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TRADE MINISTERS CONFERENCE RE ACCESSION OF CHILE TO NAFTA

[SOUND QUALITY IS POOR]

THE HONOURABLE ROY MACLAREN (Minister for International Trade): I'm Roy MacLaren. I'm the Trade Minister of Canada. I want to say one more word of welcome to our colleagues from the United States, Mr. Cantor, ...

[INTERRUPTION IN RECORDING]

MACLAREN: ... we've had a good and constructive meeting this morning which, in effect, gives substance to the commitment made by our leaders in Miami last December, not only to welcome the early accession of Chile to the NAFTA, but by so doing, we give further substance to the goal that we set ourselves in the Western Hemisphere to create free trade not later than the year 2005. We've had a discussion about the way in which we should move forward. We've set forth a road map, a route to be followed to ensure the early accession of Chile. The details of the work program for our negotiators are given on the piece of paper, which I think you all have... I hope you all have it. It's available, I believe in English, French, and Spanish. And we have welcomed the occasion of this meeting to give further impetus to our common commitment. As I say, not only to the accession of Chile, a

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country which is preeminently well-placed and well-equipped to participate in the free trade regime of NAFTA, but to give substance to our common commitment to the meeting that we'll have in Denver in a few weeks time to achieve free trade in the Western Hemisphere.

With that brief introduction, I'd like to... I think if my colleagues would agree, we won't invite each of them to make a statement, but rather to go immediately to questions. If that's...

QUESTION: I would like to know if Canada and Mexico would be willing to put away their desire to (inaudible word) Chile to the side agreement if the Republicans took this as a condition (inaudible)...?

MACLAREN: That's a very hypothetical question but the basic Canadian position is that we are discussing a total package that involves understandings on labour and on environmental questions as well as the trade questions. And we, for our part, would find it, to put it mildly, anomalous if we were to create a free trade area where three members pursued one set of rules and the fourth member pursued another set of rules. So, for our part, speaking for Canada, I know we look forward to a comprehensive agreement with Chile which will embrace a total package that NAFTA itself represents.

QUESTION: And what about Mexico?

UNIDENTIFIED: [reply made in Spanish, translation not audible]

QUESTION: Hi, I'm here representing the Action Canada network and similar collusions(?) in all three countries. We collectively prepared a letter to the President and the Prime Minister outlining our concerns with this process. We're here asking for your commitment, Mr. MacLaren and Mr. Cantor, Senor Blanco(?) and Senor Aninas(?), to really and seriously considering our demands. Will you do this? Can we present our letter?

MACLAREN: When I've seen your letter, I'd be glad to look at it and respond. Thank you. We'll respond to that (inaudible)....

QUESTION: I have a question for Mr. Cantor. Mr. Cantor, there has been discussions as to whether this agreement will be open in certain areas for renegotiation or (inaudible word). I would like to know whether you have a commitment of not opening this agreement again.

And number two, how are you going to do so that the agreement that Chile (inaudible)... with Mexico by which the wine goes without tariffs to Mexico. But at the same time, the United States, I understand, has no obligation to (inaudible)... tariffs to Mexico. So, in other words, which one will be the valid agreement? Or how are you going to make it compatible?

MICKEY CANTOR (TRADE AMBASSADOR FOR THE UNITED STATES): First of all, we're not going to negotiate in public. I think we all share that. Number two, I think that operations or changes are in the eyes of the beholder. Number three, obviously I think we all agree we'll only make changes to the NAFTA which are necessary to

accommodate Chile's successful accession. With that, of course, there will be those who will interpret it many different ways. But I think that is a fairly clear statement as to where we're at.

QUESTION: (inaudible)... wine problem.

CANTOR: I'm not going to negotiate in public. I never have. I don't find it very helpful. I don't believe my colleagues would appreciate it if I began to lay out any particular positions here with you or with the rest of your colleagues. Thank you.

QUESTION: Hi. Monica (inaudible)... from Chile, for Mr. Cantor. I would like to know, the only country that is not completely ready to begin this negotiation is the United States. Because the government doesn't have a (inaudible word) authority. The main two problems there are the environment and labour standards. (inaudible).... I would like to know how much do you think this problem will be finally solved? And any date or time you think it will be approved by the Congress finally?

CANTOR: Is that all you want to know?

(general laughter)

CANTOR: Number one, of course, the... we can begin negotiations on any trade agreement prior to (inaudible) being granted. In fact, let me give you at least some sense of history. We began the Uruguay Round negotiations and they continued for three years, the largest trade agreement in history. It had no fast-track(?) authority. The same happened with the free trade agreement with Israel. And so in both cases, (inaudible)... the

United States begins serious negotiations on important agreements such as this without fast-track authority.

Second, we've made our views to the administration well known, starting on October 4, 1992. As to our concern about the impact of labour and the environment on trade and vice versa.

Number three, we're in the middle of discussions with Republicans and Democrats in both the House and the Senate over the counters of a fast-track agreement. And we hope and expect that we can successfully complete those discussions and move forward as soon as possible.

QUESTION: But as the discussions get more complicated, are you... the administration willing again of giving out on those two issues? Or do you think... the position of the administration will continue to be the same?

CANTOR: I don't think I indicated the administration was going to quote, give up on anything.

QUESTION: No, I'm asking you if you will consider at the end, if this takes longer than expected.

CANTOR: Well, we don't think it'll take longer than expected. And our position is clear. We believe that these agreements are not only well-formed, but has operated successfully, meaning the NAPTA, for both... for all three countries. We've increased our trade tremendously. We've found jobs and raised our standards of living. We welcome these accession discussions and negotiations with Chile. We believe it's good for the hemisphere, 800 million

people, the second-fastest growing area in the world. And so we'll continue on this track.

QUESTION: [question was in French, translation provided over it made the original French inaudible] ... I think you know that we had criticisms of the negotiations that are underway right now. That say that the arrival of Chile could (inaudible)... the environmental standards, labour laws, that we have here, in particular Canada. And I'd like to hear your opinion (inaudible)... case. Maybe you could describe the situation in Chile right now.

UNIDENTIFIED: Only if I respond to you in English. But I understood your question fully. Basically, we believe that here we have a forthcoming (inaudible) with very high (inaudible)... for many reasons. For historical purposes, because we started the trade openness mechanism almost twenty years ago. And we have successfully been on trade with all of the world for more than twenty years in a (inaudible).... Second, because we (inaudible) are rooted in democratic values and we care about labour rights and environment protection and sustainable development. To be very precise, I think that our (inaudible word) rate, which is in the order of 14 percent of the total labour force is probably among the highest in the Americas. The present government (inaudible)... is precisely engaged in (inaudible)... and passing through Congress further legislation for protecting labour rights. With our brand-new (inaudible word), two years old, on environment protection,

we're working on implementing the regulations all throughout our thirteen(?) regions. And we're not at all insensitive of this issue. Quite the contrary, we are very sensitive and very dynamic and positive about their importance. So basically, our view is that here we are approaching the new partners (inaudible)... NAFTA and we'll probably create, not only more momentum for trade, but more opportunities for expanded jobs and (inaudible)....

QUESTION: My second question... can I ask a supplementary?... for everybody. Is it realistic to think that this could be achieved in six months?

MACLAREN: Well, if I might just speak for Canada first. Yes. We think that the... as Minister Aninas has just said, the qualifications, the preparations, as it were, that Chile has made are such that we should be able to proceed promptly. And certainly, in the case of Canada, we look forward to the accession of Chile, we hope, by year end or early next year.

QUESTION: Yes, this is a question for (inaudible) Cantor. The declaration mentions specifically that the governments will inform each other by June 20th of their representatives on the negotiations. That means that you hope to have (inaudible)... for that day. Or when you agree on that day, did you have that in your mind? This is the question.

CANTOR: I'm not sure I follow your question. Are you talking about the guide...

QUESTION: Yes.

CANTOR: Well, we are... this guidance, of course, has a number of very important dates. Our lead negotiators will formulate plans, exchange electronic copies of various documents, meet no later than the end of July to review much of this, and so on. And so, therefore, I believe it's quite clear that we're moving forward in a very aggressive manner.

QUESTION: But the question is, when you decided to put this date, June 20th, did you have in mind to have (inaudible) authority before that day? Or (inaudible)....

CANTOR: Well, all we said, we said we'll inform each other by June 20th their respective officials for negotiating responsibility for the individual. We've already, in fact, given all of our partners a list of officials who are responsible for this. We've already fulfilled that.

QUESTIONS: I have two questions. First, one for Mr. Aninas and one for Mr. MacLaren. Mr. Aninas, will Chile sign on to this deal if you don't have assurance that that fast-track is going to be redeemed?

MINISTER ANINAS (TRADE MINISTER FOR CHILE): Well, we have discussed fast-track (inaudible)... with Ambassador Mickey Cantor and the rest of the administration. And we have (inaudible)... on a few occasions now in the meetings this morning. Basically our view is as follows; number one, we are very clear and very positive that the process launched today provides for a start-up on a dialogue on (inaudible) negotiations on a (inaudible) in those

areas where the state of readiness and the state of preparedness looks appropriate from all four countries' point of view. So the dynamics are set in for a positive movement forward.

