OUTCOME OF SUMMIT OF THE AMERICAS AND PROSPECTS FOR FREE TRADE IN THE HEMISPHERE

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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OUTCOME OF SUMMIT OF THE AMERICAS AND PROSPECTS FOR FREE TRADE IN THE HEMISPHERE

TUESDAY, MAY 8, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:08 p.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
April 25, 2001
No. TR–2

CONTACT: (202) 225–1721

Crane Announces Hearing on Outcome of Summit of the Americas and Prospects for Free Trade in the Hemisphere

Congressman Philip M. Crane (R–IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the outcome of the Summit of the Americas held in Quebec City, Canada, April 20–22, 2001, and the prospects and timing for achieving the Free Trade Area of the Americas (FTAA). Members will also consider proposals to expand trade with Andean countries through the extension and expansion of the Andean Trade Preference Act which expires on December 4, 2001. **The hearing will take place on Tuesday, May 8, 2001, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

Oral testimony at this hearing will be from both invited and public witnesses. Invited witnesses will include United States Trade Representative, Ambassador Robert Zoellick, representatives from the business community, and other interested groups. Also, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

During the Trade Subcommittee hearing held March 29, 2001, concerning whether the United States should negotiate more free trade agreements, the Subcommittee heard testimony from small and large companies on the urgent need for the United States to pursue trade agreements to expand trade in this hemisphere. At this hearing, witnesses are expected to expand on that premise, address the advancements in the free trade agenda accomplished at the Summit of the Americas meeting held April 20–22, 2001, and discuss issues related to extension and expansion of the Andean Trade Preference Act.

The FTAA negotiations were officially launched at the Second Summit of the Americas in Santiago, Chile, in April 1998. Leaders of 34 Western Hemisphere nations have committed to completing negotiations by 2005. The goal is to establish an agreement that would reduce barriers to trade region-wide, allowing all countries to trade and invest with each other under the same rules.

The 1991 Andean Trade Preferences Act (ATPA), P.L. 102–182, grants Colombia, Bolivia, Ecuador, and Peru tariff preferences on certain goods for 10 years in an effort to help those countries fight narcotics trafficking. Several categories of import sensitive products, including textiles and apparel are excluded from the program. The ATPA has proven a valuable weapon in the war against drugs by creating economic incentives to encourage the Andean countries to move out of the production and shipment of illegal drugs and into legitimate products. The four beneficiary countries have requested that ATPA be extended, and benefits be expanded to include other products such as textiles, apparel, and tuna.

In announcing the hearing, Chairman Crane stated: "President Bush has indicated that a Free Trade Area of the Americas is one of his top trade priorities. The

FTAA would open markets for U.S. farmers, producers and service providers, help the U.S. economy rebound from the current slump, and foster free and open societies in countries struggling to establish and maintain democratic roots. While we are moving toward hemispheric free trade, I would like to continue our Andean preference program and expand it to create more economic incentives for these countries to move away from drug production."

FOCUS OF THE HEARING:

Witnesses are asked to address the trade commitments made at the Summit of the Americas meeting in Quebec City and prospects for the FTAA negotiations, and to offer trade proposals to assist Andean countries in their fight against drug production.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Pete Davila at (202) 225–1721 no later than the close of business, Tuesday, May 1, 2001 The telephone request should be followed by a formal written request to Allison Giles, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.**

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies, along with an *IBM compatible 3.5-inch diskette in WordPerfect or MS Word format,* of their prepared statement for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than Thursday, May 3, 2001. Failure to do so may result in the witness being denied the opportunity to testify in person.**

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should *submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, with their name, address, and hearing date noted on a label*, by the close of business, Tuesday, May 22, 2001, to Allison Giles, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, typed in single space and may not exceed a total of 10 pages including attachments. **Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.**

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at "http://waysandmeans.house.gov".

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman CRANE. Good afternoon. This is a hearing of the Ways and Means Trade Subcommittee to consider the status of negotiations to establish a Free Trade Area of the Americas and also to receive testimony on the expansion of the Andean Trade Preference Act which expires on December 4th. Ambassador Zoellick is here to report on the outcome of the Quebec Summit meeting where President Bush communicated his deep commitment to the creation of a free trade area in this hemisphere encompassing 800 million people, $11 trillion in economic production, and $3.4 trillion in regional trade.

Ambassador Zoellick reached a strong agreement on detailed deadlines that give the talks new structure and momentum. The heads of State indicated their decision to make the draft negotiating text public, which is an unprecedented step forward in fostering open discussion regarding the impact of expanding trade in the region. I welcome the President's pledge to achieve trade promotion authority and conclude the United States-Chile Free Trade Agreement by the end of the year.

I am convinced that free trade success in the Americas will help spur the World Trade Organization (WTO) to launch a new round of multilateral negotiations. In recent years, the United States has

lapsed in its responsibility to lead the world and the hemisphere on these issues, and I am anxious to build on the strong successes coming out of the Free Trade Area of the Americas (FTAA) Summit in Quebec.

With respect to extension of the Andean Trade Preference Act, I want to welcome the Colombian Minister of Foreign Trade, Marta Lucia Ramirez, and Bolivia Vice Minister of Trade, Ana Maria Solares, who will speak later this afternoon. I would also like to recognize the other two Andean Ministers who are with us today.

Today, the United States serves as both the leading source of the Andean region's imports and the largest market for its exports, a relationship that yields more than $18 billion worth of commerce. The four Andean nations are taking courageous steps to eliminate drug production among their farmers, and it is my intention to craft an Andean Trade Preferences Act (ATPA) bill that will offer real economic alternatives to the Andean citizens as they move out of the drug trade.

Through expanded trade, we intend to undermine high unemployment and poverty as the factors and motivations for otherwise good, productive citizens to become involved in illicit crop cultivation that is eventually sold on our streets.

And now I would like to yield to the ranking minority Member of the Subcommittee, Mr. Levin, for any remarks he would like to make.

[The opening statement of Chairman Crane follows:]

Opening Statement of the Hon. Philip M. Crane, a Representative in Congress from the State of Illinois, and Chairman, Subcommittee on Trade

Good Afternoon. This is a hearing of the Ways and Means Trade Subcommittee to consider the status of negotiations to establish a Free Trade Area of the Americas and also to receive testimony on the expansion of the Andean Trade Preference Act, which expires on December 4th.

Ambassador Zoellick is here to report on the outcome of the Quebec Summit meeting, where President Bush communicated his deep commitment to the creation of a free trade area in this hemisphere encompassing 800 million people, $11 trillion in economic production, and $3.4 trillion in regional trade. Ambassador Zoellick reached a strong agreement on detailed deadlines that give the talks new structure and momentum. The Heads of State indicated their decision to make the draft negotiating text public, which is an unprecedented step forward in fostering open discussion regarding the impact of expanding trade in the region.

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I'll now yield to the Ranking Minority Member of the Subcommittee, Mr. Levin, for any remarks he would like to make.

And now I welcome my colleagues Mr. Moran, Ms. Tauscher, and Ms. Christensen to hear their testimony.

Mr. LEVIN. Thank you. Thank you, Mr. Chairman.

It is time to move ahead on the trade agenda for 2001. I would like to offer a few brief observations and action items to consider. It will not help to misdescribe or misunderstand the record of the last administration. In the last session, there was forward motion. The Clinton administration and the Congress, working on a truly bipartisan basis, acted on China PNTR and Africa Caribbean Basin Initiative, CBI, breaking the 5-year deadlock on trade legislation. The administration also negotiated new trade agreements with Jordan and Vietnam.

It also will not help to frame the issues of 2001 in terms of old labels or old battles. There was movement during the last few years in good measure because there was a recognition that the nature of trade has been changing, both in its size and its contents. As developing nations with different economic structures from our own and other industrialized nations have become an increasing part of global trade, new issues have arisen. The effort to address these new issues is not a new kind of protectionism. Such labeling is mistaken and counterproductive, setting up a polarization that could help derail the trade agenda.

No one can turn back the clock on globalization. On the other hand, it is a mistake to believe that one cannot or should not shape its course. Shaping globalization requires a forthright effort, among other things, to address the issues of labor and environmental standards because of their very relevance to international economic competition.

The nexus between trade and labor is reflected in the recent New York Times article, "Labor standards clash with global reality," where an executive of an American company stated, regarding its practices on labor standards, "We cannot be the whole solution. The solution has to be labor laws that are adequate, respected, and enforced." And in the same article, the statement by the President of El Salvador, describing the variation of government enforcement of core labor standards, "The difficulty in this region is that there is labor that is more competitively priced than El Salvador."

It is also reflected, whether one agrees with the decision or not, in the rationale stated by the Bush administration when it withdrew from the Kyoto treaty of global warming, and I quote, "It exempts the developing nations around the world, and it is not in the U.S. economic best interest."

It will not be helpful to try to finesse these issues. They are not entirely new. We have had some previous experience. For example, labor standards have long been part of the General System of Preferences (GSP) where there has been a full array of enforcement mechanisms available to us, and they have been used by us responsibly. The same is true of the labor provisions in the Cambodia Textile and Apparel Agreement.

It is time to build on these experiences and move ahead, not be stuck in past polarizations. I have urged we should move on Jordan as negotiated, we should move on Vietnam, doing so in a way that recognizes the need to further address labor standard issues as we negotiate a textile and apparel agreement with Vietnam. The steel crisis also needs to be addressed resolutely. Doing so in a collaborate and bipartisan fashion will help to build the experience and confidence necessary to work effectively on FTAA and the Andean Trade Preference Act and on the significant transfer of power from Congress to the executive branch embodied in fast track negotiating authority.

Congress has taken this step only twice before in our history. On both of those occasions, in 1974 and 1988, extended in 1991, the laws contained three critical components: one, negotiating objectives and related legal mandates to the Executive; two, mechanisms for congressional involvement in and public input into the negotiating process; and, three, commitment to an up or down vote on the final package. It ignores history to say that Congress can recapture this grant simply through the implementation legislation.

So how do we move forward to design the three components? I believe we need to start getting into this in detail. On the first component, negotiating objectives, we need to get beyond general concepts. For example, one issue is whether we are going to establish separate negotiating priorities for multilateral, regional, and bilateral agreements. I believe that that makes sense.

Another issue, going beyond the general concepts of one-size-does-not-fit-all, is to develop language that ensures that dispute settlement remedies are designed to be demonstrably effective in a variety of contexts, and that dispute settlement procedures are more open and inclusive in all contexts.

Turning to the second component, updating the partnership between Congress and the Executive, we are going to have to decide what procedural mechanisms are needed to ensure effective congressional oversight of and public input into each step of the process. For example, how many and what kinds of congressional checkpoints should we build into the process? For instance, should there be a congressional Committee vote at the beginning and a midpoint in each negotiation? What additional mechanisms should we create? And how exactly should they work? For example, providing for meaningful labor standard and environmental reviews, updating the advisory Committee for business, labor, environmental, and other groups?

There is a close relationship between negotiating objectives and procedural mechanisms. A right fast track approach requires that we move beyond slogans and sound bites, embrace all of the issues of trade, old and new, and strive to shape globalization with rules of competition that promote U.S. economic interests and raising living standards around the world. And I look forward to the testimony here as we talk about our relationships with the rest of the Americas.

Thank you, Mr. Chairman.

[The opening statement of Mr. Levin follows:]

Opening Statement of the Hon. Sander M. Levin, a Representative in Congress from the State of Michigan

It is time to move ahead on the trade agenda for 2001. I would like to offer a few brief observations and action items to consider.

It will not help to mis-describe or misunderstand the record of the last Administration. In the last session there was forward motion. The Clinton Administration and the Congress, working on a truly bi-partisan basis, acted on China PNTR, and Africa/C.B.I., breaking the five-year deadlock on trade legislation. The Administration also negotiated new trade agreements with Jordan and Vietnam.

It also will not help to frame the issues of 2001 in terms of old labels or old battles. There was movement during the last few years in good measure because there was a recognition that the nature of trade has been changing—both in its size and its contents. As developing nations with different economic structures from our own and other industrialized nations have become an increasing part of global trade, new issues have arisen.

The effort to address these new issues is not "a new kind of protectionism." Such labeling is mistaken and counterproductive, setting up a polarization that only helps to derail the trade agenda.

No one can turn back the clock on globalization; on the other hand, it is a mistake to believe that one cannot or should not shape its course. Shaping globalization requires a forthright effort to address the issues of labor and environmental standards because of their very relevance to international economic competition.

The nexus between trade and labor is reflected in a recent New York Times article, "Labor Standards Clash with Global Reality," where an executive of an American company stated, regarding its practices on labor standards, "We can't be the whole solution. . .The solution has to be labor laws that are adequate, respected and enforced." And, in the same article, the statement by the President of El Salvador describing the variation of government enforcement of core labor standards, "The difficulty in this region is that there is labor that is more competitively priced than El Salvador." It is also reflected, whether one agrees with the decision or not, in the rationale stated by the Bush Administration when it withdrew from the Kyoto Treaty on Global Warming, "It exempts the developing nations around the world and it is not in the United States' economic best interest."

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It is time to build on these experiences and move ahead, not be stuck in past polarizations.

I have urged we should move on Jordan, as negotiated. We should move on Vietnam, doing so in a way that recognizes the need to further address labor standard issues as we negotiate a textile and apparel agreement with Vietnam. The steel crisis needs to be addressed resolutely.

Doing so in a collaborative and bipartisan fashion will help to build the experience and confidence necessary to work effectively on FTAA and the Andean Trade Preference Act and on the significant "transfer of power" from Congress to the Executive branch embodied in Fast Track trade negotiating authority.

Congress has taken this step only twice before in our history. On both those occasions—in 1974 and 1988—the laws contained **three critical components**: (1) negotiating objectives and related legal mandates to the executive; (2) mechanisms for congressional involvement in—and public input into—the negotiating process; and (3) commitment to an up or down vote on the final package. It **ignores** history to say that Congress can "recapture" its grant simply through the implementation legislation.

So, how do we move forward to design the three components? I believe we need to start getting into this in detail. On the first component—negotiating objectives—we need to get beyond general concepts. For example, one issue is whether we are going to establish separate negotiating priorities for multilateral, regional and bilateral agreements. I believe that makes sense. Another issue—going beyond the general concepts of "one size does not fit all"—is to develop language that ensures that dispute settlement **remedies** are designed to be demonstrably effective in a variety of contexts and that dispute settlement **procedures** are more open and inclusive in **all** contexts.

Turning to the second component—updating the partnership between Congress and the executive—we are going to have to decide what **procedural mechanisms** are needed to ensure effective Congressional oversight of and public input into each

step of the process. For example, how many and what kinds of **congressional checkpoints** should we build into the process—for instance, should there be a congressional or committee vote at the beginning and a midpoint in each negotiation? What additional mechanisms should we create and how exactly should they work—for example, providing for meaningful labor standard and environmental reviews, updating the advisory committee system for business, labor, environmental and other groups. There is a close relationship between negotiating objectives and procedural mechanisms.

A right fast track approach requires that we move beyond slogans and sound bites, embrace all issues of trade, old and new, and strive to shape globalization with rules of competition that promote U.S. economic interests and raise living standards around the world.

Chairman CRANE. And now I welcome my colleagues, Mr. Moran, Ms. Tauscher, and Ms. Christensen, to hear their testimony, and I would like to ask you to try and keep the oral testimony to roughly 5 minutes. And any written testimony will be made a part of the permanent record.

We will proceed in the order I introduced you.

STATEMENT OF THE HON. JAMES P. MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. MORAN. Thank you very much, Mr. Chairman. I appreciate the fact that on this Committee seniority trumps beauty and brains, so it is nice to be able to go first as a result.

Chairman Crane and Ranking Member Levin and Mr. Becerra, Mr. Houghton, Mr. Camp, Ms. Dunn, Mr. English, Mr. Brady, I thank all of you for this opportunity to testify on two important hemispheric trade priorities: negotiation of a Free Trade of the Americas Agreement and reauthorization of the Andean Trade Preferences Act.

I would first like to cite my firm support for granting trade promotion authority to the President. Trade Promotion Authority (TPA) is crucial to the President's ability to negotiate an FTAA, and its approval by Congress would demonstrate the United States' commitment to expanding hemispheric trade. I encourage Members of this Committee to act in a bipartisan manner to advance legislation implementing TPA that also appropriately addresses concerns over labor and the environment.

The expansion of trade in the Western Hemisphere represents one of our greatest economic and societal opportunities in the coming decade. The creation of an FTAA will create a $10 trillion trading bloc of 34 countries and 800 million people stretching from the Bering Strait to Tierra del Fuego. The stars are aligned in terms of Latin America's leadership, enabling us to have a historic opportunity to lead in this endeavor, to ensure that an FTAA reflects U.S. interests and values that can sustain the path of democracy and economic reform by our Latin American partners. Expanding trade relations with our neighbors in this hemisphere not only makes sense from a trade perspective, but also from a foreign policy and an economic security standpoint.

As cochair of the New Democrat Coalition, we believe our future economic growth and prosperity depend on trade, but that we should be able to balance our economic interests with democratic values. Trade is and should be a non-partisan issue, the result of

collective efforts by bipartisan Members to advance our overall economic interests. But in order for this to be a successful bipartisan effort, we must address labor and environmental concerns in a genuine and purposeful manner.

I commend the administration's emphasis on expanding our trade relations in the Western Hemisphere. U.S. Trade Representative Bob Zoellick has already shown leadership in this endeavor. He has provided the guidance and expertise that is essential to crafting an agreement that represents U.S. interests in the region, but also secures the backing of our Latin American partners.

Despite this bright start, I would like to sound the caution expressed by Peter Hakim, President of the Inter-American Dialogue, in his article entitled "The Uneasy Americas," that appeared in a recent issue of Foreign Affairs. He cites that, and I am quoting, "If Latin America loses confidence in Washington . . . the opportunities for American leadership in the hemisphere will diminish, along with hopes for an effective U.S.-Latin American partnership." Mr. Chairman, this administration and Congress cannot overstate the importance of TPA renewal to securing the support of our Latin American neighbors for wider economic and political cooperation.

We must also recognize the difficult economic and political situations faced by many of these countries, which are increasingly skeptical of the U.S. commitment to the region. The United States leadership in negotiating an FTAA, along with congressional approval of TPA, will send the right signal to our Latin American allies. Such steps as renewing the Andean Trade Preference Act and expanding consultation with our Latin American neighbors on trade and development matters will go a long way toward repairing ties with many countries in the hemisphere.

Reauthorization of the ATPA, although of marginal consequence to the United States, is critical to the Andean region's economy. Renewal of ATPA should expand upon the existing program and allow similar preferences for apparel items that the Congress offered to the Caribbean countries last year. The formula that worked for the Caribbean countries fit the economic realities of the Caribbean's apparel industry while being sensitive to U.S. textiles. We need to find a similar approach for addressing the economic realities of the apparel industry in the Andean region.

At a minimum, the Caribbean Basin Trade Partnership Act weakens the Andean countries' apparel industries and leads to revenue and job losses as apparel producers begin moving their operations to Caribbean locations. I encourage the Committee not only to reauthorize the Andean Trade Preference Act, but to expand the agreement to include items such as apparel, tuna fish, and petroleum products that are crucial to sustaining economic growth outside the drug industry.

Under Plan Colombia, the United States has invested more than $1.3 billion in military aid in Colombia to fight the drug war. This aid, while important, does not go far enough in offering alternative economic development that can deter the cultivation and exportation of cocaine in Colombia. Expansion of ATPA benefits that includes apparel items is one critical for the United States to fight the drug war while also improving economic opportunity and stability in the region. Basically, poor farmers need alternative ways

to feed their families. For Colombia to be truly successful in stemming the drug trade, it will need more economic opportunities that will provide jobs and wages that can sustain Colombian workers and farmers.

We also need to encourage countries like Bolivia, which has successfully and courageously nearly eradicated the drug industry, but whose struggling economy depends upon textiles and apparel made of specialty wool from llamas and alpaca sheep. The relatively small investment of providing greater trade incentives under ATPA renewal would reap tremendous long-term gains for these countries and for U.S. consumers. Our Andean trading partners are also poised to be strong allies in our mutual efforts to secure a larger hemispheric trading bloc. I urge the Committee to expedite consideration of an expanded ATPA before the expiration of this agreement later this year.

Mr. Chairman, I would simply close by reiterating the importance of congressional approval of trade promotion authority legislation. I am confident we can successfully tackle the difficult issues of labor and the environment in this process. Hopefully, the Jordanian agreement will prove to be a helpful precedent in this regard. TPA is integral to demonstrating United States' resolve in the region and will offer the opportunity to negotiate other trade agreements that benefit American consumers and businesses.

As expressed in the Declaration of Quebec City approved by President Bush and the 33 other heads of State from the Americas, "we do not fear globalization, nor are we blinded by its allure. We are united in our determination to leave to future generations a Hemisphere that is democratic and prosperous, more just and generous, a Hemisphere where no one is left behind." The President's words best express the importance of an FTAA to our future.

Mr. Chairman, I thank you for this opportunity to appear before the Committee and would be happy to respond to any questions you and other Members may wish to ask, and I urge your positive and timely passage of this crucially important trade legislation.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Moran follows:]

Statement of the Hon. James P. Moran, a Representative in Congress from the State of Virginia

Chairman Crane, Ranking Member Levin, and Members of the Subcommittee, I thank you for this opportunity to testify on two important hemispheric trade priorities: negotiation of a Free Trade of the Americas Agreement (FTAA) and reauthorization of the Andean Trade Preference Act (ATPA).

As an unwavering supporter of free trade, I would first like to cite my firm support for granting trade promotion authority (TPA) to the President, but it should appropriately address labor and environment concerns. TPA is crucial to the President's ability to negotiate an FTAA and its approval by Congress would demonstrate the United States' commitment to expanding hemispheric trade. I encourage Members of this Committee to act in a bipartisan manner to advance legislation implementing TPA.

The expansion of trade in the Western Hemisphere represents one of our greatest opportunities in the coming decade. The creation of a FTAA will create a $10 trillion trading bloc of 34 countries and 800 million people stretching from the Bering Strait to Tierra del Fuego. If the sheer magnitude of this hemispheric agreement is not compelling enough to prompt Congressional approval of trade promotion authority, a Free Trade of the Americas Agreement is critical in another sense. We have an historic opportunity to lead in this endeavor to ensure that it reflects U.S. interests and values that can sustain the path of democracy and economic reform by our

Latin American partners. Expanding trade relations with our neighbors in this hemisphere not only makes sense from a trade perspective, but also from a foreign policy and economic security standpoint.

Mr. Chairman, as you know, I have been one of my party's strongest proponents of free trade. As co-chair of the New Democrat Coalition, I have worked with other members who believe our future economic growth and prosperity depend on trade, but that we should be able to balance our economic interests with democratic values. Trade is and should be a non-partisan issue, the result of collective efforts by bipartisan Members to advance our overall economic interests. In order for this to be a successful bipartisan effort, we must address labor and environmental concerns in a meaningful way.

I commend the Administration's emphasis on expanding our trade relations in the Western hemisphere. U.S. Trade Representative Robert Zoellick has already shown outstanding leadership in this endeavor, providing the guidance and expertise that is essential to crafting an agreement that represents U.S. interests in the region, but also secures the backing of our Latin American partners.

Despite this bright start, I would like to sound the caution expressed by Peter Hakim, President of the Inter-American Dialogue, in his article entitled "The Uneasy Americas," that appeared in a recent issue of Foreign Affairs. He cites that "If Latin America loses confidence in Washington . . . the opportunities for American leadership in the hemisphere will diminish, along with hopes for an effective U.S.-Latin American partnership." For these reasons, this Administration and Congress cannot neglect the regional importance of renewing trade promotion authority in securing the support of our Latin American neighbors for wider economic and political cooperation.

We must also recognize the difficult economic and political situations faced by many of these countries, which are increasingly skeptical of the U.S. commitment to the region. The United States leadership in negotiating an FTAA, along with Congressional approval of TPA, will send the right signals to our Latin American allies. Such steps as renewing the Andean Trade Preference Act and expanding consultation with our Latin American neighbors on trade and development matters will go a long way toward repairing dormant ties with many countries in the hemisphere.

Reauthorization of the ATPA, though of little consequence to the United States, is critical to the Andean region's economy. It should also be expanded to offer greater economic incentives to our Andean partners, including a reduction in tariffs on apparel goods. The formula that worked for the Caribbean Basin Initiative (CBI) countries, which last year were extended duty-free and quota-free treatment for U.S. imports of apparel assembled in these countries, fit the economic realities in the Caribbean's apparel industry. We need to find a similar approach for addressing the economic realities of the apparel industry in the Andean region.

The apparel industry in Colombia, for example, has suffered as a result of the improved trade preferences extended to the CBI countries, with many manufacturers closing their operations and setting up facilities in the Caribbean. This has dealt a tremendous blow to Colombia and the other Andean countries which have lost any competitive advantage in apparel goods. For Colombia, trade in apparel represents a significant industry for a country suffering from economic instability and few employment opportunities. The United States has invested more than $1.3 billion in military aid in Colombia under Plan Colombia to fight the drug war. This aid, while important, does not go far enough in offering alternative economic development that can deter the cultivation and exportation of cocaine in Colombia. Expansion of ATPA benefits that includes apparel items is one critical way for the United States to fight the drug war while also improving economic opportunity and stability in the region. The relatively small investment of providing greater trade incentives to Colombia and the other nations under ATPA renewal would reap tremendous long-term gains for these countries and for U.S. consumers.

While ATPA has offered the Andean countries tariff preferences on certain goods in an effort to enable them to pursue alternatives to cocaine production and trafficking, it has not gone far enough to stimulate long-term economic incentives that will sufficiently counter the narcotics industry in the region, most notably Colombia. For Colombia to be truly successful in stemming the drug trade, it will need more economic opportunities that will provide jobs and wages that can sustain Colombian workers and farmers.

Renewal of ATPA should expand upon the existing program and allow similar preferences for apparel items that the Congress offered to the Caribbean countries last year. This is absolutely essential in the case of Colombia, whose apparel industry employs roughly 300,000 workers and comprises $408 million in U.S. imports. At a minimum, the Caribbean Basin Trade Partnership Act (CBTPA) will weaken

the Andean countries' apparel industries and lead to revenue and job losses as apparel producers begin moving their operations to Caribbean locations.

According to the U.S. International Trade Commission's March 2001 report on U.S. Andean Apparel Trade, "Among the most immediate potential impacts that could occur from Colombia's loss of competitiveness with the CBERA countries are (1) a decline in foreign investment and a diminished alternative to drug production in Colombia and (2) a further decline in production-sharing trade with the United States that has occurred since 1997." I would also add that the Andean countries will face additional competition from Asian suppliers of apparel goods, who will gain access to the U.S. market free of quota restrictions in 2005.

Our Andean trading partners are also poised to be strong allies in our mutual efforts to secure a larger hemispheric trading bloc. We should start our efforts to expand trade in the Americas by first approving an expanded Andean Trade Preference Act that includes apparel and other goods from the region. I urge my colleagues on the Committee to expedite consideration of an expanded ATPA before the expiration of this agreement later this year.

Mr. Chairman, I would simply close by reiterating the importance of Congressional approval of trade promotion authority legislation. I am confident we can successfully tackle the difficult issues of labor and the environment in this process. TPA is integral to demonstrating the United States' resolve in the region, and will offer the opportunity to negotiate other trade agreements that benefit American consumers and businesses.

As expressed in the Declaration of Quebec City approved by President Bush and the 33 other heads of state from the Americas, "we do not fear globalization, nor are we blinded by its allure. We are united in our determination to leave to future generations a Hemisphere that is democratic and prosperous, more just and generous, a Hemisphere where no one is left behind." I think this splendidly captures the importance of an FTAA to our future.

Mr. Chairman, I thank you for this opportunity to appear before the Committee and would be happy to respond to any questions you and other Members may wish to ask.

Chairman CRANE. Thank you, Mr. Moran. And now, Ms. Tauscher?

STATEMENT OF THE HON. ELLEN O. TAUSCHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. TAUSCHER. Thank you, Mr. Chairman and the ranking member and other members of the Subcommittee. Thank you for inviting me to express my views on U.S. trade with our southern neighbors. We are at a critical point in the ongoing relationship with our good friends in Central and South America. We have already established free trade agreements with Canada and Mexico. Now we must look to widen our horizons, expand business and cultural opportunities, share the good fortunes of free trade with our Andean neighbors, and then proceed with trade agreements for the rest of the democratic countries in South America.

Through my role on the House Armed Services Committee, I have been deeply involved in U.S. operations in Central and South America, especially in terms of U.S. development and support of Plan Colombia. I recently traveled to this region and met with the fine young men and women of the U.S. armed forces who are working diligently to achieve the goals that Congress set when this body passed legislation to provide assistance in this most difficult of battles: the war on drugs.

I met with the commanding generals in Southern Command, the troops in the field, the special operations community, and the Co-

lombian military. Their morale is high, their missions are clear, and their work to achieve these goals is working well as we speak. We have every right to be proud of our military and must strive to provide them the best support possible.

I have also met the Colombian leadership, President Pastrana, Minister Ramirez, the Colombian Trade Minister, Mr. Urrutia, the head of the Colombian Central Bank, and other cabinet-level leaders in Colombia. One constant through all of the discussion on how to win this war on drugs is this central thesis: to move a population from an industry of drug cultivation, production, transportation, and dissemination, there must be gainful employment somewhere else. The only true and proven method of increasing opportunities in an emerging economy is to open trade. There are no alternatives in a democratic society.

The existing ATPA arrangement has been positive towards this end, but it needs substantial expansion of trade benefits. Colombian President Pastrana clearly stated his desire for expanded trade opportunities when he visited with President Bush here in February. Two weeks ago in Quebec City, he again declared his country's need for enhanced trade with the United States. While less than 1 percent of total U.S. imports of apparel come from ATPA beneficiaries, the U.S. exports approximately $10 billion in goods to these nations. Between 1992 and 1999, the industries in Colombia favored by ATPA generated $1.2 billion in output and approximately 140,000 jobs. It is also important to note that a 1999 Department of Labor report shows that preferential tariff treatment under ATPA does not appear to have had an adverse impact on or have constituted a significant threat to U.S. employment.

As you know, last year the United States formalized our commitment to the Colombian government in the form of $1.3 billion in assistance. Plan Colombia includes assistance in the peace process, counter-drug efforts, reform of the justice system with attention to human rights, enhanced efforts toward democratization and social development, and support of the Colombian economy. The Colombian government has committed $4 billion to this program, which is expected to cost $7.5 billion over a 6-year period. Of the $1.3 billion U.S. dollars sent to the region, approximately $147 million is programmed for alternative economic development; this is far below what we need to do in this area. All the pillars of the program are critical, but the concept of "weaning" the Andean economies off drugs as an industry is intrinsically linked to the development of industries that engage in conventional trade.

The most unasked question in the war on drugs is: "What if the plan succeeds?" A couple of numbers clearly illustrate how unprepared we, as a hemispheric community, are for the best-case scenario: The World Bank estimates that the combined gross domestic product, GDP, of the four Andean nations involved in ATPA is approximately $200 billion. The Office of the National Drug Control Policy estimates that annual exports of cocaine from the Andean region are approximately $12 billion. A very cursory, macro examination quickly reveals that if tomorrow all the drug industries were crushed and drug money disappeared from this region, the Andean nations would experience a 6 percent drop in gross domestic product. For comparison's sake, you will most likely remember

one of our worst economic crises in the United States, the Arab oil embargo in the early seventies. That difficult time caused only a 3.5 percent drop in our own GDP, and it was catastrophic for us. Whether instantaneous or over the next 5 years, this region is clearly not prepared to replace drug money with wages and other sources of revenue that are derived from standard business practices. We must open up the doors of trade to speed the transition of these economies away from drug money.

This is a multi-dimensional problem that we are deeply involved in: We are part of the problem and need to be part of the solution. To date, we in the United States have made a "bet" that $1.3 billion of American assistance can help solve this problem. I believe that if we truly want to shape the environment to ensure our success, we must "protect our bet" with a trade package that sets the conditions to change their earnings source from drug money to industries that are part of the 21st century economy.

Thank you, Mr. Chairman, for inviting me to speak to you today on the issues of Andean trade. It is my hope that we can develop an effective Andean Trade Preference bill with strong bipartisan support that expands the trade preferences and extends the timeline well into the future.

Thank you.

[The prepared statement of Ms. Tauscher follows:]

Statement of the Hon. Ellen O. Tauscher, a Representative in Congress from the State of California

Mr. Chairman, thank you for inviting me to express my views on U.S. trade with our southern neighbors. We are at a critical point in the ongoing relationship with our good friends in Central and South America. We have already established free trade agreements with Canada and Mexico. Now we must look to widen our horizons, expand business and cultural opportunities, share the good fortunes of free trade with our Andean neighbors, and then proceed with trade agreements for the rest of the democratic countries in South America.

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This is a multi-dimensional problem that we are deeply involved in: we are part of the problem and need to be part of the solution. To date, we have made a "bet" that a $1.3B American assistance program can help solve this problem. I believe that if we truly want to shape the environment to ensure our success, we must "protect our bet" with a trade package that sets the conditions to change their earnings source from drug money to industries that are a part of the 21st century economy.

Thank you, Mr. Chairman, for inviting me to speak to you today on the issues of Andean trade. It is my hope that we can develop an effective Andean Trade Preference bill with strong bipartisan support that expands the trade preferences and extends the timeline well into the future. Thank you.

Chairman CRANE. Thank you.

Ms. Christensen.

STATEMENT OF THE HON. DONNA M. CHRISTIAN-CHRISTENSEN, A DELEGATE IN CONGRESS FROM THE UNITED STATES VIRGIN ISLANDS

Ms. CHRISTIAN-CHRISTENSEN. Thank you, Mr. Chairman, ranking member, distinguished colleagues, for the opportunity to testify this afternoon on the important hearing on the Andean Trade Preferences Act and a future Free Trade Area of the Americas. In particular, though, I am grateful for the chance to explain to the Subcommittee on Trade the critical importance of retaining current treatment for rum in any renewed ATPA and of opposing future tariff reductions for rum in the context of the FTAA.

