deal.

Sen. COHEN: Right.

ROSE: It just seems like it's cheap.

Sen. COHEN: Well, the Russians, or the former—the Soviets historically have been known for their lack of generosity.

ROSE: They're parsimonious about this, are they?

Sen. COHEN: Oh, absolutely. They were buying people very, very cheap. This is probably the most they've ever paid. But it shows you the degree to which, when people compromise themselves by putting themselves in financial situations which make it easier for them to turn a traitor, to become a traitor to their country's interests, that a million dollars to someone like that seems like a lot of money, perhaps, or \$2 million to the Russians, they get a great deal [crosstalk].

ROSE: Oh, that was a bargain, wasn't it? Yeah. You believe, I hear you saying that there may very well be on the surface the appearance that Mr. Ames had someone helping him inside the CIA. There may be another mole.

Sen. COHEN: That's another possibility. I don't think you can rule it out.

ROSE: I know. And I know you can't say it for certain.

Sen. COHEN: And you can't say for certain.

ROSE: But your best instinct, having served on the Intelligence Committee and having dealt with these kinds of issues and these kinds of oversight function, is probably?

Sen. COHEN: I think that there are probably others within the intelligence community, whether it's at the CIA or some other branch of our intelligence service, I have no information, just an instinct that says there's probably somebody else out there as well.

ROSE: Yeah.

Sen. COHEN: Whether he cooperated with Amos or not I don't know.

ROSE: Let me say this. But your logic tells you that Ames couldn't have done this alone.

Sen. COHEN: Well, he may—

ROSE: Logic, not information.

Sen. COHEN: Logic would say that he had help somewhere along the way other than his wife.

ROSE: Within the CIA?

Sen. COHEN: Within the intelligence community as well.

ROSE: Yeah. Is that the belief of the agency?

Sen. COHEN: I don't know. I think that they're taking no chances at this point. They're looking everywhere. And of course, it's a danger. This may be a phantom mole that they're searching for, and you can do as much damage in the search for a phantom mole as you can with a real one. So I think at this point they don't know. They don't know how much damage has been done, except that it's been an extraordinary amount, and they're going to have to go back and look at every contact that he's had, other people he worked with. Where did he get the information? How did he acquire information outside his field? Did he do it because somebody was supplying him with documents? Or did he use it—acquire it through the use of a computer? We have computer hackers. He may be one, or had the benefit of that kind of access. So it's difficult, at this point, to know whether he had assistance from other branches, other individuals within the community, or whether he was getting it through the use of computers and other [crosstalk].

ROSE: And what's amazing about it to me, you know, again, it is how do we know—and Safire, I mean, in part, raised this issue too—how do you know, when the CIA was making bad judgments about Soviet economic welfare, you know, how well the Soviet economy was doing before the Soviet Union collapsed, how much disinformation was the United States getting about what was going on there, and how quicker might we have ended the cold war if we didn't have bad information compromised by Mr. Ames?

Sen. COHEN: Well, I don't think it was a question about the economic state of affairs in the Soviet Union.

ROSE: Or their intentions or the amount of nuclear weapon they had, or whatever.

Sen. COHEN: I think we're finding—you see, I think we're finding out at the close of the cold war, with all the access we're now getting to various files from the East German intelligence network and so forth, that we underestimated what they were doing, in terms of their military buildup. So I don't think the economic factors are the ones—

ROSE: We underestimated what their—

Sen. COHEN: Underestimated.

ROSE: But we overestimated the condition of their economy.

Sen. COHEN: That's right. But we underestimated what they were doing militarily, what they were undertaking.

ROSE: Yeah. And that was because we had bad information? Why?

Sen. COHEN: Well, you can never be certain. You have different estimates. The Defense Intelligence Agency, the DIA, tends to be more conservative, with higher estimates, in terms of what Soviet spending is really directed to than does the CIA or perhaps the State Department's intelligence branch. But you can never be sure. You have a closed country, you're trying to penetrate, you're trying to gain access through spies, as such,

to give you information as to what they're up to. You can never be perfect in the intelligence-gathering business. I think we did—I think we do a great job, frankly, given the tasks that are imposed.

ROSE: "We" being the American intelligence agencies?

Sen. COHEN: I do.

ROSE: Yeah.

Sen. COHEN: Even though we make mistakes, we still do a great job.

ROSE: Yeah. What do you think about the guy who defected, whose name I can never remember, Yurichenko [sp?], I think his name was. Was he in fact sent by them, in your judgment now, and he always intended to go back, or do you think he simply changed his mind after he got here?

Sen. COHEN: I don't know. I wrestled with this question while he was here, and I— at the time, I felt that it was more of a dangle, so to speak, in Safire's word.

ROSE: Right. That's what they call it, right.

Sen. COHEN: But you can't tell whether or not he became suspicious in dealing with Mr. Ames, who was one of his apparent handlers or interrogators.

ROSE: One of his debrief— interrogators, yeah, when he came here.

Sen. COHEN: Right. And perhaps when he started hearing about the kind of questions that Mr. Ames was asking, he may have gotten suspicious in time for him to get out. So I don't know. It's hard to say.

ROSE: So Ames may very well, by the kind of questions he asked him, sent a word to him that— explain this to me.

Sen. COHEN: Well, if you're being interrogated by Mr. Ames and then you start learning certain things were taking place back in Moscow, you may get very suspicious about where that information is going. I don't know if that's the case. My own judgment, ultimately, is that Yuchenko [sp?] came here, was probably here to be dangled, as Mr. Safire calls it, but I have no way of really proving that.

ROSE: All right. But for the record, you believe that he came here with the intention of going back, and he was here to draw attention away from Mr. Ames, and he always intended to go back. Is that what you believe?

Sen. COHEN: That was my—

ROSE: Then and now?

Sen. COHEN: —that's what my intuition was then and still believe that, but—

ROSE: More reason to believe it now than then.

Sen. COHEN: —yes, except you have to take into account that he was unhappy with the way in which the interrogation was going, his— the quality of his life.

ROSE: Yeah.

Sen. COHEN: The fact that he had a romance that seemed to go on the fritz and such. So there were—

ROSE: Yeah.

Sen. COHEN: —you can make a competing case, an equally compelling case. My own feeling at the time was to be very careful of this individual.

ROSE: Yeah. How much damage did Ames do?

Sen. COHEN: Well, it's hard to assess it. We know that there are a number of individuals who died as a result of his activities.

ROSE: The number is 10 at least.

Sen. COHEN: And there may be more. But that's what they call, in the old spy trade, of rolling up your intelligence network. Rolling up means the liquidation of the people that you have been acquiring to collect information for you, and it appears that he was directly responsible for their being rolled up, having them rolled up. We don't know, at this point, exactly how much information he gave. It's unlikely that we will ever know, unless he decides to tell us, and in that case, you'd have to be careful what he was telling you was the truth. So we may never know how much the damage is. We do know that he had access to information, as far as our intelligence apparatus was concerned, which has been compromised, and we do know that he had access to areas of intelligence beyond his area of expertise and jurisdiction, which means it could be much wider than we know at this point.

ROSE: Let me turn to Whitewater.

Sen. COHEN: Okay.

ROSE: Senator Dole got you involved in this because he wanted someone other than Senator D'Amato out front for the Republicans.

Sen. COHEN: No, that's not exactly it. Senator D'Amato went to Senator Dole and asked Senator Dole if I could be brought into meet with Mr. Fiske during a scheduled meeting in Senator D'Amato's office.

ROSE: D'Amato asked Dole?

Sen. COHEN: Right.

ROSE: Right.

Sen. COHEN: And then Senator Dole came to me and suggested that I attend the meeting, along with his chief of staff, Sheila Burke. And I was happy to do. Had Senator D'Amato asked me, I would have done so directly, and I think he just wanted to make sure that he was traveling on the correct path in pushing for hearings. But I was more than happy to do it, in any event, and I certainly think that Senator D'Amato deserves credit for raising the issue. I mean, were it not for his perseverance, we wouldn't have known about the—

ROSE: And his questioning of Roger Altman.

Sen. COHEN: And his questioning of Roger Altman. And frankly, it comes back to the issue—I think it's been blown completely out of proportion, this entire—

ROSE: What's been blown out of proportion?

Sen. COHEN: The Whitewater affair as such. This, in my judgment, never should have been raised to a level of a criminal investigation. To my knowledge, there have been no allegations of criminal wrongdoing directed toward the President or the First Lady. Now, there may be, in the wake of some of the activities to prevent this from coming forward, maybe some—

ROSE: Now, do I remember or am I crazy, that Republicans were saying as this thing got underway that we

needed an independent counsel?

Sen. COHEN: Let me tell you how it got underway. What happened was, the Republicans called for hearings into this entire matter. There have been hearings all through the '80s about the S&L mess.

ROSE: Right. Yeah.

Sen. COHEN: It seems to me there is a federal responsibility here, if you're talking about \$50 million of the taxpayers' money being lost through certain activities of a— of a bank down in Arkansas. So there's a federal connection, a federal responsibility. The Republicans on the committee are asking for a hearing dealing with this.

ROSE: Well, weren't some Republicans saying we need an independent prosecutor and all?

Sen. COHEN: Not initially.

ROSE: Not initially?

Sen. COHEN: Initially it was simply give us hearings.

ROSE: Only hearings?

Sen. COHEN: Right, and they said no hearings under any circumstances.

ROSE: The Democratic leadership in the Congress said that?

Sen. COHEN: Right. No hearings. And to me, that seems to me it's a double standard. We have one rule of law that we're supposed to abide by. We don't have a separate rule for presidents, another for paupers. We don't have one for those who govern, those who are governed. We don't have a separate rule for Republicans and one for Democrats, at least we shouldn't. So I think that it could have been handled very quickly back in the fall of last year.

ROSE: If there had been hearings.

Sen. COHEN: If there had been hearings. And vent or ventilate the issues, because that really is the function of Congress, to deal with issues involving public institutions, as to whether they have been used properly or improperly.

ROSE: All right.

Sen. COHEN: Now, being stonewalled on that issue, then the—

ROSE: By the Democratic leadership and the White House.

Sen. COHEN: —right.

ROSE: And the legal counsel to the President, Mr. Nussbaum.

Sen. COHEN: Exactly, then it became, "Well, we have to have a special counsel." There's some irony involved in all of this, because I helped to write the Independent Counsel Act back in 1978. It had been reauthorized twice. It was allowed to lapse at the end of the Bush administration's tenure, over my objection. I felt that we would rue the day that Republicans allowed that to lapse. You may very well have a Democratic president, you may very well have allegations of wrongdoing, you will want independent counsel. Nonetheless, as a result of being stonewalled on that, Republicans then said, "Well, we have to have some independent investigation," and they called for the appointment of a special counsel.

ROSE: All right. Yeah, but here is the irony of this, and I don't want to give Bill Safire more credit than he deserves, however, I'm quoting him one more time. He suggests that by raising it to a criminal question, that the reference there works to the benefit of the Democrats and the President, rather than full disclosure, because if you say there's no criminal investigation, case closed, there will never be any hearings, and questions of ethics and propriety will not be fully exposed.