But, number two, certainly we would require (inaudible)... fast-track approval so that what we negotiate at this positive table now doesn't get later amended to (inaudible)...

QUESTION: So if the Clinton administration can't give you that at the end of this year, will you sign on?

ANINAS: Well, we'll wait and see.

QUESTION: Mr. MacLaren, Monsieur Aninas already answered this question. It was put to him in French. But I'd like your answer. You know the critics in this country have said that Canada shouldn't be signing on to this deal, given Chile's record on human rights, also environmental and labour standards. What do you say to those critics in this country?

MACLAREN: I'm not sure what the criticism is. But if Chile has somehow not achieved sufficiently high standards of labour and environmental qualification, that they are not eligible for membership in NAFTA, I would strongly disagree. On the contrary, I... through our examination in cooperation with the Chilean government of the environmental and labour regimes in Chile, we seem to believe that Chile is fully qualified to participate in and accept the standards of NAFTA.

QUESTION: And human rights concerns. What do you say to those?

MACLAREN: Human rights concerns, the same thing.

QUESTION: This is a question for Mr. Cantor. Some critics are using the Mexican economy crisis to attack NAFTA. How are you planning to battle in Congress the new inclusion of a new member?

CANTOR: I didn't hear the last part of the question.

QUESTION: How are you planning to battle the scepticism in Congress about a new member?

CANTOR: First of all, those who first link the situation in Mexico in regard to the peso to this, are just wrong. Frankly, the NAFTA provided an underpinning for all three economies in North America during a very difficult time. As you will recall, in the late '70s and early '80s, without the NAFTA, when Mexico was faced with a similar problem, the tendency was to close markets, raise tariffs, and to borrow rather than to seek investment. Because of the NAFTA and Mexico's commitment to the NAFTA, the opposite has occurred over the last few months, and in fact, Mexico's economy is improving and improving rapidly.

I would note... I just read this morning, in April Mexico had yet one more trade surplus, which is healthy for Mexico and healthy for the NAFTA. I would indicate in 1994, the first year NAFTA alone, trade between the three countries increased by a very impressive margin. Exports from Mexico to the United States increased by 22 percent, and exports from the United States to Mexico increased about 22 percent. Exactly the same. And our exports to Canada increased 12 percent. I think Canada's exports

to the United States increased even more than that.

And so, the fact is that NAFTA has been a success. It has grown jobs, it's raised our standards of living, it has provided a foundation for Mexico to weather this storm, and we hope a brief storm, in the last few months. And we are very optimistic about what's happening in Mexico and what's happening in North America.

QUESTION: [question in Spanish, translation provided very poor sound quality] ... with respect to the accession of Chile to NAFTA to open up the agreement in order to establish a (inaudible) on Mexico, and especially in the case of (inaudible).

CANTOR: Well, I answered that question, I think, before. I don't think I need to go through it again. We're not going to negotiate in public. I think the statement by the... the joint statement is clear. I think the guidance is clear that's attached to it, as to how we're going to proceed. And a number of questions will come up during those discussions and they will be handled at that point.

QUESTION: [Spanish] ... these negotiations have reached a point where Chile (inaudible).... What would be the aspects of the Chilean economy which would have exceptions in the 20 to 21 chapters, if Chile (inaudible)...?

ANINAS: [Spanish] ... Well, your question gives the opportunity in order to say something more positive finally about the case of Chile which is under discussion right now. Because there seems to be another type of question here. I think that the

Chilean economy, which is in question here, is an economy which is improving at more than 6 percent in (inaudible)... which has managed to lower the inflation rate (inaudible)... national unemployment rate throughout the entire country is only at 5.3 percent. (inaudible)... dynamic labour market where there is collective bargaining (inaudible)... has grown at more than 4 percent a year in real terms. (inaudible)... economy is open to trade, where exports have already been presented (inaudible)... but especially an economy which (inaudible).... But as my colleagues said, we don't want to (inaudible)... we don't think that, at the present time, on the first stage (inaudible)... going to be on the table in due time.

QUESTION: Keith (inaudible last name) from the Financial Post.

MACLAREN: Yeah. Our last question.

QUESTION: Last question. I want to ask the gentleman if there's a consideration of the four partners when this deal goes ahead, are you all going to be equal partners? Or will Chile become a junior partner with the other three? How this will... and how... if indeed (inaudible)... what kind of control do you have over future countries that might want in? Argentina and ...

MACLAREN: Look, there's no question of junior partners or senior partners or anything of the sort. What we're doing today is the accession of Chile to the free trade agreement. The terms of the agreement are clearly spelled out. For Chile to accede to the

terms of the agreement and it becomes a member of NAFTA. It's not a junior partner or a senior partner or an intermediate partner. It is a fully fledged equal partner.

UNIDENTIFIED: We're in agreement.

(general laughter)

ANINAS: Chile would not be interested at all in a scenario where such consideration would be placed. The only basis for membership is a fully fledged equal full-time member and we truly believe that we are contributing to the table a lot of stamina and a lot of potential and more opportunity for growth. So therefore the exact response is full membership and equal partnership.

UNIDENTIFIED: Alright. So I would like to ask the Ministers if you want to make a final statement, any of you, or all of you? Mr. Cantor, perhaps, and Mr. Blanco.

CANTOR: Unless I have to respond to you on no(?).

(general laughter)

MR. BLANCO (TRADE MINISTER FOR MEXICO): Perhaps a very brief note on the following. We believe that this process that is starting today on Chile and NAFTA can be a very positive thing to s what will be discussed in Denver on June 30th, and eventually is, I believe, our common goal. And our common goal is, in fact, in the end, free trade throughout the Americas. Integration throughout the Americas. And I think this is a very symbolic first step.

ANINAS: [Spanish] ... we're talking about extending this to services, intellectual property, investments, and government

procurement. For this reason, this negotiation for us is something that we're receiving with great optimism and pleasure. Secondly, as you're also familiar with the fact that Mexico negotiated a free trade agreement with Costa Rica, with Columbia, with Venezuela, with Bolivia. And in America, our continent, in the future we see a free trade agreement which would cover all of the Americas as a natural state, an ultimate state, in order to promote a trade and investment (inaudible word) in our countries. For this reason, we feel that the steps we have taken today, after having had some technical consultations, the steps that we are taking to formally being the negotiations with Chile is a major first step because Chile is an example of the countries that have triumphed, a model which has triumphed, in managing to promote employment in the Americas. And especially since it's the official first step in the promotion of free trade in our continent.

UNIDENTIFIED: Ministers, ladies and gentlemen, thank you very much. Thank you very much.

CANTOR: I just wanted to say... I want to thank Minister MacLaren, I think, on behalf of all of us, for his gracious kindness in this meeting. Let me say, I vacationed with my family in British Columbia in December, I was with the President in Ottawa in February, I was with Minister MacLaren in Vancouver and Whistler in May. I'm here today, and I'll be back in Halifax later in the month. I expect Canadian citizenship very soon.

(laughter and applause)

Third Meeting of the

NAFTA FREE TRADE COMMISSION

Chairman's Statement

Toronto June 7, 1995

We have had a useful meeting of the NAFTA Free Trade Commission. Our discussions today gave us an opportunity to take stock of progress in implementing the NAFTA commitments and to identify how we can move ahead with work aimed at further elaboration of the Agreement. In both respects, we are pleased with the progress being made.

Ministers reviewed the work plan of the Trade Remedy Working Groups and discussed what needs to be done in order to achieve concrete results by the agreed deadline of December 1995.

There are some 21 NAFTA working groups and committees that meet regularly on aspects of our growing trade relations. Their work addresses issues of interest to traders and investors doing business in all NAFTA countries - issues ranging from temporary entry for business persons to telecommunications standards to investment and services issues. We have asked these groups and committees to prepare a forward-looking workplan for 1996. In addition, Ministers have asked officials to resume discussion of tariff acceleration and to report to Ministers by the end of the summer. At that time, Ministers will consider a second round of tariff acceleration. The Ministers have requested the Commissions of the North American Agreements on Environmental Cooperation and Labour Cooperation to report to them on the work of the Commissions in support of the NAFTA.

The Commission approved a number of matters related to implementation of NAFTA commitments including Chapters 4 and 5 Uniform Regulations, the listing of state and provincial reservations regarding financial services and on quantitative restrictions under Chapter 12 of the NAFTA, the publication of Guides to Temporary Entry for Business Persons under Chapter 16 and a report of the NAFTA Secretariat on the operation of Chapters 19 and 20, NAFTA Chapter 19 Roster of Panelists, fees for panelists and a code of conduct.

The Free Trade Commission discussed the status of disputes including Canadian practices with respect to dairy, eggs and poultry, U.S. restrictions on sugar and sugar containing products and Mexican restrictions on vehicle size for small parcel delivery.