I am accompanied today by Mr. Andrew Wechsler, sitting behind me, of the Law & Economics Consulting Group, who is currently conducting an updated economic analysis of the rum tariff issues for the governments of the Virgin Islands and Puerto Rico. Both Mr. Wechsler and I would be pleased to answer any specific ques-

tions after my testimony, and I would like to submit a statement from the Governor of the Virgin Islands, Charles Turnbull, for the record with your permission.

Chairman CRANE. Without objection, so ordered.

[The following was subsequently received:]

Statement of the Hon. Charles W. Turnbull, Governor of the United States Virgin Islands

Introduction

Mr. Chairman and distinguished Members of the Subcommittee on Trade, I am pleased to provide this statement on behalf of the government of the United States Virgin Islands ("GVI") in conjunction with the Subcommittee's hearing on the future of trade in the Western Hemisphere. In particular, I appreciate the opportunity to outline for the Subcommittee the crucial role which rum plays in the economy and financial stability of government of the Virgin Islands and for other island jurisdictions in the Caribbean. For the reasons set forth below, Congress must assure that any legislation extending the Andean Trade Preferences Act ("ATPA") includes the current exclusion of low-value Andean rum. For the same reasons, I also respectfully urge that Congress oppose additional tariff reductions for rum in the negotiation of any future Free Trade Agreement of the Americas ("FTAA").

In 1991, after careful consideration, Congress affirmatively acted to exclude rum from the list of products eligible for duty free treatment under the ATPA. The powerful reasons of this exclusion—including the critical importance of rum to Caribbean Basin economies and the resource, cost and capacity advantages of Andean producers—still exist today. Indeed, as explained below, U.S. duties on low-value bulk and bottled rum were recently affirmed after delicate and complex discussions among the United States, the European Union, Caribbean governments and nongovernmental stakeholders in the 1997 "zero-for-zero" agreement on distilled spirits.

The result of these 1997 negotiations reflects longstanding United States policy to preserve tariffs on imported rum. This consistent U.S. policy is based on the fundamental fact that the rum industry and existing U.S. tariff preferences play a critical role in the economies of the Virgin Islands and other Caribbean jurisdictions. Under, a congressionally mandated program to foster the development of the Virgin Islands, Federal excise taxes on Virgin Islands rum shipped to the United States are returned to the GVI treasury. This revenue source—which accounts for approximately 15 percent of the GVI's total budget—secures hundreds of millions of dollars of government-issued bonds to finance the capital infrastructure of the Islands.

Any reduction or elimination of existing tariffs on low-value rum would disrupt these carefully considered trade and finance programs. Any such steps would have particularly devastating consequences for the fiscal stability of the GVI, which is currently struggling with a financial crisis exacerbated by the massive destruction wrought by successive 100-year hurricanes and other natural disasters over the last dozen years. Moreover, the elimination or reduction of duties on rum would have dire consequences for U.S. producers in the Virgin Islands and Puerto Rico—who comprise virtually all of the domestic rum industry—and for Caribbean beneficiaries of the U.S. Caribbean Basin Initiative ("CBI").

Congress must, therefore, continue to oppose any efforts to facilitate reductions in rum tariffs in the context of the ATPA or the FTAA.

A. The Virgin Islands Economy Is Linked By Congressional Design To The Health Of the Territory's Rum Industry

As an unincorporated territory of the United States, the Virgin Islands is uniquely dependent upon the continuing health and vigor of its rum industry.

Rum is a product of special significance to the Virgin Islands and other Caribbean jurisdictions. Rum has been produced in the Caribbean for centuries, providing important contributions to local economies, as well to the history and lore of the region. Today, the rum industry plays even greater role in the prosperity and stability of the Virgin Islands economy. Indeed, rum production is the second most important industry in the Virgin Islands, surpassed only by tourism.

Most Virgin Islands rum occupies the low-price end of the market and is sold as unaged bulk rum to regional distributors in the United States. The distributors, in turn, bottle and sell the rum under private labels or sell to national beverage companies which market under various product labels. Virgin Islands-produced rum is also sold as prepared cocktail mixes. Because Virgin Islands bulk rum is generally sold as a commodity and does not have name brand recognition, it cannot command premium prices. Rather, bulk rum is extremely price sensitive and is sold in a high-

ly competitive environment where pennies can literally make or break a sale. As a result of this position in the market, Virgin Islands-produced rum is vulnerable to imports from low-cost countries, like Brazil and Colombia, with large indigenous sugar cane industries.

In recognition of the special importance of rum to the Virgin Islands economy, successive Administrations have acted affirmatively to maintain tariffs on imports of low-value rum from non-CBI countries. Current U.S. tariffs on low-priced rum are 25.9 cents per proof liter for bottled rum valued at $3 per proof liter or less and 25.9 cents per proof liter for bulk rum valued at $0.69 per proof liter or less. These duties are critical to the continued viability of the Virgin Islands rum industry. (As noted below, the importance of these tariffs was affirmed as recently as 1997 in a U.S.-EU accord on rum.) Removal of the current duty on low-value rum, on the other hand, would confer an enormous advantage upon Andean and other non-CBI producers, who already enjoy substantial cost and production advantages and would likely expose Virgin Islands producers to immediate and destructive import competition. In short, the current duty is necessary to prevent serious injury to the Virgin Islands rum industry and, by extension, to the entire Virgin Islands economy.

Corollary to its interest in ensuring the competitive health of a historic industry, the GVI and the United States Government also have a common interest in protecting one of the GVI's principal sources of governmental revenue. Congress has, by statute, mandated that Federal excise taxes imposed on Virgin Islands rum be returned to the treasury of the Islands to finance needed capital projects and public services. Under the Virgin Islands Revised Organic Act 1954 ("ROA"), Pub. L. No. 517, 68 Stat. 12, which established a comprehensive scheme of local self-government in the Territory, Congress provided that Federal excise taxes collected on rum manufactured in the Virgin Islands and shipped to the United States shall be returned to the treasury of the Virgin Islands. ROA, § 28(b) (codified at 26 U.S.C. § 7652(b), (e)). Prior to the enactment of the Revised Organic Act, the Virgin Islands was dependent upon ad hoc congressional appropriations for the support of its local government. As part of its statutory scheme for the political and economic development of the Virgin Islands, Congress intended that these tax cover-over provisions generate a permanent source of funds for the Virgin Islands government and thus contribute to the financial self-sufficiency of the Territory. *See* S. Rep. No. 1271, 83d Cong., 2d Sess. 4 (1954), *reprinted* in 1954 U.S. Code Cong. & Ad. News 2585. *See also Commonwealth of Puerto Rico v. Blumenthal,* 642 F.2d 622 (D.C. Cir. 1980), *cert. denied*, 451 U.S. 983 (1981) (purpose of cover-over provisions is "to ease financial plight" of the Virgin Islands and Puerto Rico).

The rum industry and the cover-over provisions of the Revised Organic Act presently contribute approximately 15 percent of the Territory's total budget. For 2000, the GVI received approximately $75 million in rum excise taxes. These cover-over revenues are used to secure bonds issued by the GVI and sold to mainland institutions and investors. These bonds, in turn, finance needed capital improvements and infrastructure development in the Territory including, *inter alia*, the construction of schools, health care facilities, airports and other vital projects throughout the Virgin Islands—projects made all the more necessary by the billions of dollars of damage caused by major hurricanes and other natural disasters over the last decade. In addition, the number of direct jobs generated by these capital expenditures run into the thousands—far outpacing the number of jobs in the rum industry, which is itself one of the largest manufacturing industries in the Territory.

The rum industry thus provides one of the principal sources of employment and government revenue in the Virgin Islands. Even a modest increase in imports from Andean and other non-CBI producers triggered by extending duty-free treatment to low-cost rum would invariably result in depressed prices and correspondingly reduced profits for U.S. rum producers in the Virgin Islands. Because of the linkage established by Congress between the industry and excise tax revenues, even minimal displacement of Virgin Islands rum shipments to the United States by foreign competition will threaten the fiscal stability of the Territorial Government, raise the cost of the government borrowings, and, derivatively, put the entire economy of the Islands at risk. Accordingly, Congress must retain current restrictions on rum in the ATPA and oppose the inclusion of rum in any tariff negotiations under the FTAA.

B. Any Reduction or Elimination of Current U.S. Duties on Low-Value Rum Would Run Counter to Long-Standing Federal-Territorial Policy

Both the Congress and the Executive Branch of the United States have repeatedly recognized the unique role that the rum industry plays in the legal, economic and political relationship between the United States and its island territories in the Caribbean. The United States has taken affirmative action on many occasions to protect

the Virgin Islands and Puerto Rico rum industries from potential competitive harm that would result from changes in trade preferences for rum.

Historically, all foreign-produced rum imported into the United States was subject to U.S. customs duty. In 1983, in response to the President's foreign policy objectives for the Caribbean, Congress enacted the Caribbean Basin Economic Recovery Act ("CERA")—popularly known as the "Caribbean Basin Initiative"—which created a special system of tariff preferences for products (including rum) originating from eligible Caribbean countries. Pub. L. No. 98–67, 19 U.S.C. §§ 2701 *et seq*. The legislation was carefully developed to balance domestic economic interests against U.S. foreign policy goals for the Caribbean. After careful Congressional deliberation, a legislative compromise was worked out to protect the Virgin Islands and its rum industry from any increase in Caribbean rum imports. Among other things, Congress enacted several compensatory measures in recognition of the heightened vulnerability of the Virgin Islands rum industry to CBI imports, including a partial rebate to the GVI of a percentage of excise taxes imposed on *foreign-produced* rum. *See* Pub. L. No. 98–67 § 214, 19 U.S.C. §§ 1202, 2251 (note), 2703 (note), 33 U.S.C. § 1311 (note).

The Federal Government has also demonstrated its continued recognition of the special role of rum in the Virgin Islands economy in its disposition of various petitions under the Generalized System of Preferences. In 1981, 1982, 1987 and 1990, the U.S. government rejected various GSP petitions seeking duty-free entry of rum produced by non-Caribbean producers. The rejection of these GSP petitions reaffirmed the import-sensitivity of the rum industry and reflects a considered judgment that the potential harm to the Virgin Islands and Puerto Rican rum industries outweighed any policy benefit to the petitioning countries.

For all these reasons, efforts to eliminate or reduce current tariff preferences for rum—whether in the context of ATPA renewal or future FTAA negotiations—would be contrary to longstanding Federal policy against the extension of tariff preferences for low-value rum produced outside of the Caribbean.

C. Changes in Current Tariff Treatment for Rum Would Be Inconsistent With the Considered Judgments Which Underlie the APTA and the 1997 Agreement on Rum

Of particular importance in the context of the Subcommittee's consideration of a renewed ATPA is that fact that Congress expressly excluded rum from the list of products eligible for duty-free treatment when the ATPA was enacted in 1991. This action was taken by Congress and the Administration after very careful consideration of the impact that duty-free treatment for rum would have on the Virgin Islands, and Puerto Rico and CBI jurisdictions generally. In explaining this action, the House Ways & Means Committee stated:

> The Committee added rum to the list of articles that would be ineligible for duty-free treatment under the Act in order to preserve the benefits that Congress has provided to Puerto Rico, the Virgin Islands, and the Caribbean Basin countries. Rum is a product which the ITC has identified as benefiting most from duty-free treatment under the CBI . . . Andean Rum Producers have significant natural resource and cost advantages over their Caribbean and U.S. Territorial counterparts as well as large excess production capacity.

H.R. Rep. No. 102–337 at 15 (1991). As explained below, the powerful reasons then for excluding rum from duty-free treatment under the ATPA still exist today.

Developments over the last decade also make the retention of current rum tariffs even more imperative for the Virgin Islands and other CBI beneficiaries. As part of a tariff agreement initialed at the December 1996 WTO Ministerial in Singapore, the United States and the European Union ("EU") committed to phase out their tariffs on "white spirits" (including rum) by no later than 2000. In response to this unexpected announcement, U.S. and Caribbean governments and producers, Administration officials and Members of Congress strongly emphasized to U.S. and EU negotiators that, unless exempted, such a drastic change in the duty structure for rum would deal a severe blow to the Virgin Islands, Puerto Rico and the island nations of the Caribbean, whose economies and governments depend heavily on revenues generated by trade in rum.

In response to these demonstrable concerns, the United States and the EU returned to the negotiating table in 1997 and—with substantial input from the GVI and other Caribbean governments and producers—subsequently fashioned a compromise tariff mechanism for rum. This mechanism sought to balance trade liberalization with the particular concerns of the Caribbean region. It did so by retaining existing MFN duties (and the duty preferences of Caribbean producers) on low-priced bottled and bulk rum while substantially liberalizing duties on more expen-

sive rum. Pursuant to this agreement, current higher U.S. duties on low-priced rum are cut off above $3.00/proof liter for bottled rum and $0.69/proof liter for bulk rum.

The willingness of U.S. and EU negotiators to reopen their initial tariff commitments to address the import sensitivity of low-value rum affirms the special and the significant role which rum generally plays for the economies and governments throughout the Caribbean. The 1997 rum agreement was a reasoned compromise agreed to by the concerned governments with substantial participation by key non-governmental stakeholders. In renewing the ATPA and advising on a negotiating strategy for the FTAA, Congress must recognize and continue this careful approach to the unique issues raised by rum.

The exclusion of rum from duty-free treatment under the ATPA and the careful compromise reached in the 1997 rum accord demonstrate that rum is not a product which can or should be included in any across-the-board grant of duty-free treatment or formula-based tariff reduction schemes. Rather, any renewal of the ATPA and any tariff discussions in the context of the FTAA must address the special economic and political significance of the rum trade to the Caribbean region. The considered compromise reached in the 1997 agreement on rum provides a proper balance between the needs of the Virgin Islands and other Caribbean producers of low-value rum and liberalized trade for higher-priced rum.

D. The Reduction or Elimination of Current U.S. Duties on Rum Would Result In Serious Injury To U.S. Producers In the Virgin Islands And The Overall Economy of the Virgin Islands

Duty reductions for rum pursuant to a renewed ATPA or as part of any FTAA negotiations would impose unacceptable hardships on the Virgin Islands and its rum producers. Because it lacks strong name brand identification and a well-developed national distribution network, Virgin Islands rum generally cannot command premium prices. Rather, as explained above, most Virgin Islands rum is sold at the low end of the market and is generally purchased in bulk as an unaged commodity by U.S. bottlers. In this sales environment, Virgin Islands producers must compete almost exclusively on the basis of price and, accordingly, are particularly vulnerable to competition from low-cost producers of bulk rum.

Removal or reduction of current duties on low-value rum would provide producers from outside the Caribbean region with an irresistible incentive to target the low end of the U.S. rum market currently occupied by Virgin Islands producers. For example, Andean and Brazilian producers and producers from other large South American countries currently enjoy numerous economic advantages relevant to the production of rum. These include below-world-market prices for molasses, more highly developed transportation and distribution networks, inexpensive fuel, low manufacturing-sector wages and freedom from U.S. regulatory requirements. The extension of ATPA to rum would open the doors especially to Colombia, but also Peru. Colombia presently consumes more rum than France, 2.5 million cases per year. This does not include aguardiente, an extremely popular Colombian beverage that, like rum, is derived from sugar cane. Colombia has four major rum distillers and a mature industry. Colombia has a significant existing capacity in rum and an ability to augment it rapidly by diverting from aguardiente. Duty-free access to the United States, coupled with its clear cost advantages, would allow Colombia rapidly to enter the low-valued rum market, displacing the Virgin Islands producer.

The extension of duty-free rum treatment to all of South America via the FTAA would create an even more grim picture for the future of this traditional Virgin Islands industry. Brazil is the global industry's 800 pound gorilla—it is the world's largest producer of caned spirits, accounting for 73 percent of global consumption in 1999. Cachaca, a product very similar to rum, is the national drink of Brazil. Brazil clearly has the capacity to single-handedly suffocate the Virgin Islands rum industry in its low-valued market. The role of the existing duties is crucial to the competitiveness of the Virgin Island's rum industry because Brazil's wage structure in the beverage industry is far below that of the Virgin Islands. Brazil is also a major producer of sugar and molasses, the key cost component in rum production. With more sugar than it can use, and low energy costs (due to both subsidies and the burning of cane stalk), Brazil would, overnight, become the lowest-cost large source for low-valued bulk rum if duties were removed.

The GVI and other interested parties have commissioned Mr. Andrew Wecshler, Managing Director of LECG, LLP, a leading trade and economic consulting firm, to conduct an analysis of the probable economic effects of the elimination of current duties on rum. Attached to this statement is a Power Point presentation which summarizes Mr. Wechsler's preliminary conclusions. This analysis makes clear that, without the benefit of the current tariff protection affirmed in the 1997 rum agreement, Virgin Islands producers would quickly be overwhelmed by non-CBI producers

in the price-based segment of the U.S. market in which Virgin Islands rum competes.

The elimination of U.S. tariff protection for the price-sensitive, low-value segment of the U.S. rum market would also seriously threaten the future of the Congressionally mandated program to finance the development needs of the Virgin Islands through the return of excise taxes on rum to the GVI treasury. As explained above, this cover-over program finances some 15 percent of the GVI's annual budget and secures government bonds issued for crucial development and infrastructure projects. This vital economic program depends, however, on the continued existence of a viable rum production industry in the Virgin Islands.

Without current tariff protections, non-CBI producers would likely use their tremendous competitive advantages to displace Virgin Islands rum from the U.S. market, thereby drying up GVI treasury revenues from the return of excise taxes on Virgin Islands-produced rum. This lost revenue could not be made up by the partial rebate of excise taxes on *foreign rum* granted by the CBI. The CBI provides only a limited guarantee of Virgin Islands rum revenues and simply does not make the Virgin Islands whole where foreign imports are increasing disproportionately at the bottom end of the bulk rum market—precisely the segment where the Virgin Islands industry competes. Moreover, from a practical political standpoint, even this limited rebate program would be unlikely to continue if Virgin Islands rum production were no longer viable.

Finally, and perhaps most significantly, the very prospect of serious reductions in rum cover-over revenues would likely imperil the GVI's bond rating and overall economy even before any non-CBI rum producers could avail themselves of reduced U.S. tariffs. Bond markets and investors are justifiably wary of risk and would hesitate to provide needed bond financing at acceptable costs to the GVI based on a threatened and declining stream of cover-over revenues.

Thus, the elimination of current tariff preferences for Virgin Islands rum would have a devastating domino effect on the Virgin Islands and its economy. Without these preferences, rum cover-over revenues would seriously decline and the GVI could lose access to financial markets. Because of the dependence of the Virgin Islands on rum-related revenues, these developments would ultimately put at risk the fiscal autonomy, if not solvency, of the GVI.

E. The Elimination of Current Tariff Preferences on Rum Would Be Contrary To Sound Public Policy In Light of the Precarious Fiscal State of the Virgin Islands

As noted above, current tariff protections for Virgin Islands rum are founded on a longstanding Federal-Territorial policy which links the Islands' development with revenues from rum. This policy provides compelling reasons to resist any elimination of tariff preferences for Virgin Islands rum. Moreover, in view of the current precarious fiscal state of the GVI, any tariff reductions for rum pursuant to a renewed ATPA or FTAA tariff talks would be particularly ill-timed and inconsistent with sound public policy.

Indeed, the new administration in the GVI has inherited a fiscal state of affairs of enormous and alarming proportions. The current recurring and non-recurring liabilities of the GVI exceed $1.2 billion, excluding the funding requirements for many capital projects such as schools, correctional facilities and solid waste management facilities. A sizeable portion of the Government's current liabilities is the direct result of successive hurricanes which have battered the Virgin Islands over the past decade. As of December 31, 2000, these hurricane-related liabilities included nearly $200 million in outstanding FEMA loans. In addition, the GVI requires over $125 million in assistance for rebuilding/replacing a number of capital projects, such as schools, prisons and other facilities mostly destroyed during the hurricanes.

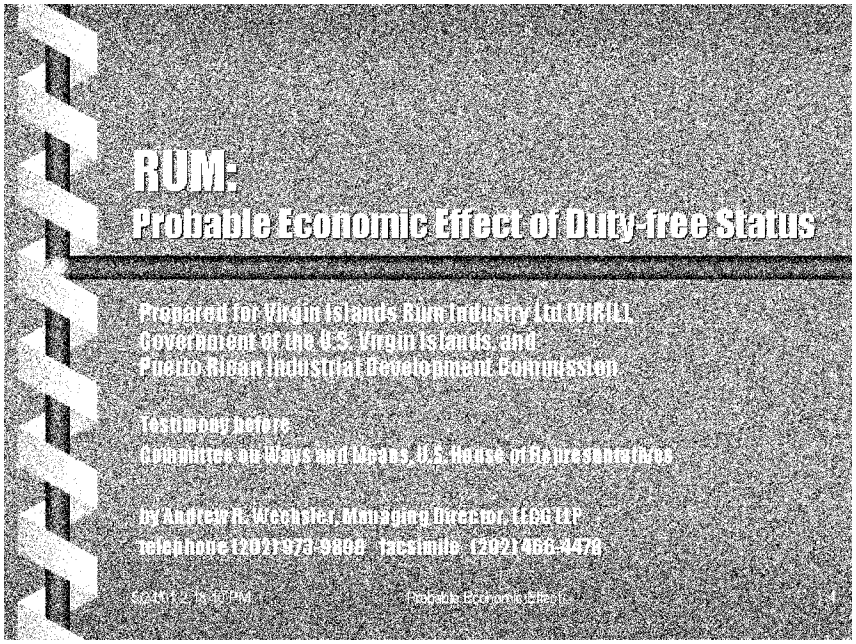
The GVI is committed to extraordinary self-help measures to address this fiscal crisis. With the ongoing assistance of the U.S. Department of Interior, the GVI has developed a Five-Year Fiscal Recovery Plan and is implementing a number of specific measures to reduce or cut costs and enhance revenue collections. As part of this recovery effort, the GVI is seeking over $300 million in Federal relief relating to FEMA disaster loans and hurricane-related infrastructure reconstruction. Additionally, the GVI is seeking further Federal assistance through the extension of the increase in the rum tax cover-over rate to $13.25 per proof gallon, which Congress enacted in 1999 and which expires on December 31, 2001.

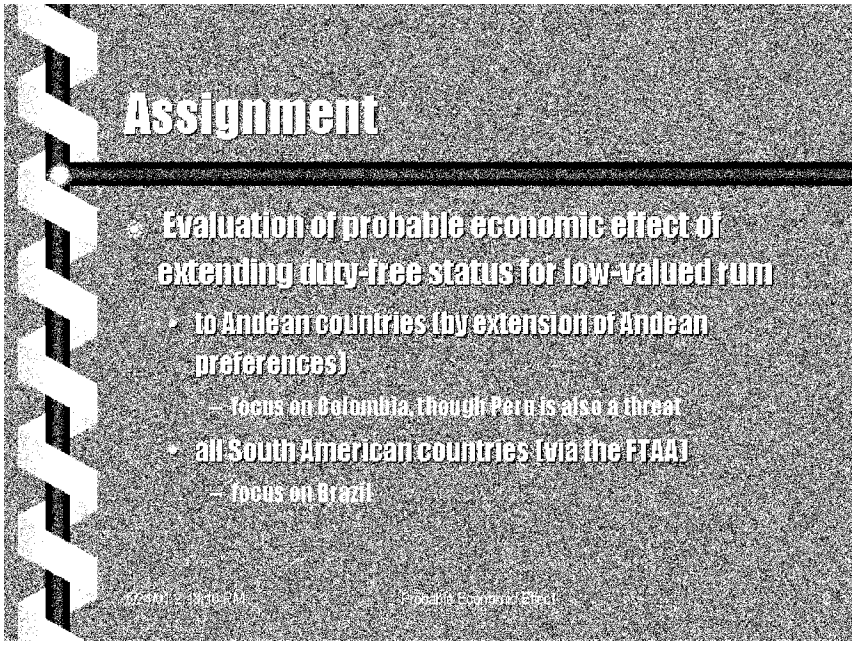
In light of the Federal Government's substantial involvement and interest in these recovery efforts, it makes no sense for the U.S. Government to simultaneously undermine one of the major sources of revenue of the GVI through the elimination of current rum preferences pursuant to a revised ATPA or FTAA tariff negotiations. Sound fiscal policy—as well as longstanding trade and development policies em-

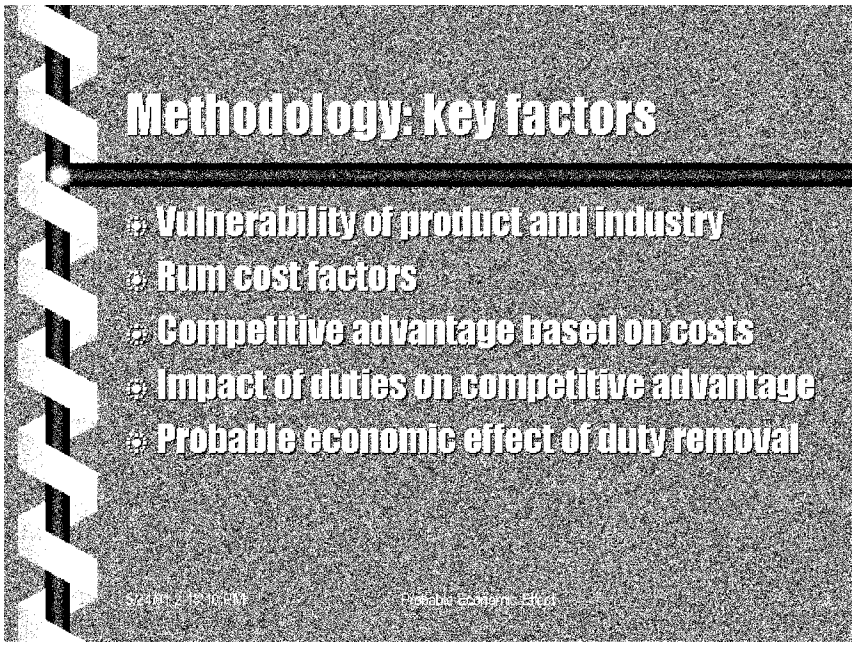
bodied in the ATPA and other legislation—thus supports the maintenance of the current tariff structure and the preservation of the U.S.-EU rum accord.

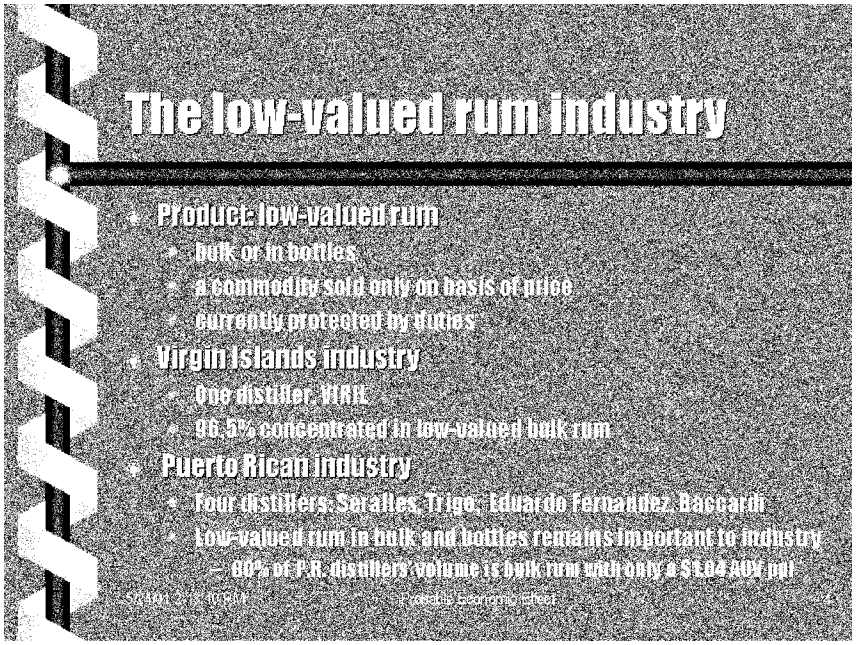
Conclusion

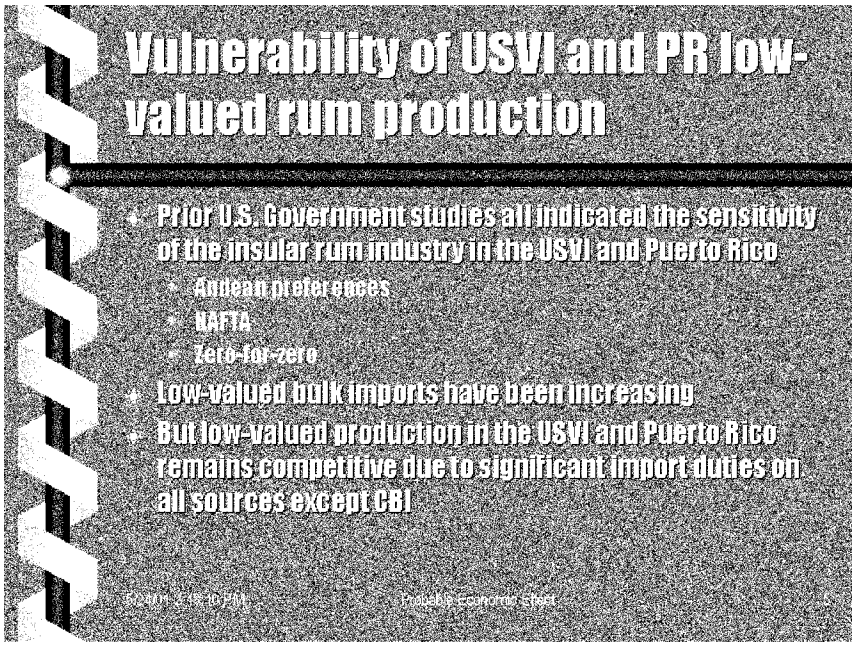
For reasons discussed above, the reduction or elimination of tariffs on rum in the context of a revised ATPA or future FTAA negotiations would pose an inevitable and serious threat to the health of the Virgin Islands economy and its rum industry, as well as to the fiscal autonomy of its Government. Granting duty-free treatment to rum would have a devastating impact on one of the Virgin Islands' most significant and historic industries and one of its largest and sources of governmental revenue. The United States has wisely refused to abandon the critical rum industry in the Virgin Islands. Because of the current weakened fiscal state of the Virgin Islands Government, the case against changing current U.S. tariff protections for rum is even more compelling today. For the reasons set forth above, the Congress must retain current ATPA restrictions against duty-free treatment for Andean rum and must preserve the careful compromise embodied in the 1997 U.S.-EU rum accord by excluding rum from future FTAA tariff reduction negotiations.