Sen. COHEN: I think that's the strategy.

ROSE: You do?

Sen. COHEN: I do.

ROSE: Yeah. So they may win, after all, on that.

Sen. COHEN: Well, they may, but you see, I think you're seeing a growing sentiment now with the moderate leaders and the—

ROSE: Rostenkowski and Hamilton?

Sen. COHEN: Hamilton is a highly respected individual. I've had a number of Democrats come to me and saying, "Can't we resolve this, get the hearings out of the way?" Because what's going to happen is, notwithstanding the strategy of having it elevated to a criminal investigation—

ROSE: I've got to go, but make it quick.

Sen. COHEN: Okay. Nonetheless, that with pressure brought to bear to have a—

ROSE: Hearings are inevitable by June?

Sen. COHEN: Well, whenever, but the sooner the better for the President, and I think the sooner the better for the Democratic majority.

ROSE: Great to see you.

Sen. COHEN: Okay. Thank you.

ROSE: Thanks very much. Sorry to rush you at the end there.

All right. Senator Bill Cohen, it's always good to see him.

I thank you for joining from Washington. We will see you tomorrow night with a very special broadcast of all the actors from— Liam Neeson and Anthony Hopkins in a composite of talking about the craft of acting. Don't miss it, tomorrow night on our program from New York. See you then.

Copyright © 1994 Thirteen/WNET.

**Testimony to the Subcommittee on Commerce,
Consumer Protection, and Competitiveness
Ambassador Michael Kantor
U.S. Trade Representative
March 23, 1994**

**THE URUGUAY ROUND:
GROWTH FOR THE WORLD, JOBS FOR THE U.S.**

Introduction

Madam Chairwoman, thank you very much. I appreciate the chance to be here today to discuss with you the Uruguay Round agreement, reached by 117 countries on December 15. The agreement marked the completion of more than seven years of negotiations.

The Uruguay Round agreement will reduce barriers blocking exports to world markets (in agriculture, manufactured goods, and services) and will create a more fair, more comprehensive, more effective, and more enforceable set of world trade rules. In order to assure the efficient and balanced implementation of the agreements reached, they also created a new World Trade Organization (WTO).

The Administration believes that the Uruguay Round agreement will justify the years of hard work and frequent disappointment that has marked the negotiating process. It will provide a major boost to the global economy in the coming years and into the next century, from which the United States will benefit a great deal. This agreement sets the stage for the U.S. to become a more competitive, productive and prosperous nation in the years to come.

I look forward to working with you this spring as we prepare the legislation that will implement the Round, and which the Administration will seek to have enacted this year.

I also want to acknowledge those who helped make reaching this historic agreement a reality. The Administration benefitted from the work of our predecessors, Presidents Reagan and Bush, and Trade Representatives Bill Brock, Clayton Yeutter and Carla Hills.

We benefitted from the steadfast, bipartisan support of Congress. Congress supported the negotiations, but demanded constant proof that the results of the Round furthered the interests of U.S. companies and workers. You set strong negotiating objectives in the 1988 Trade Act, which I believe that we have met.

We benefitted from the advice and support of the private sector, who recognized the importance of completing the Round for the U.S. economy and global growth, and who gave us insight and understanding of the needs of hundreds of sectors of our strong and diverse economy.

The Uruguay Round trade agreement is the largest, most comprehensive trade agreement in history. The existing GATT system was incomplete; it was not completely reliable; and it was not serving U.S. interests well. The new agreements open up major areas of trade and provide a dispute settlement system which will allow the U.S. to ensure that other countries play by the new rules they have just agreed to.

The successful conclusion of the Uruguay Round negotiations was an important part of the President's strategy for strengthening the domestic economy. Just over a year ago, President Clinton entered office, faced with daunting challenges in his effort to restore the American Dream.

The economy was stagnant. Unemployment was high, and confidence was down. In just one year, we have turned a corner. Our economy is growing and millions of jobs have been created. People are getting back to work.

But these are just the first steps in preparing our nation for the 21st century. The President is addressing the long-term issues facing our economy.

How do we ensure the American Dream for all? How do we reverse the decline in real wages among workers in this country? How will we compete against the Europeans and the Japanese? How do we eliminate the gap between high-skill workers, for whom opportunities abound, and those lower skilled workers who lack opportunities, and even hope? At a time our workers are the most productive in the world, meaning it takes less workers to do the same work, how do we create new jobs and opportunities?

All of the elements of the President's economic strategy -- reducing the deficit, reforming education, the President's re-employment program, and health care -- are geared towards solving these problems, creating jobs and making our country more prosperous for our children. All of the parts work in tandem, each reinforcing the other.

An essential element in this strategy is to expand and open foreign markets. Expanding trade is critical to our ability to compete in the global economy and create high-wage jobs. That is why the President spent so much time in 1993 -- with not only the Uruguay Round but also the North American Free Trade Agreement, the establishment of the Japan Framework, the Asia Pacific Economic Cooperation conference to facilitate trade in that

region. That is why we vigorously enforced our trade laws which resulted in opening the markets for heavy electrical equipment in Europe, telecommunications in Korea, construction in Japan, and enhanced protection for copyrighted and patented products in a number of nations, led by Taiwan and Thailand.

The U.S. economy is now woven into the global economy. Over a quarter of the U.S. economy is dependent on trade. Where we once bought, sold and produced mostly at home, we now participate in the global marketplace. American workers compete with their foreign counterparts every day, sometimes within the same company. By expanding our sales abroad, we create new jobs at home and we expand our own economy.

The global economy presents rewards not risks. Our greatest risk is in failing to understand the challenge. Jobs related to trade earn, on average, 17 percent more than jobs not related to trade. Prosperity is the partner to change and American workers are at their best when facing the challenges of a new era.

The benefits of trade ripple through our economy. Trade benefits not only the company that exports, but also the company which produces parts incorporated in exported products, the insurance agency which insures exporters, and the grocery store near the exporter's factory. At the same time, increased access to foreign markets and increased competition at home benefit consumers. Lower trade barriers reduce prices, improve the quality, and widen the choice of consumer good. This benefits both families and companies looking for good bargains and good quality.

U.S. workers and companies are poised to take advantage of the dynamics of the global economy, if they have access to foreign markets and can be ensured they are competing on fair terms with their foreign counterparts. Fast growing economies in Latin America and Asia are hungry for American goods. Countries around the globe are embracing market economies and are in need of everything from hospital equipment to consumer goods.

"Made in the USA" still represents a standard of excellence, especially for products that will become more important in the coming century. America leads the world because of our imagination and creativity.

The United States, then, is positioned economically, culturally and geographically to reap the benefits of the global economy.

Economically, because our workers are the most productive in the world, and our economy is increasingly geared towards trade.

Culturally, because of our tradition of diversity, freedom and tolerance will continue to attract the best and the brightest

from around the world ensuring that we will never stagnate as a people.

Geographically, because we are at the center of a nexus between our historic trading partners in Europe and Japan, and the new dynamic economies in Latin America and Asia.

Our trade policy is guided by a simple credo. We want to expand opportunities for the global economy, but insist on a similar responsibility from other countries.

Trade is a two way street. After World War II, when the American economy dominated the world, we opened ourselves up, to help other countries rebuild. It was one of the wisest steps this country ever took, but now we cannot have a one way trade policy. The American people won't support it and the Administration won't stand for it.

For other nations to enjoy the great opportunities here in the U.S. market, they must accept the responsibility of opening their own market to U.S. products and services. Ultimately, it is in their own self interest to do so, because trade fosters economic growth and create jobs in all countries involved.

The Uruguay Round ensures American workers are trading on a two-way street; that they benefit from this new globalized economy; that they can sell their products and services abroad; and that they can compete on a level playing field.

President Clinton led the effort to reinvigorate the Uruguay Round and to break the gridlock, which had stalled the negotiations despite seven years of preparation and another seven years of negotiations.

We did not accomplish everything we wanted to in the Uruguay Round. In the services area, we wanted to go further than the world was ready to go. The transition periods for patent and copyright protection are longer than we wanted. We were bitterly disappointed by the European Union's intransigence with respect to national treatment and market access for our entertainment industries.

But the final result is very good for U.S. workers and companies. It helps us to bolster the competitiveness of key U.S. industries, to create jobs, to foster economic growth, to raise our standard of living and to combat unfair foreign trade practices. The agreement will give the global economy a major boost, as the reductions in trade barriers create new export opportunities, and as the new rules give businesses greater

confidence that export markets will remain open and that competition in foreign markets will be fair.

More importantly, the final Uruguay Round agreement plays to the strengths of the U.S. economy, opening world markets where we are most competitive. From agriculture to high-tech electronics, to pharmaceuticals and computer software, to business services, the United States is uniquely positioned to benefit from the strengthened rules of a Uruguay Round agreement that will apply to all of our trading partners.

The Uruguay Round

The Uruguay Round is the right agreement at the right time for the United States. It will create hundreds of thousands of high-wage, high-skill jobs here at home. Economists estimate that the increased trade will pump between \$100 and \$200 billion into the U.S. economy every year after the Round is fully implemented.

This historic agreement will

- cut foreign tariffs on manufactured products by over one third, the largest reduction in history;
- protect the intellectual property of U.S. entrepreneurs in industries such as pharmaceuticals, entertainment and software from piracy in world markets;
- ensure open foreign markets for U.S. exporters of services such as accounting, advertising, computer services, tourism, engineering and construction;
- greatly expand export opportunities for U.S. agricultural products by reducing use of export subsidies and by limiting the ability of foreign governments to block exports through tariffs, quotas, subsidies, and a variety of other domestic policies and regulations;
- assure that developing countries live by the same trade rules as developed countries and that there will be no free riders;
- create an effective set of rules for the prompt settlement of disputes, thus eliminating shortcomings in the current system which allowed countries to drag out the process and to block judgments they did not like; and
- open a dialogue on trade and environment.

This agreement will not

- impair the effective enforcement of U.S. laws;

- limit the ability of the United States to set its own environmental or health standards; or
- erode the sovereignty of the United States to pass its own laws.

The Uruguay Round agreement will create a new organization -- the World Trade Organization -- that will support a fair global trading system into the next century and replace the General Agreement on Tariffs and Trade (GATT).

Some have expressed concern that the Uruguay Round results mean the loss of Section 301. That is simply not an accurate analysis. As a result of the Round we have made Section 301 a more effective tool in the multilateral context. We have improved existing trade rules, extended the rules to cover new areas of trade, and strengthened the procedures to enforce the rules. In other words, we will be able to use Section 301 to ensure that the multilateral rules are observed. For issues not covered by the new rules and for countries not members of the WTO, there will be no change in the way we resolve disputes; we will continue to use section 301 bilaterally. In addition, we will not shrink from using Title VII to combat unfair trade.

Notwithstanding tremendous international pressure to weaken antidumping and countervailing duty laws in the Uruguay Round, we were able to preserve the important elements of U.S. practice. These laws will continue to be our most important and most effective response to dumping and subsidies that injure U.S. industries.