AMBASSADOR MICHAEL KANTOR

UNITED STATES TRADE REPRESENTATIVE

TESTIMONY BEFORE THE

SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

FINANCIAL SERVICES NEGOTIATIONS

JUNE 8, 1995

Mr. Chairman, it is a pleasure to appear here today before your Committee to discuss the status of the negotiations on insurance services under the World Trade Organization. I welcome this hearing which comes at a critical juncture in these negotiations as they enter their final three weeks.

This committee, together with other key committees in Congress, has shown an active interest in the financial services negotiations. Indeed, the "Statement of Administrative Action" to the Uruguay Round Agreements Act reflects the interest of the Congress in the Administration's securing a strong package of commitments in the area of financial services.

As this Committee is fully aware, we agreed at the conclusion of the Uruguay Round to extend services negotiations in several areas, including financial services, with the specific objective of improving the level of commitments countries should make in these sectors. We were prepared to exempt insurance from the

Most-Favored-Nation (MFN) obligation at the conclusion of the Uruguay Round, principally because the binding of our own, comparatively liberal regime, would present serious "free rider" problems. This was true especially when compared with countries whose levels of commitments simply did not provide substantive market access to U.S. insurance companies. The additional time afforded by these extended negotiations was designed to bring financial services commitments up to a level that we would find acceptable.

A critical element of the Clinton Administration's trade policy is that our multilateral trade agreements are single undertakings. With bipartisan support in Congress, we have worked to negotiate trade agreements where every country plays by the same rules. For example, before the Uruguay Round, between 27 to 45 countries were signatories to the five codes in the General Agreement on Tariffs and Trade. Countries could pick and choose which agreements to sign. Under the Uruguay Round, we insisted that all the more than 120 countries that signed the agreement, signed all the agreements. Now, everyone will, in a comparatively short time, play by the same rules. Our policy is to build this kind of mutual responsibility into all of our trade agreements, including the financial services negotiations.

In the last year, our negotiators have worked tirelessly to generate improved commitments from countries whose markets are of

interest to our insurance companies. In fact, negotiations in financial services are occurring at this very moment in Geneva. As a result, progress has been made with several countries. We are particularly pleased, for example, with the understanding my office reached with Japan in the insurance area last September. That agreement, under the auspices of the U.S.-Japan framework talks, resulted in the resolution of a number of problems our insurance companies have experienced in Japan. I am also pleased with the level of commitments that have been made by other countries in the industrialized world, particularly those of the European Union.

However, despite the best efforts of our negotiators, I must report that we have not reached acceptable levels of commitments from key developing countries, whose markets are not fully open due to numerous regulatory restrictions. This is particularly unfortunate because these are the very markets that can profit the most from a dynamic, competitive financial marketplace.

It is no exaggeration to say that U.S. insurance companies are the most competitive in the world: they have strong capital bases; they have the innovation and technology to assess risks; and, they have the capacity to write policies for those who otherwise could not receive similar services in their more restrictive domestic environment. As with telecommunications services and intellectual property rights, financial services are

not merely a huge potential export for the United States. They are also the essential infrastructure of a competitive economy; as important as roads, harbors, and airports. Globally, competitive financial services lower interest rates, increase productivity, and improve the security of individual lives. Our friends in developing countries know this, but what we need to persuade them is that restrictions on competition will not give them these building blocks of a rich economy. The fact is that officials in developing countries must allow these services to come in from abroad, much as we in the United States first allowed in railroads one hundred fifty years ago. Insurance companies are an important source of badly needed capital formation in these countries. They bring new, affordable insurance opportunities. And, they hire nationals of the host country to handle most of the work of the company, which is the best way a country can develop an indigenous insurance capacity.

Thus, it is somewhat frustrating that developing countries seem to have the greatest difficulty making commitments in the WTO, particularly because such commitments are in their economic interest, as well as our own. We recognize that full liberalization will not occur overnight, as some countries will need to effect constitutional and legislative changes. At the same time, however, these countries must make a "down payment" of liberalization and commit to further actions over time to provide substantial levels of market access on a national treatment basis

for our insurance companies.

Mr. Chairman, the choices we have available to us in the event of failure are not ideal. Of all the legal tools available to us, the framework of the World Trade Organization remains the most predictable enforcement instrument on which countries can rely for gaining access to foreign financial markets. And, the WTO is preferable to bilateral understandings that attempt to resolve specific problems because of the sheer manpower required for a bilateral program. That is why our primary goal has been to secure for the U.S. insurance industry the benefits that the WTO provides.

However, I must stress that the advantages of the WTO have little value if there are not adequate commitments by countries to enforce. Let me give one example that underscores this problem.

One country has made a draft commitment that does not even protect the rights already acquired by U.S. firms located there. This draft commitment would provide the legal basis on which to force the divestiture of U.S. insurance companies; the result would be that U.S. insurers, some of whom hold all of the equity share in their subsidiary, would be reduced to the status of minority joint ventures. All of us can appreciate the consequences of allowing forced divestiture to be sanctioned under international law. It runs against the very spirit of our

objectives of allowing foreign investment as an instrument of trade. It completely undermines the ability of an insurance company to control its operations and provide the capital necessary to expand its market opportunities.

I could give other examples where the commitments to date simply do not live up to any reasonable standard of market access. I will not do so in this setting because we are entering a very sensitive phase of the negotiations. In the final weeks of negotiations, you can be assured that we will use all of our skills in bringing about improvements to the existing commitments on insurance. And, we will continue to consult closely with the Congress and the private sector. Then, before the end of this month, we need to examine whether adequate progress has indeed been made. If it has not, then, with regard to the insurance sector, we may find ourselves where we were in December, 1993 with regard to the banking and securities sectors. At that time, I had but no choice than to recommend to the President that we take an exemption to the Most-Favored-Nation provision of the agreement with regard to banking and securities.

I can assure you that this will not be a popular decision in Geneva. Indeed, we have been warned by a number of countries that to take this action will undermine the services provisions of the WTO, since other countries are likely to follow our actions. Clearly, our objective in these extended negotiations

on financial services is to make the WTO a meaningful instrument in the liberalization of trade in services. The WTO can only be effective if all countries recognize the need to pay into the organization through commitments to trade liberalization. The WTO must provide real liberalization: this is our unequivocal message in the financial services negotiations.

Thank you again, Mr. Chairman, Members of the Committee, for holding today's timely hearing. U.S. insurance companies are the most competitive in the world and deserve substantive access to foreign markets. I look forward to working with you to realize that goal.

Uncleared text - BUT EDITED BY USIS - of
Kantor-Hashimoto Joint Press Conference, Geneva, 6/28/95

Ambassador Kantor: Minister Hashimoto, good friends over here and over here.

I think we all went from pessimism to the agreement without stopping at optimism. Let me thank first Ambassador-designate, soon to be Ambassador, Ira Shapiro, and Under Secretary Jeff Garten. They're both over here, and they did an incredibly good job, a wonderful job; we are deeply indebted to both of you.

I'd like to also mention a number of people very quickly. Mike Fulman, Jim Southwick, Marge Shearing, Anne Luzzatto, David Burns, Peter Sheer, Henry Masisco, David Wyler, Peter Seecore, Cecile Ablack, Jay Bruns, all of which have had no sleep and worked so hard, just like their Japanese colleagues, and to whom we owe a great deal of gratitude.

I am pleased to announce that the United States of America and the government of Japan have reached an historic agreement today. This agreement is a significant step to fundamental change. It is solid, it is meaningful, it is concrete. It's broad, detailed, and quantifiable. It is a step toward providing the same access for foreign competitors to Japan's market for autos and auto parts as Japan has to the U.S. market. The agreement will begin to create a level playing field.

The challenges both of our nations face are how to increase jobs for our workers, how to raise the standard of living for our families, and how to create global growth. We've proven we can make important progress toward meeting these challenges. This will be neither the first nor will it be the last time we will be called upon to assume this responsibility. The greatest risk of all is when we turn our backs and hide behind our fears.

The agreement we reached just two hours ago is good for America. It's good for Japan. And most importantly, it's good for the working men and women of both of our countries. It will have an important economic impact on both of our economies--the world's two largest--as its effects multiply through not only the automotive sector, but its scores of supplier industries as well. Steel, iron, aluminum, glass, platinum, synthetic rubber, natural rubber, semiconductors.

Throughout these twenty-two months of negotiations, we have never lost sight of the importance of our relationship with Japan. But even strong relationships need renewal. Through sharing responsibility, as our two nations have done today, even greater ties are built.

The United States and Japan together assumed such responsibility in working together successfully to help complete the Uruguay Round

and to strengthen the Asia Pacific Economic Cooperation Forum, known as APEC.

In mid-1993, President Clinton sought to lay the foundation for a new, more balanced and cooperative economic relationship with Japan through the "United States-Japan Framework for a New Economic Partnership." In the auto and auto parts sector, Japan committed in the Framework to (and I quote):

"the objective of achieving significantly expanded sales opportunities to result in a significant expansion of purchases of foreign parts by Japanese firms in Japan and through their transplants, as well as removing problems which affect market access and encouraging imports of foreign autos and auto parts in Japan."

Japan and the United States reaffirmed these objectives in a statement on May 23 of 1994.