Assignment
Evaluation of probable economic effect of extending duty-free status for low-valued rum
to Andean countries (by extension of Andean preferences)
– focus on Colombia, though Peru is also a threat
all South American countries (via the FTAA)
– focus on Brazil


Methodology: key factors
Vulnerability of product and industry
Rum cost factors
Competitive advantage based on costs
Impact of duties on competitive advantage
Probable economic effect of duty removal


The low-valued rum industry
Product: low-valued rum
bulk or in bottles
a commodity sold only on basis of price
currently protected by duties
Virgin Islands industry
One distiller, VIRIL
98.5% concentrated in low-valued bulk rum
Puerto Rican industry
four distillers: Serallés, Trigo, Eduardo Fernandez, Baccardi
low-valued rum in bulk and bottles remains important to industry
– 80% of P.R. distillers volume is bulk rum with only a $1.04 ADV ppl


Vulnerability of USVI and PR low-valued rum production
Prior U.S. Government studies all indicated the sensitivity of the insular rum industry in the USVI and Puerto Rico
Andean preferences
NAFTA
Zero-for-zero
Low-valued bulk imports have been increasing
But low-valued production in the USVI and Puerto Rico remains competitive due to significant import duties on all sources except CBI

Low-valued rum cost factors

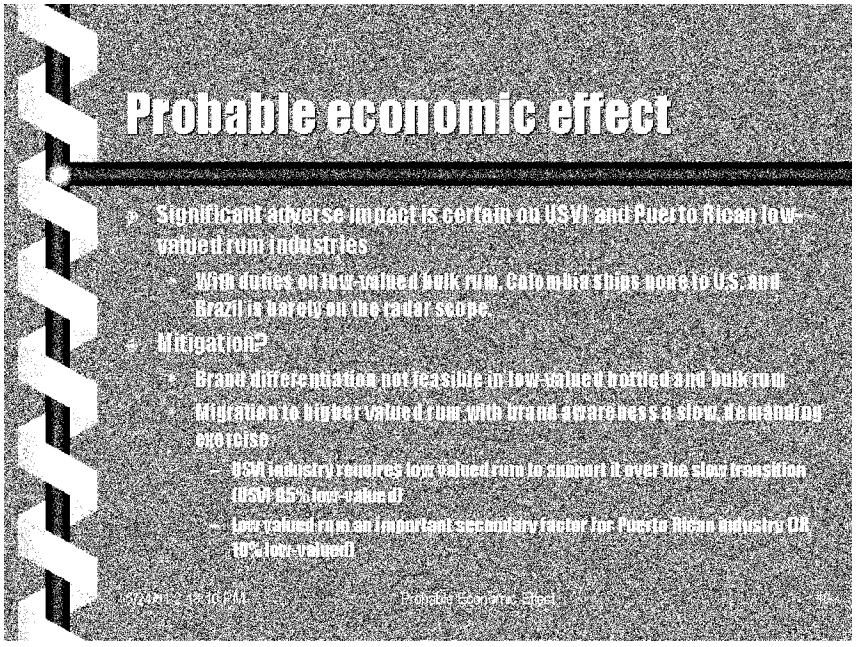
- Molasses
  - Colombia and Brazil have large domestic supplies of cheap molasses, unlike Puerto Rico and USVI
- Energy
  - Colombia and Brazil have cheap energy, unlike USVI and Puerto Rico
- Labor
  - Colombia and Brazil have cheaper labor than USVI and Puerto Rico

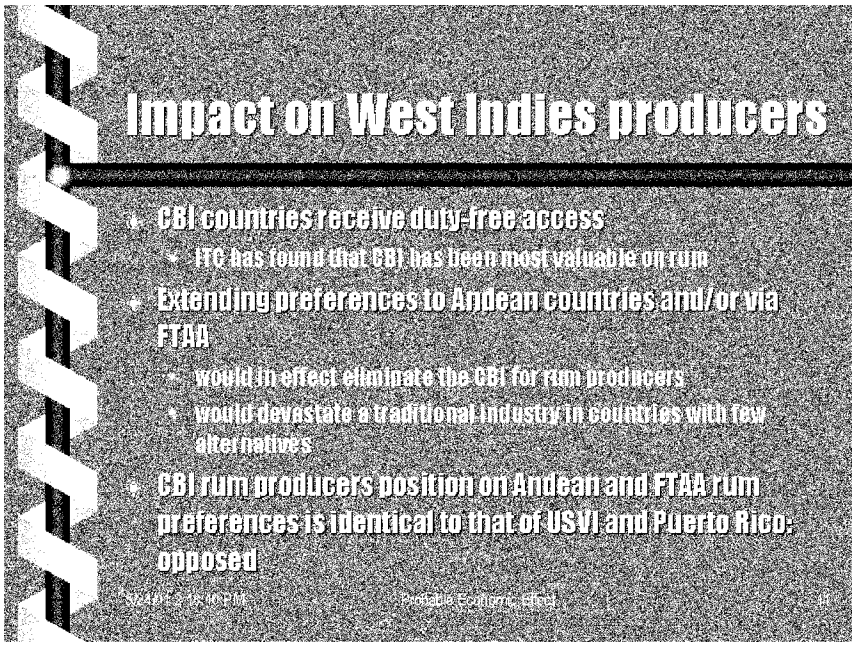
The competitive role of duties

- Duties are the largest single cost factor for any potential exporter to the U.S.
  - From ATPA countries (*e.g.* Colombia)
  - From FTAA countries (*e.g.* Brazil)
- Without the duties, neither USVI nor Puerto Rico can compete in low-valued rum
  - Their cost disadvantage can only be overcome by the duties new entrants would face
  - The only low-valued rum imports of significance come from CBI countries without duties, but they have high costs


Competitive advantage with current duties in place
($ per proof liter)
USVI $1.49
Barbados $0.42
Brazil $0.50
Jamaica $0.76
Trinidad and Tobago $0.78
Bermuda $0.88
Source: U.S. International Trade Commission
5/24/11 7:18:10 PM
Probable Economic Effect
3


Competitive advantage with duties removed
Landed ATA without duty
($ per proof liter)
Brazil $0.10
Barbados $0.42
USVI $0.49
Trinidad and Tobago $0.54
Bermuda $0.63
Jamaica $0.69
Source: U.S. International Trade Commission
5/24/11 7:18:10 PM
Probable Economic Effect
4





Ms. CHRISTIAN-CHRISTENSEN. Thank you. In 1991, after very careful consideration by Congress and the administration, rum was

expressly excluded from duty-free treatment under the ATPA. The Ways and Means Committee then explained that this action was necessary to preserve the benefits that Congress had provided to Puerto Rico, the Virgin Islands, and the Caribbean Basin countries.

Developments over the last decade—particularly a landmark 1997 international trade understanding and agreement on rum tariffs—have made the retention of current tariff preferences on rum even more imperative for the Virgin Islands and the Caribbean region as a whole.

Today, rum is the second most important industry in the Virgin Islands, surpassed only by tourism. It provides an essential revenue source for the Virgin Islands Government because under a congressionally mandated program for the development of the Islands, Federal excise taxes on rum shipped to the United States are returned to the local treasury. These funds currently account for more than 15 percent of the Virgin Islands total budget and have played a critical role in the economic and budgetary health of the Islands.

Most rum produced in the USVI is sold as unaged bulk rum to regional distributors in the United States as a commodity without name brand recognition. Therefore, the rum cannot command the premium prices. It is also extremely price-sensitive and vulnerable to imports from low-cost countries. As Congress recognized in 1991, Andean and other non-CBI producers have significant natural resource advantages in the production of rum. These advantages include: large, indigenous sugar cane industries, inexpensive fuel, low wages, and substantial rum and alcohol production capacity. Without current U.S. tariff preferences, these low-cost regional producers can be expected to overwhelm Virgin Islands and CBI producers of low-value rum in the U.S. market.

In addition to excluding rum from duty-free benefits under the ATPA in 1991, Congress also adopted and maintained a special compensatory program for Virgin Islands rum in the context of CBI. Through the 1980s and 1990s, successive administrations also repeatedly rejected various GSP petitions for duty-free entry of rum produced by non-Caribbean producers. All of these decisions reflect a recognition that rum is highly import-sensitive. They were also the result of a carefully considered judgment that the likely harm to the Virgin Islands and the island nations of the Caribbean far outweighs any potential policy trade benefits from tariff liberalization.

The unique and critical role of rum in the Caribbean region and the importance of maintaining preferences for low-value rum was most recently affirmed in a landmark 1997 understanding between the United States and the European Union. In WTO tariff negotiations in 1996, U.S. and EU negotiators had initially agreed to phase out all tariffs on rum and other "white spirits" by 2000. This unexpected development, which was the last occasion on which I testified before this Subcommittee, was met with alarm by Caribbean governments, administration officials, and Members of Congress, who emphasized to the trade negotiators that such a drastic change in the tariff structure for rum would deal a severe blow to the economics of the U.S. Virgin Islands, Puerto Rico, and the Caribbean.

In response, the U.S. and EU, as well as Caribbean governments and producers, revisited rum tariffs in complex and delicate discussions to address the special role of rum in the Caribbean region. These discussions resulted in a carefully constructed compromise for rum under which the United States agreed to substantially liberalize duties on expensive rum, while protecting the interests of the USVI and other Caribbean island producers, maintaining existing MFN duties on low-value bottled and bulk rum.

The 1997 agreement on rum forms the basis for current U.S. tariff preferences on rum.

In summary, in 1991, this Committee wisely decided to exclude rum from duty-free treatment under ATPA. This decision reflected a longstanding concern by the United States that trade preferences for rum are vitally important to the economies of the Virgin Islands, Puerto Rico, and the island nations of the Caribbean. The wisdom of this decision has been confirmed by developments since 1991. In particular, the 1997 agreement on rum between the United States and the EU reflects the understanding that tariff liberalization of rum must be tempered with an appreciation for the special role that rum, particularly low-value rum, plays in the Caribbean region. For these and other reasons, we ask Congress to assure that the current, carefully considered tariff preferences for rum are not disturbed by the ATPA or by other regional trade arrangements.

Thank you, Mr. Chairman, ranking member, other members of the Subcommittee. Mr. Wechsler and I would be pleased to answer any questions, and thank you again for the opportunity to testify.

[The prepared statement of Ms. Christian-Christensen follows:]

Statement of the Hon. Donna M. Christian-Christensen, Delegate, United States Virgin Islands

Mr. Chairman and distinguished colleagues, I am pleased to participate in this important hearing on the future of hemispheric trade relations under a renewed Andean Trade Preferences Act ("ATPA") and a future Free Trade Area of the Americas ("FTAA"). In particular, I am grateful for the opportunity to explain to the Subcommittee on Trade the critical importance of retaining the current treatment for rum in any renewed ATPA and of opposing future tariff reductions for rum in the context of the FTAA.

I am accompanied today by Mr. Andrew Wechsler of the Law & Economics Consulting Group, who is currently conducting an updated economic analysis of rum tariff issues for the Governments of the Virgin Islands and Puerto Rico. Mr. Wechsler would be pleased to answer any specific questions that the Subcommittee may have. In addition, I am submitting a written statement from Virgin Islands Governor Charles W. Turnbull, which I respectfully request be included in the record of this hearing.

In 1991, after very careful consideration by Congress and the Administration, rum was expressly excluded from duty-free treatment under the ATPA. At that time, the Ways & Means Committee explained that this action was necessary to preserve the benefits that Congress has provided to Puerto Rico, the Virgin Islands, and the Caribbean basin countries. Rum is a product which the ITC has identified as benefiting most from duty-free treatment under the CBI. . . . Andean rum producers have significant natural resource and cost advantages over their Caribbean and U.S. Territorial counterparts as well as large excess production capacity.

Developments over the last decade—particularly a landmark 1997 international trade understanding and agreement on rum tariffs—have made the retention of current tariff preferences on rum even more imperative for the Virgin Islands and the Caribbean region as a whole.

Rum has been produced in the Caribbean for centuries and is an important part of the history, lore and economic fabric of the region. Today, rum is the second most important industry in the Virgin Islands, surpassed only by tourism. Rum also pro-

vides an essential revenue source for the Virgin Islands government. Under a congressionally mandated program for the development of the Islands, federal excise taxes on rum shipped to the United States are returned to the local treasury. These funds currently account for more than 15 percent of the Virgin Islands total budget.

Rum has played a particularly critical role in the economic and budgetary health of the Virgin Islands over the last decade. During that period, the Islands have struggled to recover from the massive destruction and economic dislocation caused multiple natural disasters, including two of the most devastating hurricanes of the century.

Most rum produced in the USVI is at the low-price end of the market and is sold as unaged bulk rum to regional distributors in the United States. Because it is sold as a commodity without name-brand recognition, this rum cannot command premium prices. It is also extremely price-sensitive and vulnerable to imports from low-cost countries. As Congress recognized in 1991, Andean and other non-CBI producers have significant natural resource advantages in the production of rum. These advantages—which continue today—include large, indigenous sugar cane industries, inexpensive fuel, low wages, and substantial rum and alcohol production capacity. Without current U.S. tariff preferences, these low-cost regional producers can be expected to overwhelm Virgin Islands and CBI producers of low-value rum in the U.S. market.

This Congress and successive Administrations have repeatedly recognized the vital role which rum plays in the economies of the Virgin Islands, Puerto Rico and the Caribbean region, and have consistently resisted making significant changes to tariff preferences for rum. In addition to excluding rum from duty-free benefits under the ATPA in 1991, Congress has also adopted and maintained a special compensatory program for Virgin Islands rum in the context of the CBI program. Throughout the 1980s and 1990s, successive Administrations also repeatedly rejected various GSP petitions for duty-free entry of rum produced by non-Caribbean producers. All of these decisions reflect a recognition that rum is highly import sensitive. They were also the result of a carefully considered judgment that the likely harm to the Virgin Islands and the island nations of the Caribbean far outweighs any potential policy trade benefits from tariff liberalization.

The unique and critical role of rum in the Caribbean region—and the importance of maintaining preferences for low-value rum—was most recently affirmed in a landmark 1997 understanding between the United States and the European Union. In WTO tariff negotiations in 1996, U.S. and EU negotiators had initially agreed to phase out all tariffs on rum and other "white spirits" by 2000. This unexpected development was met with alarm by Caribbean governments, Administration officials and Members of Congress. They emphasized to the trade negotiators that such a drastic change in the tariff structure for rum would deal a severe blow to the economies of the USVI, Puerto Rico, and the Caribbean.

In response to this outcry, U.S. and EU negotiators, as well as Caribbean governments and producers, revisited rum tariffs in complex and delicate discussions aimed at addressing the special role of rum in the Caribbean region. These discussions, which involved officials at the highest levels of the various governments, resulted in a carefully constructed compromise for rum. Under this compromise, the United States agreed to substantially liberalize duties on expensive rum. However, to protect the interests of the USVI and other Caribbean island producers, the United States also agreed to maintain existing MFN duties on low-value bottled and bulk rum.

This 1997 agreement on rum forms the basis for current U.S. tariff preferences on rum. In this landmark agreement, the United States and key trading partners struck a careful balance between tariff liberalization and the unique concerns of the Caribbean region. Any efforts to eliminate current tariff preferences for rum in the context of ATPA renewal or FTAA negotiations will upset this careful balance and will result in serious damage to the Caribbean region.

In 1991, this Committee wisely decided to exclude rum from duty-free treatment under the ATPA. This decision reflected a longstanding concern by the United States that trade preferences for rum are vitally important to economies of the Virgin Islands, Puerto Rico and the island nations of the Caribbean. The wisdom of this decision has been confirmed by developments since 1991. In particular, the 1997 agreement on rum between the United States and the EU reflects the understanding that tariff liberalization for rum must be tempered with an appreciation for the special role that rum—particularly low-value rum—plays in the Caribbean region. For these and other reasons, Congress must assure the current, carefully considered tariff preferences for rum are not disturbed by the ATPA or by other regional trade arrangements.

Mr. Wechsler and I would be pleased to answer any questions.

Chairman CRANE. Thank you, Ms. Christensen. Are there any questions of our witness?

[No response.]

Chairman CRANE. If not, let me express—oh, Mr. Levin?

Mr. LEVIN. I would like to thank them very much for their testimony, and this helps to kick off the discussion of these important issues. Thank you very, very much.

Chairman CRANE. Well, it does, and we look forward to working on a cooperative basis with you all, and we appreciate your testimony this afternoon. Thank you so much.

And now I welcome our distinguished U.S. Trade Representative, the Honorable Robert Zoellick. Proceed when ready.

STATEMENT OF THE HON. ROBERT B. ZOELLICK, UNITED STATES TRADE REPRESENTATIVE

Mr. ZOELLICK. Mr. Chairman, Representative Levin, Members of the Committee, if I could request that my full statement will be entered into the record, and I would then summarize it.

Chairman CRANE. Without objection.

Mr. ZOELLICK. I want to begin by thanking you for giving me this opportunity to speak before the Subcommittee. I have certainly benefited from discussions with the Members of this Committee, and I look forward to working closely with all of you. I also wish to thank, in particular, Representatives Levin and English for joining the President at the Summit of Americas meeting in Quebec City.

I also appreciate Congressman Moran's fine statement. I am delighted to be one of his constituents, and recognizing where Congresswoman Tauscher and Christensen come from, I would be delighted to be their constituents, too, I think.

I am pleased to report that in the administration's first months, with your help, we have been able to take steps to advance free trade in this hemisphere and around the world. We have launched the negotiations on the free Trade Area of the Americas, made progress on bilateral free trade agreements with Chile and Singapore, and have resolved productively a number of disputes with our trading partners.

Yet we should not let this progress mask a more troubling reality: the United States is falling behind the rest of the world when it comes time to trade liberalization. Globally, there are 130 free trade agreements. The United States is a party to just two. The European Union has free trade or special customs agreements with 27 countries, 20 of which have completed in the last 10 years, and the EU is negotiating 15 more right now. Last year, the European Union and Mexico—the second-largest market for U.S. exports—entered into a free trade agreement. Japan is negotiating a free trade agreement with Singapore and is exploring free trade agreements with Mexico, Korea, and Chile.

We have no one to blame for falling behind but ourselves, and there is a price to pay for our delay. As Senator Graham of Florida has pointed out, during the last century, when it came time for countries to adopt standards for the great innovation of that era—

electric power—Brazil turned to European models because the United States was not active in Brazil. So when you visit Brazil, be sure to bring an electric adapter. Today, as Senator Graham has explained, Brazil is making decisions about standards for autos and other products. So the United States needs to decide whether it wants to stand on the sidelines again.

To cite just one other example, while U.S. exports to Chile face an 8-percent tariff, the Canada-Chile trade agreement will free Canadian imports of this duty. This is the same agreement that President Clinton said that we would no negotiate in 1994. As a result, U.S. wheat and potato farmers are now losing market share in Chile to Canadian exports.

One of our colleagues, Congressman John Tanner, summed up the big-picture stakes as effectively to me as anyone that I have heard: "America's place in the world is going to be determined by trade alliances in the next 10 years in the way military alliances determined our place in the past."

In any discussion of future free trade agreements, we need to highlight the benefits of previous accords. Together, North American Free Trade Agreement (NAFTA) and the completion of the Uruguay round have resulted in higher incomes and lower prices for goods, with benefits amounting to between $1,300 and $2,000 a year for the average American family of four. That is real money for farmers, nurses, teachers, police officers, and office workers, not bonuses for corporate executives.

Trade barriers hurt families. When trade is restricted, hard-working fathers and mothers pay the biggest portion of their paychecks for higher cost food, clothing, and appliances imposed through taxes on trade.

NAFTA has also produced a dramatic increase in trade. U.S. exports to our NAFTA partners increased 104 percent between 1993 and 2000; U.S. trade with the rest of the world grew only half as fast.

Increased trade supports good jobs. In the 5 years following the implementation of NAFTA, employment grew 22 percent in Mexico and generated 2.2 million jobs. In Canada, employment grew 10 percent and generated 1.3 million jobs. And in the United States, employment grew more than 7 percent and generated about 13 million jobs.

I recognize that these benefits of open trade can only be achieved if we build public support for trade at home. To do so, the administration will enforce, vigorously and with dispatch, our trade laws against unfair practices. In the world of global economics, justice delayed can become justice lost.

The administration will also be monitoring closely compliance with our trade agreements, as well as insisting on performance by our trading partners. Thanks to the help of the Congress and its support of the Trade Compliance Initiative advanced last year, USTR received additional staffing to strengthen its ability to ensure that the terms of agreements are fulfilled.

The Bush administration is promoting free trade globally, regionally, and bilaterally. By moving on multiple fronts, we can create a competition and liberalization that will increase U.S. leverage

and promote open markets in the hemisphere and around the world.

The Free Trade Area of the Americas provides a framework for the administration's hemispheric strategy. This area, once completed, will be the largest free market in the world.

At the Summit of the Americas in Quebec City, all 34 heads of State signed a declaration pledging to conclude negotiations on the FTAA no later than January 2005. The United States is committed, working with others, to meet or beat that deadline.

Moreover, the draft text of the agreement will be released once it has been translated into the four official languages of the FTAA. This is an important, and perhaps unprecedented, step to build public awareness and support an open process. All 34 nations participating in the Quebec City Summit also committed to help the smaller economies of the hemisphere, especially the nations of the Caribbean and Central America, so they could address the unique challenges they face in moving forward with hemispheric integration.

Furthermore, summit leaders agreed that any unconstitutional alteration or interruption of the democratic order in a state of the hemisphere would disqualify that Government from further participation in the Summit of the Americas process.

While pursuing regional free trade through the FTAA, the Bush administration is also negotiating a free trade agreement with Chile. During a visit I made to Santiago last month, I met with President Lagos and other senior Government and legislative officials, as well as representatives of business, labor, and environmental groups. I had two objectives: One, I wanted Chile to know that the Bush administration is serious about the free trade agreement, a point that President Bush and President Lagos made clear following their recent White House meeting, when they announced their goal of completing the negotiations by the end of this year.

My second objective was to send a signal to the nations of Latin America and the rest of the world. The United States will reward good performers. Chile, for example, has been at the forefront of Latin American nations in liberalizing trade, while setting an example to the world of a free people reclaiming their democracy and making the transition to a mature, developed economy.

Leaders from many other nations in this hemisphere have now told me that they want to pursue free trade agreements with the United States. We will consider each of these offers seriously, while focusing on the FTAA.

We are also pleased to have made progress on a number of trade disputes. Last month, we settled the U.S.-EU banana conflict, an issue that interfered with our economic relations for nearly a decade. We have resolved a number of disputes by working through the World Trade Organization and the NAFTA Agreement. For example, Greece has moved to counter the piracy of U.S. films and television programs. Mexico has agreed to allow dry beans from the United States to be imported in a more timely and predictable manner, and India has lifted on U.S. agricultural, textile, and industrial products.

Frequent and substantive communication lies at the heart of the executive-congressional partnership on trade, and I intend to keep

our lines of communication open as we move on our free trade agenda.

The Bush administration's top trade priority is for the Congress to enact U.S. Trade Promotion Authority by the end of this year. Under this authority, the Executive Branch would be bound by law to consult regularly, and in detail, with Members of Congress as trade agreements are being negotiated. But once that long and exhaustive process of consultation is completed, and the painstaking negotiations have ended in an agreement, our trading partners have the right to know that Congress will vote on the agreement, up or down. Indeed, in the absence of Trade Promotion Authority, which expired in 1994, other countries have been reluctant to close out complex, politically sensitive trade agreements with the United States.

We would like to launch a new round of global trade negotiations in the WTO, emphasizing a key role for agriculture. Further reforms in the Middle East and Africa need our encouragement, and we are committed to working with the Congress to enact legislation for a free trade agreement with Jordan. I compliment the Committee for its important work with Africa and the Caribbean last year and look forward to working with the Congress to improve the implementation of the Africa Growth and Opportunity Act and the Caribbean enhancement provisions. We would also welcome your ideas about additional legislative authority to promote trade, economic growth, openness, the rule of law, and democracy in Africa.

We hope to see the Andean Trade Preferences Act, which expires in December, renewed and expanded. I am delighted that the Committee has invited ministers from the region to provide them direct testimony about the effects of this law, and I plan to meet with them tomorrow. The Central American countries have expressed an interest in a free trade agreement with the United States, and we will seek your ideas and preferences as we consider that possibility.

There are opportunities in the Asia Pacific Economic Cooperation and, I hope, with APEC. We will start with a free trade agreement with Singapore, and we will work with you to pass the basic trade agreement with Vietnam negotiated by the Clinton administration. We are encouraged by the renewed emphasis on structural and regulatory reform by the Koizumi administration, and we look forward to working with Japan as it pursues this agenda, which is long overdue.

To help developing nations appreciate that globalization and open markets can assist their own efforts to reform and grow, we will need to extend the legislation authorizing the Generalized System of Preferences program.

And now that there is a fragile peace in the Balkins, we must secure it by pointing people toward economic hope and regional integration. Therefore, we would like to work with the Congress to follow through on the prior administration's proposal to offer trade preferences to countries in Southeast Europe.

As we pursue this agenda, we would like to work with you to consider a range of ideas for improving labor and environmental conditions of our trading partners, as long as these proposals are not protectionist. We might use incentives, not just disincentives, to encourage better environmental protection and labor standards.

For example, incentives can be related to aid programs, financing through multilateral development banks, and preferential trade. We can also strengthen the role of complementary specialized institutions, such as the International Labor Organization (ILO).

USTR has announced recently that we will conduct written environmental reviews of major trade agreements, including the FTAA and the negotiations on agriculture and services underway in the World Trade Organization. In addition to the current environmental advisors, the Bush administration agreed to add an environmental representative to the Chemical Advisory Committee, in response to requests by environmental groups for participation on that committee. I have already benefited from both individual and group meetings with representatives of many environmental groups from the United States and other countries.

At the Summit of the Americas, President Bush stated, "Our commitment to open trade must be matched by a strong commitment to protecting our environment and improving labor standards." As the Congress and the executive branch explore how to demonstrate that trade supports labor and environmental standards, we should look first to economic growth. As the President has said, "When there is more trade, there is more commerce, and there is more prosperity. And a prosperous society is one more likely to have good environmental standards and to be able to enforce those standards."

The EPA and others can provide the kind of technical assistance that will improve the ability of our trading partners to improve both the adequacy of their environmental protection regimes and their ability to enforce their laws and regulations.

We should enable advocacy groups to plant local roots. If labor standards and environmental protection come to be seen by developing nations as a price of trade imposed by wealthy countries, these causes will not gain widespread local support.

When we think about the connection among trade, economic growth, labor, and the environment, we should see them as being mutually supportive, not in conflict with one other. So I look forward to working with the Congress, and interested parties in the private sector, to discuss these issues further and to seek to find common ground.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Zoellick follows:]

Statement of the Hon. Robert B. Zoellick, United States Trade Representative

Chairman Crane, Representative Levin, and Members of the Committee:

I want to begin by thanking all of you for giving me this opportunity to speak before the Ways & Means Subcommittee on Trade. I have benefited from discussions with members of the Committee and look forward to working closely with all of you as the Bush Administration moves forward with its free trade agenda. I also wish to thank in particular Representatives Levin and English for joining the President at the recent Summit of the Americas meeting in Quebec City.

In Quebec City, the President explained why free trade is one of his top priorities: "Free and open trade creates new jobs and new income. It lifts the lives of all our people, applying the power of markets to the needs of the poor. It spurs the process of economic and legal reform. And open trade reinforces the habit of liberty that sustains democracy over the long haul."

I am pleased to report that in the administration's first months, with your help, we have been able to take steps to advance free trade in this hemisphere and

around the world. We have launched the negotiations on the Free Trade Area of the Americas, made progress on our bilateral free trade agreements with Chile and Singapore, and have resolved productively a number of disputes with our trading partners.

The U.S. is Falling Behind

Yet we should not let this progress mask a more troubling reality: the United States is falling behind the rest of the world when it comes to trade liberalization. Years ago, U.S. involvement in international trade negotiations was a prerequisite for them to succeed. That is not the case today.

Globally, there are 130 free trade agreements. The United States is a party to just two: one is with Canada and Mexico—NAFTA—and the other is with Israel. The European Union has free trade or special customs agreements with 27 countries, 20 of which it completed in the last 10 years. And the EU is negotiating another 15 accords right now. Last year, the European Union and Mexico—the second-largest market for American exports—entered into a free trade agreement. Japan is negotiating a free trade agreement with Singapore, and is exploring free trade agreements with Mexico, Korea, and Chile.We have no one to blame for falling behind but ourselves. And there is a price to pay for our delay. As Senator Graham of Florida has pointed out, during the last century, when it came time for countries to adopt standards for the great innovation of that era—electric power—Brazil turned to European models because the United States was not active in Brazil. So when you visit Brazil, be sure to bring an electric adapter. Today, as Senator Graham points out, Brazil is making decisions about standards for autos and other products—so the United States needs to decide whether it wants to stand on the sidelines again.

Our inaction hurts American businesses, workers, and farmers, as they find themselves shut out of the many preferential trade and investment agreements negotiated by our trading partners. To cite just one example, while U.S. exports to Chile face an eight percent tariff, the Canada-Chile trade agreement will free Canadian imports of this duty. As a result, U.S. wheat and potato farmers are now losing market share in Chile to Canadian exports.

Congressman John Tanner has summed up the big picture stakes to me as effectively as anyone I have heard: "America's place in the world is going to be determined by trade alliances in the next 10 years in the way military alliances determined our place in the past."

The Benefits of NAFTA and other Trade Agreements

In any discussion of future free trade agreements, we need to highlight the benefits of previous accords. Together, NAFTA and the completion of the Uruguay Round have resulted in higher incomes and lower prices for goods, with benefits amounting to $1300 to $2000 a year for an average American family of four. That is real money for farmers, nurses, teachers, police officers, and office workers, not bonuses for corporate executives.

Trade barriers hurt families. When trade is restricted, hard-working fathers and mothers pay the biggest portions of their paychecks for the higher cost food, clothing, and appliances imposed through taxes on trade.

NAFTA has also produced a dramatic increase in trade between the United States and Mexico. When the Congress approved NAFTA in 1993, U.S.-Mexico trade totaled $81 billion. Last year, our trade hit $247 billion—nearly half a million dollars per minute. U.S. exports to our NAFTA partners increased 104 percent between 1993 and 2000; U.S. trade with the rest of the world grew only half as fast.

Increased trade supports good jobs. In the five years following the implementation of NAFTA, employment grew 22 percent in Mexico, and generated 2.2 million jobs. In Canada, employment grew 10 percent, and generated 1.3 million jobs. And in the United States, employment grew more than 7 percent, and generated about 13 million jobs.

I recognize that these benefits of open trade can only be achieved if we build public support for trade at home. To do so, the Administration will enforce, vigorously and with dispatch, our trade laws against unfair practices. In the world of global economics, justice delayed can become justice lost.

The Administration will also be monitoring closely compliance with trade agreements as well as insisting on performance by our trading partners. Thanks to the help of the Congress in its support of the Trade Compliance Initiative advanced last year, USTR received additional staffing to strengthen its ability to pursue a two-track strategy of negotiating agreements and ensuring that the terms of these agreements are fulfilled. With these added resources, USTR will increase the number of staff devoted to monitoring the practices of our trading partners under existing trade agreements and to litigating trade disputes in all sectors.

For the United States to maintain an effective trade policy and an open international trading system, its citizens must have confidence that trade is fair and works for the good of all people. That means ensuring that other countries live up to their obligations under the trade agreements they sign.

Moving Forward

The Bush Administration is promoting free trade globally, regionally, and bilaterally. We are working to help launch a new round of global trade negotiations in the World Trade Organization later this year, while pursuing regional agreements such as the Free Trade Area of the Americas and bilateral agreements with countries such as Chile and Singapore. By moving on multiple fronts, we can create a competition in liberalization that will increase U.S. leverage and promote open markets in our hemisphere and around the world.

The Free Trade Area of the Americas provides a framework for the Administration's hemispheric strategy. This area, once completed, will be the largest free market in the world.

We have made real progress in turning the idea of an FTAA into a reality. At the Summit of the Americas in Quebec City, all 34 heads of state signed a declaration pledging to conclude negotiations on the FTAA no later than January 2005. The United States is committed to working with others to meet, or beat, that deadline.

Moreover, the draft text of the agreement will be released once it has been translated into the four official languages of the FTAA. This is an important, and perhaps unprecedented, step to build public awareness and support an open process. All 34 nations participating in the Quebec City summit also committed to help the smaller economies of the hemisphere—especially the nations of the Caribbean and Central America—address the unique challenges they face in moving forward with hemispheric integration.

The commitment to free trade was made in tandem with an unambiguous pledge to support democracy. Summit leaders agreed that any unconstitutional alteration or interruption of the democratic order in a state of the hemisphere would disqualify that government from further participation in the Summit of the Americas process. For a region that was home to the strict Calvo doctrine on non-interference by others in states' internal affairs, this democracy clause is a striking sign of a new political outlook for the hemisphere.

While pursuing regional free trade through the FTAA, the Bush Administration is also negotiating a free trade agreement with Chile. During a visit to Santiago last month, I met with President Lagos and other senior government and legislative officials, as well as representatives of business, labor, and environmental groups. I had two objectives. One, I wanted Chile to know that the Bush Administration is serious about the free trade agreement—a point that President Bush and President Lagos made clear following their recent White House meeting, when they announced their goal of completing the negotiations no later than the end of the year.

My second objective was to send a signal to the nations of Latin America, and the rest of the world: The United States will reward good performers. Chile, for example, has been at the forefront of Latin American nations in liberalizing trade, while setting an example to the world of a free people reclaiming their democracy and making the transition to a mature, developed economy.

Leaders from many other nations in this hemisphere have now told us they want to pursue free trade agreements with the United States. We will consider each of these offers seriously, while focusing on the FTAA.

We are also pleased to have made progress on a number of trade disputes. Last month, we settled the U.S.-EU banana conflict, an issue that had interfered with our economic relations for nearly a decade. We have resolved a number of disputes by working through the World Trade Organization and the North American Free Trade Agreement. For example, Greece has moved to counter the piracy of U.S. films and television programs, Mexico has agreed to allow dry beans from the United States to be imported in a more timely and predictable manner, and India has lifted restrictions on U.S. agricultural, textile, and industrial products.

The Legislative Agenda

Frequent and substantive communication lies at the heart of the Executive-Congressional partnership on trade, and I intend to keep our lines of communication open as we move on our free trade agenda.

The Bush Administration's top trade priority is for the Congress to enact U.S. Trade Promotion Authority by the end of the year. Under this authority, the executive branch would be bound by law to consult regularly and in detail with members of Congress as trade agreements are being negotiated. But once that long and exhaustive process of consultations is completed, and the painstaking negotiations

have ended in an agreement, our trading partners have the right to know that Congress will vote on the agreement up or down. Indeed, in the absence of Trade Promotion Authority, which expired in 1994, other countries have been reluctant to close out complex and politically sensitive trade agreements with the United States.

We would like to launch a new round of global trade negotiations in the WTO, emphasizing a key role for agriculture. We will seek to negotiate regional and bilateral agreements to open markets around the world. Further reforms in the Middle East and Africa need our encouragement, and we are committed to working with the Congress to enact legislation for a free trade agreement with Jordan. I compliment the Committee for its important work with Africa and the Caribbean last year and we look forward to working with the Congress to improve the implementation of the African Growth and Opportunity Act and the Caribbean enhancement provisions. We would also welcome your ideas on additional legislative authority to promote trade, economic growth, openness, the rule of law, and democracy in Africa.

We also hope to see the Andean Trade Preferences Act, which expires in December, renewed and expanded. President Pastrana of Colombia has said that renewing the act would be one way to counter the drug traffickers in his country, as it would stimulate job creation in the real economy and diminish the appeal of the drug trade. The Central American countries have expressed interest in a free trade agreement with the United States, and we will seek your ideas and preferences as we consider that possibility.

There are opportunities in the Asia Pacific and, I hope, with APEC. We will start with a free trade agreement with Singapore and will work with you to pass the basic trade agreement with Vietnam negotiated by the Clinton administration. We are encouraged by the renewed emphasis on structural and regulatory reform by the Koizumi administration, and we look forward to working with Japan as it pursues this agenda, which is long overdue.

To help developing nations appreciate that globalization and open markets can assist their own efforts to reform and grow, we will need to extend the legislation authorizing the Generalized System of Preferences program.

Of vital importance, we will seek to work closely with the European Union and its candidate members in Central and Eastern Europe, both to fulfill the promise of a trans-Atlantic marketplace already being created by business investment and trade, as well as to reinvigorate, improve, and strengthen the WTO processes.

Now that there is a fragile peace in the Balkans, we must secure it by pointing people toward economic hope and regional integration. Therefore, we would like to work with the Congress to follow through on the prior administration's proposal to offer trade preferences to countries in Southeast Europe.