As in the past, we will identify those trade barriers that have the most significant impact on our exporters of goods and services and develop a strategy for addressing them. We intend to work closely with Congress in implementing how we go after foreign trade barriers in both the bilateral and multilateral context. We are confident we have no shortage of tools.

While the world has benefitted enormously from the reduction of trade barriers and expansion of trade made possible by the GATT, the GATT rules were increasingly out of step with the real world. They did not cover many areas of trade such as intellectual property and services; they did not provide meaningful rules for important aspects of trade such as agriculture; and they did not bring about the prompt settlement of disputes. The old GATT rules also created unequal obligations among different countries, despite the fact that many of the countries that were allowed to keep their markets relatively closed were among the greatest beneficiaries of the system.

The WTO will require that all members take part in all major agreements of the Round, eliminating the free-rider problem.

From agreements on import licensing to antidumping, all members of the WTO, will belong to all of the major international agreements.

The WTO will also require developing countries -- an increasingly important area of U.S. trade -- to follow the same rules as everyone else after a transition period. They will no longer enjoy the fruits of trade, without accepting responsibility and opening their own markets. The WTO will have a strengthened dispute settlement system, but will allow us to maintain our trade laws and sovereignty.

The WTO plays to the strengths of our economy. For example:

Market Access. The WTO will reduce industrial tariffs by over one third. On exports from the U.S. to the European Community, the reduction is over 50 percent. In an economy increasingly reliant on trade, opening markets abroad is absolutely essential to our ability to create jobs and foster economic growth here at home. Our nation's workers are the most productive in the world and reduced tariffs will enable these workers to compete on a more level playing field.

Agriculture. U.S. farmers are the envy of the world, but too often they were not able to sell the products of their hard labor abroad, because the old GATT rules did not effectively limit agricultural trade barriers. Many countries have kept our farmers out of global markets by limiting imports and subsidizing exports. These same policies have raised prices for consumers around the world.

The Uruguay Round agreements will reform policies that distort the world agricultural market and international trade in farm products. By curbing policies that distort trade, in particular export subsidies, the World Trade Organization will open up new trade opportunities for efficient and competitive agricultural producers like the United States.

Services. The WTO will extend fair trade rules to a sector that encompasses 60% of our economy and 70% of our jobs: services. Uruguay Round participants agreed to new rules affecting around eighty areas of the economy such as advertising, law, accounting, information and computer services, environmental services, engineering and tourism. When a company makes a product, it needs financing, advertising, insurance, computer software, and so forth. Competition for these services is now global. We lead the world in this sector with nearly \$180 billion in exports annually. The WTO will implement new rules on trade in services, which will ensure our companies and workers can compete fairly in the global market. While in certain key areas, such as telecommunications and financial services, the U.S. did not obtain the kind of market access commitments we were seeking, we

kept our leverage by refusing to grant MFN treatment to our trading partners, and continued negotiations.

Intellectual Property. Creativity and innovation is one of America's greatest strengths. American films, music, software and medical advances are prized around the globe. The jobs of thousands of workers here in this country are dependent on the ability to sell these products abroad. Royalties from patents, copyrights, and trademarks are a growing source of foreign earnings to the U.S. economy.

The World Trade Organization will administer international rules to protect Americans from the global counterfeiting of their creations and innovations. These are the areas which represent some of the most important U.S. industries of the future. Stemming the tide of counterfeiting works to protect U.S. companies and workers, particularly as U.S. exports of intellectual property goods increase annually.

For example, our semiconductor industry is a driving force for U.S. technology advances and competitiveness. These products affect nearly every aspect of our lives and are incorporated in many of the goods traded internationally.

The TRIPS agreement is the first international agreement that places stringent limits on the grant of patent compulsory licenses for this critical technology. Under TRIPs, this industry's patents and layout designs can not be used for commercial purposes without the permission of the patent or design owner.

In short, the Uruguay Round agreements set the stage for free and fair trade in the world, and global prosperity and partnership at the end of this century and into the next.

WORLD TRADE ORGANIZATION

The Agreement Establishing the World Trade Organization (WTO) encompasses the current GATT structure and extends it to new disciplines that have not been adequately covered in the past. The new organization will be more credible and predictable and thus benefit U.S. trade interests.

The WTO will help to resolve the "free rider" problem in the world trading system. The WTO system is available only to countries that agree to adhere to all of the Uruguay Round agreements, and submit schedules of market access commitments for industrial goods, agricultural goods and services. This will eliminate the shortcomings of the current system in which, for example, only a handful of countries have voluntarily adhered to disciplines on subsidies under the 1979 Tokyo Round agreement.

The WTO Agreement establishes a number of institutional rules that will be applied to all of the Uruguay Round agreements. We do not expect that the organization will be different in character from that of the existing GATT and its Secretariat, however, nor is the WTO expected to be a larger, more costly, organization.

DISPUTE SETTLEMENT

The Dispute Settlement Understanding (DSU) creates new procedures for settlement of disputes arising under any of the Uruguay Round agreements. The new system is a significant improvement on the existing practice. In short, it will work and it will work fast.

The process will be subject to strict time limits for each step. There is a guaranteed right to a dispute settlement panel. The losing party cannot block adoption of panel reports; they will be adopted unless all WTO Members agree to reject the report. In order to better ensure that GATT obligations are adjudicated properly, a country can request appellate review of the legal aspects of a report. The dispute settlement process can be completed within 16 months from the request for consultations even if there is an appeal. Public access to information about disputes also is increased.

After a panel report is adopted, there will be time limits on when a Member must bring its laws, regulations or practice into conformity with the panel ruling and recommendations, and there will be authorization of retaliation in the event that a Member has not brought them into conformity with its obligations within that set period of time.

The automatic nature of the new procedures will vastly improve the enforcement of the substantive provisions in each of the agreements. Members will not be able to block the adoption of panel reports. Members will have to implement obligations promptly and the United States will be able to take trade action if Members fail to act or to provide compensation acceptable to us. Trade action can consist of increases in bound tariffs or other actions and increases in tariffs may be authorized even if there is a violation of the TRIPS or Services agreements.

The DSU includes improvements in providing access to information in the dispute settlement process. Parties to a dispute must provide non-confidential summaries of their panel submissions that can be given to the public. In addition, a Member can disclose its submissions and positions to the public at any time that it chooses. Panels are also expressly authorized to form expert review groups to provide advice on scientific or other technical issues of fact which should improve the quality of decisions.

INDUSTRIAL MARKET ACCESS

The United States achieved substantially all of its major objectives in the industrial goods market access negotiations. As a result, increased market access opportunities will be available to U.S. exporters of industrial goods.

Key provisions of the market access for goods agreement include:

- o Expanded market access for U.S. exporters through tariff reductions secured from countries which represent approximately 85 percent of world trade;
- o The elimination of tariffs in major industrial markets, and significantly reduced or eliminated tariffs in many developing markets, in the following areas:
 - Construction Equipment
 - Agricultural Equipment
 - Medical Equipment
 - Steel
 - Beer
 - Distilled spirits
 - Pharmaceuticals
 - Paper
 - Toys
 - Furniture
- o Deep cuts ranging from 50 - 100 percent on important electronics items (semiconductors, computer parts, semiconductor manufacturing equipment) and on scientific equipment by major U.S. trading partners; and
- o Harmonization of tariffs by developed and major developing countries in the chemical sector at very low rates (0, 5.5 and 6.5 percent).
- o Vastly increased scope of bindings at reasonable levels from developing countries, which will ensure predictability and certainty for traders in determining the amount of duty that will be assessed.

In general, most tariff reductions will be implemented in equal annual increments over 5 years. Some tariffs, particularly in sectors where duties will fall to zero, such as pharmaceuticals, will be eliminated when the agreement enters into force. Other tariffs, particularly in sensitive sectors, including some sensitive sectors for the United States, will be phased-in over a period of up to ten years.

As part of the United States offer, many non-controversial duty suspensions introduced in the 102nd Congress, as well as many

introduced in the 103rd Congress, were made permanent. Implementation of these reductions will occur on entry into force of the Agreement.

The schedule for finalizing the results of the market access negotiations requires governments to have submitted draft final schedules on or before February 15, 1994; final schedules are due by March 31, 1994. A process of verification and rectification is underway. Additionally, the United States has been encouraging other partners that have not yet done so to improve existing offers to match the U.S. contribution.

TECHNICAL BARRIERS TO TRADE

The Agreement on Technical Barriers to Trade improves the rules respecting standards and technical regulations. In particular, the agreement provides that standards, technical regulations and conformity assessment procedures (e.g., testing, inspection, certification, quality system registration, and other procedures used to determine conformance to a technical regulation or standard) are not discriminatory or otherwise used by governments to create unnecessary obstacles to trade. The Agreement improves disciplines concerning the acceptance of results of conformity assessment procedures by another country and enhances the ability of a foreign-based laboratory or firm to gain recognition under another country's laboratory accreditation, inspection or quality system registration scheme. The Agreement includes a process for the exchange of information, including the ability to comment on proposed standards-related measures made by other WTO Members and a central point of contact for routine requests for information on existing requirements. Furthermore, unlike the existing TBT Code every country that is a Member of the new WTO will be required to implement the new TBT Agreement.

The new TBT Agreement ensures that each country has the right to establish and maintain standards and technical regulations at its chosen level of protection for human, animal and plant life and health and of the environment, and for prevention against deceptive practices. The Agreement generally encourages the use by governments of international standards, when possible and appropriate. At the same time it provides that each country may determine its appropriate level of protection and ensures that the encouragement to use international standards will not result in downward harmonization.

SANITARY AND PHYTOSANITARY MEASURES

The Agreement on the Application of Sanitary and Phytosanitary ("S&P") Measures will guard against the use of unjustified S&P measures to keep out U.S. agricultural exports. S&P measures are

laws, regulations and other measures aimed at protecting human, animal and plant life and health from risks of plant- and animal borne pests and diseases, and additives and contaminants in foods and feedstuffs. They include a wide range of measures such as quarantine requirements and procedures for approval of food additives or for the establishment of pesticide tolerances. The S&P agreement is designed to distinguish legitimate S&P measures from trade protectionist measures. For example, S&P measures must be based on scientific principles and not maintained without sufficient scientific evidence and must be based on an assessment of the risk to health, appropriate to the circumstances.

The S&P agreement safeguards U.S. animal and plant health measures and food safety requirements. The agreement clearly recognizes and acknowledges the sovereign right of each government to establish the level of protection of human, animal and plant life and health deemed appropriate by that government. Furthermore, the United States has a long history of basing its S&P measures on scientific principles and risk assessment.

In order to facilitate trade, the S&P agreement generally requires the use of international standards as a basis for S&P measures. However, each government remains free to adopt an S&P measure more stringent than the relevant international standard where the government determines that the international standard does not provide the level of protection that the government deems appropriate.

Because there may often be a range of S&P measures available to achieve the same level of protection, the agreement provides for an importing member to treat another member's S&P measure as equivalent to its own if the exporting member shows that its measures achieve the importing member's level of protection. The agreement also provides for adapting S&P measures to the sanitary or phytosanitary characteristics of a region, in particular calling for recognition of pest or disease free areas and areas of low pest or disease prevalence. For example, if an exporting member can assure an importing member that a particular area or region is free of pests or diseases of concern to the importing member, the exporting member should be able to trade from that area.