In the past twenty-eight months, the United States and Japan have reached 15 trade agreements in important sectors ranging from medical technology and telecommunications to construction and -- my favorite -- apples! We have negotiated strong and fair agreements, we have made progress, and we are seeing markets beginning to open.

In seeking today's agreement, we have enjoyed the support of an overwhelming majority of the American people, of labor and industry, of bipartisan congressional leadership, and over 150 senators and representatives from both sides of the aisle.

Before I talk about the specifics of this agreement, let me take this opportunity to thank my counterpart, Ryotaro Hashimoto. When Minister Hashimoto and I first met on Monday evening, one of the many times we have met over the past number of months, I presented him with a Kendo shinai. I said at that time the sport of Kendo represents courage, honesty, integrity, and patience. After spending a great of time with my friend during the last several days, I can assure each and every one of you that he represents all of those qualities, and much more.

Let me talk briefly about the agreement we reached today, and afterwards I am sure we both would take a couple of questions. Then I would like to ask Under Secretary Garten and Ambassador Shapiro to stay with you to provide further information on the background, if you would. But I am sure that Minister Hashimoto will have a statement as well.

The agreement focuses on three major areas: automobiles themselves, of course; original equipment or original parts which are installed at the factory; and the after-market or secondary market for spare parts.

It effectively addresses dealership issues, deregulation in the after-market. We have a voluntary plan, we have objective criteria, and we have the ability to verify progress. In the after-market we've attacked a tangle of the Keiretsu parts distribution system and the regulations that support it, and we have achieved genuine gains. The problem foreign suppliers face is that the regulations' channel appears to garages linked to the Japanese parts manufacturers. Our agreement breaks open the system by making it easier for non-Keiretsu repair garages to expand their presence in Japan, thereby opening up the channels for use of foreign parts. In fact, it's estimated that this new deregulation may open up as many as 7,000 to 8,000 new garages in Japan which can compete with these Keiretsu-dominated garages.

In dealerships, Minister Hashimoto will send a letter to dealers across Japan assuring them that their anti-monopoly act allows them to carry competitive foreign cars. We'll have contact points both at MITI and with the manufacturers! We have objective criteria and an overall goal in which a U.S. estimate will lead to 200 new outlets of cars in the first year alone--that's competitive foreign cars--and 1,000 by the turn of the century.

In voluntary plans, we'll see expanded production of vehicles in North America. We'll see expanded production of parts in North America. We'll see increased parts purchases in North America. JAMA will commit to increase its parts purchases in Japan. The transplants will adhere to NAFTA's local content level. There will be MFN for the global plan.

Let me make one more remark. It's my understanding that there's an announcement being made as we speak right now, where the five car companies in Japan are making public their voluntary plan from which we derive the numbers which you will see in these agreements.

Thank you very much. And let me say one more time my special thanks to my friend Ryu.

Minister Hashimoto: He was so eloquent that I almost forgot what I was going to mention! So allow me first of all to explain to you what I have in my mind at this moment. I would first of all like to express my admiration for Ambassador Kantor, because the biggest reason for the successful conclusion of the agreement and thus having this joint conference today is Ambassador Kantor's realistic approach and persistent efforts. Ambassador Kantor was very kind and generous in giving me shinai, which is the stick we use for Kendo, which is one of the martial arts of Japan. But I would also like to thank him, not just for this but for the ball he has thrown to me so that even I could get that in my glove!

Since we broke up for the talks in February last year, actually on February 11, between President Clinton and the then Prime Minister of Japan, the government of the United States has exerted

tremendous efforts to recover the ground to come to this happy moment of a joint conference. But, on the other hand, the government of Japan has also made enormous efforts.

I should like to pay tribute to all the members of the U.S. negotiating team led by Ambassador Kantor. But at the same time I would like to take this opportunity to express my heartfelt gratitude to the members of MITI and members of other related governmental agencies in Japan, in particular the ministry of transport and the ministry of foreign affairs, who played a very important role in the negotiations.

I would like to say that this successful agreement between the two countries is a victory not just for the United States and Japan, but also for the newly created WTO and its member-countries. I would like to assure you on this occasion that all the agreement reached between the two countries is applicable to all the trading partners we have, on an MFN basis.

I am pleased to note that, regarding the numerical targets, which stood as the largest impediment to the negotiations this time, the Japanese stance that this is the issue outside the scope and responsibility of the government has been confirmed, and that we are able jointly to maintain the principles of free trade and free economies.

There is no change in the determination of the government of Japan that will continue to abide by the international rules, including the WTO rules, and we'll continue to promote further deregulation and to promote market opening efforts, thereby making contributions to the growth of trade.

I am convinced that the Japanese auto industry, being free, cognizant of its position in the world, will promote further globalization and localization with its business plans of the future. I would like to emphasize here that, regarding the overall relationship between Japan and the United States, we were able to jointly demonstrate today that, in spite of difficulties facing us, both countries can work together to achieve negotiated agreements, thus opening up a new era. And here I'd like to thank, again, Ambassador Kantor and the members of his team.

I'd like to shake hands now with Ambassador Kantor by expressing my heartfelt admiration for Ambassador Kantor, with whom I have been able to become a very good friend through the process of negotiation, in addition to being a very good counterpart.

Question: Mr. Kantor, concerning the voluntary plans and the targets--if the Japanese companies do not reach these targets, will penalties be enacted, and if not, what means of keeping the pressure on to open up the market do you have in mind?

Ambassador Kantor: Let's take that in two parts. First of all, original equipment parts, as other parts, are noted under the framework, therefore subject to the objective criteria. That's one set, and of course they are subject to trade laws. However, let me make it very clear in terms of a voluntary agreement, there are no government to government commitments. They are not subject to U.S. trade laws, and of course they can be affected by changing economic situations. They do carry with them, of course, some estimates of things like transplants, the growth of transplant production of autos in the United States, or the growth of the purchase of transplant parts in Japan--all based upon--and other figures as well--those are just some examples--all based upon the plans which were enunciated, I think, just a few minutes ago, voluntarily, by the five auto companies of Japan.

Q: How do deal with the 301? According to the WTO rules, it's a violation of the WTO. Have you abandoned that 301 in the future?

Ambassador Kantor: No. Let me explain that. First of all, let's talk about the present situation. Of course, given this agreement, the United States will withdraw its 301 action. That's number one. And number two, every country who is a member of the World Trade Organization, retains its sovereign right to maintain its trade laws in those circumstances where acts, practices or policy of other nations, which affected those trade laws, are not covered by the World Trade Organization or the Uruguay Round. There was no suggestion, ever, in eight years of negotiation, the last ten and a half months of which I was intimately involved with, that any country--any country--gave up its trade laws under the circumstances I have described for you.

Q: Ambassador Kantor, could you tell us, in reference to the regulatory reforms in Japan in the after-market, when the changes will take place that will produce this 7,000 to 8,000 new shops? Also, can you tell us what in the agreement will separate the inspection and the repair function, if you were able to get anything in that area?

Ambassador Kantor: First of all, there's a separation with regard to those inspection shops which are run by the ministry of transportation. And that's number one. Now, understand that is not all of the inspection shops in Japan, because, second of all, the deregulation for the special designated garages really involves a couple of things. One, it reduces the number of approved mechanics, which is very, very important in the designated garages and in the certified garages. And also it allows garages to share--I would call it--assets, in order to band together to carry on inspections. What this will do is create the ability for garages to carry on inspections and spread competition across Japan, which will help to break up a system which was keeping prices high and was overcharging for parts and was making inspections and repair very difficult.

In addition, the combination of that with the critical parts list deregulation will mean we have effectively addressed much of the concerns which we had with the inspection and repair system in Japan.

Q: Over what period of time?

Ambassador Kantor: Well, the period of time, for instance, will vary. Let me give you an example. One example is, for one year you will have a review, a review with regard to certain regulations with regard to the critical parts list, and a look at seven assembly systems. Those systems are directly related to safety or, I think it is expressed as health, if I'm not mistaken. Somebody can shake their head no, but I think it's safety or health which will be deregulated during that year's period of time. And that's one example.

Q: One year from--?

Ambassador Kantor: That's one year. There are different time periods. I don't want to dominate the situation. They vary according to the situation. But the combination of the number of shops it will increase, in terms of inspection, along with the deregulation of the critical parts list, and in fact there's a so-called down payment on the critical parts list: four different areas will be deregulated immediately, including struts, shocks, I think power steering and, if I'm not mistaken, trailer hitches. I bet I got that right! They will be deregulated immediately.

Q: A question to Ambassador Kantor (in Japanese). With the agreement between the two countries in auto and auto parts sectors, are you going to lift proposed, or drop, proposed sanctions vis a vis these two areas?

Ambassador Kantor: The easiest answer of the day--yes.

Q: A question for Ambassador Kantor and for Minister Hashimoto. Ambassador Kantor said early on in this process that he was out to break the Keiretsu. I'd like both of you to address the question of whether you think that the nature of this agreement will actually serve to break the Keiretsu hold, particularly in original equipment parts supply in Japan. And, Minister Hashimoto, if indeed it does break the Keiretsu, how do you explain that to the supplier companies back in Tokyo?