Protecting Labor Standards and the Environment

As we pursue this agenda, we would like to work with you to consider a range of ideas for improving the labor and environmental conditions of our trading partners, as long as these proposals are not protectionist. We might use incentives, not just disincentives, to encourage better environmental protection and labor standards. For example, incentives can be related to aid programs, financing through multilateral development banks, and preferential trade. We can also strengthen the role of complementary specialized institutions, such as the International Labor Organization.

USTR has announced recently that it will conduct written environmental reviews of major trade agreements, including the FTAA and the negotiations on agriculture and services underway in the World Trade Organization. These reviews provide negotiators with timely information on the environmental implications of trade accords and give us guidance on how trade and economic growth can strengthen environmental performance. In addition to the current environmental advisors, the Bush Administration agreed to add an environmental representative to the chemical advisory committee, in response to requests by environmental groups for participation on that committee. I have already benefited from both individual and group meetings with representatives of many environmental groups from the United States and other countries.

At the Summit of the Americas, President Bush stated, "Our commitment to open trade must be matched by a strong commitment to protecting our environment and improving labor standards. As the Congress and the executive branch explore how to demonstrate that trade supports labor and environmental standards, we should look first to economic growth. As the President has said, "When there's more trade, there's more commerce and there's more prosperity. . . . And a prosperous society is one more likely to have good environmental standards and be able to enforce those standards."

The Environmental Protection Agency and others can provide the kind of technical assistance that will improve the ability of our trading partners to improve both the adequacy of their environmental protection regimes and their ability to enforce their environmental laws and regulations.

We should enable advocacy groups to plant local roots. If labor standards and environmental protection come to be seen by developing nations as a price, imposed by wealthy countries, these causes will not gain widespread appeal.

When we think about the connection among trade, economic growth, labor, and the environment, we should see them as being mutually supportive, not in conflict with each other. I look forward to working with the Congress, and interested parties in the private sector, to discuss these issues further and to seek to find common ground.

Conclusion

The Bush administration has an ambitious trade agenda, reflecting the importance President Bush assigns to free trade. We should seize the opportunity before us to reassert America's leadership in setting trade policy and to build a post-Cold War world on the cornerstones of freedom, opportunity, democracy, security, free markets, and free trade. By doing so, we can set a course for peace and prosperity for the Americas and the global system, not just for a year or two, but for decades to come.

Chairman CRANE. Thank you, Mr. Ambassador.

Let me take advantage of this opportunity to congratulate you on the outstanding work you did with the EU in resolving the banana dispute with them.

Mr. ZOELLICK. Thank you.

Chairman CRANE. And we want to see you continue down that outstanding path.

Mr. ZOELLICK. Thank you.

Chairman CRANE. Since U.S. trade with non-NAFTA, Western hemispheric nations is relatively small compared to levels of trade with NAFTA countries, why should the United States be interested in an FTAA, and in what sectors is the United States most likely to benefit from a completed FTAA?

Mr. ZOELLICK. Well, Mr. Chairman, there is a combination of reasons. First, as a number of you mentioned, this would create the largest free trade agreement in the world, covering some 800 million people. And some of the numbers that I cited about the boom in trade, including U.S. exports with Canada and Mexico, give a sense of some of the potential that we would have with the rest of the countries of Latin America. And, indeed, even without that agreement, we have had increased growth of our exports to Latin America in excess of the growth that we have had in the rest of the world.

But, in addition to that direct trade purpose, I think there is a broader economic purpose. The countries of this region are still undergoing serious economic reforms. They are doing so with relatively fragile democracies, many of them created over the past 10 or 15 years. And, frankly, that reform process is under stress and some of the democracies are under strain. So one of the best ways that we can help support lasting economic reform by democratic partners is to create a framework for cooperation and economic growth.

Indeed, if you look back at this hemisphere, Mr. Chairman, it wasn't so long ago that some of the major countries, including Brazil and Argentina, were trying to develop nuclear programs. In-

deed, Argentina was developing a missile being funded by Iraq. But in the process of opening those economies and moving to democracies, both Brazil and Argentina created full-scope nuclear safeguards, and Argentina not only gave up its missile program, but it destroyed that missile that had been funded by Iraq.

So the stakes of this run to trade, they run to economic growth and stability, and they also run to democracy and security, including, as a number of speakers have pointed out here, in the Andean region. So, frankly, the stakes are high, and one way that the President has spoken about this is that we spent much of the last 50 years trying to overcome an East-West divide. We still face a North-South divide. And our own work in this hemisphere, with freedom, with economic openness, with democracy, with a peaceful set of security relations, could give us the opportunity to create a bridge between North and South that will be a model for the rest of the world.

And so the stakes, in my view, Mr. Chairman, are strategic, as well as economic.

Chairman CRANE. I think it is important that the Subcommittee work closely with you to craft an Andean bill which offers concrete economic opportunities to the Andean countries and which is, if at all possible, simpler to administer than the recently passed CBI legislation.

Have the countries given you an idea of what they think will work to help them create additional employment opportunities?

Mr. ZOELLICK. Well, I should obviously let some of the officials from those countries emphasize their key points. I think the starting point, Mr. Chairman, is that, as Congressman Moran and Congresswoman Tauscher emphasized, they are looking for ways to not only promote growth, but to promote export diversification. So, while many of the topics focus on a sensitive sector like textile and apparel, I think we should be open and look for possibilities beyond that area.

So I think the task, Mr. Chairman, is to look at ways we could both extend the ATPA and to broaden it. On extending it, at least it is our proposal, that this be targeted to December 2005 so that it is a bridge to the FTAA, since that is our date for trying to complete it and bring it into force.

In terms of broadening it, at a minimum, I think we would want to try to create parity with the Caribbean and the African bills that the Congress passed last year, and I think, where possible, we should look to go beyond that. I have talked with some of you in the apparel area about how some regional arrangements might help both U.S. firms, as well as firms in the region, as we look toward the end of the Multi-Fiber Agreement in a couple of years and create a more integrated market.

But having said this, Mr. Chairman, I think the thing we have to keep in mind is we have to get this done by December 4, and we all know that there are some very sensitive issues here, and that it is not going to be an easy process to work through. So I think my suggestion for a starting point would be to achieve parity and see where we can go beyond, but not let the perfect be the enemy of the good.

Chairman CRANE. Thank you, Mr. Ambassador. Mr. Levin?

Mr. LEVIN. Thank you, and welcome.

Let me focus in on the two specific subject matters before us. I have already, in my opening statement, as you know, Mr. Ambassador, expressed my views on the larger issues, and I have tried to do so clearly in that opening statement regarding Jordan, and Vietnam, and other issues and fast track the Trade Promotion Authority.

As I understand it, the administration may be issuing a Statement of Principles later this week or sometime hereafter, and I will welcome the opportunity for further discussion, and I think you can expect that I will speak as clearly as I can on them, as I did this morning or this afternoon on these issues, these broader issues, and will continue to talk, both privately and publicly, about these issues. I think it is the only way to move forward.

I think it is interesting, in your statement, that you talk about a matter that was brought at Quebec, and that is what happens when a country interrupts its democratic path and essentially the disqualification from further participation in the summit. I think that helps to illustrate what I think is a basic notion, and that is that we should be careful not to equate free trade as automatically leading to democracy, that, to some extent, we should be working towards democratic processes as part of the trade equation. I mention that just because I think that that discussion in Quebec illustrated and underlined the need for us to look upon trade not as an end, in and of itself, but as a tool.

So let me just say one other thing and then ask you a few specific questions. On Page 6, there is a reference in relationship to labor standards and environmental standards, a reference to the danger of it appearing that we are imposing on other countries. It says here, "imposed by wealthy countries as a price." Just a couple of comments on that.

You know, to some extent, this whole struggle for free markets, for free trade and what goes into it, could be characterized as an imposition of free market principles on other countries. I think we need to be careful when we describe it in terms of imposition. We have a model in mind, and it is based—it is what the WTO is based on, and it is really what the FTAA is based on, I think, and that is the notion that free markets, and I mean that in a broad sense, that free markets will be beneficial. And we have particular ingredients as to what we mean by it. When intellectual property was proposed, as you know, 10/15 years ago, it was argued by some that we were trying to impose industrialized nation standards on those of other countries.

And so I just want to kind of send up a warning flag that we are not really doing that here. In terms of labor standards, for example, the vast majority of these countries have agreed, in various ways, to abide by core labor standards of the ILO, and the question is not our imposition of them, but their abiding by them and the implementation of those within the trade ambit.

But let me then just ask you, specifically, because I think that might be most helpful in this hearing, to tackle one or two of the issues. The textile issue and Andean has been raised. Also, let me raise an issue in the FTAA, one of the most thorny issues, to help us begin to sink our teeth into this, and that is agriculture, where

there is a clear interplay between what we might discuss within the FTAA and what we might be discussing in the WTO.

Could you just give us, perhaps preliminarily, your thoughts about how we are going to handle one of the most thorny of issues within the FTAA and how that interacts with what we might be doing in discussions in Geneva, and Brussels, and elsewhere.

Mr. ZOELLICK. Certainly. Let me just make three points here:

First, as you noted, Congressman Levin, the President said yesterday that he would be sending up some principles later this week. And the reason I want to highlight that, particularly for this Committee, given its jurisdiction, is that we have consciously taken an approach of stressing consultation first, without things on paper, and the next step is to come up with an outline of ideas, but still short of a bill. And I know that from my earliest meetings here there was some concern the administration might move very quickly, present bills, and create a more difficult environment, and this was a conscious effort by us to now, after 3 months, put words on paper, but to still create an opportunity for a full exchange about transforming that into a bill.

The second point, since you mentioned the environment and labor local roots. Let me emphasize the point I was seeking to make because I do think it is also critical in the dialog that we have started here.

As you know, I have dealt with international issues for some 20 years, and I have seen them pursued in different ways around the world. And my key point is that, as someone who has actually promoted environmental movements, in particular, in many parts around the world, including developing countries, what I have seen is that those NGOs and those countries that build on local constituencies and help create an environment for free exchange, freedom of assembly, democracy, and the prosperity that allows those groups to build their own case within those countries, are much more successful in planting local roots for those causes, and I believe the same is true for labor organizations and labor unions.

What I have certainly seen before, and I have certainly seen in the 3 months I have been on this job, is there is a very strong fear out there in the developing world that we cannot ignore, that the developed countries, including the United States, want to use some of these labor and environmental standards as a new form or protectionism. Now you may not like the term, but it is something they feel very strongly. And as you and I have discussed, I think some members do want to use it for protectionism.

And so I think it is critical, as we go forward with this debate, that we do so in a way that creates the win-win environment that I think both of us would like to develop in these countries. And that is why I think a richer set of tools and a set of incentives can help these countries develop their own interest in the environment and labor, and I, frankly, agree with you, one best way to do this is to build on their own commitments and their own laws; for example, core labor standards. But I think this is a key point worth emphasizing.

On agriculture, the approach that we have taken in the FTAA is that the larger issues of dealing with subsidies, particularly domestic subsidies, have to be dealt with globally. We, as a country,

cannot agree to concessions in a hemispheric context that would, frankly, put us in a more difficult position, in terms of dealing with those in a global round. That has been our position.

Now there are other things that we can try to do. For example, we can open access to markets. We can actually try to gain cooperation with a number of the countries of Latin America, and others in the CAIRNES [ph] group, to try to cut export subsidies, which has continued to be a plague that the rest of the world has encountered from the European Union. And an increasingly important area is the question of sanitary and phytosanitary standards. In fact, if there is one issue that I have seen the increased seance of, in the time between when I last was in government and now, it is the danger that these standards, for either health or safety reasons, can be misused or used for protectionist purposes, which emphasizes the need for, on the one hand, science and reasoned analysis, as people put them in place, some common set of standards, which we have been working, for example, in something called the CODEX on recently and had some very successful meetings, but also to help these countries be able to have the capability to develop the appropriate systems. Part of this is trade capacity building.

We have talked, in this context, a little bit about the Africa bill, and this is another critical area that we need to do work with the African countries, in terms of their ability to take part in the agriculture market of the United States and vice versa.

So that at least gives you, I think, a general sense.

Mr. LEVIN. Thank you. I just want to emphasize that the impetus on labor and environmental standards, the impetus is not a new kind of protectionism. This is an issue that we need to address and work on, and for most of us it is an essential ingredient of expanded trade, not diminished trade. Thank you, Mr. Chairman.

Chairman CRANE. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman.

Mr. Ambassador, it is a pleasure to have a chance to meet with you on the global wide range of issues with you.

I want to narrow, if I can, just to the question of African Growth and Opportunity Act, AGOA–II, which we optimistically speak of around here, at least some of us do. I want to talk about the specific provisions that such a piece of legislation might have and to see how you feel about that, whether that is your vision as well.

First, last year we ran into last-minute issues about caps, as you know, on the use of regional fabric. It was not an issue when it left the House, but it became an issue late in the process and came out with caps that are somewhat restrictive in reaching the goals that we had for the bill starting out. So I would like you, first, to comment on that if you could, about how you feel about the prospect of that being in AGOA–II and how important it is as a provision.

The second is some technical issues that we talked about that will allow textiles from the region to be imported into the country and additional funds finally for technical assistance for subsidized African countries and U.S. companies to take advantage of the bill. A lot of these countries don't have enough money and enough technical expertise to figure out how to make this thing as fully as it

should, and we talked about this whole question of providing some opportunities for them to have more of a chance there.

And, lastly, we talked about allowing for duty-free imports of other special fabric categories of apparel and textile products that we don't produce in the U.S., that is the idea, ones we don't produce, so they aren't in competition with our products, but to permit them to come in from African countries.

Could you tell me whether or not you think those four items will be, in your mind, ones to be included in AGOA–II.

Mr. ZOELLICK. Certainly, and let me just start with a more general point, if I could, Congressman.

I have had a chance to meet the AGOA coalition that helped enact this bill, and it was one of the best meetings that I had because it covered everything from civil rights groups to business groups. And the degree of enthusiasm and interest that this had generated for the continent, as well as for trade, was really an amazing thing, and it is something that I followed up on by inviting the African ambassadorial community to come in and brief me on their sense on how we are doing with the implementation.

So, in general, when I think about this area, I am thinking, first, about the implementation of what we have got and what Congress passed. And, second, I would very much welcome a dialog about what we could do to add on to it because I think the potential is quite tremendous here, and I would like it to be a key of what we do, and I know Secretary Powell is also very interested in this.

Second, I want to look closely at some of the non-apparel issues, as well. Because as I talk to some of the ambassadors, I know many of the political fights are on the apparel topics, but as we are going to help some of these countries move to other stages of value added, including some basic manufacturing, this is an area that I think we need to highlight.

Third, on some of the particular issues that you mentioned, we are trying to work with Customs on the knit-to-shape issue, and I hope that is moving closer to resolution; similar on the accumulation of inputs issue. My own view on that is that we should interpret those as broadly as possible to promote trade. And if we can't get that done in the regulatory process, for whatever reason, then I would certainly be pleased to come back and work with you in the legislative process.

As you also know, and as you suggested, part of this we can accomplish in the accumulation area with the visa systems, and we are trying to move quickly to approve the countries. We have now approved, I think, five countries, we have got two more on the way, to be able to take full advantage of this. But as you also mentioned, in terms of the Sanitary/Phytosanitary, SPS, system with agriculture, this is an area where we are working to get some technical assistance funding to be able to try to help countries take part and also to be able to impart our goods.

We recently received some additional support from AID on this, in terms of putting together some of the briefings in regional areas and centers in Africa. We just had one for the African countries in Geneva, for their WTO delegations. And I am meeting the AID-designate director, Mr. Nascio [ph], from Massachusetts, in part, to

emphasize this interest, and I understand he has a very strong interest in it as well.

So I think, in terms of working with AID, but also I have mentioned this to President Wolfensohn of the World Bank, in terms of developing the trade capacity, so I think the full set that you mentioned, the one cautionary point that I will make, and you know very well, is that, as we move this forward, you mentioned the caps issue, the Committee encountered what happened with caps last year around, and I would like to try to get more done in this area, and I would be pleased to try to work with you to carry through as much as we can.

We know there are some obstacles and points in our own political system, and I think we also need to be open, in terms of trying to figure out other ways we can help these countries. And I would add to that, frankly, the whole HIV/AIDS issue, which we also talked about because this is a clear issue that is critical to their economies. I mean, it is a health issue, but it is pretty hard to have a healthy economy if your people are suffering like that.

So I tend to see this in a comprehensive fashion and would be pleased to work on both the implementation and follow-up legislation.

Mr. JEFFERSON. Thank you, Mr. Chairman.

Mr. HOUGHTON. Mr. Zoellick, good to see you here. Thanks very much for what you are doing for all of us. As you know, I am a big free trader. I agree in this. And yet, I do not think there is any inconsistency between doing what is right for the people who are working in this country and also opening up markets overseas. And I just—I have always found it difficult to find that we cannot break this thing open, make it possible, whether it is trade promotion authority or the Free Trade of the Americas or what it is, we just seem to come upon little roadblocks, and we just don't seem to get over them.

Let me ask you a few questions. I do not think this will take long to answer. You talked about there are certain countries that have been reluctant to close trade agreements with us. What are those countries?

Mr. ZOELLICK. I am sorry. The countries reluctant to close trade agreements?

Mr. HOUGHTON. Yes. You said in your testimony there are certain countries that have been reluctant to close on trade agreements with us absent a fast-track authority.

Mr. ZOELLICK. Oh. Well, the best example would be when we were having the discussions on the Free Trade Area of the Americas in Buenos Aires. There were many countries—Brazil has been one of the most publicly outspoken about this—that feel that if we do not have the overall negotiating authority, then there is no need for them to move forward.

Mr. HOUGHTON. Can I ask you a question? In your heart of hearts do you really feel that is the reason Brazil said what it did? I have a feeling that Brazil wants to keep us out of Mercosur, and is basically an enemy in this area, and they will use any excuse to justify their position.

Mr. ZOELLICK. I honestly think it is more complicated than that. Brazil is certainly a country that has had a very insular economic

policy, in many ways like the United States did, because it was a continental-sized economy. And there are, no doubt, very strong industrial interests that are quite happy with the way it is, but I do think that President Cardoso and the current trade and foreign minister, Minister Lafer, deserve a lot of credit for trying to move Brazil into a global economic system, and they are taking on some of these interests, and they face their political constraints as well, including the presidential election in 2002.

I think in the case of Mercosur, there are some that look upon Mercosur as a separate area from the rest of the world, but I think that is going to be increasingly hard to sustain. Mercosur has had its own strains. I mean, as Brazil had a devaluation of its currency, and Argentina's currency was linked to the dollar, you could see the strains within the Mercosur system. This led Uruguay to say that it would like to have a free trade agreement with the United States. Some in Argentina have explored additional arrangements with the United States, and indeed, part of the Argentine economic solution was to pose tariffs on other parties that were different from the customs union. So I think Mercosur itself is under some degree of strain.

But I think that the current Brazilian leadership does indeed want to bring the country into the international economic system. It is 170, 180 million people. We trade more with Brazil than we do with China. They have got great possibilities for that country. But they do face some sensitive sectors, and frankly, so do we, and some of the questions that they are raising are legitimate questions about our points of sensitivity. And so they do want to know if they are going to face their difficult political challenges, and cross those bridges and make agreements that their elected leaders can be criticized for, they do not want the rug pulled out from them at the end of the day on our side, and that is a reasonable point.

Mr. HOUGHTON. I understand that. Are there any other countries similar to them?

Mr. ZOELLICK. Well, I think as we approach the overall global round, some of the other major developing countries, for example, India, are concerned about our ability to follow through. Now, as you know, the United States launched the Uruguay Round in 1986 and we did not have the overall authority until 1988. So I am not saying that it is impossible to launch a round. I do believe that, for better or for worse, the world is watching the U.S. Congress on this issue right now because circumstances have changed since the 1980s. There was not such a question about this in the 1980s, but now there is a question because Congress has failed to pass it since 1994. So East Asia is another region where countries believe that the United States, frankly, is moving to a greater protectionist course.

So I have mentioned some of the big players, but it is true for some of the smaller countries as well, and again, the truth is in some of the facts. President Clinton stood with Prime Minister of Canada, Prime Minister Chretien, and President Zedillo, in 1994, and said to the Chileans, "We are going to go ahead and do a free trade agreement." The Canadians did. The Mexicans did. And we all of a sudden announced in December of last year that we would start. And that was simply based on the fact of political paralysis

up here. So I take Mr. Levin's point, that there has been progress made, including by this Committee, but I can point to a lot of examples around the world where we have been frozen, and you can talk to other people around the world and get a sense of the things we have not engaged in, whether they be bilateral agreements, regional or global, so it is costing us.

Mr. HOUGHTON. My time is up. Thanks very much.

Chairman CRANE. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman, and welcome, Ambassador. It is good to have you back, and congratulations on the great job you did up north on our behalf.

I wanted to ask you a question about the protection of intellectual property. We both share that goal of protecting intellectual property. Can you give us some of your insights on some of your discussions that occurred in Quebec City on protecting and enforcing intellectual property rights among the countries involved in the FTAA?

Mr. ZOELLICK. Well, it is a critical issue that covers everything from pharmaceuticals, where you know the sensitive discussion that was prompted by the HIV/AIDS issue, to a question of enforcement of copyrights issues, to a question of its connection to the high-tech world, which we have discussed in other contexts. It is a great area of comparative advantage for the United States, and so economically, it is important to us, but I also find that in discussing this with other countries, that most recognize that it serves their interest as well, because intellectual property is often going to be a key to investment and developing new businesses.

And to give you an example from another part of the world, I had this discussion with President Kim of Korea, where he understood the problems that Korea was having in terms of enforcement, and he in part supported our efforts because he believed that it would hurt Korea's economy and its own development to fail to move forward.

So I think increasingly, Congresswoman, the issue is not just one of rules, it is one of enforcement. And as we look at the optical disks area, for example, we recently initiated some action against Ukraine, which has a terrible problem in terms of basically pirating intellectual property through disks. So I believe that increasingly this will be an issue of how this relates to high-tech, e-commerce and how we deal with the enforcement topics.

Ms. DUNN. Thank you. Let's move then to the Japanese market. Many sectors of the United States' economy are very worried about the barriers in the Japanese market, especially from my neck of the woods, in the medical technology sector. In the next few months you are going to have an opportunity to meet with the Japanese negotiators. What actions have you thought about proposing on behalf of this administration to encourage greater market access in Japan?

Mr. ZOELLICK. Well, I will speak both specifically to medical technology and a little more generally. As you know, and in part you have been very deeply involved with, the United States is the world leader in terms of advanced medical technology. And my predecessors had worked on this issue in Japan through the broader framework of deregulation that they created. Japan is about a $24

billion market. It is the largest export market for the United States. And some of the deregulation at issue that provided advances in areas like accepting foreign clinical data for the approval of materials, and frankly, moving to a pricing system that would accelerate the reimbursement pattern. Because of that the United States now has about 25 percent of that market, if my recollection is correct, but it is one that, in working with the industry, we think we can also enhance.

So what we would like to do in the medical services area is very similar to what we would like to do more broadly, which is to try to promote deregulation, structure reform, more competition in Japan, which we believe will open the market for the United States and foreign competitors, but also will be vital for Japan's own revival, which is going to be important for buying all sorts of goods from the United States and around the world. Japan has poured countless billions, trillions of yen into various fiscal expansion programs, and they have gotten to the point where they have put cement on almost every stream in Japan. But it is not working, and I think one possibility for the Koizumi government is to move toward this greater form of competition through deregulation. We are proposing some ideas to the Japanese on this. I met one of the new cabinet ministers last week, who just flew in for 24 hours, a gentleman I had known before, an economics professor. And so I think this is an area where it has the best chance of success because it is a win-win proposition. It is good for Japan and it is good for us. And the medical technology is a good example of where I think this can be a win-win sub-sector.

Ms. DUNN. Good. I am very happy to hear about that. So will some of my constituents be happy.

Touching on a third area in my last minutes, I am interested in the United States and Vietnam Bilateral, because it will be of very direct benefit to some of the companies that I represent in Washington State, companies, for example, that produce aircraft, agricultural products and software. Can you give us an update on where that agreement stands? What is the timing, for example, that is in the back of your mind for the administration to send this agreement to Congress?

Mr. ZOELLICK. Well, we are very interested in moving this agreement forward. We also believe it is an important agreement. As you know, it has a slightly more complicated procedure because it has got a privileged motion. So once it is submitted, it moves on a clock through the Congress. And so we have been, frankly, looking to work with the Congress to see how we can move Jordan, which some of you talked about, the Andean trade preferences, the Vietnam agreement, the Balkans agreement, the GSP and the Trade Promotion Authority.

I know that the communist government in Vietnam would like us to do this overnight. I know that Mr. Crane had a chance to talk to them. A communist government does not have to worry about floor time. We do.

A second problem is, that we ought to at least recognize, is having spoken to the officials in the Clinton administration that handled this, that communist government in Vietnam sat on this agreement for about a year, when they were urged, time and time

and time again, to move it forward. So basically from 1999 to 2000 there was nothing done on the Vietnamese side.

So I think it is important to move forward. I think it could support those in the government in Vietnam that are moving forward with economic reforms. But even here, I would emphasize that we are not standing in the way of economic reforms. There is lots of countries in the world that figure out how to reform their economy without necessarily having us be looking over their shoulder. So, frankly, that excuse does not cut much with me.

And I will also point out that in the consultations that I have done with some of your colleagues about this, there are some items that I will be asking the US Embassy to follow up on. For example, the US Commission on International Religious Freedom had a recent hearing where they had some troubling incidents in terms of the Christians and the Buddhist community. There has also been some real repression about some of the ethnic people in the highlands. We had some issues raised by some of your colleagues about textiles and about catfish, and so I do not want these to get in the way, but I think if we are going to move quickly, then we are also going to need to be able to get some response from the Vietnamese government on things that some of your colleagues would like to see.

So I would be pleased with you to work with it quickly, but I think, frankly, it is going to depend a little bit on the congressional reaction to the other items that we are sending up this week.

Ms. DUNN. Good. Thank you very much. Thanks, Mr. Chairman.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Ambassador, thank you for being with us, and thank you for your comments on the Free Trade with the Americas Agreement.

Let me ask a couple of questions with regard to your statement, and I do not know if you mentioned it in your summary, your verbal statement, but in your written statement, on page 6, where you talk about labor and the environment, you mention that we might want to consider using incentives, not just disincentives, to encourage better environmental protection on labor standards, and you mention also that we might want to strengthen the role of complementary specialized institutions, such as the International Labor Organization. I am wondering if you could give us a little bit more detail about what you mean about strengthening the role of the ILO and if you might comment on your position, or the administration's position, with regard to providing some kind of enforcement mechanism within the ILO for purposes of labor standards.

Mr. ZOELLICK. Yes. And I just interrupt your time for a minute because of one thing I forgot to answer with Congresswoman Dunn's question is, I discovered we also had an agreement with Laos that we have not acted on since 1997, and frankly, we ought to try to deal with that at the same time. It is a similar sort of agreement without privileged purpose.

I am glad you highlighted that point, Congressman, because part of the larger message that I have been trying to make is that, as Congressman Levin has mentioned, I do think we need to integrate environment and labor into this broader agenda, but I think that there is a wide spectrum of possibilities between what can develop

through growth on its own and rushing to some negative form of sanctions. And some of these I have talked about with the heads of some of the development banks about how they can try to create some financial support for programs that would support correlator standards or support the integration of environmental objectives with larger lending.

Now, in the case of the ILO in particular, I met with the head of the ILO actually before I assumed office, and I think it is an organization that offers some interesting possibilities in terms of some basic standards that all of us can stand by, the recognition that many countries have agreed to those standards, going back to Mr. Levin's point about building on other areas that people have agreed on, and then trying to work with them to support either their local legislation and the enforcer of that legislation.

I mean, just to give you an example, I spoke to a Guatemalan official about a week or two about labor legislation they were passing, because I thought it was important that we try to support the effort for a society that has known much violence, to be able to implement laws that followed their own obligations. We can do this with their AID funding.

But particularly in the ILO area, in the past year or two, you know, the ILO, which has been seen as not really having an effective enforcement arm, has started to explore whether it might suggest enforcement actions for its member States. And the key first test to this relates to Burma, and I have taken a particular interest in this because I think it is important for Burma as well as the principle of where we would like the ILO to go. Now, the issue with Burma related to forced labor, and as you may know, we have had various sanctions on Burma related to investment and other provisions dating back to the last time that I was in government. I was willing, frankly, to explore the use of additional trade sanctions and discussed this with my EU colleague, because I do not think it is wise for us to do this just on our own. The problem in this case is that I learned that Aung San Suu Kyi, the Nobel prize winner, has engaged in a dialog now with the military government, and does not believe that sanctions at this time would be constructive. So I can do a lot of things. I cannot jump in the shoes of a Nobel Peace prize winner on that issue. And so I am trying to follow that one, because I think, frankly, if things do not improve, I would like to look at that as another time to see whether we might move forward.

Mr. BECERRA. I am not sure if you are telling me though whether or not you would be in favor of providing the ILO with teeth, some enforcement teeth, in order to help bring about some higher standards on labor and environment.

Mr. ZOELLICK. Well, what I am saying is, is the way the ILO would do that, is it would make a recommendation for its Member States, and I am saying this is a real-life example as opposed to a concept, and I am certainly willing to look at it.

Mr. BECERRA. Sounds like some kind of reporting mechanism, where we can use the reports by the ILO on the activities of a country to guide us on whether or not there could be any enforcement or attempts to try to get the country to better enforce its own labor standards or perhaps improve their labor standards.

Mr. ZOELLICK. Exactly. And let me give you one other example, and that is, you know, Congressman Levin has been involved with this in the case of Cambodia and the textiles arrangement, and there has been sort of a mixed record about that, but one of the things that I think will improve it, is the ILO is now sending a team to try to help with the implementation of that agreement, and I think that is a very constructive step. So it is a good example of how the ILO can set standards, it can help us in terms of the technical assistance, and we can direct some of our funding and multi-development banks with funding, but, frankly, I am also open to the idea of enforcement efforts done by national governments related to those core standards.

Mr. BECERRA. Thank you very much.

Mr. HOUGHTON. [Presiding.] Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

Ambassador Zoellick, I also want to congratulate you on your inspired advocacy of America's economic interests in Quebec City, for what I think was your active role in making sure that that summit was perhaps the most transparent we have ever had in response to some of the criticisms from the street. Clearly this was a much more open process than has happened in the past. And also I want to congratulate you and the administration on grappling with some very difficult issues about the scope of the negotiation.

Now, having been out in Seattle, I understand how important this is in launching a negotiation. I went out to Seattle hoping to have a chance to meet with some of my counterparts, to talk about why I thought that anti-dumping and countervailing duties laws should not be on the agenda. I know that you faced basically the same issue in Quebec City. And at the same time, the administration, as I understood it, came out against including anti-dumping and countervailing duties on the agenda you were advocating, keeping open the option of labor and environmental issues. And as I understand it, the compromise that was struck, was that you were able to leave the agenda open so that any Member nation would be able to include things on the agenda as the FTAA went forward. I think that is a good solution. I would like you to comment a little bit about it, and if I might, I would also like to express the fact that I do not believe that an FTAA negotiation is an appropriate or feasible way of making significant changes in our anti-dumping and countervailing duty laws. Your comments, sir?

Mr. ZOELLICK. Well, as you suggested, the way these negotiations work is that people are allowed to put forward their own text, and in the environment and labor area, we fought long and hard for the freedom to be able to put forward some language that basically said that countries should not adjust their environmental labor standards to draw up an investment, and some language very similar to what we already have in the NAFTA provision. And at the end of the day, people agreed with our right to put forward that language. It partly relates to some of the other questions I have, that it does reveal the degree of sensitivity in the developing world about what I think is a very modest set of proposals, but how people are worried that they are going to be used for protectionist purposes, whether people here like that term or not. They do.

The second point is, is that in the anti-dumping area, as you said, there are many people that would like to change our anti-dumping laws. Our position is that we do not want to change them, and so that is our stated role. There are issues that people have looked at more generally in terms of the transparency in the procedures, and in sort of how the procedures work, which, frankly, I am open to more because I am concerned about how these laws will be used against US companies elsewhere in the world. There are some striking charts about how other countries are now using these anti-dumping and countervailing duty laws without the rules and transparency that the United States has. But, you know, I share the belief that I know you do, that I think that to be able to sustain free trade in this country, we are going to have to be able to have strong laws to deal with unfair trade practices.

And if I might add, I feel this on the safeguards as well, on the whole issue of the 201. You know, this is a subject I have talked about with a lot of my colleagues, and I have raised overseas. I think in a world where, you know, information can move at the speed of light, and financial transactions at a similar speed, and trade is moving at a close to similar speed, it is just a reality that some industries in some communities are not going to move as quickly. And I do not believe our solution should be to protect them and not let them adjust, but I do believe we have to create some mechanisms to allow them to adjust in time so as to be able to maintain support for trade. And this is true in some agricultural areas, and it is true in some manufacturing categories. I think for us to be able to do this effectively, however, we are going to have to be stringent, because, as you know, all the pressures will be on, you know, holding back change which cannot be held back. So I am a strong believer in trying to see how this administration can use 201 provisions effectively, but without letting them slip into a new form of protectionism.

Mr. ENGLISH. Mr. Chairman, with your indulgence, I wanted to ask a quick follow-up question.

Since you, Ambassador, raise the issue of 201, and you are aware of my interest in the steel issue, I was wondering if you could quickly update us on the administration's current thinking on the possible use of a section 201 action to remedy the steel industry's dilemma?

Mr. ZOELLICK. The main point I should make, Congressman, is that since you do such a good job of monitoring this closely, there is very little I can add from the last time that you asked me, which was probably last week.