Finally, there are provisions for transparency of S&P measures, including public notice and comment and the maintenance of inquiry points where information about S&P measures can be obtained.

In the final days of the negotiations, the United States was able to obtain several improvements in the S&P agreement to respond to environmental concerns. The original S&P text provided that S&P measures must "...not be maintained against available scientific evidence." This language was unclear and

did not take account of the fact that there is often conflicting scientific evidence. This section of the Agreement was changed to "...not maintained without sufficient scientific evidence, except as provided in paragraph 22." Paragraph 22 allows a member to provisionally adopt S&P measures on the basis of available pertinent information where there is insufficient relevant scientific evidence.

To clarify that no "downward harmonization" of S&P measures is required under the agreement, the U.S. obtained an explanatory footnote to paragraph 11, which provides that a "scientific justification" is one basis for introducing or maintaining a measure more stringent than the relevant international standard. The footnote explains that "there is a scientific justification if, on the basis of an examination and evaluation of available scientific information..., a Member determines that the relevant international standards, ... are not sufficient to achieve its appropriate level of protection."

The United States also succeeded in obtaining changes to the original S&P text requirement that members "ensure that ... measures are the least restrictive to trade, taking into account technical and economic feasibility." This language was unclear and could be given an overly narrow, unreasonable interpretation. The revised language requires that members ensure that their S&P measures are "not more trade restrictive than required to achieve their appropriate level of protection, taking into account technical and economic feasibility." In addition, a footnote was inserted clarifying that a measure is not more trade restrictive than required unless there is another measure, reasonably available taking into account technical and economic feasibility, that achieves the appropriate level of protection and is significantly less restrictive to trade. These two changes make it clear that a member is not required to adopt unreasonable S&P measures or to change a measure based on insignificant trade effects.

ANTIDUMPING

The U.S. objectives in the Uruguay Round antidumping negotiations were to improve transparency and due process in antidumping proceedings, develop disciplines on diversionary dumping, and ensure that the antidumping rules continue to provide an effective tool to combat injurious dumping. The Agreement substantially achieves these objectives.

In preparation for the final Uruguay Round negotiations, Members of Congress and U.S. industries identified several issues that would have to be addressed to make the so-called Dunkel Draft Antidumping Agreement acceptable to the United States, including: standard of review, anti-circumvention, sunset, union and

employee standing, and cumulation. As of December 1, 1993, there was neither any support for U.S. proposals to improve the Dunkel Draft nor any set procedure for consideration of such proposals other than the assertion that changes would be made only by consensus -- a virtually impossible condition.

Given these circumstances, it is remarkable that U.S. negotiators were able to achieve significant results in each of the areas identified as requiring change. The most important changes -- and those that made the final agreement acceptable to the United States -- include:

- o Addition of an explicit standard of review that will make it more difficult for dispute settlement panels to second-guess U.S. antidumping determinations;
- o Removal of the anti-circumvention provision which would have weakened existing U.S. anti-circumvention law;
- o Modification of a rigid sunset provision that would have required near-automatic termination of antidumping orders after five years;
- o Addition of express authorization for the ITC's practicing of "cumulating" imports from different countries in determining injury to a domestic industry;
- o Improvements in the standing provisions that protect the rights of unions and workers to file and support antidumping petitions and that clarify the degree of support required for initiating an investigation.

In addition to these changes, there are other important aspects of the final Antidumping Agreement that make it a good agreement for the United States. One such aspect is the transparency and due process requirements proposed by the United States at the beginning of the Uruguay Round and accepted in their entirety. For example, the Agreement requires investigating authorities to provide public notice and written explanations of their actions. These new requirements should benefit U.S. exporters by improving the fairness of other countries' antidumping regimes.

The Agreement also incorporates important aspects of U.S. antidumping practice not previously recognized under the 1979 Antidumping Code. These fundamental aspects of U.S. antidumping practice are now immune from GATT challenge. For example, the agreement expressly authorizes the International Trade Commission's "cumulation" practice of collectively assessing injury due to imports from several different countries and the Department of Commerce's practice of disregarding below costs sales, if they are substantial, in determining fair value for export sales.

The Antidumping Agreement will require some changes in existing U.S. antidumping law. These changes, however, will not jeopardize our ability to combat unfair trade practices. Many of these changes are the result of the much greater detail in the new Agreement concerning the methodology investigating authorities may apply in conducting antidumping investigations. These methodological definitions will add valued predictability to all antidumping practices and protect conforming U.S. practices from GATT challenge.

SUBSIDIES AND COUNTERVAILING MEASURES

The Subsidies agreement establishes clearer rules and stronger disciplines in the subsidies area while also making certain subsidies non-actionable, provided they are subject to conditions designed to limit distorting effects. The Agreement creates three categories of subsidies and remedies: (1) prohibited subsidies; (2) permissible subsidies which are actionable if they cause adverse trade effects; and (3) permissible subsidies which are non-actionable if they are structured according to criteria intended to limit their potential for distortion.

The Agreement prohibits export subsidies, including de facto export subsidies, and subsidies contingent upon the use of local content. It also establishes a presumption of serious prejudice in situations where the total ad valorem subsidization of a product exceeds 5 percent, or when subsidies are provided for debt forgiveness or to cover operating losses.

Subject to specific, limiting criteria, the Agreement makes three types of subsidies non-actionable. Government assistance for regional development is non-actionable to the extent that the assistance is provided within regions that are determined to be disadvantaged on the basis of neutral and objective criteria and the assistance is not targeted to a specific industry or group of recipients within eligible regions. Finally, government assistance to meet environmental requirements is non-actionable to the extent that it is limited to a one-time measure equivalent to 20 percent of the costs of adapting existing facilities to new standards and does not cover any manufacturing cost savings which may be achieved.

Government assistance for industrial research and development is non-actionable if the assistance for "industrial research" is limited to 75 percent of eligible research costs and the assistance for "pre-competitive development activity" (through the creation of the first, non-commercial prototype) is limited to 50 percent of eligible costs. We successfully negotiated changes to the original R&D criteria so that they provided protection to our existing technology programs while ensuring that other countries cannot provide development or production

support. The Administration intends to scrutinize strictly all claims of entitlement by other countries to protection under this provision. We also intend to use the review of the provision which will occur 18 months after implementation of the Uruguay Round agreement to ensure the provision has not been abused. We are convinced that under this provision the United States will be able to continue to cooperate with industry to develop the technologies of tomorrow without the threat of countervailing duty actions, while ensuring that other countries cannot provide development or production subsidies free from such actions.

Both the non-actionable subsidy provisions and the provisions establishing a rebuttable presumption of serious prejudice will expire automatically 5 years after the entry into force of the agreement, unless it is decided to continue them in current or modified form.

The Agreement also makes countervailing duty rules more precise, and in many cases reflects U.S. practice and methodologies. For example, for the first time, GATT rules will explicitly recognize U.S. "benefit-to-the-recipient" standard. In addition, the Agreement imposes multilateral subsidy disciplines on developing countries. Although subject to certain derogations, a framework has been established for the gradual elimination of export subsidies and local content subsidies maintained by developing countries.

AGRICULTURE

The Uruguay Round agreement on agriculture strengthens long-term rules for agricultural trade and assures the liberalization of specific policies that distort agricultural trade. U.S. agricultural exports will benefit significantly from the reductions in export subsidies and the market openings provided by the agriculture agreement.

The United States was successful in its effort to develop meaningful rules and explicit reduction commitments in each area of the negotiations: export subsidies, domestic subsidies and market access. For the first time, agricultural export subsidies and trade-distorting domestic farm subsidies are subject to explicit multilateral disciplines, and must be bound and reduced. In the area of market access, the United States was successful in achieving the principle of comprehensive tariffication which will lead to the removal of import quotas and all other non-tariff import barriers. Under tariffication, protection provided by non-tariff import barriers is replaced by a tariff and minimum or current access commitments are required. For the first time, all agricultural tariffs (including the new tariffs resulting from tariffication) are bound and reduced.

GATT ARTICLES

The mandate of the GATT Articles negotiating group was to discuss improvements to any GATT provision not being negotiated elsewhere. The balance-of-payments reform (BOP) text increases disciplines and transparency over the use of BOP measures. The state trading text affirms the obligation of GATT contracting parties to ensure that their state trading enterprises -- government-operated import/export monopolies and marketing boards, or private companies that receive special or exclusive privileges from their governments -- operate in accordance with GATT rules. The text on preferential trading arrangements clarifies the GATT rules that pertain to regional arrangements (customs unions and free trade arrangements) and defines the state/local relationship in regard to GATT obligations. The understanding on waivers of obligations will ensure that waivers are time-limited and that are subject to greater conditions and disciplines. There also are clarifications of GATT Articles II:1(b) (regarding "other duties or charges") and Article XXXV (regarding tariff negotiations).

There are four agreements covering customs-related matters. The **Import Licensing Agreement** more precisely defines automatic and non-automatic licensing. The agreement will help ensure that where countries continue to maintain import licensing regimes, the procedures required to obtain a license are no more burdensome than necessary.

New provisions in the **Customs Valuation Agreement** will facilitate developing countries' adherence to the Code, and the dispute settlement provisions of the Code have been aligned with the tougher integrated dispute settlement provisions.

The **Preshipment Inspection Agreement** requires countries which use pre-shipment inspection companies to supplement or replace national customs services to ensure that the activities of PSI companies will be carried out on a non-discriminatory basis for all exporters; that quantity and quality inspections are in accordance with international standards; that inspection operations will be performed in a transparent manner and exporters will be immediately informed of all procedural requirements necessary to obtain a clean report of findings; and that unreasonable delays be will avoided in the inspection process. In addition, the Agreement establishes an independent, binding review procedure to expedite the resolution of grievances or disputes that cannot be resolved bilaterally. These changes should ensure that the activities of PSI companies do not impede or place undue burdens on U.S. exporters.

The **Rules of Origin Agreement** establishes a three-year work program to harmonize rules of origin among WTO Members. The Agreement also establishes a Committee which is to work with a

Customs Cooperation Council Technical Committee to develop detailed definitions on which to base these harmonized rules of origin. During the transition period, criteria used to establish origin must precisely and specifically define the requirements to be met. These rules of origin are not to be used to influence trade or to create distortions or restrictions of trade. In addition, countries are required to publish changes to their rules of origin at least sixty days before such changes come into effect.

TRADE-RELATED INVESTMENT MEASURES

The TRIMS Agreement prohibits local content and trade balancing requirements. This prohibition will apply whether the measures are mandatory or are required in return for an incentive. A transition period of 5 years will be given developing countries to eliminate existing prohibited measures, but only if they notify the GATT regarding each specific measure. Only a two-year transition is provided for developed countries.

Not later than 5 years after entry into force of the WTO Agreement there will be a review of the operation of the Agreement. As part of this review, the WTO Council for Trade in Goods will consider whether the Agreement should be complemented with provisions on investment policy and competition policy.