Ambassador Kantor: This is a very big step in a long road towards our attempt, and many others' attempt, to make sure that not only U.S. manufacturers and the products made by U.S. workers have equal access to the Japanese market that Japan has had to the U.S. market, but that others have the same access as well. This agreement will not solve every problem. Let's not give hyperbole a bad name. But what it will do is make a significant difference,

and establish a pattern, and begin to open up, in a meaningful way, the Japanese market, in a most important sector for Japan and the United States and for many other countries. Just one statistic. Fifty-eight percent of our trade deficit with Japan is associated with autos and auto parts. It represents 26 percent of the total U.S. trade deficit. If today is a meaningful and important start, we can grow more jobs in the United States, raise our standard of living, lower prices in Japan, raise Japanese standards of living, and promote global growth. That's a good day's work!

Q: Are you worried about Keiretsu surviving in Japan?

Minister Hashimoto: I am afraid now that there may be a creation of new Keiretsu between American parts manufacturers and Japanese auto manufacturers. The answer to your question is that the magnitude and extent of imports would be able to open the Japanese market to a vast extent.

Q: The U.S. has withdrawn its insistence on numerical targets in this agreement. Is it solely due to the announcement of a voluntary plan by five Japanese auto manufacturers, or has there been any other reason for that?

Minister Hashimoto: The most accurate answer to that question is the good sense and common sense on the part of both of us. Ambassador Kantor expressed his expectation in the form of numbers and estimates. The joint announcement clearly provides as follows:

Testimony of Ambassador Mickey Kantor
The United States Trade Representative
Before the
House International Affairs Committee
August 4, 1995

Introduction

Mr. Chairman, I appreciate this opportunity to discuss the relationship between the Office of the United States Trade Representative (USTR) and the Department of Commerce (DOC) and our respective roles. I appreciate your past support of USTR and look forward to continuing to work closely with you.

I am pleased today to voice USTR's strong support for the Department of Commerce. I believe it would be a serious mistake to disable or eliminate the Department of Commerce. Any action of this nature would harm the historic economic and trade efforts of the last two and a half years to forge a more open global trading system and provide U.S. companies with greater opportunities to compete in foreign markets.

The President and this Administration, with bipartisan support in Congress, have negotiated more than ~~150~~ 170 trade agreements, including the North American Free Trade Agreement, and the Uruguay Round -- the broadest trade agreement in history. We have set the stage for trade expansion in Asia through the Asia Pacific Economic Cooperation forum with the Bogor Declaration, and announced creation of a Free Trade Area of the Americas by 2005 at the historic Summit of the Americas.

In just the last month, we concluded a historic accord with Japan on autos and auto parts, which one industry leader described as "the most significant trade agreement with Japan ever," and an agreement to open civil aviation routes to U.S. companies such as FedEx. We have now concluded sixteen trade agreements with Japan during this Administration.

In addition, we concluded the largest procurement agreement in history with the European Union, an agreement covering 80 percent of global shipbuilding, and scores of other bilateral trade agreements. In March, we signed a groundbreaking agreement to protect American intellectual property rights in China.

These agreements have already begun to promote growth and create jobs in this country. U.S. exports have grown by more than 17 percent in the first five months of 1995 -- a rate more than three times that of export growth when President Clinton was sworn into office.

The economy has responded to President Clinton's efforts in getting our domestic house in order, investing in America's future, and expanding our opportunities abroad. Unemployment is down to 5.6 percent from more than 7 percent when he took office. The economy under his watch has created seven million jobs, with 93 percent in the private sector. After losing more than 2.2 million manufacturing jobs over the 12 years prior to the Clinton Administration, the economy

has added 392,000 manufacturing jobs in the last two years. Business investment is at a post World War II high, and the creation of new businesses is at record levels. The Council on Competitiveness recently concluded, "in 1994, the one-year growth rates for U.S. standard of living, manufacturing productivity, and investment in plant and equipment were the highest in a decade. U.S. exports are healthy and projected to continue to grow at a rapid pace."

Mr. Chairman, I believe this record shows we are on the right course. Just as we could not have achieved these successes in trade without close bipartisan cooperation between the Congress and the Administration, we could not have achieved them without close cooperation within the Executive Branch. Proposals to abolish the Commerce Department or disperse its functions are likely to seriously damage our trade negotiation, implementation, and promotion efforts and, as a result, our ability to create more American jobs.

Importance of the Department of Commerce

None of our successes over the last two years would have been possible without the leadership and support of the Department of Commerce. We cooperate daily on a range of issues from negotiations to economic analysis and research. Let me cite specific examples of how the leadership and support of the Department of Commerce have contributed to our successes:

- GATT/WTO: Commerce provides critical support for USTR in the implementation of the Uruguay Round, including ongoing negotiations and detailed analysis of trade regimes of more than 20 countries that are in the process of acceding to the GATT/WTO;

- NAFTA: Commerce has provided expertise on the full range of bilateral issues: automotive, standards and certification, transportation, and other market access issues;

- Japan Autos/Auto Parts: Commerce's detailed knowledge of the Japanese automotive sector was essential to the efforts to open the Japanese auto and auto parts markets to foreign competition;

- U.S.-Japan Semiconductor Arrangement: Commerce administers the Data Collection Program through which U.S. companies report sales data which is used to calculate the quarterly market share figure and coordinates industry expertise and leads trade missions which support and complement the U.S.-Japan Semiconductor Arrangement;

- FTAA: Commerce will play an essential role in the Free Trade Area of the Americas process, including providing critical technical expertise and support, and compiling valuable input from the private sector;

- Chile NAFTA Accession: Commerce is an integral participant in the interagency negotiating team, providing expertise on IPR, standards, industrial sector analysis, anti-dumping and countervailing duty issues, telecommunications, competition policy, service industries, temporary entry for business persons, and the development of the data base of industrial products for tariff negotiations;

- Europe/EU: Commerce is pursuing a Trans-Atlantic Business Dialogue aimed at providing business views of desirable objectives for future government-to-government negotiations, which is playing a major role in shaping the future U.S.-EU trade relationship;

- Textiles: Personnel from Commerce's Office of Textiles and Apparel provide negotiating support and in-depth analysis for all negotiations conducted by USTR in the textile/apparel sector. Commerce takes the lead in implementing the results of each negotiation in coordination with USTR;

- 301: In these very complex and intensive cases (whether initiated by industry or the U.S.), Commerce provides invaluable assistance in the compilation of retaliation lists and detailed analysis of retaliation options;

- Special 301: During USTR's annual review of the adequacy of countries' intellectual property regimes, the International Trade Administration provides invaluable analytic and drafting support. Commerce is crucial in resolving the numerous Special 301 investigations periodically instituted by USTR, such as the recent successful agreement improving China's IPR regime;

- Aircraft/US-EU Bilateral Aircraft Agreement: Commerce provides essential industry expertise and resources necessary to monitor and implement properly the so-called Airbus agreement and to rebut EU assertions regarding U.S. programs and compliance;

- US-Canada Talks on Softwood Lumber: Commerce has provided invaluable support and analysis in negotiations concerning Canadian softwood lumber subsidies and how these subsidies are affecting thousands of jobs in the U.S. wood products industry;

- Multilateral Steel Agreement: Commerce staff play a critical role in these negotiations both directly and in providing support and analysis of this ongoing initiative;

- OECD Shipbuilding Agreement: Commerce negotiated the injurious pricing discipline over the period July 1993 - July 1994, removing a major and technically complex obstacle to conclusion of negotiations;

- Telecommunications: Commerce staff play essential roles in virtually all of our telecommunications initiatives, which range from narrowly focused bilateral agreements to broad efforts to liberalize the telecommunications sectors in APEC and Latin America;

- GSP: Commerce personnel provide detailed expert advice during annual product reviews under the Generalized System of Preferences, including the addition and deletion of products as well as competitive need waivers; and

- Economic Data: Commerce provides comprehensive economic, statistical and international trade data in support of USTR's daily and long term functions.

Obviously, this is only a glimpse into the wide range of support which the Department of Commerce provides. In addition to its key role in trade negotiations, the Commerce Department has been enormously successful in promoting U.S. exports, targeting foreign markets, and being a very effective advocate of U.S. commercial interests abroad. Congress has assigned Commerce the responsibility for assisting U.S. companies to take advantage of market-opening opportunities, primarily through trade promotion and export finance. In addition, the Commerce Department has the lead responsibility for administering export controls on certain kinds of high-technology goods and services. Secretary Brown's testimony will illustrate at length the many other areas in which the Commerce Department helps U.S. workers and firms.

One of the vital functions of the Department of Commerce is the strong and effective advocacy of Secretary Brown for U.S. business, both internationally and domestically. Abolishing the Commerce Department would eliminate the vital seat at the Cabinet table for U.S. business.

Merging Commerce and USTR's Functions

Eliminating these Commerce Department functions would seriously harm our ability to compete in a globalized economy. In addition, merging USTR and the trade functions of the Department of Commerce would have equally deleterious effects. To explain why, let me say a few words about why Congress created USTR.