But in essence, this is a topic that Secretary O'Neill, Secretary Evans, Secretary Chao and myself have all been deeply engaged in. There is an interagency group that is chaired out of the White House. Secretary O'Neill I think has taken a particular interest in some potential international solutions based on his experience with the aluminum industry.

And so we have also, as you know, discussed this with the wide range of industry members, and as you know, there are some different views on this because some of the industry feels that they are more efficient, and they would be able to operate better if some capacity was not in place, and others, it depends on the nature of

their business operations and whether they are a fully integrated operation, or it depends somewhat on their strategy. And in similarly, obviously, some of the local unions that are related to specific plants, have a different perspective from the general steel workers who may be recognizing an overall need for restructuring.

So my sense is, Congressman, that this is an issue that we believe is going to have to be resolved in a matter of weeks to month. I cannot say for sure. There is no decision. You know my own preference, but that is not—I do not mean to suggest that is going to by any means be the result, but I do think that it is important for those interested in the issue to be actively engaged, because we are.

Mr. ENGLISH. Thank you for sharing our sense of urgency, and thank you for you testimony today.

Mr. HOUGHTON. Mr. Brady.

Mr. BRADY. Thank you, Mr. Chairman.

Mr. Ambassador, you made the point very early on that we have a lot of time and a lot of effort to catch up on, and these trade jobs are the ones that our kids are going to use to be able to raise a family on, and it is embarrassing to know that Chile has free trade agreements with every nation in this hemisphere except the United States and Cuba. It is embarrassing to know that out of the investment treaties we have—which basically when America invests in a country, we sell to that country—we are 26th in the world there, just behind those free-enterprise bastions of Cuba and Morocco, but we have edged out Tunisia, I think, in those investment treaties. We need to be back on the field so that, again, our children will have the kinds of jobs they can raise their family on. I know in Texas, we have seen as a result of NAFTA, just in 5 short years, in the area we were most likely to have jobs competitive, manufacturing, the one that Ross Perot said we would hear to giant sucking sound in, just in 5 years we have created enough new manufacturing jobs, just in our State, to fill every seat of the Astrodome twice over, just in 5 years, new manufacturing jobs.

Along the border between Mexico and Texas, which is a terrible environmental area, just since NAFTA we now have—the last time I checked—$2 billion of environmental projects to clean the air and to clean the water better than it ever has before, and we still have a long way to go, but that would have never occurred without the free trade agreement. And from labor's standpoint, not only are standards rising in Mexico, but you would be hard pressed to argue that the new plants opening there pay less or have less benefits than those that existed before. It is a win-win situation.

I appreciate the effort you are making to focus on enforcement. Anyone who read the report out of your office from last week would have to be impressed with the aggressiveness of America and this administration to aggressively enforce these trade laws and agreements. There is no question too, that as in any agreement, whether it is between two businesses or two nations or more, there will be disputes. Some can be handled through the administration. Some have to go through a court and an appeals process, and can be very frustrating. But I think you are right on track to enforce the trade agreements, to have written analysis of the impact on the environment, to invite the labor community into these assessments, to

make sure that we, indeed, as you said, are rising, not just free trade, but freedom, environmental progress, labor progress, all at the same time. They really are compatible and really do go together, and I appreciate again the effort you are making to enforce and to raise them. Thank you, Mr. Chairman.

Mr. HOUGHTON. Thanks, Mr. Brady.

Mr. ZOELLICK. Can I just make a brief comment?

Mr. HOUGHTON. Yes, sure.

Mr. ZOELLICK. Is that because the Congressman and I have talked about this for a long time. In fact, we had the pleasure of starting to dig into this, I think, before the first Seattle meeting, and I know you have a strong interest in this.

And the point I just want to make on enforcement is that to be fair, this is really an effort that has crossed administrations. A number of the things in the report that you pointed out were things that were done by my predecessors in the Clinton administration, and it is also very much related to this Congress, because you have given us additional 25 people. Many people do not realize that we only have about 203 people at USTR trying to cover the world. So that extra 25 people makes a big difference to us. We are in the process of staffing them up right now, so, frankly, it is the support of the Congress on this that enables us to do a better job, and that report that you read was a combination of my predecessors as well as the current team.

Mr. BRADY. Another example that free trade is a bipartisan issue. Thank you, Mr. Chairman.

Mr. HOUGHTON. Any other comments? Thanks very much, Mr. Ambassador. Certainly appreciate your testimony.

Mr. ZOELLICK. Thank you.

[Questions submitted from Mr. Shaw, and Ambassador Zoellick's response are as follow:]

Question 1: Is it possible and are you inclined to treat such import sensitive commodities differently in the FTAA and WTO negotiations, and maintain tariff protection as the primary means of offsetting years of artificial foreign advantages? What other methods exit?

Response 1: Although the U.S. objective in both the FTAA and WTO is to open markets for agricultural products, the tariff negotiations in the two fora will differ in many respects. The results of the FTAA negotiations must comply with WTO rules and disciplines for free trade agreements, including the requirement to progressively eliminate tariffs on substantially all trade within ten years. In the WTO agriculture negotiations, we generally seek tariff reductions rather than tariff elimination, although we do not preclude the possibility of zero-for-zero negotiations for certain agricultural commodities. Given these differences in the underlying scope of the negotiations, it is highly unlikely that import sensitive commodities would receive the same treatment in the FTAA and WTO negotiations. We recognize the need to work with Congress and interested representatives of our agricultural sector to develop the most appropriate methods to address the concerns of import sensitive industries in each of the ongoing negotiations.

Question 2: Do you foresee a situation where you will be forced to make choices between competing interests, trading some import sensitive commodities against export focused commodities or other industrial products, for the sake of reaching an agreement?

Response 2: Most negotiations require some difficult decisions. This will no doubt be true for the FTAA and WTO negotiations. These decisions will likely involve how to best accommodate the particular interests of all segments of the U.S. industry, including import sensitivities and export interests. Our objective is to get the best deal possible for U.S. agricultural producers, processors and consumers in both negotiations, as part of the overall package of results in each negotiation.

Question 3: Maintaining the strength of U.S. trade remedy laws, such as antidumping and countervailing duty procedures, is critical to survival for many American farmers. Will you notify Congress in advance if you foresee that negotiations require modification in the application of the U.S. antidumping laws to dumped agricultural imports, prior to the ratification process?

Response 3: The Administration agrees that maintaining the strength and effectiveness of our trade remedy laws is of critical importance. The Administration will continue to consult closely with Congress on all aspects of the FTAA negotiations, particularly with respect to important issues such as trade remedies.

Question 4: Since NAFTA took effect, Florida's fruit and vegetable growers have repeatedly expressed concern about lost domestic sales to Mexican tomatoes, bell peppers, cucumbers and other crops. They cite any number of reasons for those lost sales—from lower U.S. tariffs, to increased investments in Mexico, to the peso's devaluation after NAFTA took effect, to inadequate U.S. safeguard mechanisms for import-sensitive fruits and vegetables. How would the FTAA be more responsive to these various concerns?

Response 4: The Administration wants to work with Congress and Florida fruit and vegetable growers to find the most appropriate way to address the growers' concerns regarding the FTAA. Safeguard mechanisms are certainly one possibility that we are exploring. We would be very interested in receiving advice from interested Members concerning the way safeguards or other mechanisms could be structured to address the concerns of Florida fruit and vegetable growers.

Question 5: What concrete steps do you intend to take in this trade initiative to prevent the most import-sensitive U.S. products, including Florida fruits and vegetables, from being harmed?

Response 5: The Administration recognizes that many Florida fruit and vegetable growers are concerned about the potential effects of the FTAA. Currently, FTAA negotiators are focusing on the general framework (so-called "modalities" that will be used as the basis for the tariff negotiations, as well as developing texts on specific issues such as safeguards. Detailed product-by-product tariff negotiations are scheduled to begin by May 15, 2002. During this year, the administration is seeking specific advice from Congress and our private sector concerning the types of general approaches to tariffs and other issues, including safeguards, that might address the concerns of import sensitive sectors.

Mr. HOUGHTON. Now we will call the next panel. Loren Yager, Director of the International Affairs and Trade, United States General Accounting Office; the Honorable Richard Fisher, former Deputy United States Trade Representative; the Honorable John Sweeney, President of the American Federation of Labor and Congress of Industrial Organizations; Franklin Vargo, Vice President of the International Economic Affairs, National Association of Manufacturers; Daniel Price, Partner, Powell Goldstein, Frazer and Murphy, on behalf of the United States Council for International Business; and William Gambrel, President of the Bank of Boston, Colombia, and Vice President of the Association of American Chambers of Commerce in Latin America.

Chairman CRANE. [Presiding.] We will proceed in the order you were presented to the Committee, and I would ask that you try and keep oral testimony to roughly 5 minutes, and any printed testimony will be a part of the permanent record. And with that, we shall commence with Mr. Yager.

STATEMENT OF LOREN YAGER, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GENERAL ACCOUNTING OFFICE

Mr. YAGER. Thank you, Mr. Chairman. Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity today to discuss our observations on the two recent meetings affect-

ing the negotiations for a Free Trade Area of the Americas, the Trade Ministerial in Buenos Aires, Argentina, and the Presidential Level Summit in Quebec City, Canada.

We reported in March 2001 that the negotiations are at a critical juncture, and that these two meetings offered an opportunity to provide momentum and set an ambitious pace for the next more difficult phase of the negotiations. In that report we cited a number of goals that needed to be accomplished for the meetings to be successful. The primary message of my testimony this afternoon is that the April meetings accomplished those goals and set the stage for the phase of the negotiations where the hard bargaining will begin.

Specifically today, I will discuss what the Western Hemisphere nations did on three issues. They addressed controversial topics. They set objectives and deadlines for the next phase, and they provided momentum for the negotiations. Finally, I will conclude with some long-term challenges that we discussed in our March report.

First, the ministers reached accommodations on a number of controversial issues that had slowed progress on other topics. These agreements, on subjects such as labor and the environment, antidumping and smaller economies, enabled countries to set forth basic principles while keeping topics on the table for future resolution. For example, as Ambassador Zoellick stated earlier, on labor and the environment, the ministers defused the conflict over whether to include US text by stating that any delegation has the right to present proposals it deems relevant, though others may place these proposals in brackets to indicate their disagreement. However, the adjacent sentence in the ministerial declaration states that most of the ministers believe non-compliance with environment and labor rights should not result in trade restrictions or trade sanctions. While the ministers and leaders did not resolve these questions, the agreements did allow them to move on and accomplish the rest of the agenda for the meetings.

The second accomplishment was the direction provided for refining the draft text and beginning negotiations on market access, which reflect the hard bargaining of the negotiations. To move toward consensus on the draft text, ministers directed negotiating groups to refine as much as possible of the 200 plus pages of overlapping and competing text before the Ministerial. To prepare for the beginning of market access negotiations, the ministers instructed specific negotiating groups to develop recommendations by April 1, 2002 on the basic ground rules for negotiation. Ministers also established the deadline of May 15th, 2002 for negotiating groups to initiate the market access negotiations on tariffs and other topics.

The third accomplishment was that the trade ministers and leaders added momentum to the process in two ways. One was the decision, again mentioned earlier, made at the April meetings, to publicly release the draft text of the non-negotiating groups. In response to public pressure and recommendations by the business community, the ministers determined that releasing the text would help increase the transparency of the negotiating process and build public understanding of the FTAA. The leaders also set a firm

deadline for completion of the agreement in January 2005, accelerating the pace of the negotiations.

Facing a critical juncture in the FTAA process, the FTAA countries accomplished an ambitious agenda designed to start the hard bargaining phase of the negotiations on a sound footing. Still, as we had previously reported, the FTAA negotiations face other long-term challenges, including managing the scope and complexity of work required to finalize draft rules, resolving contentious issues, and summoning the political will in the United States and other countries to conclude an agreement.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions that you or other Members of the Subcommittee have.

[The prepared statement of Mr. Yager follows:]

Statement of Loren Yager, Director, International Affairs and Trade, U.S. General Accounting Office

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity today to discuss our observations on two recent meetings affecting the negotiations for a Free Trade Area of the Americas agreement: a trade ministerial in Buenos Aires, Argentina, on April 7, 2001, and the presidential-level Summit of the Americas in Quebec City, Canada, on April 20–22. The Free Trade Area of the Americas agreement, if completed, would eliminate tariffs and create common trade and investment rules within the 34 democratic nations of the Western Hemisphere. As you know, these negotiations are among the most significant ongoing multilateral trade negotiations for the United States. President Bush has stated repeatedly that establishing the Free Trade Area of the Americas is one of his top trade priorities. We reported in March 2001 [1] that the negotiations are at a critical juncture and these two meetings offered an opportunity to inject momentum and set an ambitious pace for the next, more difficult phase of the negotiations. We also reported that, going into the meetings, the ministers faced an ambitious agenda of decisions designed to start the next phase of the negotiations on a sound footing. At your request, we reviewed the results of the meetings. Specifically, today I will discuss what Western Hemisphere countries did to (1) address controversial issues, (2) set objectives and deadlines for the next phase of the negotiations, (3) build public support, and (4) adding needed momentum into the negotiations. My observations are based on our past and ongoing work on the Free Trade Area of the Americas process, including in Buenos Aires, Argentina. Before I get into the specifics of these topics, let me provide a brief summary.

SUMMARY

As we stated in our March report, the trade ministers for the Free Trade Area of the Americas (FTAA) countries faced an ambitious agenda in the April meetings. This was because a number of controversial and complex issues had slowed progress on the objectives and deadlines that had to be concluded in the April meetings. However, accommodations reached by the ministers on topics such as labor and the environment, antidumping, and nations with smaller economies allowed countries to set forth basic principles while keeping topics on the table for future resolution. For example, on labor and the environment, the ministers stated that any delegation has the right to present negotiating proposals it deems relevant. However, the ministers went on to announce that most ministers believe noncompliance with environment and labor rights should not result in trade restrictions or sanctions.

As a result of the movement on these controversial issues, the trade ministers were able to set out clear objectives and deadlines to promote progress during the next 18 months of the negotiations. These negotiations will culminate at the next trade ministerial to be held in Ecuador, in October 2002. So far, the FTAA negotiations have produced a draft text agreement, covering nine major issue areas. The next negotiating phase will involve hard bargaining to refine the draft text and begin negotiations on market access concessions. To move toward consensus on the draft text, ministers directed negotiating groups to eliminate material that is in dispute to the maximum extent possible. To prepare for the beginning of the market

[1] See *Free Trade Area of the Americas: Negotiations at Key Juncture on Eve of April Meetings* (GAO–01–552, Mar. 30, 2001).

access negotiations, ministers instructed specific negotiating groups to develop recommendations by April 1, 2002, on the methods and modalities (basic ground rules) for negotiation. The ministers also asked the groups to develop, where appropriate, inventories of tariffs, nontariff barriers, subsidies, and other practices that distort trade. Ministers directed negotiating groups to initiate these market access negotiations no later than May 15, 2002.

The FTAA trade ministers took several notable actions to build public support for the FTAA process. The biggest surprise decision made at the April meetings was the agreement to publicly release the draft text of the nine negotiating groups. In response to public pressure for greater openness and recommendations by the business community, the ministers determined that releasing the text would help ensure the transparency of the negotiating process and build broad public understanding of and support for the FTAA. The text, which is several hundred pages long, will be made public after its translation into the four official languages [2] of the negotiations. The trade ministers also took action to enhance the role of civil society—meaning nongovernmental groups representing business, labor, environment, and other interests—in the FTAA process.

The April meetings appear to have been successful in providing high-level political leadership across the hemisphere and fresh momentum to the FTAA negotiations. At their summit in Quebec City, President Bush and other leaders signaled their commitment to the FTAA and their desire to work together to attain the common goals of expanding trade, improving economic opportunities, strengthening democracy, and redressing social and economic inequities. The meeting also set new deadlines for completing and implementing the agreement, partly accomplishing the feat of setting an accelerated pace for negotiations. Business and congressional leaders attended, underlining interest by key U.S. stakeholders, even as protests graphically demonstrated the opposition mobilizing against an FTAA. The outcomes at Buenos Aires and Quebec allow the next phase of technical negotiations to start on a sound footing. However, boosting U.S. congressional and public support, dealing with a large and complex agenda of issues, and accommodating the diverse needs and positions of participants are among the challenges facing FTAA negotiators in the hard bargaining ahead.

BACKGROUND

In December 1994, the heads of state of the 34 democratic countries in the Western Hemisphere agreed at the first Summit of the Americas in Miami, Florida, to conclude negotiations on a Free Trade Area of the Americas no later than 2005. The FTAA would cover a combined population of about 800 million people, more than $11 trillion in production, and $3.4 trillion in world trade. It would involve a diverse set of countries, from some of the wealthiest (the United States and Canada) to some of the poorest (Haiti) and from some of the largest (Brazil) to some of the smallest in the world (Saint Kitts and Nevis). Proponents of the FTAA contend that a successful negotiation could produce important economic benefits for the United States. Business groups say that if relatively high tariffs and other market access barriers are removed, U.S. trade with the region could expand further. While an FTAA may provide benefits for the United States, it may also adversely impact certain import-competing sectors. Other groups, such as certain unions and environmental groups, have also strongly voiced concerns about the FTAA's impact on U.S. workers and on the U.S. government's capacity to act in the public interest.

From a technical standpoint, ministers agreed in 1998 at the San José Ministerial meeting that the FTAA would be a single undertaking, meaning that the agreement would be completed and implemented as one whole unit instead of in parts. They also agreed that the FTAA agreement will be consistent with the rules and disciplines (practices) of the World Trade Organization, and that the FTAA could coexist with other subregional agreements, like the Common Market of the South (Mercosur) and the North American Free Trade Agreement (NAFTA), to the extent that the rights and obligations go beyond or are not covered by the FTAA. An eventual FTAA agreement would contain three basic components: (1) chapters on general issues and the overall architecture of the FTAA and its institutions, (2) schedules for reducing tariff and nontariff barriers, and (3) chapters on specific topics. The chairmanship of the negotiations changes every 18 months, with Argentina serving as chair through the April 2001 meetings, succeeded by Ecuador for the next round of negotiations. Brazil and the United States are set to co-chair the final round from November 2002 to December 2004. Ministers set out the workplans for the negotiating process and select new chairs for the negotiating groups in 18-month increments.

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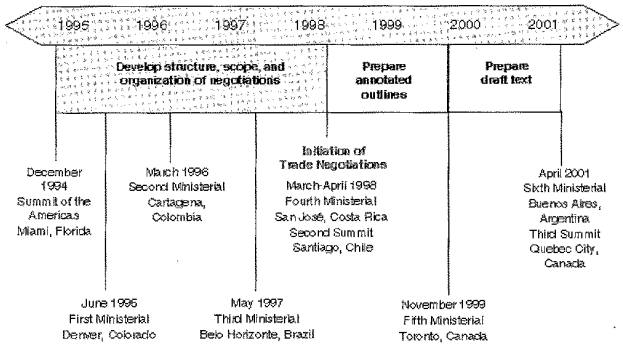
[2] English, French, Portuguese, and Spanish.

The FTAA negotiations have so far met the goals and deadlines that the trade ministers set. Since beginning the process in 1994, the 34 participating countries have succeeded in building a technical foundation for the negotiations. As shown in figure 1, from December 1994 to March 1998, the participants developed the overall structure, scope, and objectives for the negotiations. The participating countries then formally initiated the negotiations at the San Jose Ministerial and the Santiago Summit of the Americas in 1998. The negotiating groups, illustrated in figure 2, recently produced a first draft of chapters for specific issues, such as market access, investment, and agriculture. According to U.S. and foreign negotiators, however, the draft text is heavily bracketed,[3] indicating that agreement on specific language has not been reached. In addition, negotiations on market access have yet to begin. Nevertheless, participants described this draft text as an important accomplishment and stated that it will form the basis for future negotiations. The negotiations have also produced several business facilitation measures and improved coordination between participating countries on trade matters.

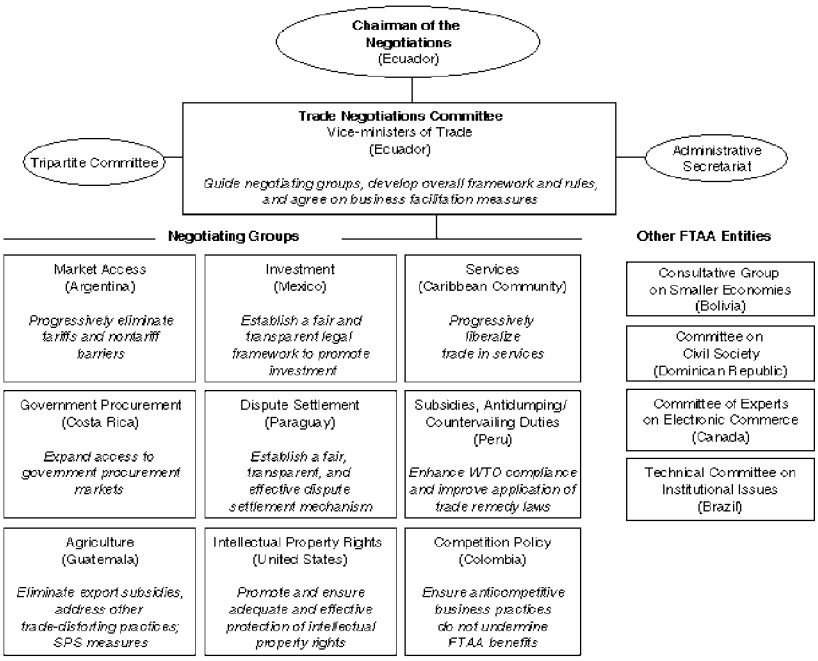
Figure 1: History of the FTAA Negotiations, 1994-2001



Source: GAO.

[3] The term "bracketed" refers to the punctuation placed around language in the draft chapters for which agreement has not yet been reached. For example, if two countries submitted different proposals for language in a chapter, brackets would be placed around each proposal until a consensus is reached on the differences between the two.

Figure 2: Organization of the FTAA Negotiations



Legend:

SPS=Sanitary and phytosanitary measures (These measures are taken to protect human, animal, or plant life or health)

Note 1: Current chairs of the various FTAA entities are listed in parentheses. The objectives of each negotiating group and the Trade Negotiations Committee appear in italics.

Note 2: The Tripartite Committee provides technical assistance to the negotiations and is composed of the Organization of American States, the Inter-American Development Bank, and the United Nations Economic Commission for Latin America and the Caribbean.

Note 3: The FTAA ministers and negotiating groups are serviced by an Administrative Secretariat.

Note 4: The venue for the actual negotiations was initially located in Miami and will rotate to Panama City and Mexico City.

Source: GAO.

MINISTERS DEFUSE CONTROVERSIAL ISSUES

FTAA ministers took measures in Buenos Aires to prevent several controversial or complex topics from blocking the progress of the negotiations. In our March report, we noted that the trade ministers faced an ambitious agenda in the April meetings because the controversies had consumed considerable time in the preparatory process. One such issue involved the right of countries to put forward text in the negotiating groups, specifically on labor and the environment. The United States had sought to include proposals in the investment negotiating group obligating parties to strive to ensure that their environmental and labor laws would not be relaxed to attract investment. Other FTAA countries objected to this proposal, stating that labor and the environment were outside the mandate of the negotiating group and did not belong in an FTAA. The ministers resolved this conflict by stating that the negotiating groups should work under the principle that any delegation has the right to present proposals it deems relevant, though others may place these proposals in brackets if they do not agree. However, most ministers went on to an-

nounce their opposition to the use of sanctions for enforcing labor and environment provisions.[4]

Another challenging issue addressed by ministers to keep the process on track involved considering the needs of smaller economies. As we reported, countries with smaller economies are concerned with both technical and resource constraints that make the negotiating process a challenge and with preventing their economies from being overwhelmed by the larger ones once the agreement is implemented. According to FTAA experts, their concerns about resource constraints were met in part by assurances from the U.S. Trade Representative and the President of the Inter-American Development Bank that they would attempt to identify additional technical assistance. In addition, their concerns about implementation were addressed in the ministerial declaration, wherein the ministers in Buenos Aires reiterated their commitment to take into account the differences in levels of development and size of the economies among the FTAA participants. The ministers further directed the Trade Negotiations Committee to formulate by November 2001 some guidelines for applying treatment for dealing with the differences in the size of the economies.

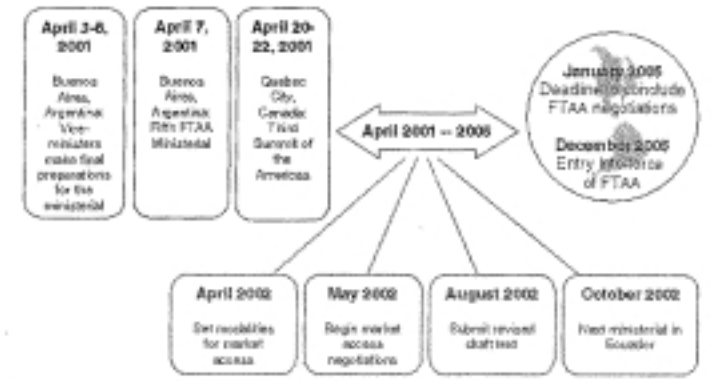
A third area in which controversy was forestalled involved antidumping. Prior to the ministerial, a U.S. alternative proposal in the negotiating group on antidumping created a controversy among the FTAA participants. The Office of the U.S. Trade Representative has stated that the FTAA agreement should ensure the right of each country to maintain and apply trade remedies within the FTAA. According to one of the foreign lead negotiators, the U.S. alternative proposal angered many other participants because it was viewed as an effort on the part of the United States to take the antidumping issue off the negotiating table. While U.S. officials have denied that this was their intent, the issue threatened to distract the ministers at Buenos Aires, according to observers. The issue was defused, however, by several ministerial directives. Specifically, the ministers placed language in the ministerial declaration repeating their initial charge from the San Jose Ministerial for the negotiating group on subsidies, antidumping, and countervailing duties to intensify its efforts to reach a common understanding and improve the rules and procedures for operation and enforcement of trade remedy laws. The ministers further directed the negotiating group to submit recommendations on the methodology to achieve this objective by April 2002. In effect, the ministerial action reminds all participants that they have previously agreed to seek improvements in trade remedy regimes, while providing a deadline for action toward that end.

MINISTERS PROVIDE DIRECTION FOR NEXT PHASE OF NEGOTIATIONS

As we noted in our March report, an important task for the April meetings was setting the pace, goals, and structure for the remainder of the FTAA process. At the Buenos Aires Ministerial, FTAA trade ministers took a series of steps to set out the objectives and timeframes for the next 18 months of the negotiations, which will culminate in the next trade ministerial to be held in Ecuador in October 2002. These steps are illustrated in figure 3.

[4] The text of the ministerial declaration states, "Most Ministers recognize that the issues on environment and labour should not be utilized as conditionalities nor subject to disciplines, the non-compliance of which can be subject to trade restrictions or sanctions."

Figure 3: FTAA Timeframes and Milestones, 2001-2005



Source: GAO.

One of the important tasks of the April meetings was to prepare for the beginning of market access negotiations. Before countries can begin to negotiate on market access concessions, they must agree on the basic ground rules of the negotiations, such as the type of tariff rate to use as the starting point. Negotiators refer to these ground rules as the "modalities."[5] Several of the specific directions ministers provided to the negotiating groups are listed below (applicable negotiating groups are listed in parentheses):

- Recommend methods and modalities for upcoming negotiations on tariffs, nontariff barriers, rules of origin, subsidies, investment, government procurement, services, and other practices that distort trade in agricultural products (market access; agriculture; investment; subsidies, antidumping, and countervailing duties; services; and government procurement).
- Create a preliminary inventory of nontariff measures (market access, agriculture).
- Recommend what types of other practices that distort agricultural trade should be addressed (agriculture).
- A related step ministers took to advance the FTAA process was to set a date for beginning market access negotiations. As we reported in March 2001, the FTAA participants had not set out a date to begin the market access negotiations, where countries start to offer tariff and nontariff concessions. In Buenos Aires, ministers directed specific negotiating groups to begin these negotiations no later than May 15, 2002. This pertains to tariff liberalization in the market access and agricultural groups, and rules of origin in the market access group. The deadline also pertains to investment, services, and government procurement groups for market access negotiations in their respective groups.
- The ministers also instructed negotiating groups to take steps to reach consensus on the draft text. As we reported, the draft text generally represents a consolidation of all proposals submitted by FTAA countries so far. FTAA participants state that the draft reflects wide differences between the countries over substance and philosophical approaches to key issues. The ministers specifically directed the nine negotiating groups to intensify efforts to resolve existing differences and reach consensus, with a view to eliminating brackets and consolidating text to the maximum extent possible. Ministers also set August 2002 as a deadline for negotiating groups to submit their revised draft chapters to ministers.

In addition to setting specific objectives for the negotiating groups, the ministers formed a new Technical Committee on Institutional Issues to begin discussions on the FTAA's overall institutions, like the location of a permanent secretariat and the type of mechanism that will be used for dispute settlement. U.S. officials also expect that this committee will act as a mechanism to deal with issues that pertain to all negotiating groups or do not fall within a specific group. U.S. and other officials participating in the process stated that this new committee is comparable to the negoti-

[5] Other modality decisions include, for example, the period of time in which the tariff reductions will occur.

ating groups in that it will have a different chair than the chair of the negotiations and will be supervised by the Trade Negotiations Committee.

MINISTERS ATTEMPT TO BUILD PUBLIC SUPPORT FOR FTAA

In March, we noted that the April meetings represented an opportunity to build public support for the FTAA and address concerns about openness. The FTAA trade ministers took several notable actions in an effort to do so. The biggest surprise of the April meetings was the decision to publicly release the bracketed text of the nine negotiating groups. As we previously reported, Canada, more than 50 Members of Congress, and various U.S. nongovernmental groups had called for the release of the bracketed text, because publicly available information on the FTAA negotiations has been limited. In addition, recent public protests added to the groundswell of support for releasing the text. However, given the ongoing and confidential nature of FTAA deliberations, this proposal was expected to be controversial at the meetings. Nevertheless, in response to public pressure and the recommendation of the business community, the FTAA leaders determined that releasing the text would help improve the transparency of the negotiating process and would increase public understanding of and support for the FTAA. The text, which is several hundred pages long, will be made public after its translation into the four official languages of the negotiations.

The trade ministers also took action to enhance the role of civil society in the FTAA process. The Committee of Government Representatives on the Participation of Civil Society[6] has been contentious since its creation. For example, one country had consistently blocked the committee from preparing recommendations based on the public input received. In part because of the disagreement over the role of the committee, many civil society representatives we interviewed told us they were disappointed with the committee because there was little evidence that their input was being given serious consideration in the negotiations. At Buenos Aires, however, the ministers took action to strengthen and extend the role of the committee. For example, they instructed the committee to:

- develop a list of options by the next Trade Negotiations Committee meeting on how to foster a process of increasing and sustained communication with civil society,
- analyze the possibility of incorporating more information on the FTAA's web page,[7] and
- forward the public input by civil society to the appropriate negotiating groups.

Whether or not these steps will be deemed sufficient by outside observers remains to be seen. Nevertheless, the steps, taken in combination with the release of the bracketed text, will make the FTAA process more open to public scrutiny and comment than it has been so far.

LEADERS TAKE STEPS TO PROVIDE POLITICAL MOMENTUM TO THE FTAA PROCESS

As we noted in our March report, one of the most important aspects of the April meetings was the opportunity by hemispheric leaders to inject needed momentum into the negotiations at a key juncture, since the phase of negotiations in which countries set out initial positions has ended, and the coming phase is expected to narrow the many substantive differences that remain. The leaders addressed the issue of momentum in two ways. First, they set precise deadlines for concluding and implementing an FTAA. Second, they provided political-level support and direction to the process as it enters a more ambitious and difficult phase.

In April, hemispheric leaders endorsed a more precise formulation of the dates for the conclusion of negotiations and the entry into force of the agreement that should accelerate technical-level progress. As we reported, at the 1994 Miami Summit leaders set 2005 as the original target date to conclude the negotiations but did not specify precisely what this meant. Chile put forward a proposal last year to move up the target date to December 31, 2003, with a final agreement entering into effect on January 1, 2005. However, some FTAA participants, most notably Brazil, publicly stated that these dates were unrealistic. As a compromise, FTAA leaders approved a ministerial recommendation at the Quebec City Summit to establish January 2005 as the deadline for concluding FTAA negotiations and December 2005 as the deadline for the agreement's entry into force. The U.S. Trade Representative called this step a key development to add momentum to the process and later noted that the United States is prepared to try to help beat these deadlines.

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[6] The committee was created at the urging of the United States to provide a vehicle for public input on business concerns, environment and labor rights, and other issues.

[7] The English-version FTAA web page is located at www.ftaa-alca.org/alca__e.asp.

On the political level, the April Summit engaged President Bush and other heads of state in the FTAA process and provided an opportunity for leaders to renew their countries' political commitment to the FTAA. For the U.S.'s part, President Bush underlined the importance he attaches to achieving progress in liberalizing trade and to solidifying and improving relations within the Western Hemisphere as a means to increase and spread prosperity and foster freedom and democracy. At the same time, he said, "Our commitment to open trade must be matched by a strong commitment to protecting our environment and improving labor standards." Calling the vision of "a fully democratic hemisphere bound by goodwill and free trade" both a "tall order" and a "chance of a lifetime," the U.S. President pledged to seek and secure from the Congress "fast track" or trade promotion authority[8] by the end of 2001. Other FTAA participants see this authority as a litmus test of U.S. commitment to an FTAA and view it as necessary for concluding and passing an eventual agreement. Demonstrating commitment to continued trade liberalization in the hemisphere, President Bush also said he would seek to renew and expand the Andean Trade Preferences Act, which accords unilateral U.S. tariff preferences to nations of the Andean region, and to conclude a bilateral free trade agreement with Chile by yearend 2001.