TRADE-RELATED INTELLECTUAL PROPERTY RIGHTS

Trade in U.S. goods and services protected by intellectual property rights reflects a consistent trade surplus. For example, U.S. copyright industries--movies, computer software, and sound recordings--are consistently top U.S. export earners. U.S. semiconductors are found in the computers and appliances we all use each day. U.S. pharmaceutical companies are among the most innovative, and our exports of these important products have been growing. Strengthened protection of intellectual property rights and enforcement of those rights as provided in the TRIPS agreement will enhance U.S. competitiveness, encourage creative activity, and expand exports and the number of jobs.

The TRIPS agreement establishes, for the first time, detailed multilateral obligations to provide and enforce intellectual property rights. The Agreement obligates **all Members** to provide strong protection in the areas of copyrights and related rights, patents, trademarks, trade secrets, industrial designs, geographic indications and layout designs for integrated circuits.

Reduction commitments will be phased in during 6 years for developed countries and 10 years for developing countries. Budgetary outlays for export subsidies must be reduced by 36 percent and quantities exported with export subsidies cut by 21 percent from a 1986-90 base period. Non-tariff import barriers such as variable levies, import bans, voluntary export restraints and import quotas, are subject to the tariffication requirement. For products subject to tariffication, current access opportunities must be maintained and minimum access commitments may be required. Existing tariffs and new tariffs resulting from tariffication will be reduced by 36 percent on average (24 percent for developing countries) with a minimum reduction of 15 percent for each tariff line item (10 percent for developing countries). All tariffs will be bound.

Trade-distorting internal farm supports must be reduced by 20 percent from 1986-88 base period levels, allowing credit for farm support reductions undertaken since 1986. Direct payments that are linked to production-limiting programs will not be subject to the reduction commitment if certain conditions are met. Domestic support programs meeting criteria designed to insure that the programs have no or minimal trade distorting or production effects ("green box") also are exempted from reduction commitments. Due to the farm support reductions contained in the 1985 and 1990 Farm Bills, the United States has already met the 20 percent requirement and will not need to make additional changes to farm programs to comply with the Uruguay Round commitments.

Internal support measures and export subsidies that fully conform to reduction commitments and other criteria will not be subject to challenge for nine years. However, except for domestic support meeting the "green box" criteria, subsidized imports will continue to be subject to U.S. countervailing duty procedures.

TEXTILES AND CLOTHING

The textile and apparel sector has always been a critical one in this Round. From the very beginning of the negotiations at Punta Del Este, the developing countries have linked their willingness to accept disciplines in services and intellectual property, as well as further market opening, on the achievement of the phase-out of the Multifiber Arrangement (MFA). The MFA has governed trade in textiles and clothing for the past 20 years.

The Administration, however, was equally insistent on five key goals: 1) that the phase-out occur in a gradual manner that would permit our industry to adjust over time to the changes in the trading system; 2) that foreign markets be opened to U.S. textile and clothing exports for the benefit of U.S. workers; 3) that the U.S. retain control over which products would be integrated into

the GATT at each stage of the phase-out period; 4)) that strong safeguards be included in order to provide protection in the event of damaging surges in imports during the phase-out period; and 5) that in light of the phase-out of the MFA, that tariff cuts in this sector be held to a minimum.

We believe we have done very well in achieving those goals. While some in the sector had favored a 15-year phase-out of the MFA, we believe the 10-year period and the manner in which the phase-out is structured will give us ample tools to ensure a smooth transition. No limitations were placed on our right to make our own decisions about which products would be integrated at any given stage of the phase-out. This will ensure that the Administration can take into account the sensitivity of any given item in determining when quotas would be removed from that product in order to integrate it into the GATT.

In addition, the agreement includes strong safeguards that will allow us to take action against any import surges that might occur during the phase-out period.

In the area of tariffs, in recognition of the fact that the MFA will be phased out, the Administration resisted EC demands to cut all our peak tariffs by 50%. In fact, while the average U.S. tariff cut on all industrial items is 34 percent, the U.S. offer reduces textile and clothing tariffs by less than 12 percent overall. Particularly sensitive products received an even lower cut.

We also fought hard for commitments to open markets abroad for U.S. textile and apparel products. While we made very substantial progress in opening markets in most countries, we refused to close on inadequate offers -- notably those of India and Pakistan-- and are working vigorously to secure improved offers from these and other countries. We also ensured that non-WTO members, such as China, would not receive the benefit of the MFA phaseout until they become members of the WTO.

SAFEGUARDS

The Safeguards agreement incorporates many concepts long included in U.S. law -- Section 201 of the Trade Act of 1974 -- ensuring that all countries will use comparable rules and procedures when taking safeguard actions. The agreement provides for suspending the automatic right to retaliate for the first three years of a safeguard measure, thus providing an incentive for countries to use WTO safeguard rules when import-related, serious injury problems occur.

In the area of **copyrights** the text resolves some key trade problems for U.S. software, motion picture and recording interests by:

- o protecting computer programs as literary works and databases as compilations;
- o granting owners of computer programs and sound recordings the right to authorize or prohibit the rental of their products;
- o establishing a term of 50 years for the protection of sound recordings as well as requiring Members to provide protection for existing sound recordings; and
- o setting a minimum term of 50 years for the protection of motion pictures and other works where companies may be the author.

In the area of **patents** the Agreement resolves long-standing trade irritants for U.S. firms. Key benefits are:

- o product and process patents for virtually all types of inventions, including pharmaceuticals and agricultural chemicals;
- o meaningful limitations on the ability to impose compulsory licensing, particularly on semiconductor technology; and
- o a patent term of 20 years from the date the application is filed.

As for **trademarks**, the Agreement:

- o requires trademark protection for service marks;
- o enhances protection for internationally well-known marks;
- o prohibits the mandatory linking of trademarks; and
- o prohibits the compulsory licensing of marks.

The Agreement also provides rules for the first multilaterally agreed standards for protecting trade secrets, and improved protection for layout designs for integrated circuits. Provisions on protection for geographic indications and industrial designs are consistent with U.S. law and regulations.

Most importantly, countries are then obligated to provide effective enforcement of these standards, including meeting due process requirements and providing the remedies required to stop and prevent piracy.

While the transition period for developing countries is longer than we wanted and we must still work to ensure that U.S. sound recording and motion picture producers and performers receive national treatment and obtain the benefits that flow from their products, the TRIPs agreement is a major step forward in guaranteeing that all countries provide intellectual property protection and deny pirates safe havens.

SERVICES

The General Agreement on Trade in Services (GATS) is the first multilateral, legally enforceable agreement covering trade and investment in the services sectors. The GATS also provides a specific legal basis for future negotiations aimed at eliminating barriers that discriminate against foreign services providers and deny them market access. The principal elements of the GATS framework agreement include most-favored-nation (MFN) treatment, national treatment, market access, transparency and the free flow of payments and transfers. The rules embodied in the framework are augmented by sectoral annexes dealing with issues affecting financial services, movement of personnel, enhanced telecommunications services and aviation services.

Complementing the framework rules and annexes are binding commitments to market access and national treatment in services sectors that countries schedule as a result of bilateral negotiations. In order to fulfill the market access and national treatment provisions of the GATS, each government must submit a schedule of market access commitments in services which will become effective upon entry into force of the GATS. Countries are also permitted to take one-time exemptions from the most-favored-nation provision in the GATS. Schedules of commitments include horizontal measures such as commitments regarding movement of personnel and tax measures. The schedules also include commitments in specific sectors, such as: professional services (accounting, architecture, engineering), other business services (computer services, rental and leasing, advertising, market research, consulting, security services), communications (value-added telecommunications, couriers, audio-visual services), construction, distribution (wholesale and retail trade, franchising), educational services, environmental services, financial services (banking, securities, insurance), health services and tourism services.

The GATS contains a strong national treatment provision that requires a country to accord to services and services suppliers of other countries treatment no less favorable than that accorded to its own services and services suppliers, when a country enters commitments to apply the provision without significant reservations. A full commitment specifically requires GATS countries to ensure that their laws and regulations do not tilt

competitive conditions in the domestic market against foreign firms in services sectors listed in its schedule of commitments.

The GATS also includes a market access provision which incorporates disciplines on six types of discriminatory measures that governments frequently impose to limit competition or new entry in their markets. These laws and regulations -- such as restrictions on the number of firms allowed in the market, economic "needs tests" and mandatory local incorporation rules -- are often used to bar or restrict market access by foreign firms. A country must either eliminate these barriers in any sector that it includes in its schedule of commitments or negotiate with its trading partners for their limited retention.

For services companies which benefit from sectoral commitments, the framework also guarantees the free flow of current payments and transfers. The provision on transparency requires prompt publication of all relevant measures covered by the agreement. Subject to negotiations, specific laws or regulatory practices may be exempted from MFN treatment, by listing them in an annex provided for that purpose. This mechanism allows countries to preserve their ability to use unilateral measures as a means of encouraging trade liberalization.

Given the breadth and complexity of the services sector, the GATS provides for the progressive liberalization of trade in services. Successive negotiations may be commenced at five-year intervals to allow improvements in market access and national treatment commitments and to allow liberalization of MFN exemptions. The GATS also sets out terms for the negotiation of several framework provisions which currently contain no substantive disciplines such as subsidies, government procurement, and emergency safeguard actions. Negotiations are also extended for banking, insurance, and securities. On the date the agreement enters into force, certain Most-Favored-Nation exemptions based upon the level of commitments of other countries will be suspended for six months. After that time countries must decide to lift the intended exemption, or allow it to take effect. Such a process affords additional time between now and the end of the six month period I have described for countries to negotiate improved commitments for these sectors. In addition, Ministerial Decisions related to the GATS establish work programs in several areas such as trade and the environment, basic telephone services, maritime transport services and reduction of barriers to trade in professional services. Moreover, while there were no commitments from the European Union on audio-visual, the sector is fully covered by GATS and the Administration will aggressively pursue the interests of this industry through a variety of channels.

TRADE POLICY REVIEW MECHANISM

The Final Act confirms an April 1989 agreement establishing the Trade Policy Review Mechanism (TPRM), which examine, on a regular basis, national trade policies and other economic policies having a bearing on the international trading environment.

GOVERNMENT PROCUREMENT

The new GATT Government Procurement Code is a substantial improvement over the existing Code, significantly expanding the value of procurement opportunities covered by other countries and altering the character of the agreement to one much more rooted in reciprocity. For the first time, Code coverage is expanded to services and construction. It also opens the way for substantial coverage of subcentral governments and government-owned enterprises.

The new Code is like the old Code in limiting membership to those countries that specifically accede to it. Membership in the WTO does not necessarily lead to membership in the Procurement Code. The new Code departs from the old one, however, in creating a structure that makes reciprocity more workable between individual countries and actively encourages new countries to join. By authorizing departures from most-favored-nation (MFN) treatment, the new Code ensures that our relationships with all signatory countries are strictly reciprocal.