USTR's small size, Cabinet rank, position within the Executive Office of the President, and role as chief trade negotiator and principal spokesperson on trade, as well as the division of labor between USTR and other departments and agencies of the executive branch is a *unique and deliberate creation of the Congress*. The aim was to have a small, flexible and extremely responsive agency, staffed with primarily senior career personnel and headed by a Cabinet-rank person serving as the president's chief advisor on trade policy, taking the lead in coordinating (as opposed to administering) trade policy and negotiating trade agreements with other nations. This construct has worked remarkably well.

The Congress first established the Office of the Special Trade Representative (the name was changed to USTR during the Carter Administration) in the Executive Office of the President to coordinate negotiations during the Kennedy Round. Later, the 1988 Omnibus Trade and Competitiveness Act enumerated the following responsibilities for USTR:

> (1) to have primary responsibility for developing and coordinating the implementation of U.S. international trade policy;
>
> (2) to serve as the principal adviser to the President on international trade policy and on the impact of other U.S. Government policies on international trade;
>
> (3) to have lead responsibility for the conduct of, and be chief U.S. representative for, international trade negotiations, including commodity and direct investment negotiations;
>
> (4) to coordinate trade policy with other agencies;

(5) to act as the principal international trade spokesman of the President;

(6) to report to the President and the Congress on the administration of the trade agreements program;

(7) to advise the President and Congress with respect to non-tariff barriers to trade; and

(8) to report to Congress on these matters.

In other words, USTR's work is to open foreign markets and provide opportunities for American exporters, while the Commerce Department and other agencies help American workers and firms make the most of those opportunities. USTR is like the blocking back or pulling guard, opening a hole, and the Department of Commerce is the running back. The touchdown, is, of course, more U.S. jobs and a higher standard of living.

Creating a new superagency responsible for all aspects of trade would bring a host of unintended consequences. To begin with, the individual in charge of such an agency would literally not have enough time to address adequately the myriad responsibilities: negotiations, coordination, trade promotion, export enhancement, and administration. All of these functions would suffer.

Additionally, it would not be appropriate to combine the trade negotiation and coordination functions of USTR with the Department of Commerce's role as advocate for U.S. products and services. Conflicts can easily arise in situations where the U.S. negotiating stance on a particular trade matter would threaten our advocacy on behalf of U.S. companies. Although some claim that such conflicts can be avoided by having a so-called "firewall" between the two functions within a combined trade agency, such an approach would be unworkable. Undoubtedly the head of any such new agency would have to be intimately involved in (and conflicted by) both the negotiation and advocacy function.

Finally, I have concluded that even if all trade activities of the U.S. government could be consolidated in one place (which I do not think is either practical or feasible), and USTR's and the Department of Commerce's missions were changed, the Congress would have to reinvent a small trade negotiating agency with USTR's unique mission soon thereafter.

While "trade" may sound like a single function, it encompasses an enormous variety of activities, each contributing to the success of American firms and workers in global markets. Of course, USTR and DOC are not the only agencies with trade-related functions. The Departments of Agriculture, Defense, Justice, Labor, State, Transportation and Treasury; the Council of Economic Advisers; the Office of Management and Budget; the Environmental Protection Agency; and an independent agency, the U.S. International Trade Commission, all address trade issues in some way. Within this larger system, USTR has remained a small, focused, and efficient organization that continues to balance domestic and international interests in a highly cost-effective manner.

Congress' wisdom has been to recognize that the Government's role in international trade works

best when it is spearheaded in the executive branch by an organization that is focused on policy and negotiation; that can act quickly; and can leverage the support and resources that are housed in virtually every Cabinet agency. Such an organization is necessarily small and mobile with immediate access to the president, and is unfettered by operational responsibilities better assumed by a larger agency.

Conclusion

Today, in an era of severe budget pressures, it is appropriate to ask tough questions about how to serve the national interest. This Administration has done exactly that. The Administration, with the support of many in Congress, has led a serious and substantial effort to reduce the deficit, increase government efficiency, and cut government waste. President Clinton and Vice President Gore understand that we can't compete in a globalized economy if we are not strong at home.

When President Clinton entered office, the deficit was at its highest dollar level in history -- $290 billion -- and it was predicted to grow to more than $600 billion by early in the next century. His plan has brought the deficit down three years in a row -- for the first time since Truman was president. In fact, we are bringing it down faster than we expected. This week, the White House budget office released new economic estimates that show the budget deficit dropping to $160 billion this year -- a $33 billion reduction from February's estimate and a 45 percent cut from the FY92 budget. The deficit is being cut in half as a percentage of our national income.

President Clinton has mandated the reduction of the size the federal civilian work force by 272,900 employees to the lowest level since John Kennedy was president. Federal employment has already dropped by more than 100,000 during this Administration. Under the leadership of Vice-President Gore's National Performance Review, the Administration has saved $63 billion through reinventing government and eliminating outdated government programs.

Removing trade functions from the Department of Commerce or merging trade functions into a new mega-bureaucracy is a bad idea, albeit stemming from good intentions.

The Department of Commerce has been an engine for the creation of U.S. jobs. At a time when our industries face increased global competition, we should strengthen, rather than dismantle, the institutions that have successfully and effectively advanced our economic interests. By working together, we can achieve reforms that will advance our trade policy interests and our ability to create jobs. I thank the Committee and the Chair for this opportunity to testify.

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

JUN 15 1995

The Honorable Newt Gingrich
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

I write to oppose strongly legislative proposals to eliminate the Department of Commerce and disperse its functions around the executive branch. The Commerce Department has been enormously successful in promoting U.S. exports, opening foreign markets, and protecting U.S. economic interests around the world. At a time when U.S. industry faces increased global competition, we should be strengthening, rather than abolishing, the institutions that have most effectively advanced our national economic interests.

In the last two and one half years alone, the Commerce Department has been instrumental in negotiating the North American Free Trade and Uruguay Round agreements, in designing and implementing the National Export Strategy, and in creating public/private partnerships that are successfully investing in the technologies of the future. In addition, the Commerce Department provides essential analytic support and in-depth knowledge of foreign trade practices that have been invaluable to USTR and other agencies involved in negotiating and implementing trade agreements. Most recently, for example, the Commerce Department's detailed knowledge of the Japanese automotive sector has been essential to our efforts to open the Japanese auto and auto parts markets to foreign competition.

Congress should be extremely wary of proposals that would dismantle the integral linkage that exists among various Commerce Department programs that have successfully protected U.S. industries from unfair foreign competition, expanded U.S. export markets, and aggressively advocated U.S. business interests around the world. Moreover, it would be a mistake to scatter the Commerce Department's programs around the executive branch without regard to the effect on the operation of other agencies. USTR, for example, currently benefits enormously from its small size and ability to shift resources quickly to pressing negotiations.

I will strongly support efforts to redress the deficit by increasing government efficiency and reducing government waste, and I look forward to working with you on such initiatives. At the same time, however, proposals to abolish the Commerce Department and disperse its functions around the executive branch are likely to have exactly the opposite effect by seriously damaging our trade negotiation, implementation, and promotion efforts and, as a result, our ability to create more American jobs. Consequently, I urge you to strengthen rather than weaken the Commerce Department and protect a highly effective advocate for U.S. business in the global marketplace. I encourage you to work with Secretary Brown and me, as well as with others in the Administration, to achieve reforms that will advance our trade policy interests and our ability to save and create American jobs.

Sincerely,

Michael Kantor

USTR KANTOR CHIDES BEIJING, SEOUL FOR CLOSED MARKETS

Washington-Sept. 20-FWN--CHINA AND SOUTH KOREA ARE closed markets that the United States is intent on opening, the U.S.' top trade negotiator said after word this morning that the country's global trade deficit in goods and services had risen to a record level of $11.5 billion in July.

U.S. trade imbalances with Asia in particular were on the mind of U.S. Trade Representative Mickey Kantor, when he briefed reporters following today's Commerce Department report.

"We are worried about the increase" in the U.S. trade deficit with China, Kantor said. "We will watch it carefully."

The U.S. merchandise trade deficit with China rose to $3.332 billion in July from $3.003 billion in June. Kantor said he is "deeply concerned" Chinese trade barriers are having adverse affects on U.S. exports to China.

The Chinese economy is more closed than it should be, he said, referring to barriers limiting imports of U.S. agricultural and manufactured products.

The Office of the USTR is presently monitoring the implementation of an Intellectual Property Rights (IPR) agreement Washington and Beijing signed early this year. Although U.S. officials have reported some progress by China to prevent copyright abuses, top U.S. trade officials have been taking a hard line against China, saying it has a lot of progress to make and hinting that it is not yet ready to be a member of the World Trade Organization (WTO).

Meanwhile, Kantor did not disclose how official-level automobile talks between Seoul and Washington were proceeding. USTR has demanded that Seoul take steps to open a virtually closed automobile market, although it ranks among the top five world auto producers.

U.S. trade officials have not yet had "a full review" of Korean trade practices, Kantor said.

According to Korean government statistics, fewer than 5,000 foreign-made cars were sold in South Korea last year.

South Korea uses "taxes and other anti-import devices" to keep foreign cars out of the country, Kantor said. "We need to end these practices."