Statements of other key regional players also underlined their political commitment to an FTAA. For example, speaking on behalf of the Caribbean, Barbados Prime Minister Owen Arthur expressed satisfaction that "arrangements for economic integration have now been so deliberately designed to truly accommodate the special concerns of the smallest and most vulnerable entities in our hemisphere." Reluctance by Caribbean participants about accelerating the pace of negotiations was a major factor at Buenos Aires in discussions on setting FTAA deadlines, according to participants. Brazilian President Fernando Henrique Cardoso urged fellow leaders to aim for a "Community of the Americas," including an FTAA that progressively eliminates barriers to trade, opens up opportunities for growth, and does away with inequalities. At the same time, he warned that an FTAA that failed to provide access to more dynamic markets would be "irrelevant or, worse, undesirable." The only country taking a new stance in the Quebec City summit declaration from the Buenos Aires Ministerial was Venezuela, which reserved its position on the final deadline for concluding and implementing an FTAA due to concerns about its technical ability to meet the implementation deadline.

Generating interest in and support of the FTAA within the U.S. Congress, the U.S. business community, and the U.S. public remains a challenge. As we reported, many FTAA participants believe this support will be crucial if the United States is to provide the leadership they believe is necessary for concluding a deal. It is also required for ultimate approval of an FTAA in the Congress and in the U.S. "court of public opinion." However, some FTAA participants believe the United States has been distracted from pursuing trade liberalization because it is without a domestic consensus on the benefits of trade and the way in which to handle the overlap between trade and labor rights and the environment. Moreover, U.S. policies on key aspects of FTAA rules, such as investment, have yet to be announced. Support by the Congress and the business community for the FTAA has been limited until recently, though a sizeable number of U.S. trade associations and firms participated in the Americas Business Forum at Buenos Aires, and a bipartisan congressional delegation accompanied President Bush to Quebec City. Meanwhile, the opposition by key interest groups, who demonstrated in the streets of Buenos Aires and Quebec City, is actively mobilizing. For example, the American Federation of Labor-Congress of Industrial Organizations, Public Citizen, and the Sierra Club have launched campaigns against the FTAA as it currently stands.

Longer-term Challenges

Facing a critical juncture in the FTAA process, the FTAA countries generally accomplished that part of an ambitious agenda designed to start the next phase of the negotiations on a sound footing. Still, as we have previously reported, significant challenges will need to be overcome to successfully conclude an agreement. Hard bargaining will be required to turn the accumulation of proposals currently on the table into a mutually agreed-upon, binding document. In addition, the FTAA negotiations face other longer-term challenges, including

• managing the sheer scope and complexity of work required to finalize draft rules,

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[8] In the past, the Congress has enacted trade promotion authority (also known as "fast track") to implement trade agreements with other countries. This authority provided for a congressional vote within a limited period of time to accept or reject the implementing legislation for a negotiated agreement without making any changes.

• negotiating market access concessions,
• devising an institutional structure for the implementation of the agreement,
• recognizing the diverse negotiating objectives and economic conditions of the FTAA participants,
• achieving consensus on the negotiated outcomes,
• dealing with changing political and economic conditions as the negotiations unfold, and
• summoning the political will to conclude an agreement.

A number of participants told us that the FTAA can be successfully concluded if the key Western Hemisphere leaders demonstrate that they have the political will to conclude the agreement. The April meetings provided a major step in this direction, as well as clear guidance and milestones for technical-level progress. But the ultimate success or failure of the FTAA will rest on the continued demonstration of political commitment to the negotiation's conclusion.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions you or other Members may have.

CONTACTS AND ACKNOWLEDGMENTS

For future contacts regarding this testimony, please call Loren Yager or Kim Frankena at (202) 512–4128. Individuals making key contributions to this testimony included Anthony Moran, Jody Woods, and Tim Wedding.

Chairman CRANE. Thank you, Mr. Yager. Mr. Fisher.

STATEMENT OF THE HON. RICHARD W. FISHER, WASHINGTON, DC, AND FORMER DEPUTY UNITED STATES TRADE REPRESENTATIVE

Mr. FISHER. Mr. Chairman, thank you for inviting me back. I am honored to be here. As I said in my written testimony, remember, I am a free man. I do not have to say nice things. But I am genuinely thrilled to be here with so many wonderful representatives and people that do the good work of discussing the trade issues which are so vital to our economy. So I am honored to be back. I thank you. I thank Mr. Levin and all the Members for inviting me here.

If you just get to the bottom line here, first, trade is a vital part of our economy. If you take imports and you add exports to it, and divide it by GDP, you come up with 27 percent of our GDP. The way that we distribute this around the world is heavily emphasized in our own hemisphere, and that is why we are here today. If you look at the numbers, about 46 to 47 percent of what we sell is within our hemisphere, and 40 percent of what we buy is from within our hemisphere (which is, by the way, the same proportion that we buy from countries across the Pacific).

I want to touch briefly on what I call the buy side, given my securities background, and then I want to talk about the sell side, which is so vital.

On the buy side, as a country, we import $1.4 trillion in goods and services every year. Imports are good. They are not bad. They help keep down the cost of living in this country, and if you shop at Dollar General or Wal-Mart or Kmart or Target or any of these stores, this is how you put clothing on the backs of your families and how you feed your families. When we increase our imports, we enhance consumer choice. When we cut tariffs, essentially what we do is we cut tariffs at the border.

Let me put that in perspective, or give you numbers to put in perspective. In the Uruguay Round we cut tariffs from 5.8 to 2.8

percent. Without the benefit of that tax cut, those tariff cuts, our consumers would have paid last year $25.2 billion more for their imports from countries outside of NAFTA than they did otherwise with those cuts. When you add Canada and Mexico to the mix, given the cuts that we negotiated through the NAFTA, we add another $18.2 billion in tax cuts at the border for our consumers from what they otherwise would have paid last year. 25.2 plus 18.2 is $43.4 billion that our consumers and our businesses saved by virtue of the tax cuts we negotiated in NAFTA and the Uruguay Round.

Keep that in mind when you think about the potential on the import or buy side within our hemisphere, because, again, as I said earlier, 40 percent of what we import comes from within the hemisphere.

Of course, you cannot sustain a political mandate for the buy side unless you emphasize the sell side. And as I said earlier, almost 50 percent of what we sell to the rest of the world is right here in our hemisphere, versus 22 percent across the Atlantic and 27 percent across the Pacific. It's important to bear in mind that that market share is focused on two countries. Twenty-five percent of everything we sell goes to Canada. My favorite old saw, that Canada used to be called "the vichyssoise of nations" because it was cold and half-French and difficult to stir, no longer applies. Now it is an exciting market for us, it is the "salsa" of our markets. It is an important market. We sell more to Canada than we sell to the entire European Union.

Fifteen percent of what we sell goes to Mexico. If we continue to grow the rate of growth of what we sell to Mexico, (before NAFTA it was $48½ billion, last year it was $111.7 billion), in another 3 years we will sell more to Mexico than we sell to the entire EU–15. This is a startling statistic, and it shows that, indeed, we can find a good market even in a country which is poorer than we are. And it is not just for things we send to sell and then send back into the United States. In a typical month last year we sold to Mexico $48 million in surgical equipment, Congresswoman Dunn, 250,000 tons of soybeans, 28,000 cars, $700 million in semiconductors, and my favorite statistic, 200,000 golf balls and 3,200 sets of golf clubs. They are lousy golfers. But they are great customers. This is the kind of business that we want to have in the rest of the world.

And very importantly, along with economic success, Mexicans now are greater advocates of democracy and of human rights. I speak from experience. I grew up in Mexico. The old protected autarchic Mexican economy was riddled with corruption, was a shield for one-party control, led to suppression of individual liberty. It is no coincidence to me that a businessman, Vicente Fox, has been elected 7 years into NAFTA, and it shows us that, indeed, trade does have a political effect and a democratizing effect if we conduct the right kind of negotiation. That is the good news.

The bad news is that south of the Yucatan, we sell less than 8 percent of what we sell the world, and we bring in less than 6 percent.

Congressman Crane, you asked a very good question. I know you know the answer to the question. Which is why should we be inter-

ested in the rest of the hemisphere if we presently sell so little to that part of the hemisphere? I once had an employee that worked for me, who we wanted to send to Europe to operate an office there—and he said, "Why should I go to Europe? I have never been there before." He did not last very long in our firm. The point is that that is precisely why we should be talking about what they call the ALCA or what we call the FTAA, north of the border here. And that is that there are 403 million people that we are not penetrating and selling to. 173 million of those people live in one country, in Brazil, and if we can sell as much as we sell to Mexico with 100 million people, we can certainly sell a great deal more than we currently sell to the 403 million people that live south of the Yucatan Peninsula.

I usually like to quote Henry James, who said in a wonderful novella that "courtship is poetry and marriage is hard prose." I was lucky. In the last administration I got to do the courtship part. Now Ambassador Zoellick and you all have to do the hard prose. And I want to just focus on three areas that I think you are going to have to work on very, very hard, draw them to your attention, and then conclude my discussion.

Congressman Levin, you asked a very critical question of Ambassador Zoellick, and that is, how do we deal with agriculture? With regard to agriculture last week Brazil's Agricultural Minister put the issue right up front. He said: if the US does not lift the protectionist barriers and open its market to Brazilian products, we are not interested in an FTAA. And he went on to define barriers to include not just high import tariffs, but also government subsidies to US farmers, and as Ambassador Zoellick said, food safety measures. Some of this bluster is certainly for negotiating purposes or for domestic consumption, but the Argentines and the Chileans and the Colombians and others are also eager to access our agricultural markets. The "easiest" part of that is going to be the tariff structure, which averages 12 percent on ag. imports, but goes up to 116.4 percent on sugar, 26.4 percent on beef and so on.

The tough part is how you all are going to square the corner on both sides of the aisle on this matter of how we deal with the support systems, and there we face a conundrum that Ambassador Zoellick referred to earlier. How do we deal with our support payment programs solely in the context of the Americas without handcuffing our ability to deal with the EU, who is the single biggest violator of agricultural export subsidies? And yet, if we cannot come to grips with this problem in our own hemisphere, then how can we expect the Europeans to take us seriously? If we cannot come to grips in our biggest trading area, the most important market of the United States, how can we expect the Japanese, the Koreans and the Europeans to take us seriously when we go to negotiate with them on agriculture?

The second problem area in anti-dumping. Again, that came up just now in the discussion. It is a critical area. A week ago Chile's lead FTAA negotiator pointed out that in what they have proposed for the FTAA, that anti-dumping has to be on the table. She said, "We know this is a sensitive issue, but many countries are concerned by what we see as, quote, 'arbitrary use of anti-dumping measures in the United States.'"

Congressman English, this is an important subject, and I agree with Ambassador Zoellick, that we should not be shy about exploring how our Latin brethren implement their anti-dumping regimes. I like to remind people that in the year to June 2000, which is the last measurement we have, Brazil and Argentina combined filed 40 anti-dumping actions. We filed 17. The question is: how do we cope with the causes of dumping, the surpluses in steel, (which is about 80 percent of our anti-dumping cases), in chemicals, in pharmaceuticals and agricultural products and so on? And by the way, again, we face this issue: if we cannot deal with this issue in our own hemisphere, how do we deal with the all-time champions of anti-dumping measures, which are the Europeans who most actively use that tool?

I mention these aspects of ag. and anti-dumping to politely suggest that both the Congress and the executive branch have some soul searching to do on these critical issues, even before we get to the very tough issue of labor and environment, because this negotiation is not about reducing US tariffs. We are already down to 2.8 percent tariffs, and actually less than that in our hemisphere. What it is about is providing market access to the United States in return for getting access to the goods and service markets and dismantling non-tariff barrier to our products in the rest of the hemisphere.

As to labor and environment, I think we have to be very frank about this. It takes two to tango. It takes two to negotiate. Trade sanctions are out. Our Latin colleagues will not put this on the table. And in fact, we are going to have to struggle mightily to structure any discussion of these issues, as Ambassador Zoellick referred to earlier, so as not to appear protectionist. I think it is possible to construct an architecture of limited monetary assessments applied to the failure to enforce existing laws in the signatory countries, but only where their alleged enforcement failure has a demonstrable trade effect. I doubt you are going to get much more than that, based on my experience in negotiating the courtship phase of this effort within the hemisphere.

Let me just conclude by saying that, first of all, we know that as far as the economy is concerned, we can benefit by structuring a proper agreement. We also know that democracy is sputtering in several countries, in Venezuela, in Ecuador, in Nicaragua, Guatemala. We know the problems of Colombia as discussed earlier, and in Peru. We know that Argentina is under economic duress. And we know that Brazil and the entire hemisphere is worried about the status of the financial markets. I have a question, which is: how can denying these countries greater access to our markets, coupled with the disciplines that we would negotiate—the rules and efficiencies and so on, that we would insist be embodied in FTAA along with a pledge that we limit its benefits to democracies—help them overcome their problems if we deny them access to our country? And if we are not willing to think on that plane, thinking purely selfishly, this is a big market and expanding it is good for us. We know again from NAFTA that we can conduct freer trade with a poor country and expand jobs on both sides of the border.

There is one other aspect that I think is very critical that I rarely hear people talk about in trade discussions, which is the financial dimension. Our stock and bond markets are under severe duress. The debt markets in the world are under severe duress. This is not a Wall Street issue, by the way. 88 million Americans and 50 million households now own mutual funds, and in fact, all told households now have over $12 trillion invested directly in corporate securities. So do the trustees of corporate pension funds and of Taft-Hartley moneys. And it strikes me that we send an absolutely negative signal to the financial markets if we tell the world that we are unable to muster the wherewithal within this country to press the envelope on trade. In fact, we should use government for what is useful here, and that is to engineer a constructive international agreement to pry open new markets. If we do not have new markets, we cannot have more sales. If we do not have more sales, we cannot have more workers, we cannot have greater profits, we cannot secure the retirement system that so many millions of our citizens now individually oversee.

So I thank you very much for having me here. I am happy to answer any questions. I submitted a longer text for the written record. I am honored to be here. Thank you very much.

[The prepared statement of Mr. Fisher follows:]

Statement of the Hon. Richard W. Fisher, Washington, DC, and Former Deputy United States Trade Representative

Chairman Crane, Congressman Levin, members of the Committee, it is a pleasure and an honor for me to be invited back into this Committee Room today.

There are some things that one does ***not*** miss about serving as Deputy USTR. There are others that one treasures. I actually miss working with the Trade Subcommittee. Mr. Chairman, you and I worked very closely together on so many issues in the last Administration and almost always saw eye-to-eye, despite being from different parties. And Congressman Levin, you have been a faithful and constant reminder for all of us that it is important to view trade as a means to an end—that, as the preamble to the GATT says, the purpose of trade liberalization is to "raise standards of living, ensure full employment, and develop the full use of resources of the world." Gentlemen, remember I am a free man. Which means I don't have to say nice things about you as a matter of course. So when I say it, I mean it: the members of this Committee do great service to our country with your leadership roles in trade and, as an ordinary citizen, I thank you for it.

AN FTAA MAKES SENSE

Let me get to the point about Quebec and the Summit of the Americas: the United States needs to press the envelope of trade liberalization in this hemisphere.

On the sell side, our hemisphere is already the largest market for our exports, yet we are far from realizing our potential sales to our Latin and Caribbean neighbors.

On the buy side, we can do more to provide market access to countries to the south and east of the Yucatan Peninsula.

Increased two-way trade flows and the enhanced investment in the region that will surely follow will bolster those economies and undergird democracy, reduce poverty and enhance the rule of law, improve human rights and encourage greater respect for the hemisphere's ecosystem. We would be fools to let pass the opportunity for a Free Trade Area of the Americas. It is both in our economic and our strategic interest to make this happen.

It is also in the interest of our Latin and Caribbean neighbors. For all of them conduct the majority of their trade within the hemisphere. And each covets access to our market, the Big Enchilada Economy, just as we covet access to the 400 million people that live in their markets. Colombia, for example, which sells 50% of its exports to the United States, has an obvious interest in lowering the cost of doing business here. Brazil, on the other hand, sells just 19% of her exports to the U.S.; she has a natural interest in expanding her market share here.

The idea of a barrier free market for the entire hemisphere was originally a Latin conception: Simon Bolivar, the Great Liberator, was the first to champion the cause. Mexico's first native-born leader, Benito Juarez, proposed a similar initiative in the 1860's. Here in the North, Secretary of State James Blaine tried to promote the concept in 1906, Franklin Roosevelt spoke about it in the first days of his presidency in 1933, and it has since been praised in concept by leaders of both parties from Jack Kennedy to the first President Bush.

But until recently it was never taken beyond the world of oratory and conceptual discussion.

President Clinton formally initiated the process of turning this from an academic vision into reality at the 1994 Summit of the Americas in Miami. The Clinton Administration further advanced the ball at a subsequent summit in Santiago in 1998. But, truth be told, in the second half of the Clinton Administration, I was the highest-level voice ***actively*** campaigning for a Free Trade Area of the Americas, from my lowly perch as Deputy U.S. Trade Representative.

Now, we once again have a President as advocate-in-chief. In Quebec, Mr. Bush picked up the FTAA baton with impressive vigor. He declared point blank "the time has come to achieve a Free Trade Area of the Americas." He pledged to "put forward a set of principles that will be the framework for more intensive consultations with Congress," some of which is already taking place. And he added that he was "committed to attaining trade promotion authority before the end of the year," in order to make concluding an FTAA possible.

This is good news. As the former managing partner of the Texas Rangers baseball team might say, the FTAA has moved up from the minor leagues to the "bigs." Question is: can we channel this new found enthusiasm to hit the ball out of the park, or will we strike out at the plate?

I am an unabashed fan of the FTAA. I urge you to aggressively pursue those "intensive consultations" with the Administration and get on with it. Let me tell you why.

TRADE IS VITAL TO OUR ECONOMY

Trade is a driving force for our economy. In fact, the United States is more internationally exposed than any other major economy or trading bloc. External trade in goods and services accounts for 27% of our GDP. That's greater than Japan at 19% and it's slightly more than the external trade of the EU 15's collective GDP. We depend on it for an affordable cost of living, for job creation, for the corporate profits that secure the value of retirement investments, for our economic vitality.

THE BUY SIDE

On the buy side, U.S. businesses who seek cheaper material inputs and people who shop for bargains at Target, Wal-Mart, Dollar General, K-Mart and other such vendors have benefited from trade liberalization, just as foreign consumers have benefited from having better access to U.S. made goods and services. We use $1.4 trillion in yearly imports to lower the cost of living for our people and to increase choice and purchasing power for consumers and employers.

When we increase others' market access to our economy, we enhance consumer choice. When we cut tariffs on imports, we effectively cut taxes on consumption. A tariff cut is a tax cut at the border. In the Uruguay Round, for example, we dropped the average tariff on imports into the U.S. from 5.8% to 2.8%. Last year we imported $840 billion from countries other than our NAFTA partners. Without the Uruguay round tariff cuts, our consumers would have paid $25.2 billion *more* for those imports than they ended up paying. When you add Canada and Mexico to the mix, we added another $18.2 billion in tax cuts at the border for our consumers from what they would otherwise have paid last year had we not negotiated the tariff cuts of NAFTA. Twenty five point two billion plus 18.2 billion equals $43.4 billion in *tax cuts* at the border last year alone. This is real money, even in a $10 trillion economy. The point is: by broadening choice and reducing the tax we impose on our citizen's consumption of imported goods, we lower the cost of living and raise the living standards of the American people.

Forty percent of what we import comes from the Americas, about the same volume as we import from Asia. So further liberalization of tariffs and non-tariff barriers to imports from Latin America will accrue great benefits to the American consumer and businesses.

THE SELL SIDE: LOOK AT NAFTA

On the sell side, almost 50% of what we export to the world is sold within our hemisphere. We sell more to Canada than we sell to the entire European Union. At the rate of expansion we have experienced in the six years since NAFTA was completed, our exports to Mexico will surpass those to Europe in another three years. In fact, we sell almost as much to just Canada and Mexico alone—almost $300 billion a year—as Japan sells to the entire world.

From our experience with the NAFTA, we know that free-trade agreements work to our advantage. NAFTA has been a home run for U.S. exporters. Since that agreement was inaugurated, our exports of goods to the world outside of our NAFTA partners have increased 52%, which isn't too shabby. But our exports to Canada have increased by 78% and our sales to Mexico are up 169%. Before NAFTA, we sold $41.6 billion to Mexico; last year we sold Mexico $112 billion in U.S. made goods. And this is not just stuff that they sew with cheap Mexican labor and send back across the border. In a typical ***month*** last year we sold Mexicans $48 million in surgical equipment, 28,000 cars and trucks, $700 million in semi-conductors, 250,000 tons of soybeans, and, my favorite statistic, 200,000 golf balls and 3,200 sets of clubs. They may be lousy golfers, but they are great customers, thanks to NAFTA.

IMPORTANT ANCILLARY EFFECTS

Importantly, with their economic success, Mexicans now are greater advocates of democracy and human rights. I grew up in Mexico. The old, protected, autarchic Mexican economy was a shield for one-party control, for massive corruption, dramatic concentration of wealth, and the suppression of individual liberty. It is no coincidence to me that Vicente Fox, a businessman, became the first truly democratically-elected president in Mexican history seven years after NAFTA. To be sure, Mexico is far from being a perfect place. But it is a lot further along the spectrum of raising standards of living, ensuring full employment, and developing the full use of its resources and the human potential of its people because of the expanded production and exchange of goods on both sides of the border.

NOW, FOR THE REST OF THE AMERICAS

That's the good news. The bad news is that while we have done brilliantly in NAFTA, we have under-performed in the rest of the hemisphere. We sell less than 8% of our exports south of the Yucatan, Mexico's southern border. We have underpenetrated the vast Latin American and Caribbean markets, home to 403 million people. And we buy less than 6% of our imports from those very same countries.

Therein lies the raw economics of a trade deal. We have the potential to sell more to them, and they to us. And generating more trade within the hemisphere will help improve the rule of law and strengthen the potential of representative democracy in an area where, in too many countries, these core values are at risk.

We now need to replicate Mexico's success in the rest of the Americas. This is what Quebec and the FTAA are all about.

HARD PROSE IN THREE AREAS

In one of his charming novellas, the great writer Henry James wrote that, "courtship is poetry, and marriage is hard prose." The FTAA team I headed in the last administration advanced the courtship phase all the way to the drafting of a prenuptial agreement, which was completed just weeks ago in Buenos Aires and will soon be released to the public. In Quebec, President Bush reaffirmed the marriage proposal. He will get down the aisle and to the altar of a free trade agreement only if his counterparts in the Hemisphere and here at home in this Congress are willing to say, "I do."

It won't be easy for them or for you to do so. There are three areas that will be hard to crack, where the prose will be very hard, indeed. The first is agriculture. The second involves trade remedies and anti-dumping. The third is the vexing question of whether it is appropriate to include provisions of one form or another to protect workers rights or enhance environmental protection.

AGRICULTURE

With regard to agriculture, last week Brazil's Agriculture Minister put the issue right up front. He said, "If the U.S. doesn't lift its protectionist barriers and open its market to Brazilian products, we aren't interested" in the FTAA. He went on to define "barriers" to include not just high import tariffs, but also government subsidies to U.S. farmers and food safety measures. Some of Brazil's bluster here is un-

doubtedly for domestic consumption and for negotiating purposes. But the Argentines, Chileans and Columbians are also eager to access our agriculture markets and to somehow overcome our powerful farm support systems, which means to accomplish an FTAA, we will have to be prepared to put agriculture on the table.

The "easiest" part will be negotiating reductions in agricultural tariffs, which currently range up to 116.4% for sugar and 26.4% for beef, with an average 12% overall. Grappling with our support payments will be more difficult. Here we face a conundrum: how can we deal with our support payment programs solely in the context of the Americas without handcuffing our ability to compete with the EU? And yet, if we can't come to grips with this problem in our own hemisphere, and thus cannot accomplish a true free trade agreement in our biggest market trading area—in our very own back yard—how can the rest of the world expect us to deliver what's necessary to launch a global round which includes agriculture? Congress is going to have to work mighty hard to get over this agricultural obstacle.

ANTI-DUMPING

On the trade remedy front, our anti-dumping regime is under constant attack from our Latin colleagues. A week ago, Chile's lead FTAA negotiator pointed out that in Chile's free trade agreement with Canada, the parties renounced the application of anti-dumping measures. "That," she said, "is what we [Chile] have proposed for the FTAA . . . We know this is a sensitive issue, but many countries are concerned by what we see as arbitrary use of anti-dumping mechanisms in the U.S."

In the last Administration, we forbade our negotiators from even discussing anti-dumping. Our line was that we and our trading partners were just perfecting the implementation of the new anti-dumping regime agreed to in the Uruguay Round and that until we had that in place and had tested its efficacy, we shouldn't delve into the subject. I don't think that will work here.

Indeed, I think we should consider taking advantage of this opportunity to put this topic front and center and explore just how our Latin brethren implement *their* anti-dumping regimes. How transparent and/or "arbitrary" are they? How do they really work? Why is it that in 1999, Brazil and Argentina together filed 40 anti-dumping actions while we filed only 17? What is the real cause for concern here: is it within the hemisphere or across the Pacific Ocean? How might we cope with the causes of dumping—the surpluses in steel, chemicals, pharmaceuticals, and certain agricultural products—as partners with a common cause, rather than as adversaries?

It is important to remember that in Seattle, we were told by the EU that if we were not willing to put our anti-dumping regime on the table, there could be no global trade round. This was despite the fact that the Europeans are the all-time champions of anti-dumping. (In the year to June of 2000, the EU led the world with 49 new anti-dumping investigations). Again, I ask: if we can't deal with this constructively within our own hemisphere and form a common front within our biggest trading area, how can we expect to deal with the Europeans, the Japanese, the Chinese and the rest of the world on anti-dumping?

I mention these aspects of the FTAA to politely suggest that the Congress and the Executive branch has some soul searching to do even before debating the merits of so-called "labor and environment" issues.

This negotiation is ***not*** about reducing U.S. tariffs, though we have some chips to play with in our agriculture tariff structure. When you factor in various trade preferences we extend, the average U.S. applied tariff on imports from the region is well south of 2.8%. On the other hand, the tariff applied to our exports to Peru is 20%. Brazil slaps on a 17% tariff; Colombia, 12%; and Chile, 8%, and Argentina is flopping all over the map as it undergoes Minister Cavallo's exorcism of economic demons. The trade-off here—the gist of an FTAA—calls for these countries to remove both these high tariffs and non-tariff barriers to our exports of goods and services, in return for our removing our non-tariff barriers and providing better market access to their goods. Boiled down to its essence, that is the deal in the minds of the Latins. If we are not able to muster a consensus here for providing greater market access to our friends in the hemisphere, then there will be no deal.

LABOR AND ENVIRONMENT

As to "labor and environment," let's be blunt. It takes two to tango, as it does to do a trade deal, and we cannot get our Latin partners on to the dance floor if we lead with two left feet (or, for that matter, with two right feet). Trade sanctions are out. In fact, we will have to struggle mightily to structure any discussion of these issues so as not to appear protectionist. I know that Ambassador Zoellick and others are working hard to find a workable formulation on these issues and I wish

them luck. It may be possible to construct an architecture of limited monetary assessments applied only to the failure to enforce existing laws in the signatory countries and only where the alleged enforcement failure has a demonstrable trade effect. I doubt you will get much more than that.

You will have to decide if this is sufficient. Once more I ask you to bear in mind the message we are sending here to the rest of world: if we cannot resolve this issue in our own neighborhood, how do we expect to resolve this with the rest of the world, who are equally, if not more vehemently, convinced that these are merely protectionist foils?

CONCLUSION

Latin America is at a tender juncture in history. So is our economy, as are the global financial markets. I view expanded trade in the hemisphere as a vehicle for reducing risks on all three fronts.

Democracy is sputtering in Venezuela, Colombia, Peru, Paraguay, Ecuador, Haiti, Nicaragua, and Guatemala. Argentina is under economic duress that threatens the financial markets not only of its neighbor, Brazil, but the entire hemisphere, including the U.S. and global debt markets.

Question: how would denying these countries greater access to the U.S. market (coupled with the discipline of the rules and efficiencies we would insist be embodied in an FTAA, including limiting its benefits to democracies), help them overcome their problems? Why would we want to add to those problems rather than provide some measure of relief and incentive and hope?

If our neighbors' problems are insufficient motivation for an FTAA, then we should examine the selfish arguments for the home team. On our side of the border, we know that exports plus imports divided by GDP is 27%. In the USA, trade exerts a ***big*** influence on consumption, employment and profits. Our long economic expansion is running out of wind. Unemployment is rising. We know that exports mean more jobs. We know that cheaper imports hold down the cost of living. We know from NAFTA that we can conduct freer trade with a poorer country and both come out winners with job creation on both sides of the border. We know we exchange too little trade with countries to the south and east of Mexico and would profit from more.

The financial dimension is less clear, but none-the-less important. Our stock and bond markets are under severe pressure. The financial markets are no longer the exclusive purview of Wall Street; they are the preoccupation of Main Street. Eighty-eight million Americans in 50 million households—let me repeat that—88 million Americans in 50 million households—own mutual funds for retirement and investment purposes. All told, households have over $12 trillion invested, either through mutual funds or directly, in corporate securities. They are feeling a little insecure right now. So are the trustees of corporate pension funds and of Taft-Hartley monies. Underpinning the value of the securities that represent our citizens' retirement monies and financial well-being is the health of the companies that issue those securities. Those companies can't grow profits for shareholders or meet interest payments or hire more workers unless they increase sales. They can't grow their sales unless they grow their markets. And it is a heck of a lot easier for them to grow their markets if we can engineer constructive international agreements that pry open new ones for them.

I am interested in engineering an FTAA that will pry open a market of 400 plus million people in our own backyard. This is the dream we started working on seven years ago at the Miami Summit. It is the promise of what came out of Quebec.

Thank you for the opportunity to offer my two cents. I am happy to answer any questions.

Chairman CRANE. Thank you, Mr. Fisher. Mr. Sweeney.

STATEMENT OF JOHN J. SWEENEY, PRESIDENT, AMERICA FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. SWEENEY. Thank you very much, Mr. Chairman, members of the Committee. I am happy to have the opportunity to speak to you today on behalf of the 13 million working men and women of the

AFL–CIO about the prospects for new trade agreements in the Western Hemisphere, particularly the proposed Free Trade Area of the Americas and the possible extension of the Andean Trade Preference Act.

The FTAA has been under negotiation since 1998. During that time business leaders have met annually with the trade negotiators to present their views and make recommendations. Business input has shaped both the negotiation process and the content of the agreement so far. Labor and environmental leaders from all over the hemisphere, as well as representatives of family farm, human rights, women's and development organizations have also met regularly with each other during this period, to exchange views, discuss alternative models for social and economic integration, and communicate with the FTAA negotiators.

Unlike the business advocates, however, the views of broadly representative civil society organizations appear to have had no impact whatsoever on the course of FTAA negotiations. Labor and environmental concerns are completely absent from negotiations so far, and the investment and services provisions appear to be based on the flawed NAFTA model. Finally, the draft text has still not been made public despite requests from hundreds of civil society organizations in Latin America, the Caribbean and North America.

And yet the FTAA, if implemented, will have a profound impact on the lives of everyone in this region and beyond. A Free Trade Area of the Americas will affect the terms of competition between businesses, but also between governments angling to attract foreign investment or localities struggling to keep jobs in their communities. And it will, of course, affect the daily lives of workers and farmers struggling to earn a living, often under very harsh conditions, all over the hemisphere.

In short, if it continues along its current path, the proposed FTAA will dramatically shift the balance of bargaining power in this hemisphere, further protecting and strengthening corporate rights, while leaving workers, environmental advocates, human rights champions, and national governments, with less leverage and less clout. Like NAFTA, this particular model of regional economic integration will lead to growing income inequality, environmental degradation and erosion of workers' rights.

That is why workers and trade unions throughout the western hemisphere are united in rejecting the current FTAA. At its recent Congress in Washington, D.C., the Inter-American Organization of Workers, known as ORIT, called for any hemispheric agreement to include a social dimension, including enforceable core workers' right, protections for the rights of migrant workers, debt relief, guarantees that public health concerns will take precedence over trade rules, and a truly transparent, inclusive and democratic process, both for the negotiation of the FTAA and for the implementation of any regional agreement.

The failure to negotiate meaningful and enforceable workers' rights protections in the FTAA would represent a giant step backward for workers in the hemisphere. Currently some workers' rights protections are included in US trade laws that affect the hemisphere, including GSP, the Caribbean Basin Trade Partnership Act, and the Andean Trade Preference Act. While we believe

these provisions should be strengthened and improved, they have nonetheless provided some avenues for improving labor laws and enforcement in the hemisphere. This minimum degree of economic leverage will be lost if the FTAA moves forward without any protections for workers' rights at all.

Workers rights are under attack in many countries in our hemisphere, including our own. We need to use the leverage of new trade agreements to strengthen and improve workers' rights protections, not gut them, as the architects of the FTAA propose.

The success or failure of the FTAA or an extension of the ATPA will hinge on governments' willingness and ability to develop an agreement that appropriately addresses all of the social, economic and political dimensions of trade and investment, not just those of concern to corporations. Failure to address these concerns will produce an agreement that is resoundingly rejected by the people and parliaments of this hemisphere, and that produces disastrous economic results for working people from Alaska to Argentina.

I look forward to your questions and working with you on these important issues.

[The prepared statement of Mr. Sweeney follows:]

Statement of John J. Sweeny, President, American Federation of Labor and Congress of Industrial Organizations

Mr. Chairman, members of the Committee, I thank you for the opportunity to speak to you today on behalf of the thirteen million working men and women of the AFL-CIO about the prospects for new trade agreements in the western hemisphere, particularly the proposed Free Trade Area of the Americas (FTAA) and the possible extension of the Andean Trade Preference Act (ATPA).