The new Code also provides improved disciplines. It restricts distorting practices such as offsets and ensures more effective enforcement through the establishment of national bid challenge systems, while also increasing flexibility in certain procedural requirements to adapt the Code to new efficiencies in procurement, like those contemplated in the Vice President's Reinventing Government proposals.

In negotiations on coverage, the United States offered a substantial value of our states procurement to countries that were willing to address our priorities in their procurement markets. Since there was a consensus to allow exceptions to MFN coverage, we were able to agree to cover our states for countries (Korea, Israel and Hong Kong) that offered substantial coverage of their subcentral governments and government-owned enterprises and not be forced to extend our states coverage to countries whose offers fell short.

We leave open the possibility, however, of extending coverage with any one country through bilateral negotiations in the future. Most importantly, the United States and the European Union agreed to accomplish this by April 15 of this year. We expect this expanded coverage to include the European Unions's

electrical sector under the Code and telecommunications sector under a separate, but parallel, bilateral agreement.

Finally, the new Code agreement sets the stage for new countries to accede and subject their procurement practices to international disciplines. The most recent addition is the Republic of Korea, which completed its accession with the conclusion of negotiations on the new Code. We expect that Taiwan, the Peoples Republic of China and Australia may soon follow as new signatories to the Code.

AIRCRAFT

Aircraft trade issues had been contentious throughout the negotiations because the European Community sought to have aircraft entirely excluded from the disciplines of the new UR Agreement on Subsidies and Countervailing Measures. Instead, the EC appeared intent on substituting a weaker discipline, having a revised Agreement on Trade in Civil aircraft entirely supersede any new subsidies agreement for aircraft products.

In the final week of negotiations, it became clear that the draft Aircraft Agreement had serious shortcomings. That text, if adopted, would have provided no new disciplines on production or development subsidies, nor would it have increased public transparency of government supports to aircraft manufacturers, such as those to the Airbus Consortium. Instead, the proposed revised Aircraft Agreement would have weakened those disciplines by allowing additional subsidies. Most significantly, past supports to Airbus would have been "grandfathered", completely exempting them from action under Subsidies Agreement. Moreover, certain provisions of the text might have provided a pretext for unjustified GATT action against our military and NASA research programs -- programs that have also provided benefits to the Europeans and are in no way comparable to the immense state subsidies that have been systematically provided to Airbus for civil aircraft development and production.

While we worked hard to negotiate to remedy these insufficiencies, U.S. proposals were not adequately reflected in revisions to the Aircraft Agreement. Such an outcome was clearly unacceptable both to the U.S. industry and to the U.S. Government. Just days before the end of the negotiations, the U.S. stood firm and refused to accept the draft Aircraft text as the basis for an agreement.

As a result of our resolve, the EC, and subsequently all other countries negotiating the Uruguay Round, agreed to bring aircraft under the stronger disciplines of the new Agreement on Subsidies (with only minor changes) and the more expeditious and certain dispute settlement procedures contained in the UR dispute

settlement agreement. The Subsidies Agreement will be applicable to all civil aircraft products including aircraft of all sizes and types, engines and components, and to all WTO member countries. This was the principal objective of the U.S. aerospace industry, which produces the largest trade surplus of any U.S. manufacturing industry, an estimated \$28 billion in 1993.

We continue to seek to tighten the existing disciplines on government support for aircraft development, production and marketing currently contained in the 1979 GATT Agreement on Trade in Civil Aircraft and to expand the coverage of that agreement to other countries that produce civil aircraft. Those negotiations will continue with the goal of reaching agreement by the end of 1994.

ENVIRONMENT

Comprehensive as it is, the Final Act does not cover every aspect of trade policy of great importance to the United States and to this Administration. Our trading partners recognize that the work of shaping the World Trade Organization to the needs of the 21st century must continue without pause.

In December, the Uruguay Round participants decided to develop a program of work on trade and environment to present to the ministers in Marrakech in April. We begin with the agreed premise that international trade can and should promote sustainable development, and that the world trading system should be responsive to the need for environmental protection, if necessary through modification of trade rules.

The United States will seek a work program that ensures that the new WTO is responsive to environmental concerns. International trade can contribute to our urgent national and international efforts to protect and enhance environmental quality and conserve and restore natural resources. At the same time, we will continue to advocate trade rules that do not hamper our efforts to carry out vital and effective environmental policies, whether nationally or in cooperation with other countries. We will be working closely with environmental organizations and business groups, as well as the various agencies, and of course this Committee and others in Congress, as we define our trade and environment objectives.

Conclusion

Madam Chairwoman, it appears that Congress will be considering the Uruguay Round implementing legislation at an auspicious time for America. The U.S. economy is expanding; investment is

increasing; jobs are being created; and optimism about the prospects for our economy is soaring. This economic expansion reflects the fact that this country is moving in the right direction; and we are doing it together. The policies of the Clinton Administration, starting with our budget plan; the adjustments made over the last several years by our workers and companies-- all of our efforts make us as a nation stronger and more competitive.

In setting the negotiating objectives for the Uruguay Round, Congress clearly signalled its belief that strengthening the multilateral rules of the GATT would make America more competitive in world markets. We succeeded. We met those objectives; and I am convinced that the new multilateral rules agreed to in the Uruguay Round will work together with our ongoing efforts to increase regional cooperation. America is uniquely positioned to benefit from expanding trade-- in this hemisphere and in the world. The Uruguay Round builds on our strengths. It will benefit us, and the world economy as a whole.



STATEMENT OF AMBASSADOR MICHAEL KANTOR
UNITED STATES TRADE REPRESENTATIVE

URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS
TRADE NEGOTIATIONS COMMITTEE
APRIL 14, 1994

It is a great honor for me to be here as President Clinton's representative for the formal signing of the Uruguay Round agreement. I am pleased that Vice President Gore will speak to us later this afternoon. The Vice President flew here from California to underscore our country's commitment to the success of the Uruguay Round.

The challenge of carrying out the new agreement and making the global trading system work is just beginning. While many people contributed to the success of the Round, I want to pay special tribute to the Director General of the GATT, Peter Sutherland. He took the work of his predecessor, Arthur Dunkel, and with his intellect and energy, played an indispensable role in bringing the negotiations to a successful conclusion. I also wish to thank King Hassan for his gracious hospitality in hosting this event.

I came to the hard work of these negotiations long after most of you. I will always be grateful for the opportunity that the President gave me in joining you in contributing to the Round's successful conclusion. Reflecting on what we have accomplished together, I am struck by the thin line that separates success and failure.

There were many moments when the seven year effort seemed poised to fail. Astute commentators gave us many reasons why we would fail. They said the distance between developed and developing nations could not be bridged. They said the issues of services, investment and intellectual property were too complex. They said the end of the Cold War spurred economic competition, not cooperation. They said we could not transcend our bilateral disputes.

They were wrong. Honest discussion and tough negotiation brought us to mutual understanding. We recognized that the post-Cold War period would be characterized---must be characterized---by economic cooperation as well economic competition. Bilateral differences would not disappear, but we refused to let them block our progress.

We succeeded because the ties that bind us together are

Please check against delivery

stronger than the forces seeking to pull us apart. We are in a global economy where goods, services, and capital cross borders at dazzling speeds. The forces of globalization will not erase the sovereignty of our individual nations or our distinctive cultures, but they do require us to recognize that our prosperity is bound up together; that we increase prosperity by erasing barriers, rather than creating them, and that we need an international trading system to make that growth possible.

The poet Yeats once wrote, "things fly apart; the center does not hold." This time, the center held.

President Clinton has described this juncture as "the third great moment of decision in the 20th century." After the First World War, the U.S. withdrew; after 1945, we chose the other path, forging international ties, and opened the door to a period of unprecedented global growth.

Today, we are at the third defining moment. The end of the Cold War presents new opportunities and new dangers, but we are confronted by the same basic choice: engagement or withdrawal? Through the Uruguay Round and the agreements we sign tomorrow, the United States remains intensely engaged and committed to the international system. As the President has said, we believe that open and competitive commerce enriches us a nation, and the world. And we intend to compete, not retreat.

We will continue to build on the accomplishments of the Round. Twenty one more countries seek to join us in the WTO, and we welcome the accession of those countries who are willing to maintain high standards and adhere to basic GATT principles.

We are living in a changed world; a world where the only constancy is change. With the end of the Cold War and the rise of a globalized economy, shaping the changes that result from a more interdependent world is absolutely critical to global prosperity.

I recognize that some are uncomfortable as we seek to address the environment and internationally recognized labor standards. But in this rapidly changing and increasingly interdependent world, it is beneficial---and inevitable---that we have begun to move beyond the traditional dictates of trade. It is clear that open markets and expanded trade foster growth and prosperity. Now our vision of the trading system must be dynamic and able to meet the emerging challenges to our collective global economic growth.

Increasingly, we will address issues related to each other's internal policies, such as competition policy and other domestic regulatory policies, as well as environmental protection and labor standards. In a globalized economy, how a nation addresses these issues affects its trading partners.

Testimony to the Senate Committee on Agriculture,
Nutrition and Forestry
Ambassador Michael Kantor
U.S. Trade Representative
April 20, 1994

THE URUGUAY ROUND:
GROWTH FOR THE WORLD, NEW OPPORTUNITIES FOR U.S. FARMERS

Introduction

Mr. Chairman, thank you very much. It is a pleasure to be here today to discuss the Uruguay Round agreement. This historic and far-reaching pact sets the stage for a more competitive and prosperous U.S. economy as we prepare to meet the challenges of the 21st century. I look forward to working with you this spring as we formulate legislation that will implement the Round. I hope the Congress will agree with our conclusion that the Round offers enormous potential for U.S. and global economic expansion.

Mr. Chairman, on December 15, 1993, 117 countries concluded a major agreement to reduce barriers to world markets (in agriculture, manufactured goods, and services) as well as to create fairer, more comprehensive, more effective, and more enforceable trade rules. In order to ensure the efficient and balanced implementation of the agreements reached, they also provided for the creation of a new World Trade Organization (WTO). Last week, we joined with other participants in the Uruguay Round in the formal signing of the agreement in Marrakesh, Morocco.

The Uruguay Round trade agreement is the largest, most comprehensive trade agreement in history. The existing GATT system was incomplete; it was not completely reliable; and it was not serving U.S. interests well. The new agreements open up major areas of trade and provide a dispute settlement system which will allow the U.S. to ensure that other countries play by the rules.

The successful conclusion of the Uruguay Round negotiations was an important part of the President's strategy for strengthening the domestic economy. A little over a year ago, President Clinton entered office, faced with daunting challenges in his effort to restore the American Dream.

The economy was stagnant. Unemployment was high, and confidence was down. In just one year, we have turned a corner. Our economy is growing and millions of jobs have been created. People are getting back to work.

But these are just the first steps in preparing our nation for the 21st century. The President is addressing the long-term issues facing our economy.

All of the elements of the President's economic strategy -- reducing the deficit, reforming education, the President's re-employment program, and health care reform -- are geared towards creating jobs and making our country more prosperous. All of the parts work in tandem, each reinforcing the other.