Talks were underway this week here, as Korea played up its attempts to eliminate barriers and avoid being listed on the U.S. government's Super 301 priority list, which is likely to be published by early October.

The United States posted a $29 million merchandise trade deficit with South Korea in July after enjoying a $245 million trade surplus with the "Asian tiger" in June.

Overall, the $11.5 billion U.S. trade deficit in July was the highest since the current series of statistics began in January 1992, Commerce Department announced.

End of Part 1

KANTOR CHIDES CLOSED CHINESE, S. KOREAN MARKETS: PART 2

But "the good far outweighs the bad," Kantor said of the report.

The U.S. trade deficit with Japan narrowed for the fourth consecutive month, Kantor emphasized. Japan posted a $5.119 billion merchandise trade surplus with the United States in July, down from $5.291 billion in June. Observers have credited a soaring Japanese yen early in the year with the narrowing U.S.-Japan trade gap.

Meanwhile, overall exports grew at a faster rate than imports in July, Kantor said, comparing U.S. export growth of 13.9% with import growth of 11.4%.

For the year through July, U.S. merchandise exports totalled $327.142 billion. Imports for the same period were $429.656 billion.

End

*** File ID: FB7F8F70.048 Transmitted: Wed Sep 20 12:47:03 1995

***Printed: 09/20/95

KANTOR SAYS 'NOT CONCERNED' OVER U.S.-EUROPE TRADE GAP

Washington-Sept. 20-FWN--A SURGE IN THE U.S. TRADE deficit with Western Europe in July does not point to a trend, U.S. Trade Representative Mickey Kantor told reporters today following release of the latest U.S. trade statistics this morning.

"I'm not concerned with the rise in the U.S. trade deficit with Western Europe," Kantor said, referring to a Commerce Department report this morning, which showed the U.S.' merchandise trade deficit with Europe had increased to $3.1 billion in July from $1.5 billion in June.

Two specific factors--aircraft deliveries and non-monetary gold transfers--were behind the surge in the deficit, Kantor said.

The U.S. overall trade deficit rose to $11.5 billion in July, the highest deficit since the current data series was started in 1992, Commerce said today.

*** File ID: 38F3A348.C70 Transmitted: Wed Sep 20 10:46:55 1995

***Printed: 09/20/95

KANTOR TO TALK WITH REPUBLICANS TODAY ON FAST TRACK

Washington-Sept. 20-FWN--U.S. TRADE REPRESENTATIVE Mickey Kantor will hold talks with House Republicans today on legislation to renew fast-track negotiating authority for the Clinton Administration.

There will be "meetings this afternoon on the Hill" to "determine if there will be a markup" of fast track legislation, Kantor said during a teleconference with reporters this morning. Kantor said he will be attending the meetings.

Fast track, which was in place during the construction of the North American Free Trade Agreement (NAFTA), gives U.S. trade officials the authority to negotiate trade agreements without fear of congressional amendment. Congress is presented with an agreement and must give a yes/no vote within a strictly limited time period. Since NAFTA, fast track authority has expired.

But Chilean accession to NAFTA next year hinges on the approval of fast track, officials from both Chile and the United States have indicated.

Fast track has been held up in the House Ways and Means Committee since before Congress' August recess. Republicans have called for a tightly-written bill that sticks to the negotiation and implementation of trade agreements. House Democrats, including ranking Ways and Means member Sam Gibbons (R-Fla.), however, have tied their support for the legislation to provisions that give the Administration leeway to negotiate related agreements on labor and environment under fast track as well.

Administration officials are said to be preparing a compromise with Republicans to break the deadlock.

*** File ID: 93A918FF.6C5 Transmitted: Wed Sep 20 11:11:06 1995

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TRANSCRIPT OF REMARKS BY

U.S. TRADE REPRESENTATIVE MICKEY KANTOR

AT CEOE (MADRID)

October 23, 1995

Thank you very much, Señor Fernández Tapia, for that kind introduction and your prefatory remarks, which are both interesting, well taken and important. I would like also to recognize Sr. Lacasa. Thank you for being here. Ambassador Gardner, our U.S. Ambassador to Spain, is on my right -- not politically, necessarily, but physically at this moment. He is doing a marvelous job representing our country here in Spain. He is one of our most experienced, not only diplomats, but also is one of the most thoughtful advocates in international organizations that we have in the United States and certainly, probably, in the world. He is also on leave as a law professor at Columbia University and one of our most distinguished legal scholars in the United States, and we appreciate what you are doing here, Dick.

I'd like to, if I might, introduce my colleagues here: Ambassador Jeff Lang is here with me, here in Spain; Ambassador Lang. We also have Tim Richards and Anne Luzzatto and David Marcick. These are my colleagues who are traveling with me. We started in the Middle East; we went on to England for the Quad meeting, which we completed just on Saturday night, and then came to Spain and we are delighted to be here.

I am very impressed by this organization; you represent, what, a million and a half Spanish businesses? We don't have an analogy to this in the United States, and I am delighted to be here, since you represent from manufacturing, to retail, to agriculture to services; and that's extremely important and I appreciate this opportunity.

I know that many Americans love to come to Spain to hunt. My former colleague Secretary Bentsen loves to come here to hunt. I am here on a different kind of hunting trip. I am hunting common ground as we try to build on this new world that we are living in. It's a world, certainly, of change. The only constant in our world today is change. And it provides a tremendous challenge to all of us, as you were referring to in your introduction, whether it's creation of the WTO or strengthening our multilateral system, creating new investment and attracting new investment. All of our economies... you spoke of transportation, telecommunications and of course we in the United States are attempting to do the same things, but these are compatible. Although we may compete in some ways, they are also compatible.

I want to talk about that this morning and I'll be glad to talk about that. And of course, Latin America. We, on December 9 through 11 of 1994, had our Summit of the Americas in Miami with 34 democratically elected presidents or prime ministers of the Americas. The first time we have had all but one nation in the Americas as democratic market economies, growing middle classes, growing industrialization, and as all of you know so well, very impressive economies. And we need to build on that, but that is part of the new world that we see. It is a world of opportunities but — let me be clear — which I'll talk about this afternoon — it is a world of responsibility as well, for all of us.

We believe in the United States that we need to create an enhanced transatlantic marketplace over the next number of years to meet the requirements of this new world. First let me talk about how this world has changed and how it has become so new to all of us. I'm older than almost all of you in this room, I am sorry to say, but I think that we all share this... we are enthralled and interested in what has happened. First of all it's no longer a world that is threatened by the Cold War. That's good news, but that presents certain challenges to us: Politically and strategically what held Europe and the United States together in this grand alliance over the last 50 years has been the Cold War. Politically and strategically our relations were stronger and stronger, and we always allowed economics to take a secondary place because our joint stance to oppose Soviet expansionism was such that economics was not as important as our political and strategic alliance.

However, in this post-Cold War world that's no longer the case. Second, of course, are businesses: yours, those in the United States, those of your colleagues in Europe, Japan, all over the world have become globalized. No longer do we think of markets in just national terms. Even in the United States, who for decades had a self-contained economy, this is the first time in our history, literally, we have recognized we are part of a new globalized economy. This year foreign trade will represent over 30 percent of the U.S. economy. Now, that is not as large a part of our economy as of your economies represented by foreign trade. But for the United States it's an enormous number; it's over two trillion dollars out of a seven trillion dollar economy. And so the globalization of our economy, as well as yours, has become a fact of life.

So, as we have the end of the Cold War, the economic issues have joined the foreign policy table, as important as strategic and political issues, and globalization has

come with it. With globalization, of course, comes interdependence. You can't be globalized without being interdependent, and the more interdependent we are the more we have to cooperate together to build – in our case, we believe, a transatlantic or an enhanced transatlantic market place.

Next of course, economic power is spreading very rapidly around the globe. Many of you travel to Asia or to Latin America and you understand the two fastest growing areas of the world, where market economies are growing at an ever-increasing rate. This new spread of economic power is creating industrialized societies and a growing middle class, and they are markets of the future. As we in Europe and in the United States are almost at zero population growth, as our economies will grow more slowly, because we are mature economies, than those in Asia or in Latin America, we need to recognize our new markets in Latin America and Asia – not to the exclusion of our relationship but to benefit our relationship.

And last, of course, is that growing democracies and market economies are an incredible opportunity. So these are the new opportunities and the new changes that we face. In this new environment, economics has become critical. Now, President Clinton recognized this, not only when he took office on January 20, 1993, but before that. Frankly – it was quite surprising to some – when he announced for president on October 3, 1991, he made quite a bit of the new world that we are living in, the way it enhances U.S. prospects, how are we going to grow jobs in our country and our standard of living by taking advantage of these new markets and this new world, and the fact that we are no longer self-contained in the United States. Surprising for a governor, at that point, of a very small southern state, who understood and appreciated the new challenges and opportunities that we are confronting.