The FTAA has been under discussion since 1994, with formal negotiations beginning in 1998. During that time, business leaders have met annually with the trade negotiators to present their views and make recommendations on the content of the agreement. Business input has shaped both the negotiation process and the content of the agreement so far.

Labor and environmental leaders from all over the hemisphere, as well as representatives of family farm, indigenous, human rights, women's and development organizations, have also met regularly with each other during this period to exchange views, discuss alternative models for social and economic integration, and communicate with the FTAA negotiators.

Unlike the business advocates, however, the views of broadly representative civil society organizations appear to have had no impact whatsoever on the course of FTAA negotiations. None of the nine FTAA negotiating groups is charged with negotiating labor and environmental protections, and none of the groups has even agreed to discuss how to incorporate workers' rights or environmental standards into the FTAA. The modest U.S. proposal for a study group on workers' rights was rejected by the other governments last year. The investment and services provisions of the FTAA appear to be modeled on the North American Free Trade Agreement (NAFTA), which has utterly failed to deliver the promised benefits to working people in the three North American countries. And, finally, the draft text has still not been made public, despite requests from hundreds of civil society organizations in Latin America, the Caribbean, and North America.

And yet the FTAA, if implemented, will have a profound impact on the lives of everyone in this region, and beyond. A Free Trade Area of the Americas will affect the terms of competition between businesses, but also between governments angling to attract foreign investment, or localities struggling to keep jobs in their communities. It will affect the criteria national governments may or may not set to determine who is eligible to bid for government contracts, and it will affect the balance between public provision of essential services and private-sector competition in these areas. And it will, of course, affect the daily lives of workers and farmers struggling to earn a living, often under very harsh conditions, all over the hemisphere.

In short, if it continues along its current path, the proposed FTAA will dramatically shift the balance of bargaining power in this hemisphere, further protecting

and strengthening corporate rights, while leaving workers, environmental advocates, human rights champions, and national governments with less leverage and less clout. Like NAFTA, this particular model of regional economic integration will lead to growing income inequality, environmental degradation, and erosion of workers' rights.

That is why workers and trade unions throughout the western hemisphere are united in calling the current FTAA a failed model of trade and development policy. At its recent Congress in Washington, D.C., in April, the Inter-American Organization of Workers (known by its Spanish acronym, ORIT) unanimously rejected the current FTAA. ORIT, which includes the AFL-CIO, along with unions representing more than 45 million workers in the western hemisphere, called for any hemispheric agreement to include a social dimension, including the following elements:

- Enforceable protection of the core workers' rights identified by the International Labor Organization's 1998 Declaration on Fundamental Principles and Rights at Work: freedom of association, the right to organize and bargain collectively, and the right to be free from child labor, forced labor, and discrimination in employment;
- Protection under national law and international treaty obligations for the rights of migrant workers throughout the hemisphere, regardless of their legal status;
- Measures to ensure that countries retain the ability to regulate the flow of speculative capital;
- Debt relief;
- Compliance with World Health Organization guidelines, which say that public health should be paramount in trade disputes;
- Equitable and transparent market access rules that allow for effective protection against import surges; and
- A truly transparent, inclusive, and democratic process, both for the negotiation of the FTAA and for the implementation of any regional agreement.

In addition, if there are to be hemispheric negotiations on investment, services, government procurement, and intellectual property rights, ORIT and the AFL–CIO are united in insisting that any agreement must not undermine the ability of governments to enact and enforce legitimate regulations in the public interest:

- Investment rules should not discipline so-called indirect expropriations, should rely on government-to-government rather than investor-to-state dispute resolution, and should preserve the ability of governments to regulate corporate behavior to protect the economic, social, and health and safety interests of their citizens;
- Services rules must be negotiated sector by sector and must not undercut government provision or regulation of services in the public interest;
- Government procurement rules must give governments scope to serve important public policy aims such as environmental protection, economic development and social justice, and respect for human and workers' rights; and
- Intellectual property provisions must allow governments to limit patent protection in order to protect public health and safety, especially patents on life-saving medicines and life forms.

The failure to negotiate meaningful and enforceable workers' rights protections in the FTAA would represent a giant step backwards for workers in this hemisphere. Currently, some workers' rights protections are included in U.S. trade laws that affect the hemisphere: the Generalized System of Preferences (GSP), which grants additional trade benefits to developing countries, the Caribbean Basin Trade Preference Act (CBTPA), which grants some NAFTA benefits to the Caribbean and Central American countries; and the Andean Trade Preference Act (ATPA), which grants benefits to Colombia, Peru, Bolivia, and Ecuador. While the precise formulation varies, all of these agreements provide for the withdrawal of trade benefits from countries that are not at least "taking steps" to afford internationally recognized workers' rights.

The AFL–CIO has called for the strengthening of these provisions and for more consistent and transparent enforcement. Despite the room for improvement, however, these trade-related workers' rights protections have been responsible for improving labor laws in some countries and for enhancing enforcement in others. In many cases, the threat of withdrawing benefits has been sufficient to motivate compliance, and no trade sanctions were actually applied.

The Dominican Republic, for example, reformed its labor code to meet ILO standards in 1992 in response to a workers' rights petition filed by Human Rights Watch. After the filing of an additional petition in 1993 by the AFL–CIO (when the government had failed to enforce the new code), the government took concrete action against an apparel company accused of numerous illegal anti-union actions. As a result of the improved labor code and improved enforcement efforts, workers were eventually able to win their first collective bargaining contract in the history of Dominican free trade zones. After this breakthrough, three other collective bargaining

agreements were signed in the zones before the end of the year, according to USTR GSP documents and a Labor Department report. Because of these GSP petitions, there are now independent unions in the Dominican free trade zones where there were none before.

The threat of losing GSP privileges has also motivated labor law improvements in El Salvador. After the AFL–CIO filed several GSP workers' rights petitions in the early 1990s, El Salvador accepted ILO assistance to draft a labor code that conforms more closely to international standards on freedom of association and the right to organize and bargain collectively.

This minimum degree of economic leverage will be lost if the FTAA moves forward without any protections for workers' rights at all. Workers' rights are under attack in many countries in our hemisphere, including our own.

Over 1,500 union members and leaders have been murdered in Colombia since 1991—35 more this year alone—with no effective action by the government to identify and hold responsible the perpetrators. An ILO investigative mission, which visited Colombia in February 2000, reported that: "Cases where the instigators and perpetrators of the murders of trade union leaders are identified are practically nonexistent, as is the handing down of guilty verdicts."

This very grave situation in Colombia clearly deserves both attention and resources. We do not believe that simply extending the ATPA will eliminate these egregious abuses. We believe any new ATPA legislation must ensure effective prosecution of persons responsible for physical attacks and other illegal acts perpetrated against trade unionists and others seeking to exercise their rights to freedom of association and assembly. We support appropriations for technical assistance through the International Labor Organization (ILO), to bring labor laws and enforcement into compliance with ILO standards, especially in the areas of freedom of association and collective bargaining. And any extension of ATPA must provide for regular reporting to Congress on progress in these areas, with the elimination of benefits for cases of persistent and serious non-compliance.

We need to use the leverage of new trade agreements to strengthen and improve workers' rights protections, not gut them, as the architects of the FTAA propose.

Some people have expressed concerns that such workers' rights provisions would constitute disguised protectionism and become an excuse for closing markets and denying the benefits of trade to poorer countries. Nothing could be more wrong.

First, the record shows that the AFL–CIO has consistently used existing workers' rights provisions (in GSP and other trade laws) to support the struggles of workers in developing countries and not to protect American jobs.

Second, the trade unions of the hemisphere are united in insisting that enforceable workers' rights be included in any hemispheric trade agreement. The absence of such protections, Latin American trade unionists have found, allows—and even encourages—governments to compete for scarce foreign investment by overtly or implicitly agreeing to keep wages artificially low by repressing independent trade unions. This repression may start with union organizers, but inevitably spreads to include repression of free speech and assembly.

Respecting freedom of association is absolutely essential to building a vibrant democracy, and allowing workers to bargain fairly with employers and to raise their voices effectively in the political process is absolutely essential to building a strong middle class.

The charge of protectionism is invariably applied to labor and environmental standards, but not to corporate concerns like market access or intellectual property rights. The plain fact is that withdrawing trade benefits is the most effective way of enforcing provisions of a trade agreement. This is the method now used under NAFTA, the World Trade Organization (WTO), and other U.S. trade laws. So the charge that protecting labor standards through trade measures is somehow uniquely protectionist rings false.

An acceptable hemispheric agreement must not simply replicate the failed trade policies of the past, but must incorporate what we have learned about the problems and weaknesses of the current rules. The success or failure of any hemispheric trade and investment agreement will hinge on governments' willingness and ability to develop an integration agreement that appropriately addresses all of the social, economic, and political dimensions of trade and investment, not just those of concern to corporations.

Failure to address these concerns will produce an agreement that is resoundingly rejected by the people and parliaments of this hemisphere and that produces disastrous economic results for working people from Alaska to Argentina.

Any discussion about granting fast track negotiating authority must first address these important issues. Before we send our negotiators into four more years of negotiations toward the FTAA, we should have an open domestic debate about how best

to protect the interests of workers and the environment in the context of new trade agreements.

We believe that any fast track legislation must **require** the inclusion of enforceable workers' rights and environmental standards in the core of all new trade agreements. New trade agreements must ensure that all workers can freely exercise their fundamental rights and require governments to respect and promote the core labor standards laid out by the ILO. Workers' rights and environmental standards must be covered by the same dispute resolution and enforcement provisions as the rest of the agreement, and these provisions must provide economically meaningful remedies for violations. An agreement that does not meet these principles must not be considered under Fast Track procedures. Monetary fines modeled on the NAFTA labor side agreement or the Canada-Chile agreement are inadequate and have proven an ineffective means of enforcement.

*It is **not sufficient** simply to revise the list of negotiating objectives to include workers' rights and environmental protections. Workers' rights have been among our negotiating objectives for more than 25 years, with very little progress being made.*

Congress must also ensure that ordinary citizens have access to negotiating texts on a timely basis, and that negotiators are accountable to both Congress and the public as to whether mandatory negotiating targets are being met.

Trade agreements must not undermine public services or public health, nor allow individual investors to challenge state laws in secret. Trade authority must delineate responsibilities for investors, not just rights, and must not require privatization and deregulation as a condition of market access.

Trade negotiating authority must also instruct U.S. negotiators that a top priority is to defend and strengthen U.S. trade laws. Fast-tracked trade agreements must not prevent governments from implementing national policies to promote a strong manufacturing sector.

I look forward to your questions and to working with you on these important issues in the months to come.

Chairman CRANE. Thank you, Mr. Sweeney. Mr. Vargo.

STATEMENT OF FRANKLIN J. VARGO, VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. VARGO. Thank you very much, Mr. Chairman, and let me say it is a great honor to be on the same panel with and to follow Mr. John Sweeney, who is truly a great American.

The National Association of Manufacturers has the Free Trade Area of the Americas as its very top trade priority. It is extremely important to American manufacturing and to American manufacturing workers that the FTAA proceed forward. It is also important to raising living standards throughout the hemisphere, and contributing toward democracy.

Now, Latin America is one of two areas of the world that still has the highest trade barriers, the other being Southeast Asia. Despite this, we already export 60 billion a year to Central and South America. That is four times what we export to China. But with the removal of trade barriers in the hemisphere, our projection is that that 60 billion of exports today, within the decade will more than triple, to $200 billion. It will be subject to the NAFTA effect, and if you look at what has happened to our exports to NAFTA, for example, Exhibit 3 in my prepared statement has a graph showing that our exports to Mexico and our exports to Central and South America, up until 1994, moved very closely together. They were almost identical. But in the years since NAFTA started, we now export twice as much to Mexico, twice as much as we do to all of Cen-

tral and South America. We want that same effect to apply throughout the hemisphere.

Now, the United States is already a very open market. Perhaps, though the Committee is very well informed, you may not be aware of just how open we are. Last year, average US tariffs were 1.6 percent. 1.6 percent is not a trade barrier, it is a speed bump. Two-thirds of all of our imports came in absolutely duty free. Now, in Central and South America, American exporters face duties that average in major markets 14 percent or more, and it is not uncommon for American manufacturers to face duties of 20 to 30 percent, and on top of that, we have standards barriers and other barriers. These have to come down.

Now, the matter is urgent because we are not the only ones who are talking about negotiating or actually negotiating with Central and South America. So are the Europeans. And if the Europeans manage to get duty-free access to these markets while we still have to pay those 20 and 30 percent duties, that is going to shut a lot of exports out and put a lot of our present $60 billion at risk.

Now, NAM had a delegation in South America, in Chile, and we went to Buenos Aires to talk with other business communities and the American Business Forum. And we believe the FTAA is very feasible to negotiate. We also believe it is feasible to negotiate quickly a trade agreement with Chile, and we say why should we wait until 2005 if Chile is ready to open up its market now?

But another thing was very clear, Mr. Chairman, and that is that both the Latin American business communities and the governments, without trade promotion authority, these negotiations are not going to go forward, no TPA, no negotiations, and we will be stuck with the status quo, and we will lose under the status quo. The time has come to stop negotiating with ourselves and start negotiating with our trading partners, because the cost of inaction is about to get very high. It would be very ironic if we were to continue to debate labor rights in other countries, while thousands of American workers lost their jobs if our foreign competitors were able to cut trade deals with Central and South America while we were not, and we lost those exports.

Now, we are prepared to view labor and environmental concerns in a very flexible manner. We support good labor and environmental practices. We oppose trade sanctions. But if the objective is genuine concern for labor and environmental standards, we believe there are positive steps that reasonable people could agree on and move forward on, and we are ready to look at alternatives, and we are ready to look for creative solutions.

But if we do not negotiate the FTAA, and if we keep the status quo, we lose. You know, keeping our 1.6 percent duties and allowing them to keep their 20 to 30 percent duties, and letting the EU into South America duty free, is not a winning solution for American manufacturers or for America's factory workers.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Vargo follows:]

Statement of Franklin J. Vargo, Vice President, International Economic Affairs, National Association of Manufacturers

Mr. Chairman and Members of the Committee:

I am pleased to be here this afternoon on behalf of the National Association of Manufacturers in this important discussion of the outcome of the Quebec Summit of the Americas and the prospects for free trade in the hemisphere. The National Association of Manufacturers represents 14,000 American firms producing about 80 percent of all U.S. manufacturing output. Manufacturing comprises approximately one-fifth of all the goods and services produced by the U.S. economy, and directly supports 56 million Americans—the 18 million American men and women who make things in America and their families.

Trade is of great importance to the NAM, for almost nine out of every ten dollars of U.S. merchandise exports are manufactured goods. Last year, U.S. exports of manufactured goods were $690 billion, 88 percent of total U.S. merchandise exports. The $52 billion of agricultural goods exported last year accounted for 7 percent of U.S. merchandise exports, and mining and all other industries accounted for the remaining 5 percent. Similarly, manufactured goods dominate our imports, where last year they accounted for 83 percent of the total.

About one-sixth of our total manufacturing output is exported, and for many important industries the ratio is much higher. For example, exports account for 54 percent of U.S. aircraft production, 49 percent of machine tools, 46 percent of turbine and generator output, 45 percent of printing machinery, and the list goes on.

FTAA—NAM'S TOP TRADE PRIORITY

Earlier this year, the NAM identified and prioritized its top trade objectives. This process, which included final review at this spring's NAM Board meeting, concluded that the NAM's top trade priority is the creation of the Free Trade Area of the Americas (the FTAA). The reason for this is that the FTAA would strongly affect the bottom line for American industry. It is of major significance to U.S. manufacturing production and employment, it is achievable in a near-term time frame, and it is of urgent importance.

There are two areas of the world where barriers are still high South America and Southeast Asia. The FTAA would eliminate barriers throughout the Western Hemisphere, creating the world's largest free trade area—a market of 34 countries and 800 million people. The Western Hemisphere already accounts for nearly one out of every two dollars of all our exports. Most of this goes to Canada and Mexico, for the North American Free Trade Area (NAFTA) has generated a huge trade boom. We believe the FTAA will do the same for trade with Central and South America.

Last year U.S. firms exported $60 billion to Central and South America, an amount four times as much as we exported to China. But the market is only a fraction of what it could be. Trade barriers have been holding back both our exports and the region's economic growth. This does not just affect large firms. In fact, of the 46 thousand U.S. companies that export to Central or South America, 42 thousand—91 percent of the total—are small and medium-sized firms.

Based on our experience with NAFTA, the NAM predicts that with the successful negotiation and implementation of the FTAA, our present $60 billion of annual merchandise exports to Central and South America would more than triple within a decade to nearly $200 billion. That would represent a very considerable increase in U.S. industrial production generating more high-paying jobs in America's factories. America's agricultural and services exports would also grow proportionately.

U.S. imports would grow as well probably by close to the same amount. The U.S. economy needs imports as well as exports. We benefit both by creating more high-paying export-related jobs and by being able to purchase imported goods more cheaply. America's living standard has benefited very strongly.

It is important to recognize that the industries that trade the most pay the highest wages. In fact, as seen in Exhibit 1, while trade-intensive industries paid an average annual compensation last year of $60 thousand per worker, industries that are moderately engaged in trade paid $48 thousand, and those that are not trade-engaged paid $44 thousand.

The Need for the FTAA

America is already a very open market. The FTAA would open markets for U.S. products in the rest of the hemisphere. Last year, the average import duty paid on all imports into the United States was only 1.6 percent. That is not a trade barrier; it is barely a speed bump. Moreover, two thirds of all our merchandise imports from the world last year paid no duty at all. They entered the United States totally duty-free.

American exporters to South America, unfortunately, face a different situation. There, duties in major markets average 14 percent or more, and it is not uncommon for U.S. manufactured goods to face duties of 20-30 percent or higher. For example, as one of our members, the 3M company recently testified, Colombia assesses a 20

percent duty on their U.S.-made electrical tape. Ecuador charges their filter products a 30 percent duty. And so it goes. Those are serious barriers. Exhibit 2 depicts average tariffs in the United States and South America.

Moreover, a recent World Trade Organization (WTO) report shows that Latin America has the highest bound duty rates in the world averaging 35 percent. Southeast Asia comes in second, with a 28 percent average bound duty. These are ″bound″ duties, the legal duty limits that countries are not allowed to exceed. While bound rates tend to be much higher than the rates countries actually charge, they are important because they are the basis for WTO negotiations and because countries are permitted to raise duties up to their bound levels if they choose.

Tariff barriers, furthermore, are augmented by costly customs clearance procedures, standards that can be used as entry barriers, expensive and redundant testing and certification procedures, and other obstacles to trade. Eliminating these tariff and non-tariff barriers would lower the cost of U.S. products in Central and South America and would significantly increase U.S. exports. Faster economic growth in Central and South America would occur as well, for their economic growth has been held back by their trade barriers. Removing trade barriers will enable production within these countries to become more efficient, allowing producers to focus on the goods and services they can produce most effectively, and lowering the costs of what they buy.

The best example is Chile, a country that for a decade has determined it can only increase its living standard by reducing trade barriers, focusing its production on what it does best, and importing the rest. The result? Chile's economic growth over the past decade has been the fastest in South America—and has been double the average for all of South America. In fact, over the past decade Chile has been the third fastest-growing economy in the world.

There is a real urgency to negotiating the FTAA, for the European Union (EU) is also negotiating free trade agreements with key South American countries. This is no trivial matter, for the European Union currently sells about as much to South America as we do. The consequences for U.S. exports would be severe if the EU were to obtain duty-free access to these markets while U.S. exports continued to face duties that could be 20 or 30 percent. A huge shift away from U.S. products to European products would result. The latest development is that Japan is now exploring the possibility of free trade agreements with South American countries.

Opposition to the FTAA

Some very vocal groups are opposed to the FTAA. They would rather keep the status quo. Looking at the status quo—1.6 percent duties in the United States vs. duties ranging up to 20-30 percent in South America—it is difficult to understand why anyone would believe we are better off by not reducing our duties and their duties down to zero. Under the status quo, especially if the EU obtains preferential access to South America, U.S. factories and the American workforce would be the big losers.

Much of the opposition to an FTAA is due to a belief that the North American Free Trade Area (NAFTA) has not been beneficial to the United States, and that the FTAA would compound this. Individuals taking this position have simply not looked at the facts. Far from being disadvantageous to the United States, NAFTA has been an enormous success.

For starters, NAFTA has resulted in an astonishing U.S. export boom. U.S. exports to Mexico have more than doubled since the initiation of NAFTA. The $111 billion we exported to Mexico last year exceeded our exports to Japan, Germany, and France combined—the three largest economies in the world outside the United States. Last year Mexico accounted for close to one-third of all U.S. export growth worldwide. That is quite an achievement.

To see how strong an effect NAFTA has had on our export growth, consider the fact that U.S. exports to Mexico have historically tended to be about the same size as our exports to Central and South America, about $30 billion to each in 1994, for example. But since NAFTA, U.S. exports to Mexico have soared to nearly twice the level of our exports to Central and South America. This is dramatically visible in Exhibit 3. The FTAA will have the same effect on our exports to Central and South America as NAFTA did for our exports to Mexico.

But what about the import side? It is certainly true that our imports from Mexico rose even faster than our exports, and what was a U.S. trade surplus in 1993 has become a large deficit. This is a key reason why many view NAFTA as a failure for the United States. In fact, one organization claims this trade deficit has cost the United States 700,000 manufacturing jobs. The reasoning is that if exports create jobs, imports must destroy them.

There are two problems with this logic. The first is conceptual, for many imports simply don't compete with U.S.-made products or they fill gaps where the U.S. just can't produce enough to meet demand. For example, one-third of our deficit with Mexico stems from oil imports necessary to meet our energy needs. Additionally, the exceptional growth of the U.S. economy pulled in imports from Mexico along with imports from the rest of the world.

The second problem is that the facts just don't support an argument that the trade deficit with Mexico has cost manufacturing jobs. A close examination of the data shows that indeed there is a $17 billion deficit in our manufactures trade with Mexico. But one industry predominates: motor vehicles. In fact, we have a $24 billion deficit in our automotive trade with Mexico.

Note that the deficit in automotive trade with Mexico exceeds our total manufactures goods deficit with Mexico. What that means is that our trade with Mexico in all other manufactures is in surplus by $7 billion. Let me stress that point: U.S. non-automotive manufactures trade with Mexico had a *$7 billion surplus* last year. Moreover, that surplus has been growing in recent years—an almost unique phenomenon in our trade with the world. Thus, in the logic of those who equate deficits with job losses—since there is no deficit here, there is no net job loss.

If there has been a NAFTA job loss, it must have been in autos, where the trade deficit grew $20 billion since the initiation of NAFTA. However, this is not borne out by the facts either. In fact, employment in the U.S. auto industry, even after the recent decline in the U.S. economy, stands at over 100 thousand jobs higher than before NAFTA began. While total manufacturing jobs in the United States grew 2 percent from 1993 to 2000, auto sector jobs grew 20 percent ten times as fast. There has been no net job loss in the auto sector, and the reason is that the integrated North American auto industry really works, and it works for all three countries.

So where is the job loss? In the non-automotive manufactured goods trade *surplus* we have with Mexico? Or in the auto industry that has gained more than 100,000 jobs since NAFTA? The answer is that the facts simply do not support claims that NAFTA has led to a significant net loss in manufacturing jobs.

What about the "sucking sound" of a wholesale movement of U.S. factories closing their doors and moving to Mexico? Certainly some factories have moved to Mexico, but there has not been the flood that many seem to take for granted. Furthermore, many more U.S. factories have stayed right where they are and have expanded their payrolls to produce that $111 billion we are now exporting to Mexico.

U.S. balance of payments data show that there has been only a modest increase in U.S. investment in Mexico. Prior to NAFTA, U.S. companies invested $3 billion in Mexico (3 percent of global U.S. foreign direct investment). In 1999 (latest year available), they invested $5 billion (4 percent of global U.S. foreign direct investment).

Moreover, most of this investment increase has been in finance, wholesaling, retailing, etc.—not in manufacturing. U.S. manufactured goods investment in Mexico has been fairly steady at about $2.5 billion per year since NAFTA began. This is only a fraction of the $35 billion invested last year by U.S. manufacturers abroad, mainly in high-wage developed countries. Three- fourths of U.S. manufacturing investment goes to the industrial countries. And in 1999, 40 percent of the manufacturing investment to the developing world went to one country—not Mexico and not China but high-wage Singapore.

Thus it is clear that when one looks at what has really been happening, NAFTA is actually a great success. Rather than trying to avoid another NAFTA, we should seek to emulate it and expand free trade to the rest of the hemisphere, particularly in Central and South America.

THE PROSPECTS FOR HEMISPHERIC FREE TRADE

Let me now turn to the prospects for actually being able to obtain free trade in the hemisphere. An NAM business delegation visited Chile and Argentina last month to discuss the FTAA and the bilateral negotiations with Chile. After consultations with business executives and government officials we concluded that the chances for successful negotiation of both agreements are excellent. We found a lot of agreement on the negotiating agenda and an ample amount of common ground.

This is not to say the negotiations will be easy. We have high expectations and major goals to be achieved in the negotiations, and we will continue to press U.S. negotiators to obtain the best possible package of trade liberalization. Other business communities left no doubt that they will do the same. The negotiations will have to be balanced, with all parties seeing benefits. This is why everything must be put on the table for negotiation.

Considerable groundwork has already been done. Nine negotiating groups have worked over the past couple of years to lay out the framework for the negotiations. Notably, the trade ministers of the 34 nations met their goal of producing an initial bracketed text at the last month's FTAA ministerial meeting in Buenos Aires, Argentina. The U.S. leadership, Ambassador Zoellick and Secretary Evans, did an excellent job of defusing questions of timing, and obtaining agreement that actual negotiations would start next May.

Importantly, the Summit of the Americas in Quebec last month provided the final necessary ingredient—the political agreement and commitment to move ahead. President Bush did what we had hoped. He laid out the FTAA as a key trade priority and stressed the U.S. would devote all necessary resources to the negotiations. The other ministers agreed and charged their trade officials to move ahead. The significance of the Quebec Summit is that it marked the end of phase one—the planning and the groundwork, and the beginning of the next phase—the actual negotiations.

Business not only strongly supports these negotiations, but is also helping pull them forward. Representatives of the U.S. business community and the 33 other business communities participated in the Americas Business Forum in Buenos Aires immediately prior to the FTAA Ministerial meeting. The purpose of the forum was to exchange views, find common ground, and make recommendations to governments. Clearly evident at the business forum was that business communities throughout the hemisphere want to move ahead. They recognize that Latin America's economic future can only be assured through the removal of trade barriers and the creation of a free trade area.

Also true, however, is that most Latin business communities are concerned about their ability to compete and survive in an open market. They are cautious, particularly about the period of time over which tariffs would be eliminated. The U.S. business community would like to eliminate as many tariffs as possible as soon as implementation of the FTAA begins. Few Latin business communities agree at this point. They argue that some sensitive industries will require more time to adjust. This will be an important part of the negotiations.

The NAM will continue to work with Latin American industries to maintain forward movement. For example, last week the NAM signed a memorandum of understanding with the Venezuelan industry association, CONINDUSTRIA, to begin a process of communication and cooperation—particularly with respect to the FTAA. In signing that document, the Venezuelan industry leadership stated its strong support for implementing the FTAA by the end of 2005—or even earlier if that is feasible.

Bilateral Negotiations

In addition to the FTAA, the U.S. is currently negotiating a bilateral trade agreement with Chile. The NAM applauds this negotiation and wants to see it concluded by the end of this year. We seek a robust, world-class agreement that would quickly eliminate trade barriers and would provide full investment coverage. Based on our meetings in Chile last month with government leaders, key legislators, and business executives, we are convinced this is feasible.

There are two reasons for our strong support of this bilateral negotiation. First, the agreement will help expand bilateral trade with Chile. Chile is the most free trade-oriented country in South America, and is ready now to enter into free trade with the United States. Why should we wait until 2005 to begin obtaining improved market access through the FTAA if we can begin obtaining this access next year through a bilateral agreement? Of course, compatibility with the FTAA must be ensured.

The second reason is that conclusion of the agreement with Chile will reinforce the FTAA negotiations and serve to set high standards. Having an agreement with Chile will maintain the momentum of the FTAA negotiations. In fact, the NAM has urged USTR to commence bilateral FTA negotiations with other countries in South America. We understand that the Central American countries (accounting for over $12 billion of U.S. exports, four times as much as to Chile) have indicated their interest, as have other countries including Uruguay and Argentina. So long as the U.S. government has the capacity to engage in these negotiations, they should proceed as soon as possible. Like the Chile negotiations, additional bilateral negotiations will help ensure success for the larger FTAA negotiations.

NEEDED: TRADE PROMOTION AUTHORITY

In concluding my statement, I want to stress there is one absolutely essential prerequisite to these negotiations B providing the President with Trade Promotion Authority (TPA). Our trading partners insist on having the assurance that what they

negotiate with the United States will be voted on as a single package. They will not negotiate under circumstances in which the final deal turns out not to be final, but is one which Congress modifies.

It must be stated bluntly: without Trade Promotion Authority, the FTAA negotiations simply will not move forward. I believe the same can be said for prospective negotiations on a new round in the WTO. The Latin business communities and government officials with whom we have met were all unanimous on that point: no TPA . . . no negotiations.

Regrettably, some would applaud if there were to be no negotiations; but, as I stated earlier in my testimony, maintenance of the status quo means that we lose. Allowing Latin nations to keep their duties of 20–30 percent on major U.S. exports while we keep our 1.6 percent tariff speed bump against theirs is not a winning solution for the United States.

The time has come to stop negotiating with ourselves and to start negotiating with our trading partners. In particular, the issue of how to handle labor and environmental concerns has stalled us for too long. We must find a way to move forward, for the cost of continued inaction is about to get very expensive. How ironic it would be if we continued to debate labor rights in other countries while thousands of American workers began to lose their jobs as our foreign competitors completed trade deals with Latin America and took our export business away.

Business has already stated that it is prepared to view labor and environmental concerns in a flexible manner. Business is not opposed to good labor and environmental practices. U.S. business standards are the highest in the world, and we tend to carry them with us through our investments in foreign countries—as is illustrated in a joint Manufacturers Alliance—NAM study of U.S. company practices in developing countries that will be released shortly.

We believe that if the objective genuinely is to advance labor and environmental standards in the world, then there are positive steps that can be taken. We remain opposed to trade sanctions, but we are ready to discuss alternatives and to look for creative solutions.

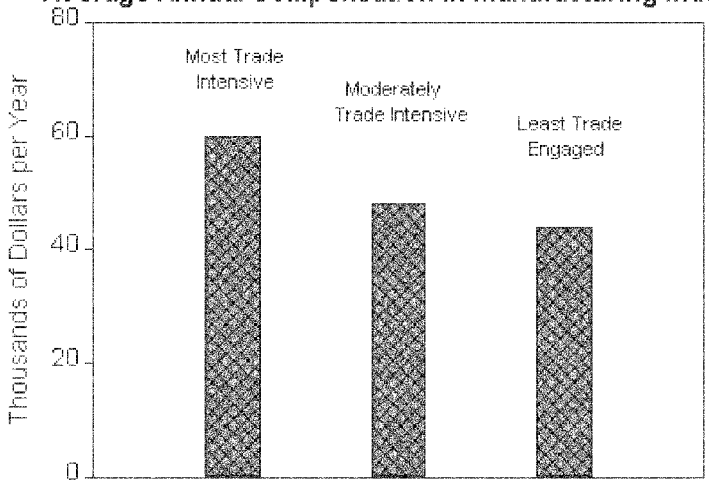
Neither business, nor workers, nor environmentalists would benefit from continuing the status quo in our trade relations with Central and South America. We will all do better with the FTAA. I believe it was Jean Monnet, one of the founders of the European Community, who said, "Let us all put ourselves on one side of the table, and the problem on the other side. Working together, we can move ahead."

Thank you, Mr. Chairman.

Exhibit 1

TRADE-INTENSIVE INDUSTRIES PAY THE MOST

Average Annual Compensation in Manufacturing Industries



Most trade-intensive: Industries in which both exports and imports are at least 25% of domestic output.

Moderately trade-intensive: Industries in which both exports and imports range from 10-25% of domestic output.

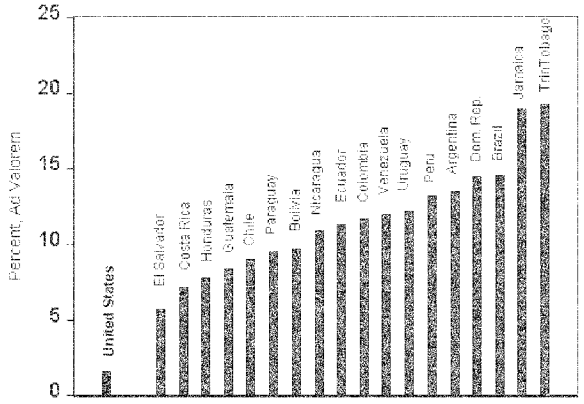
Least trade-engaged: Industries in which both exports and imports are less than 10% of domestic output.

NAM DATAGRAPH

Exhibit 2

U.S. and Central/South American Tariffs

Average Applied Tariff Rates



Source: For foreign tariff rates -- World Bank World Development Indicators.
Tariff rates are generally for 1998 or 1999.