An essential element in this strategy is to open and expand foreign markets. Expanding trade is critical to our ability to compete in the global economy and create high-wage jobs. That is why the President focused so much attention in 1993 on the Uruguay Round, the North American Free Trade Agreement, the Japan Framework and the Asia Pacific Economic Cooperation conference.

The U.S. economy is now an integral element of the global economy. Over a quarter of the U.S. economy is dependent on trade. Where we once bought, sold and produced mostly at home, we now participate in the global marketplace. By expanding our sales abroad, we create new jobs at home and expand our economy.

The United States is positioned economically, culturally and geographically to reap the benefits of the global economy.

Economically, because our farmers and workers are the most productive in the world, and our economy is increasingly geared towards trade.

Culturally, because of our tradition of diversity, freedom and tolerance will continue to attract the best and brightest from around the world, ensuring that we will never stagnate as a people.

Geographically, because we are at the center of a nexus between our historic trading partners in Europe and Japan, and the new dynamic economies in Latin America and Asia.

Our trade policy is guided by a simple credo. We want to expand opportunities for the global economy, but insist on a similar responsibility from other countries.

Trade is a two way street. After World War II, when the American economy dominated the world, we opened ourselves up to help other countries rebuild. It was one of the wisest steps this country ever took, but now we cannot have a one way trade policy. The American people won't support it and the Administration won't stand for it.

For other nations to enjoy the great opportunities here in the U.S. market, they must accept the responsibility of opening their

markets to U.S. products and services. Ultimately, it is in their own self interest to do so, because trade fosters economic growth and creates jobs.

The Uruguay Round ensures American producers are trading on a two-way street; that they benefit from this new globalized economy; that they can sell their products and services abroad; and that they can compete on a fairer playing field.

President Clinton led the effort to reinvigorate the Uruguay Round and to break the gridlock, which had stalled the negotiations despite seven years of preparation and another seven years of negotiations.

We did not accomplish everything we wanted to in the Uruguay Round. But, the final result is very positive for U.S. producers and companies. It helps us to bolster the competitiveness of key U.S. industries, to create jobs, to foster economic growth, to raise our standard of living and to combat unfair foreign trade practices. The agreement will give the global economy a major boost, as reductions in trade barriers create new export opportunities, and as new rules give businesses greater confidence that export markets will remain open and that competition in foreign markets will be fair.

More importantly, the final Uruguay Round agreement plays to the strengths of the U.S. economy, opening world markets where we are most competitive. From agriculture to high-tech electronics, to pharmaceuticals and computer software, to business services, the United States is uniquely positioned to benefit from the strengthened rules of a Uruguay Round agreement that will apply to all of our trading partners.

The Uruguay Round

The Uruguay Round is the right agreement at the right time for the United States. It will create hundreds of thousands of high-wage, high-skill jobs here at home. Economists estimate that the increased trade will pump between \$100 and \$200 billion into the U.S. economy every year after the Round is fully implemented. A study by DRI/McGraw Hill estimated that the net U.S. employment gain (over and above normal growth of employment in the economy) will be 1.4 million jobs by the tenth year after implementation.

This historic agreement will:

- cut foreign tariffs on manufactured products by over one third, the largest reduction in history;
- protect the intellectual property of U.S. entrepreneurs in industries such as pharmaceuticals, entertainment and software from piracy in world markets;

- ensure open foreign markets for U.S. exporters of services such as accounting, advertising, computer services, tourism, engineering and construction;
- ensure that developing countries follow the same trade rules as developed countries and that there will be no "free riders";
- establish an effective set of rules for the prompt settlement of disputes, thus eliminating shortcomings in the current system that allowed countries to drag out the process and to block judgments they did not like; and
- create a new World Trade Organization (WTO) to implement the agreements reached.

This agreement will not:

- impair the effective enforcement of U.S. laws;
- limit the ability of the United States to set its own environmental or health standards; or
- erode the sovereignty of the United States.

Agriculture: U.S. farmers are the envy of the world, but too often they were not able to sell the products of their hard labor abroad, because the old GATT rules did not effectively limit agricultural trade barriers. Many countries have kept our farmers out of global markets by limiting imports and subsidizing exports. These same policies have raised prices for consumers around the world.

The agriculture agreement is a marvel both for its scope and its breadth. It will reform policies that distort the world agricultural market and international trade in farm products. By curbing policies that distort trade, the World Trade Organization will open up new trade opportunities for efficient and competitive agricultural producers like the United States.

With the Uruguay Round agreement, U.S. agricultural exports are expected to increase by \$1.6 billion to \$4.7 billion in 2000 and by \$4.7 billion to \$8.7 billion in 2005. Increased exports mean more export-related jobs, particularly for high-value and value-added products. Agricultural export-related employment is expected to increase by as much as 112,000 jobs in 2,000, and by as much as 190,000 jobs in 2005.

The effects on U.S. agricultural exports are as follows (in million dollars):

Commodity	Change from Baseline	
	FY 2000	FY 2005
grains/feeds	400-1,940	1,950-3,910
cotton	50-290	60-590
animal products	740-1,660	1,690-2,510
horticultural products	180-280	200-370
oilseeds and products	170-530	810-1,330

For the first time, non-tariff import access barriers, internal supports and export subsidies on agricultural products will be fully brought under the disciplines of the GATT. No longer will members be able to freeze out imports with protective trade barriers or use their national treasuries to gain market share at the expense of non subsidizing exporters.

When the Uruguay Round began in 1986, there were a myriad of problems in agricultural trade. Indicative of this is the fact that in the early 1980's, eighty percent of the disputes in GATT were on agricultural trade issues, and most of these involved disputes between the United States and the European Union. It was readily apparent that the exceptions which permitted import restrictions and export subsidies on agricultural products when the GATT was entered into in 1947 were no longer appropriate for the agricultural trading environment of the 1980's.

Aided by the impervious variable levy, the European Union over the previous 10 years had gone from a net importer to a net exporter of most agricultural commodities. Moreover, because EU internal prices were higher than world market prices, export subsidies were used extensively to move surpluses into the world market. In 1985, the EU spent \$6 billion on agricultural export subsidies. Unable to negotiate meaningful disciplines on export subsidies, the United States initiated the Export Enhancement Program in 1985 in order to compete. In recent years, this program has made available approximately \$1 billion of export subsidies each year.

Non subsidizing exporters were frustrated at having to compete in world markets with national treasuries rather than other farmers. Import restrictions, prohibitions and high tariffs in countries such as Japan were also motivations for a broad, trade liberalizing Round on agriculture.

The Punta del Este Declaration set the goals for the agricultural negotiations, It said... "Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under

strengthened and more operationally effective GATT rules and disciplines..."

The agreement we reached in December is truly remarkable in its conformity with the objectives that were only envisioned at the time of Punta del Este. The agreement brings into play a new accounting system, i.e., tariffication which converts non-tariff measures affecting import access into tariff equivalents. Likewise, trade-distorting internal support, whether it is provided through direct payments to producers or by market price support, is put on a common denominator basis through calculations called "aggregate measures of support."

Tariffication and aggregate measurement of support provided a way to evaluate the impacts of very different import and domestic policy systems on a common basis, thereby facilitating the negotiations. However, the immediate benefits of the agreement are in the commitments. The most important of these are:

- o Members will reduce tariffs and tariff equivalents by 36 percent on average with a minimum reduction of 15 percent for each tariff line item. For developing countries the commitments are 24 percent and 10 percent, respectively.
- o For products with tariff equivalents, minimum access and current access opportunities are required.
- o With tariff equivalents, all import access barriers will now be on a tariffs only basis, with two temporary exceptions. All tariffs will be bound--meaning all agricultural products are now covered by the GATT.
- o Domestic support programs which have no, or minimal, trade distorting or production effects ("green box") are exempted from reduction commitments and from countervailing duties.
- o Direct payments to producers that are linked to production-limiting programs will not be subject to reduction. However, trade-distorting support programs must be reduced by 20 percent. (Due to the farm support reductions contained in the 1985 and 1990 Farm Bills, the United States has already met the 20 percent requirement and will not need to make additional changes to farm programs to comply with the Uruguay Round commitments.)
- o Export subsidies are to be cut by 21 percent in volume and 36 percent on the basis of budgetary outlays.

The relative simplicity and straightforwardness of the commitments on export subsidies belie the difficulties in reaching agreement with the European Union. In both 1990 and 1991, the Uruguay Round failed to conclude because of EU

intransigence on export subsidies. Last year, EU negotiators tried to back away from a deal that had been struck in 1992, but we were able to strike an agreement that was to our mutual benefit. The reductions in export subsidies can be made in equal installments from the 1991-92 marketing year if subsidized exports have increased from their base levels. This permits both the EU and the U.S. to smooth out the reduction slope for certain agricultural export subsidies. However, at the end of the six year implementation period, export subsidies will still have to be reduced by 21 percent and 36 percent, respectively, from the volume and budgetary outlays of the 1986-90 period.

Because of their much larger volumes of subsidized exports, the European Union will have to make greater absolute reductions in export subsidies than will the United States. For example, by the end of the 6 year implementation period the United States will have reduced its annual subsidized exports of coarse grains by 415,000 tons while the European Union will have cut theirs by 2.65 million tons. For other commodities, the absolute reductions the EU must make are as follows: sugar, 340,000 tons; cheese, 122,000 tons; beef, 362,000 tons; pork, 107,000 tons; poultry meat, 179,000 tons. These reductions in EU subsidized exports are a key factor in the projected increase in U.S. export as a result of the Round.

An important achievement in the agreement is the commitment to continue the process of liberalizing agricultural trade in the fifth year of the agreement. A strong incentive to make further reforms in trade distorting support, import barriers and export subsidies is provided in the peace clause of the agreement. After nine years, "green box" support programs will no longer be exempted from countervailing duties; domestic supports programs which account for more than 5 percent of the value of production will no longer be exempted from the serious prejudice findings of the subsidies agreement; and export subsidies on agricultural products will no longer be exempted from the prohibition on export subsidies in the subsidies agreement. Negotiations to extend the peace clause will be the opportunity to secure greater agricultural trade liberalization in the future.

Sanitary and Phytosanitary Measures: The Agreement on the Application of Sanitary and Phytosanitary ("S&P") Measures will guard against the use of unjustified S&P measures to keep out U.S. agricultural exports. S&P measures are laws, regulations and other measures aimed at protecting human, animal and plant life and health from risks of plant- and animal borne pests and diseases, and additives and contaminants in foods and feedstuffs. They include a wide range of measures such as quarantine requirements and procedures for approval of food additives or for the establishment of pesticide tolerances. The S&P agreement is designed to distinguish legitimate S&P measures from trade protectionist measures. For example, S&P measures must be based

on scientific principles and not maintained without sufficient scientific evidence and must be based on an assessment of the risk to health, appropriate to the circumstances.

The S&P agreement safeguards U.S. animal and plant health measures and food safety requirements. The agreement clearly recognizes and acknowledges the sovereign right of each government to establish the level of protection of human, animal and plant life and health deemed appropriate by that government. Furthermore, the United States has a long history of basing its S&P measures on scientific principles and risk assessment.