His first priority, of course, is to rebuild the U.S. economy, that when our unemployment was 7.7 percent --. Now, I realize that Spain is going through difficult times, your unemployment rate is much higher than even that, but in the United States a 7.7 percent unemployment rate was in historic terms quite high. It has now been lowered quite substantially. So we had to do something about unemployment; we've taken it from 7.7 percent to 5.5 percent, about a 25 percent decrease. Of course our budget deficit to gross product was a little over four percent; we've cut that by over half in just 33 months. We have cut employment in government by 170 thousand people literally. By the end of President Clinton's first term we'll have fewer employees by number, not per capita, by number in federal government than at any time since Jack Kennedy was president of the United States.

We have grown seven-and-a-half million jobs in 33 months in the U.S. economy. More businesses have been created in the last 33 months than in any similar period in American history. Ninety-three percent of all the jobs created -- of the seven-and-a-half million in the private economy, excuse me -- that's the highest percentage of any time since Harry Truman was president of the United States. So what we have done is cut government; cut our deficit; grown jobs; raised our standard of living; cut unemployment; recognized the new opportunities in world markets. And the president said once we restore the American economy, which we have to do, the next step is we have to begin to build open markets around the world. We have to provide leadership working with our European allies, with Japan and with others.

We have reached over 170 trade agreements, which was cited by our chair here this morning. We have had the highest increase in dollar terms in exports in this year, in the first eight months, than any time in American history. It is a stunning increase;

as a percentage it's nearly the largest. It has increased almost 17 percent, export increases this year alone. The U.S., of course, is going to have two trillion dollars in trade this year; twelve-and-a-half million Americans are employed directly in exporting goods and services from the United States. These jobs pay on the average of 13 to 17 percent more than other jobs in our economy. Trade has become literally a major part of what President Clinton is trying to do as we move forward, not only restoring our economy, but in trying to build global growth. Because certainly if we are not in the forefront of building global growth it won't happen, and if it doesn't happen we all are the losers.

The President has made sure that we have been a willing partner, and let me take a moment to take note of the fact that Sir Leon Brittan, representing the European Union, and I completed the Uruguay Round literally on December 15, 1993, the last day we had to complete it. And not only what a great counterpart he was, and the European officials, but how important Europe's leadership was in completing the largest trade agreement in history and frankly the most important. We can't praise our European colleagues enough for what they have contributed to this eight years of blood, sweat, and tears in completing the Uruguay Round. And Sir Leon Brittan and his staff, but also the whole European Union, deserve great praise for what we were able to achieve.

Now we face new challenges and a new century. It's been over 500 years since Spain commissioned the first explorers to not only find the New World but to establish a transatlantic marketplace. It's only fitting Spain finds itself in the presidency of the European Union at the most critical time, as we hope to build upon and to strengthen and to broaden this transatlantic marketplace over the next years. I think it is not ironic but it is appropriate that Spain provides that leadership, as your prime minister

and all of your ministers have, as your business community has reached out. We believe in strengthening and broadening and creating this transatlantic marketplace.

There are really four areas that we should concentrate on. First, let me say by reason of introduction that Presidents Clinton, Chirac and Santer got together in Washington and asked us, all of us together, Europe and the Unites States, to take a look at this and try to determine how we develop a comprehensive view of this new initiative to strengthen this transatlantic marketplace. We are suggesting there are four areas in which we can do this.

First of all, we have to engage in confidence-building measures. There is one truth in trade that I have found after 33 months. The more trade you have the more disputes you have. That's only natural. The U.S. and Canada have the largest trading relationship between any two nations in the entire world. We have more trade disputes with Canada than any nation in the entire world. Hopefully we manage them well, they are great friends and allies, we share thousands of miles of border, but we have our trade disputes from wheat to lumber to beer to steel, you name it, we have our concerns. What Europe and the United States need to do as step one, consonant with other steps that we need to take in building this new transatlantic marketplace, is to manage these issues, to build our confidence. And let me mention a few.

Enlargement is one. We need to have a successful negotiation of enlargement both in agriculture for transitional purposes and transition and permanent trade concessions by Europe in order to pay for the enlargement that has occurred, under article 28 of the Uruguay Round. I had good meetings with Sir Leon Brittan, I will report, in Ripley, which is just north of London near Yorkshire, and hopefully we're moving forward.

Second of course is to settle the dispute over so-called grains cases, grain valuation for tariff purposes. We filed with the WTO a complaint against the European Union in that regard. There will be meetings in Washington this coming week, I am happy to report, between European officials and U.S. officials to discuss both enlargement and the grains valuation cases.

We must deal with the banana issue. I understand it is sensitive here because of the production in the Canary Islands. We are obviously sensitive to that, we are working both within the WTO -- but we hope to work on a bilateral basis with regard to that issue as well.

Bio-technology, the bio-engineered foods is something that of course Europe and the United States have an interest in, European companies and U.S. companies. I'd note that we have approved twelve such bio-engineered foods, two of which of course are produced by European companies. The European Union has never, never approved one application, either from a European company or a U.S. company. I'd note European applications have been pending longer than U.S. applications. It is time we move forward on that. It is in all of our economic interests that we do so in other areas as well where we have concerns. That would build confidence in this process as we try to create this new and invigorated transatlantic marketplace.

Second, I think we have to establish clear and achievable goals for 1996 -- the so-called deliverables, as trade folks like to talk about. Those deliverables are everything from market access -- that would either be acceleration of tariffs under the Uruguay Round or lowering tariffs in certain areas, even going zero-for-zero in areas of common interest. Secondly, government procurement; thirdly, intellectual property rights, protections; we can cooperate in terms of building the WTO together, we both have an

interest in that, and strengthening the WTO; customs cooperation, which is important, all of you know as business people.

In the standards area, we can make progress, I believe, in 1996 and also in the information or telecommunications area. In all of those ways we can have deliverables in 1996 which will move the process forward in building this new transatlantic market place.

Third of course, we have a meeting on the 11th of November in Seville. That meeting is an important one. It is a meeting of business people from both sides of the Atlantic. I would like to see the Transatlantic Business Dialogue, which has been supported so strongly by the president and Secretary Brown, -- my friend Ron Brown, I think he has appeared here hasn't he? I think Secretary Brown has been here. -- I would like to see that become institutionalized.

I think there is a parallel; so what we are trying to do with the European Union in building this new transatlantic marketplace, the business community is a vital, necessary element in making sure that it works and works correctly. Not only for support for what we are doing, but for your input; both are critical. And I would suggest that we all work together closely as we try to create this parallel push for this new interaction.

The last element I would like to mention in the transatlantic marketplace growth is a study. Many of you have heard the discussion of a joint study between the U.S. and Europe over where this enhanced marketplace would go in the future. It is important that we look at our bilateral relationship and look at what are the impediments to more and open trade. What are our opportunities? What areas are covered? What will be the timing of a more open and stronger marketplace? How would we work together to

achieve it? What would be the impediments to achieving a more open marketplace? I think it would make great sense if we instituted that study as soon as possible. I know there are many who support that in the European Union.

There are some who have concerns. Let me say that this is an idea, I think, that has enormous potential impact. We none of us should prejudge the outcome. We all should go in with open minds as to what we can achieve, and what the result of the story might be. It will be a mistake if either those working on behalf of the United States or those working on behalf of Europe tried, as I said, to prejudge. But, to institute a study, to look at it honestly, to work together makes perfect sense as we build confidence, as we have deliverables in 1996, as we work with the business community to study were we should be going.

We are the two most powerful economies on earth. Politically and economically we provide leadership for the entire world. It would be frankly foolish on our part not to try to work together to build the future.

It is interesting when you look at the numbers. In terms of goods and services, our trade now is over 300 billions dollars a year between Europe and the United States. In investment, it is about 450 billion dollars, and it is interesting, it is balanced almost exactly evenly today. U.S. companies -- and some of you represent U.S. companies who operate here in Europe; I understand, I think there are some people here -- sell 850 billion dollars worth of goods and services in Europe every year. Our relationship when you add it up comes close to two trillion dollars alone. Not to build on this, not to take 500 years of success started by Spain and to make it into a viable and exciting new relationship would be missing an opportunity that is so important for all of us.

And so I hope when the President comes here on the third of December, that the

communique is issued, it's bold, it's innovative, it's far-reaching and reflects much of what I have said here today.

Since the United States was founded our fortunes have been linked with those of you in Europe. A strong and vibrant Europe, frankly, made the United States stronger; in turn, a strong United States made Europe stronger.

Now, at the brink of this new century, in the midst of a period of immense change which I have talked about, we have the historic opportunity to bring our relationship to the next level. Just as our predecessors crossed and first built a marketplace across this great ocean, so must we build a foundation for peace and prosperity in its new era as we approach the twenty-first century. We must refuse to hide behind our fears, rather accept the challenge of creating the transatlantic marketplace. By confronting these challenges, we can support freedom and growth for generations to come.

In this new world the challenge of change is a given. The responsibility to meet that challenge is an absolute must. Our success will mean we will renew our commitment to the transatlantic bond that ties us together. Our success will bring stronger economies on both sides of the Atlantic, more jobs, a higher standard of living and global growth. Our success will mean we enter this new century together, as partners committed to fostering prosperity, and raising standards of living for all of our people.

Thank you very much.