In order to facilitate trade, the S&P agreement encourages the use of international standards as a basis for S&P measures. However, each government remains free to adopt an S&P measure more stringent than the relevant international standard where the government determines that the international standard does not provide the level of protection that the government deems appropriate.

Dispute Settlement: The Dispute Settlement Understanding (DSU) creates new procedures for settlement of disputes arising under any of the Uruguay Round agreements. Representatives of the soybean industry who were involved in the U.S. challenge to EC oilseed subsidies will immediately recognize the value of this agreement. The new system is a significant improvement on the existing practice. In short, it will work and it will work fast. The process will be subject to strict time limits for each step. There is a guaranteed right to a panel. Panel reports will be adopted unless there is a consensus to reject the report and a country can request appellate review of the legal aspects of a report. The dispute settlement process can be completed within 16 months from the request for consultations even if there is an appeal. Public access to information about disputes is also increased.

After a panel report is adopted, there will be time limits on when a Member must bring its laws, regulations or practice into conformity with panel rulings and recommendations, and there will be authorization of retaliation in the event that a Member has not brought its laws into conformity with its obligations within that set period of time.

The automatic nature of the new procedures will vastly improve the enforcement of the substantive provisions in each of the agreements. Members will not be able to block the adoption of panel reports. Members will have to implement obligations promptly and the United States will be able to take trade action if Members fail to act or obtain compensation. Trade action can consist of increases in bound tariffs or other actions and increases in tariffs may be authorized even if there is a violation of the TRIPS or Services agreements.

The DSU includes improvements in providing access to information in the dispute settlement process. Parties to a dispute must provide non-confidential summaries of their panel submissions that can be given to the public. In addition, a Member can disclose its submissions and positions to the public at any time that it chooses. Panels are also expressly authorized to form expert review groups to provide advice on scientific or other technical issues of fact which should improve the quality of decisions.

Environment: Comprehensive as it is, the Final Act did not cover every aspect of trade policy of great importance to the United States and to this Administration. Our trading partners recognize that the work of shaping the World Trade Organization to the needs of the 21st century must continue without pause. We begin with the agreed premise that international trade can and should promote sustainable development, and that the world trading system should be responsive to the need for environmental protection, if necessary through modification of trade rules.

In December, the Uruguay Round participants decided to develop a program of work on trade and environment and recommendations on an institutional structure to present to the ministers in Marrakech in April.

At Marrakesh, the United States sought and obtained a work program that ensures that the new WTO is responsive to environmental concerns. We also pressed for and got agreement on establishing a Committee on Trade and Environment within the WTO with broad terms of reference. International trade can contribute to our urgent national and international efforts to protect and enhance environmental quality and conserve and restore natural resources. At the same time, we will continue to advocate trade rules that do not hamper our efforts to carry out vital and effective environmental policies, whether nationally or in cooperation with other countries. We will be working closely with environmental organizations and business groups, as well as the various agencies, and of course this Committee and others in Congress, as we define our trade and environment objectives.

Conclusion

Mr. Chairman, Congress will be considering the Uruguay Round implementing legislation at an auspicious time for America. The U.S. economy is expanding; investment is increasing; jobs are being created; and optimism about the prospects for our economy is soaring. This economic expansion reflects the fact that this country is moving in the right direction. The policies of the Clinton Administration, starting with our budget plan; the adjustments made over the last several years by our workers and companies-- all of our efforts make us as a nation stronger and more competitive.

In setting the negotiating objectives for the Uruguay Round, Congress clearly signalled its belief that strengthening the multilateral rules of the GATT would make America more competitive in world markets. We succeeded. We met those objectives; and I am convinced that the new multilateral rules agreed to in the Uruguay Round will work together with our ongoing efforts to increase regional cooperation. America is uniquely positioned to benefit from expanding trade-- in this hemisphere and in the world. The Uruguay Round builds on our strengths. It will benefit us, and the world economy as a whole.

**TESTIMONY OF IRA SHAPIRO,
GENERAL COUNSEL
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE**

**BEFORE THE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE**

April 22, 1994

I welcome the opportunity to testify on behalf of USTR as the Committee examines the circumstances in which EPA has explored revising its Clean Air Act regulation on reformulated gasoline, issued on December 15, 1993.

The rule promulgated in December, EPA's notice of proposed rulemaking issued on April 20, and this hearing illustrate the complex issues which can be posed when trade and environmental issues intersect. These are issues which the Chairman and Ranking member, Senators Baucus and Chafee, are particularly well-qualified to assess because of their longstanding involvement with international trade issues as well as their leadership on environmental issues, including the historic revision of the Clean Air Act in 1990.

I think we all agree that, as Vice President Gore stated in Marrakesh, "We are not faced with a choice between trade and environment. We can -- and must -- have both." But this does not mean that there may not be tensions between environmental laws and international obligations. Since this Administration came into office, it has been USTR's commitment -- and privilege -- to try to resolve these kinds of tensions so that we can "have both": so that we can continue to protect our environment while operating under a system of predictable trade rules that protect our exports from discrimination and double standards abroad.

For that reason, this Administration has worked intensively on harmonizing our trade and environment objectives in a wide variety of situations, including this latest EPA regulation on reformulated gas.

We insisted on --- and achieved --- a landmark supplemental agreement to the NAFTA, dealing with the environment.

In Geneva, in December, we succeeded in negotiating changes to the Dunkel text on sanitary and phytosanitary standards (SPS) and technical barriers to trade (TBT) which made those texts far more sensitive to the right of this country to adopt and maintain high standards in the environment and food safety arenas.

Since December, we made major efforts to ensure that the new WTO would include a permanent committee on Trade and the

Environment, with an ambitious work program. Virtually alone, we succeeded in convincing our trading partners to create such a committee.

Throughout the last year, we have vigorously defended U.S. laws protective of the environment against GATT challenges, and supported the President's recent decision under the Pelly Amendment to impose trade sanctions against Taiwan for its trade in rhinoceros horns and tiger bones.

Ambassador Kantor, speaking last night to the Environmental Defense Fund in New York, underscored his determination to continue efforts that we have already started to open up the process of dispute settlement in the new WTO so that NGOs and the public can have confidence in the decisions made in trade cases which have environmental implications.

Against the background of that record, and that commitment to the environment, I would like to briefly review USTR's role in counseling EPA on the GATT implications of regulations it might choose to adopt.

I know that the members of this Committee labored for years over the myriad details of the 1990 amendments to the CAA including the reformulated gasoline program. While I am not an expert, I understand that reformulated gasoline will contribute to reducing levels of air pollution in our metropolitan areas. USTR fully shares the Administration's, and the Committee's, resolve to implement this program on time and in a fully effective manner. Throughout this process, USTR was very conscious that a Clean Air Act regulation was at stake, and fulfilling the requirements of the Clean Air Act was the overriding consideration.

In the fall of 1992, USTR staff were informed of the rule making process for reformulated gasoline regulations under the Clean Air Act through contacts with EPA staff, Federal Register notices, and information provided by representatives of the Venezuelan oil company -- Petroleos de Venezuela (PDVSA). In December 1992, EPA staff visited USTR to explain the status of the reformulated gasoline rule, focussing particularly on EPA's use of individual company "baselines." USTR staff explained to EPA the relevance of certain GATT provisions and offered preliminary views on some of the options EPA was considering.

It was our understanding from EPA in 1993 that EPA was consulting with representatives from PDVSA on the possibility of allowing PDVSA refiners to establish an individual baseline.

In the fall of 1993, EPA appeared to be close to reaching the conclusion that Venezuela's concerns could be accommodated while complying with the Clean Air Act's goals for reformulated

gas. However, in November 1993, USTR staff learned that EPA planned to issue a final rule in December -- in response to a court-ordered deadline -- that did not allow PDVSA to establish an individual baseline. We again advised EPA of the potential GATT implications of such an approach. EPA advised us that technical discussions with Venezuela were still under way, and that the agency was not yet fully satisfied that it had identified the best solution to the issue of individual baselines for foreign refiners. At the time EPA issued its final rule under the court-ordered deadline of December 15, however, we understood that EPA would leave the door open for further refinement of the reformulated gas rule, and EPA advised the public that possible solutions to the Venezuela issue were still being considered.

On January 14, 1994 the Government of Venezuela requested formal consultations with the United States under GATT Article XXII. Consultations were held in Washington with Venezuela on February 11, during which Venezuela alleged that the December 15 reformulated gas rule violated Venezuela's rights under the GATT. Venezuela's primary allegation was that the rule was inconsistent with the principle of "national treatment," embodied in Article III, which requires countries to provide imports with treatment that is no less favorable than the treatment afforded to similar products produced domestically.

The EPA rule promulgated on December 15 subjected reformulated gasoline from Venezuela to different rules than those applied to domestically refined reformulated gasoline. As such, it posed an unmistakable GATT question. The chronology of events makes it clear that this potential GATT problem did not suddenly surface in December or after the regulation was adopted. It was recognized, under discussion, and regarded as a serious potential problem for over a year as part of EPA's deliberations on the rule.

Some have argued that even if EPA's rule was found to present a case of treating an imported product differently, in possible violation of Article III, the United States could assert a strong defense under Article XX of the GATT. As the Committee knows, Article XX provides exceptions to basic GATT obligations for certain health and conservation measures. However, these exceptions are only available if the measures do not constitute a means of "arbitrary or unjustifiable discrimination." Since Article XX is an affirmative defense, it is up to the country promulgating the measure to show that discrimination is needed to protect health or promote conservation.

Both before and after issuance of EPA's rule on December 15, USTR worked closely with EPA as the agency assessed whether there was adequate justification for not affording Venezuela the opportunity to establish an individual baseline. During February

and March of this year, EPA was drafting an options memo based on its determination that, under carefully limited circumstances, it could establish, verify, and monitor an individual baseline for Venezuela. That process was nearly complete when Venezuela notified Ambassador Kantor on March 8 that it would be placing on the agenda for the March 22 meeting of the GATT Council a request for a dispute panel under GATT Article XXIII.

GATT procedures allow the country subject to a dispute to block a panel request only once. We therefore made a proposal to Venezuela. The United States would not block a Venezuelan request for a panel at the May GATT Council meeting if Venezuela would not seek a panel at the March GATT Council meeting (which we would block). Venezuela rejected this proposal, but agreed that it would withdraw its request before the March 22 Council meeting if the Administration appeared to be making progress by then. We understood this to mean that Venezuela expected EPA to issue a proposal for a revised rule, followed by publication and public comment.

In summary, USTR believes that it is essential to try to harmonize our country's environmental objectives and our trade objectives, wherever possible. In this case, the Clean Air Act objectives have been -- and remain -- of overriding importance. USTR was prepared -- and is prepared -- to vigorously defend a GATT case if EPA concludes that different treatment for Venezuela is necessary to accomplish the objectives of the Act, or if EPA reaches that conclusion based on further comment on the new proposed rule. But it was USTR's view throughout this process that we should not invite a GATT challenge on reformulated gasoline if EPA determined that our clean air objectives could be realized in a way that was plainly GATT-consistent.

I am pleased to answer further questions from the Committee.