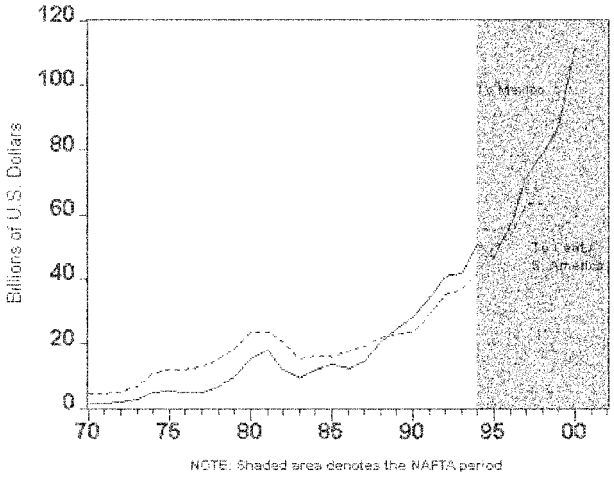
For U.S. tariff average -- U.S. Dept. of Commerce, Census publication FT920.
The rate is for 2000.

NAM DATAGRAPH

Exhibit 3

THE NAFTA EFFECT

U.S. EXPORTS TO CENTRAL AND SOUTH AMERICA WERE ABOUT THE SAME AS TO MEXICO UNTIL NAFTA



... BUT NOW, U.S. EXPORTS TO MEXICO ARE NEARLY DOUBLE OUR EXPORTS TO CENTRAL & S. AMERICA

Source: Dept. of Commerce, Census Bureau

NAM DATAGRAPH

Chairman CRANE. Thank you, Mr. Vargo. Mr. Price.

STATEMENT OF DANIEL M. PRICE, MEMBER, UNITED STATES COUNCIL FOR INTERNATIONAL BUSINESS

Mr. PRICE. Thank you, Mr. Chairman and members of the Committee. I am pleased to be here on behalf of the US Council for International Business. And I would like to focus on the issue of investment in the FTAA.

Time permitting, I would like to address three points. First, the importance of investment flows, inbound and outbound to the US economy; second, the importance of including an investment chapter in the FTAA and what that chapter should address; and finally, I would like to respond to some of the concerns that have been raised about the investor-State dispute settlement mechanism that appears both in NAFTA and in US bilateral investment treaties.

First, it is important we recognize that the world economy is no longer characterized by companies that simply sit within national borders and either export or sell locally. Companies are investing abroad in increasing numbers. They do so to get closer to their markets, acquire new technologies, form strategic alliances, or otherwise enhance their competitiveness, including by integrating production and distribution.

Now, the United States has been a principal beneficiary of this dramatic increase in investment flows. On the inbound side, the United States is host to the largest amount of foreign investment. Foreign investment in the year 2000 reached almost $317 billion. As of 1998, foreign companies in total had invested $3.5 trillion in the United States. Foreign companies employ 5.6 million people in the United States, and pay average annual salaries of over $46,000 per year, which is well above the average salary for US workers as a whole. Likewise, US subsidiaries of non-US companies accounted for 13½ percent of all US manufacturing jobs. Finally, as of 1998, foreign company affiliates in the United States accounted for approximately 22 percent of US exports.

On the outbound side the picture is equally bright. As of 1998, US companies had invested over $4 trillion abroad. In terms of sales, foreign affiliates of US companies had sales of approximately $2.4 trillion. That is nearly 2½ times the amount of US exports. And exports by United States companies that have affiliates abroad were $438 billion in 1998. That amount equals some two-thirds of all US exports. And of those exports, 50 percent went to US affiliates abroad. As Congressman Brady noted in his earlier statement, investment pulls exports. It is a fact.

Now, some have suggested that investment liberalization leads to a race to the bottom. I suggest the evidence is to the contrary. If lax environmental standards, low wages, and the absence of worker rights were the principal determinants of investment flows, one would expect the least developed countries to be the host to the majority of foreign investment. Yet the reverse is true. More investment flows between developed countries. More than 75 percent of all foreign direct investment is in the developed world. The United States itself is host to more than 30 percent. China, by contrast, received $40 billion in FDI in 1999. That is less than 5 percent of global flows.

The wage picture is equally compelling. The average compensation paid to workers at majority-owned US companies throughout the world in 1998 was $33,100. In Canada and Europe, which received two-thirds of all US outbound investment, the average compensation at US majority owned affiliates was $41,200. This is hardly a race to the bottom.

I suggest that the critics of investment flows are confusing cause and cure. The problems of environmental protection and labor standards are problems of economic development. Inadequate standards do not attract and are not the result of increased investment flows. Rather, they are in part the consequences of the absence of investment capital necessary to alleviate poverty and raise living standards.

Now let me say a word about what goes in these agreements. And I think you will find that in addition to securing economic ben-

efits, these agreements achieve broader US policy goals. Investment agreements negotiated by the United States typically incorporate US constitutional protections against the taking of property without just compensation, and against arbitrary and discriminatory government action. Just as they have done in the United States, these principles foster the development of the rule of law, respect for private property, and a market-based free enterprise system that are the essential hallmarks of a democratic society.

But what are these elements? I will address them very briefly. The first point I would like to make is that these elements are not new. The principal protections found in NAFTA and that ought to be included in an FTAA, have been in US investment agreements since at least World War II. All of these protections are traditional protections of US investment policy. The one innovation in 1980, when the US started negotiating bilateral investment treaties, was the inclusion of investor-State dispute settlement.

Well, what are these protections? First, national treatment and most favored nation treatment. That is, the creation of a non-discriminatory environment within which US investors can compete. Second, international law protections that the United States has long fought for, including fair and equitable treatment and full protection and security, and otherwise treatment in accordance with international law. The fair and equitable treatment standard is particularly important and a safeguard against arbitrary, unreasonable or other unjustifiable government actions. The third element has to do with financial transfers, and it safeguards the free movement of capital associated with an investment. The fourth element is the prohibition of so-called performance requirements, export requirements, local content requirements, trade balancing requirements, similar to those the United States succeeded in prohibiting in the negotiation of the WTO Agreement on Trade-Related Investment Measures. The final element of these investment treaties and of an investment chapter, is the investor-State dispute settlement mechanism. That is the right of the investor to seek money damages from a host government that causes economic injury when it violates a provision of the agreement.

Let me say just a few things about investor-State. First, an investor-State tribunal, under NAFTA, is empowered to award only money damages. Tribunals do not have the authority to order a party to change its laws or to nullify a party's laws as some have suggested. Second, it is US investors that have the most capital at risk abroad, and thus, have the most to gain from an effective dispute settlement mechanism. I would note that if one reviews the actual decisions of NAFTA tribunals and not the hype about the bringing of the cases, one will find that these tribunals have acted with great care, and there is no evidence to suggest that these tribunals have or will jeopardize public welfare to uphold economic interest. The track record to date demonstrates that these tribunals have been quite judicious.

Now, critics have raised concerns about cases that have yet to be decided. Critics have raised a concern about the mere fact that cases have been brought against the United States. I suggest to you that part of the price of living in an international system governed by the rule of law is that cases will be brought against the

United States. If those cases are not meritorious, they will not prevail. If they are meritorious and the United States is required to pay damages, that is part of the price of being in the system. I would note that the United States has enjoyed enormous benefits from these provisions. Of the 16 claims that have been brought under NAFTA, 11 have been brought by US investors.

This is not to say that the system cannot be improved. I think one should take a serious look at transparency provisions for investor-State, for making the filings available to the public, and making the proceedings open to the public. One might also consider an amicus or friend-of-the-court procedure.

Finally, I think consideration should be given to developing an appellate mechanism. Right now the only available review is through national courts, and we have recently seen that in Canada. As we consider an agreement with 34 countries, it may be useful to think about a self-contained appeal mechanism that would address concerns of consistency and would also address the concern of some critics about the possibility of wild or aberrant decision.

Let me conclude by saying that the US has the most at stake in hemispheric integration, and that a comprehensive and strong investment chapter will be a crucial part of that agreement. Thank you very much.

[The prepared statement of Mr. Price follows:]

Statement of Daniel M. Price,[1] Member, United States Council for International Business[2]

I. Introduction

Thank you for inviting me here today to present the views of the United States Council for International Business on the importance of including investment protections in the agreement establishing the Free Trade Area of the Americas (FTAA).

Trade and investment are interdependent. To achieve the benefits of economic liberalization, investment barriers must be addressed as comprehensively as trade barriers. And the rules protecting U.S. investment abroad must be both rigorous and enforceable.

Taken together, the expansion of trade and investment flows has spurred economic growth, created jobs for millions of people in the United States and abroad, raised global living standards, and has helped forge bonds of mutual interest and economic opportunity among countries around the world.

International investment flows are rapidly becoming as important as trade in goods and services. The world economy is no longer characterized by companies that remain parked within national borders and that simply export or sell locally. Companies are investing abroad in ever-increasing numbers. They do so to get closer to their markets, acquire new technologies, form strategic alliances and enhance competitiveness by integrating production and distribution. The activities of their affiliates are impressive and make an enormous contribution to economic welfare worldwide. According to the United Nations World Investment Report 2000, sales by foreign affiliates of corporations totaled $14 trillion in 1999, over four times the figure

[1] Mr. Price is a partner at Powell, Goldstein, Frazer & Murphy LLP in Washington, DC where he advises clients on international trade investment matters. While Deputy General Counsel in the Office of the U.S. Trade Representative he served as a negotiator of Chapter 11 of NAFTA and numerous bilateral investment treaties. He was also U.S. Deputy Agent to the Iran-U.S. Claims Tribunal in The Hague. He received his B.A. from Haverford College, a Diploma in Legal Studies from Cambridge University, and J.D. from Harvard Law School.

[2] The United States Council for International Business is a trade association of some 300 companies active in the global marketplace. Founded in 1945, the Council is dedicated to promoting an open system of world trade, investment, and finance. The Council advances the global interests of American business both a home and abroad. It is he American affiliate of the International Chamber of Commerce (ICC), the Business and Industry Advisory Committee (BIAC) to the OECD, and the International Organization of Employers (IOE). As such, it officially represents U.S. business positions both in the main intergovernmental bodies and vis-a-vis foreign business communities and their governments.

for 1980 and twice the value of global exports. Foreign affiliates accounted for over $3 trillion in exports in 1999. The production of foreign affiliates now accounts for approximately 10% of global GDP, and foreign affiliates now employ over 40 million people.

II. Responding to Criticisms of Investment Protection and Liberalization

In spite of the economic significance of investment flows, some critics have suggested that promoting stable investment regimes abroad will lead to an export of American jobs. Some have also argued that investment liberalization will lead to a "race to the bottom" with investment flowing principally to countries with minimal or no protections for the environment or worker rights. The facts do not support these claims.

A. International Investment Flows—Inbound and Outbound—Contribute to the Economic Prosperity of the United States

The United States has been, perhaps, the greatest beneficiary of the explosion in international investment over the past decade. The United States receives more than 30% of worldwide investment. According to the U.S. Bureau of Economic Analysis (BEA), foreign investment in the United States grew seven-fold between 1994 and 2000, reaching almost $317 billion last year. As of 1998, foreign companies had invested over $3.5 trillion in the United States. They employed 5.6 million people and paid average annual salaries of over $46,000, well above the average salary for U.S. workers as a whole. U.S. subsidiaries of non-U.S. companies accounted for 13.5% of all U.S. manufacturing jobs. In 1998, foreign companies' affiliates in the United States accounted for approximately 22% of total U.S. exports. Inbound investment is critical to the health of the U.S. economy.

Outbound investment is equally important. According to the BEA, between 1994 and 2000, U.S. outbound investment doubled from $73 billion to $148 billion. As of 1998, the assets of non-bank foreign affiliates of U.S. companies exceeded $4 trillion. In 1998, non-bank foreign affiliates of U.S. companies had over $2.4 trillion in sales—that is nearly two and one-half times the amount of U.S. exports of goods and services. According to the Survey of Current Business, exports by U.S. multinationals were $438 billion in 1998, an amount equal to some two-thirds of all U.S. exports. Approximately 50% of these exports were to the majority-owned affiliates of those U.S. companies. Thus, agreements promoting stable investment regimes abroad do not export jobs, but rather lead to increased exports of goods and services and contribute broadly to the economic well-being of the United States.

B. Investment Liberalization does not Lead to a Race to the Bottom

If lax environmental standards, low wages and the absence of worker rights were the principal determinants of investment flows, one would expect the least developed countries to be the host of the vast majority of foreign investment. Yet the reverse is true.

More than 75% of all foreign direct investment is in the developed world. As noted, the United States itself is host to more than 30% of all such investment. The United Kingdom runs a distant second with a little more than one-fourth the total of the United States or $82 billion as of 1999. China, by contrast, received $40 billion in 1999, less than 5% of global flows. Thus, investment has, in fact, raced to the top, flowing in overwhelming proportion to stable democracies that are characterized by high living standards, well-developed regulatory regimes and transparent legal systems.

The wage statistics are equally telling. In 1998, the average compensation paid to workers at majority-owned U.S. affiliates throughout the world was $33,100. In Canada and Europe, which receive two-thirds of all U.S. outbound investment, the average compensation at U.S. majority-owned affiliates was $41,200. Investment has not "raced" to the lowest wage levels.

The critics confuse the cause and the cure: problems of environmental protection and labor standards are preeminently problems of economic development. Inadequate environmental standards and worker rights do not attract, and are not the result of, increased investment flows; rather they are in part the consequences of the absence of investment capital necessary to alleviate poverty and raise living standards—the root cause of the problem.

III. The Importance of an Investment Chapter in the FTAA

Our Latin American and Caribbean partners in the FTAA have experienced a dramatic surge in foreign investment over the past decade. The enormous opportunities that have opened up in the region—in large part as a result of massive privatization efforts—have made Latin American and Caribbean countries a primary destination for foreign investment among the developing countries of the world. The region now

accounts for approximately 10% of global FDI inflows. According to the United Nations, FDI in the top 10 recipient countries in the region grew almost 23% between 1998 and 1999 alone, and as of 1999 stood at $27 billion in 1999.

While the U.S. is the largest investor in the region, it has not kept pace with growth of investment opportunities there. According to the BEA, U.S. companies invested $17.71 billion in Latin America and the Caribbean in 1994. U.S. investment in the region in 2000 was virtually the same, at approximately $17.8 billion. The United States is clearly not taking advantage of the investment boom in the region. In fact, most of the investment flows are between countries within the region, as they have already begun the process of economic integration without us. In addition, our major competitors, particularly from Europe, have stepped in to fill the vacuum.

An FTAA that both opens borders to trade and provides strong investment protections would create enormous commercial opportunities for U.S. industry and would unleash synergies in production and distribution operations. Trade liberalization without investment liberalization will prevent companies from achieving these synergies and rationalizing their supplier networks. Conversely, investment liberalization without trade liberalization will lead to the creation of duplicative production operations as producers are forced to build manufacturing facilities behind the "tariff walls" protecting each market. Investment protection and liberalization is thus a crucial part of a free trade agreement.

In addition to these economic benefits, an investment chapter would promote broader U.S. policy goals. Investment agreements negotiated by the United States essentially incorporate U.S. constitutional protections against the taking of property without just compensation and against arbitrary or discriminatory government actions. As they have done in the United States, these principles foster development of the rule of law, respect for private property and a market-based free enterprise system that are essential hallmarks of a democratic society.

Recognizing these important dynamics, some thirty leading U.S. companies and trade associations wrote to Ambassador Zoellick on April 19 affirming their support for inclusion of an investment chapter in the FTAA modeled on the strong and comprehensive provisions found in NAFTA (letter attached).

IV. The Need for Strong Legal Protection of Foreign Investment: Core Elements of an Investment Chapter

The explosive growth in cross-border investment is attributable to several factors, not the least of which is the development of strong, stable legal regimes to protect property rights. Over the past decade, we have witnessed a sea change in the way countries—particularly developing countries—have treated foreign investment. Whereas before they pursued economic growth through state control of the private sector and import substitution policies, they have come to realize that growth is best promoted through free trade and liberal investment regimes. Countries in Latin America in particular have undertaken vast privatization efforts and have revamped their legal systems to attract foreign investment.

According to the United Nations, of 1,035 changes worldwide in laws governing foreign direct investment between 1991 and 1999, 94% were more favorable to foreign investment. The number of bilateral investment treaties (BITs) has risen from 181 at the end of 1980 to 1,856 at the end of 1999. Countries in Latin America and the Caribbean have signed approximately 300 BITs, virtually all of which were negotiated in the 1980s and 1990s. As of December 31, 1996, the countries of Latin America and the Caribbean had negotiated 37 BITs among themselves, all in the 1990s. It is no coincidence that these changes to the legal landscape have occurred at the same time as cross-border investment has expanded over the past decade.

It should be noted, however, that the United States has signed investment agreements with only three of the top 10 Latin American recipient countries of foreign investment. The FTAA would include six of the remaining seven markets.

Including an investment chapter in the FTAA would help lock in these advances in creating a regulatory environment hospitable to international investment. While strong investment laws are not themselves sufficient to attract foreign investment, they are a necessary prerequisite for such investment. A recent study by economists at the Inter-American Development Bank found that strong investment laws, particularly laws protecting foreign investors from expropriation and preserving contract rights, play central roles in attracting FDI. It also found that free trade agreements significantly increase investment among the members of the free trade area.

In order to establish a strong investment regime throughout the Hemisphere, the FTAA should include all of the fundamental protections that have been codified in United States bilateral investment treaties and in Chapter 11 of the NAFTA. The United States has sought the inclusion of these principal protections in bilateral and multilateral investment agreements since World War II when it began negotiating

a series of modern treaties of friendship, commerce and navigation (FCN). The investor-state dispute settlement mechanism was included in the first U.S. bilateral investment treaty (on which all subsequent U.S. BITs have been based) in 1980.

What are these fundamental protections?

First, the investment chapter should guarantee foreign investors the better of national treatment or MFN treatment, both with respect to the establishment of investments and treatment thereafter. This will ensure nondiscriminatory treatment and the removal of barriers to entry.

Second, the FTAA should protect investors against expropriation without payment of compensation. This protection should extend both to direct expropriation—for example, the physical taking or nationalization of property—and to indirect expropriation such as may occur through regulation or other forms of so-called creeping expropriation. The inclusion of indirect expropriation is crucial. Government action may impair or destroy the value of an investment even if there is no physical seizure or destruction of the property.

Third, the investment chapter should guarantee investment fair and equitable treatment, full protection and security, and protection in accordance with international law. These provisions have long been included by the United States in bilateral and multilateral investment instruments. The fair and equitable treatment standard, in particular, protects against lawless, arbitrary, unreasonable, bad faith or other unjustifiable government actions. These protections help promote the rule of law and are meant to safeguard the interests of U.S. investors where government action or inaction, while not rising to the level of expropriation per se or outright discrimination on nationality grounds, nonetheless subjects the investor to adverse and injurious treatment.

Fourth, the investment chapter should guarantee the free movement of capital associated with the investment, including the repatriation of profits. Without this protection, investors will not commit the resources necessary to undertake large-scale investments.

Fifth, the investment chapter should prohibit performance requirements such as local content and export requirements, and other trade-related investment measures. Such measures distort trade flows and create economic inefficiencies, thereby offsetting the benefits of the agreement.

Finally, the investment chapter should include a mechanism to allow investors to arbitrate investment disputes with host governments and obtain monetary compensation for damages resulting from violations of the agreement. Access to an arbitration procedure of this sort is the only effective way to guarantee enforcement and obtain appropriate redress. Limiting investment dispute settlement to a state-to-state procedure will politicize disputes, leaving investors, particularly small- and medium-sized enterprises, with little recourse save what their government cares to give them after weighing the diplomatic pros and cons of bringing any particular claim. Furthermore, a state-to-state dispute settlement procedure based on the WTO model, which provides only prospective relief, will not remedy most violations of the agreement. If, for example, a government expropriates an investor's property, prospective relief without providing compensation to the investor will not redress the injury done to the investor.

V. Responding to Criticism of NAFTA's Investor-State Dispute Settlement Mechanism

The investor-state dispute settlement mechanism has been perhaps the most controversial aspect of the investment chapter of the NAFTA. Critics have alleged that it undermines a nation's sovereign right to regulate. The evidence simply does not support these claims.

At the outset, two facts should be recognized. First, under NAFTA an investor-state arbitral tribunal can only award the payment of compensatory money damages to an injured investor; tribunals have no authority to order a party to change its laws. Second, it is U.S. investors that have more capital at risk than investors from any other country, and thus have the most to gain from an effective mechanism for enforcing investor protections.

In any case, there is no evidence that arbitration tribunals will jeopardize public welfare to uphold the economic interests of foreign investors. A careful examination of the NAFTA arbitration decisions to date reveals that the tribunals have acted with great care. In two cases where an arbitration tribunal ruled in favor of a U.S. foreign investor—*SD Myers* and *Metalclad*—the tribunal found that the government authorities were acting arbitrarily or targeting a specific foreign investor with unfair or discriminatory measures. It should be noted that Mexico brought suit in a Canadian court to set aside the Metalclad award, and the court recently upheld the tribunal's decision that the U.S. investor's property had been expropriated. In two

other cases—*Azinian* and *Waste Management*—the U.S. investor lost outright, one on the merits, the other on jurisdiction.

In the recently released decision in *Pope & Talbot,* the tribunal rejected all but one of the U.S. investor's claims. The one claim that was upheld was based on a finding that the Canadian authorities had acted unfairly in imposing extremely burdensome, and arguably illegal, administrative requirements on the investor. While the tribunal was careful to avoid questioning the motives of the Canadian Government in that case, it appeared from the facts that the Government's actions were motivated by a desire to punish the investor for bringing the NAFTA claim.

In *Ethyl*—which is often cited by critics as an example of a case where a foreign investor forced a government to withdraw a bona fide environmental measure—Canada settled a NAFTA case brought by a U.S. investor. However, the settlement was spurred by a holding by a Canadian panel, not the NAFTA arbitration tribunal, that the particular measures imposed by Canada violated an internal Canadian arrangement called the Agreement on Internal Trade.

This track record hardly demonstrates that arbitration tribunals have overstepped their bounds in protecting the rights of investors. To the contrary, the evidence to date shows that tribunals have taken a reasonable, balanced and judicious approach in interpreting and applying the NAFTA investment provisions.

Nevertheless, critics of the NAFTA investment chapter point to cases against the United States that have not yet been decided—such as the *Methanex* or *Loewen* cases—and have speculated about how tribunals in those cases might rule. Indeed, those critics find troubling the very initiation of these claims. I do not express a view on the merits of these pending cases. However, the mere fact that cases have been brought against the United States in no way undermines the legitimacy or integrity of the dispute settlement process. Indeed even frivolous cases may be brought before a NAFTA panel just as they are brought in United States courts every day, but this does not mean that either the court system or the arbitration mechanism is flawed. If claims are found to be frivolous, then they will be rejected. If claims are justified, then the respondent, including the United States as the case may be, should pay compensation. This is the price of living in an international system governed by the rule of law.

The United States has long been the champion of international investment rules. It has fought hard for recognition of the international rule of law and for respect for international dispute resolution bodies. The United States has enjoyed enormous benefits from invoking dispute settlement provisions to break down trade barriers or redress injuries to investors. Indeed, of the approximately 30 claims under BITs that have come before the International Centre for Settlement of Investment Disputes ("ICSID"), about one-third have been brought by U.S. investors. And of the 16 claims that have been brought under NAFTA's investment provisions, 11 have been brought by U.S. investors. It would be ironic if the United States, long the advocate for subjecting sovereign actions to scrutiny under international law, were now to retreat from the very international principles it worked so hard to enshrine.

Concerns about investor-state arbitration—and agitation over its compatibility with sovereignty—are without foundation. Fears about overreaching arbitral panels are likewise unfounded given the record of decisions.

None of this should be taken to imply that the system could not be improved. The process would benefit from two important changes. First, the FTAA parties should consider increasing the transparency of the process by ensuring that the briefs and arbitration proceedings are open to public view, subject to reasonable protections for confidential business information. An amicus, or "friend of the court," procedure might also be developed whereby interested members of the public could express their views on the issues before the tribunals.

Second, the parties to the FTAA might consider the desirability of creating an appellate body that would review arbitral awards for errors of law. Such an appellate mechanism would accomplish three salutary goals: (1) it would address the risk of an aberrant or wildly erroneous decision that seems to have captured the imagination of critics; (2) it would contribute to the development of a coherent body of jurisprudence on the interpretation of the FTAA; and (3) it would eliminate the possibility of having the court systems in each of the 34 FTAA parties become involved in the review of FTAA awards and hence the interpretation of FTAA, a possibility left open by NAFTA.

The Hemisphere stands at the threshold of comprehensive free trade agreement talks in which investment rules should figure prominently. Investor-state dispute settlement will be essential to ensuring the effectiveness of those rules. Now is not the time to depart from longstanding United States investment policy and time-tested methods for the resolution of investment disputes.

As the largest economy in the region, the United States has the most at stake in hemispheric integration. By leading the negotiation of an agreement that removes trade and investment barriers and promotes democratic values, the United States can secure for itself and its neighbors the benefits of economic growth and prosperity. An investment chapter is an essential component of any agreement seeking to achieve these goals.

[The attachment is being retained in the Committee files.]

Chairman CRANE. Thank you, Mr. Price.
Mr. Gambrel.

STATEMENT OF WILLIAM GAMBREL, PRESIDENT, BANKBOSTON COLOMBIA, AND VICE PRESIDENT, ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA, BOGOTA, COLOMBIA, ON BEHALF OF U.S. CHAMBER OF COMMERCE

Mr. GAMBREL. Mr. Chairman and Members of the Committee, thank you for inviting me to appear before this distinguished panel today. I am pleased to represent the Association of American Chambers of Commerce in Latin America, known as AACCLA.

The AACCLA is a leading advocate of increased trade and investment between the United States and Latin America. The association's 20,000 member companies manage over 80 percent of all U.S. investigation in Latin America through 23 American Chambers of Commerce in 21 countries.

I am also pleased to represent the U.S. Chamber of Commerce, which is the largest business federation in the world.

I could easily spend my allotted time today describing the boom in trade and investment between the democratic nations of the Americas in the past decade. In this sense, the business community has taken the lead in pushing for an integrated hemispheric marketplace. Nonetheless, we in the business sector are very pleased to see the hemispheric governments working to bring down barriers to trade and investment.

I applaud the commitment announced in Quebec City to complete the Free Trade Agreement of the Americas by January 2005. Also in Quebec, President Bush declared that he is committed to obtaining trade promotion authority before the end of this year. This is absolutely critical, and we in the business community are prepared to help the President make the case for trade promotion authority.

There are many reasons why trade expansion is such a priority today, but I would like to focus on just one. With the exception of the United States, nations around the world spent the nineties weaving a spider web of free trade agreements. Over 133 regional trade agreements are currently in force worldwide. The European Union has signed 27 free trade agreements, and Mexico alone has signed 32. However, the United States is a party to just two trade agreements: NAFTA and the Free Trade Agreement with Israel. This pattern of diminished U.S. participation in trade expansion must not continue.

The spider web of free trade agreements that we have seen emerging threatens to put U.S. companies at a competitive disadvantage. How? Chile is a perfect example. Today, companies

from Canada, Mexico, and a number of other countries enjoy duty-free access to the Chilean market. But U.S. exporters still pay Chile's highest duty of 8 percent. The result is that American companies are losing millions of dollars in potential sales every year.

I would like to flag one potential obstacle to the FTAA: the ongoing dispute over efforts to link trade agreements to labor and environmental rules. We have heard some about that in this distinguished panel today.

AACCLA and the U.S. Chamber strongly support efforts to protect the environment and to improve working conditions for all employees. But these concerns we think should be dealt with separately. Our hemispheric partners have made it very clear that they will oppose a final FTAA agreement if it makes market access contingent upon labor and environmental rules. AACCLA and the U.S. Chamber share this view.

Before concluding, I would like to urge the Congress to renew and enhance the Andean Trade Preference Act. Since the Andean Trade Preference Act was passed in 1991, a wide range of export-oriented businesses have been established in the Andean countries, generating jobs, boosting tax revenues, and strengthening civil society. During my 6 years that I have lived in Colombia, I have witnessed firsthand how these trade benefits foster social stability and provide a legitimate alternative to the illegal drug business. Failure to renew the ATPA would undermine the new business ventures that have prospered through legitimate trade with the United States.

In addition to the renewal of ATPA, I urge Congress to expand the list of Andean goods that qualify for duty-free access to the U.S. market.

Finally, Congress should also consider making Venezuela a beneficiary of the ATPA. We have seen that efforts to oppose the narcotics trade in one country are undermined if production can be easily shifted to somewhere else. By granting these simple trade benefits to all the Andean countries, we can support the thousands of small—and medium-sized businesses that are the bedrock of democracy and peace in the Andean region.

Trade expansion is an essential ingredient in any recipe for economic success in the 21st century. Chairman Crane, I would like to thank you and your colleagues on the Subcommittee for your leadership on trade. AACCLA and the U.S. Chamber of Commerce stand prepared to support your efforts on trade expansion in any way that we can.

Thank you very much.

[The prepared statement of Mr. Gambrel follows:]

Statement of William Gambrel, President, BankBoston Columbia, and Vice President, Association of American Chambers of Commerce in Latin America, Bogota, Colombia, on behalf of U.S. Chamber of Commerce

Mr. Chairman, thank you for inviting me to appear before this panel today. I am Bill Gambrel, President of BankBoston Colombia, and Vice President of the Association of American Chambers of Commerce in Latin America, known as AACCLA.

AACCLA is a leading advocate of increased trade and investment between the United States and Latin America. Representing 23 American Chambers of Commerce in 21 Latin American and Caribbean nations, the association's 20,000 member companies manage over 80 percent of all U.S. investment in the region.

I am also pleased to submit this testimony on behalf of the U.S. Chamber of Commerce, which is the largest business federation in the world. Representing nearly three million companies of every size, sector, and region, the Chamber has supported the business community in the United States for more than 80 years.

I appreciate this opportunity to testify on the outcome of the Third Summit of the Americas in Quebec City last month and on the prospects for free trade in the hemisphere. I will also comment briefly on the need to renew and enhance the Andean Trade Preference Act.

Commerce in the Americas

As background, it is worth noting that the commercial relationship between the United States, Canada, and Latin America has progressed admirably in recent years. The flow of trade and investment throughout the hemisphere has never been greater. The day is not far distant when the United States will trade more with our neighbors here in the Western Hemisphere than with Asia and Europe—combined.

The numbers tell quite a story. The United States trades more with Canada than with the entire European Union. This is true even though the European Union has a population ten times that of Canada. Mexico is our second largest trading partner, and two-way trade surpassed $250 billion last year.

Brazil has received more direct investment from the United States than any other emerging market in the world. The total stock of U.S. investment in Brazil—roughly $35 billion—is four times the amount American companies have invested in China. The Caribbean Basin is emerging as a vital trading partner to the United States. In 1999, the 24 countries in the Caribbean and Central America purchased more U.S. goods and services than China, India, and Russia—combined.

Business Sets the Pace

The business community has been moving toward an integrated hemispheric market for decades, and now our governments are running to catch up. At the First Summit of the Americas in 1994, the leaders of 34 Western Hemisphere nations set the goal of free trade in the Americas. Now, as we evaluate the outcome of the Third Summit of the Americas, it's clear that we have moved closer to this objective than we might have thought possible.

The Summit and the Buenos Aires Trade Ministerial held three weeks earlier produced tangible progress on a number of fronts. In Argentina, the hemisphere's trade ministers endorsed a draft, bracketed text for the Free Trade Area of the Americas (FTAA) agreement. They also agreed to start negotiations on market access in May 2002, and they set a deadline to complete the text of the FTAA by January 1, 2005. The ministers also surprised observers by agreeing "to release the current draft consolidated text to the public soon after the conclusion of the Third Summit of the Americas in Quebec City."

In perhaps the most important announcement made in Quebec, President Bush declared to the assembled heads of state and government that he is "committed to attaining Trade Promotion Authority before the end of the year." This is absolutely critical, and we in the business community stand prepared to support the effort to win Congressional approval of Presidential Trade Promotion Authority in any way we can.

Rationale for the FTAA

I believe we are seeing this progress because the basic rationale for the FTAA is stronger than ever. Hemispheric free trade will boost economic growth and reduce poverty throughout the hemisphere. The FTAA will also provide an opportunity to re-energize economic reform throughout the Americas. It will confirm a shared commitment to the market-opening policies that create the conditions for growth.

The FTAA will encompass 34 nations with over 800 million citizens. Its collective GDP will exceed $13 trillion. The FTAA will:

- Eliminate existing tariff and non-tariff barriers and bar the creation of new ones;
- Remove other restrictions on trade in goods and services as well as investment unless specifically exempted;
- Harmonize technical and government rule-making standards;
- Exceed World Trade Organization disciplines, where possible;
- Provide national treatment and investor safeguards against expropriation;
- Establish a viable dispute settlement mechanism; and
- Improve intellectual property rights protection.

The Case for Renewed U.S. Leadership on Trade

However, the FTAA is not simply going to fall into our laps. Without renewed U.S. leadership on trade, this ambitious and complex trade agreement simply will not happen.

As you know, special interests in the United States spent a great deal of time in the 1990s arguing about trade. While this was going on, other nations around the world have been busy weaving a spiderweb of free trade agreements. Over 130 regional trade agreements are currently in force worldwide. The European Union has signed 27 free trade agreements, and Mexico alone has signed over 30. However, the United States is a party to just two free trade agreements: the North American Free Trade Agreement (NAFTA), and the U.S.-Israel free trade agreement.

This pattern of diminished U.S. participation in trade liberalization must not continue. The spiderweb of free trade agreements that we've seen emerging in the Americas and elsewhere threatens to put U.S. companies at a competitive disadvantage. Basically, other nations are negotiating trade agreements that provide preferences for their firms over our own.

Chile is a perfect example. Today, companies from Canada, Mexico, and a number of other countries enjoy duty-free access to the Chilean market. But because U.S. exporters still pay Chile's highest duty of eight percent, American companies are losing hundreds of millions of dollars in potential sales every year. As many people have observed, this is like starting a basketball game eight points behind.

Benefits of the FTAA

The NAFTA offers an excellent preview of the benefits promised by the FTAA. Since the NAFTA came into force, trade between the United States and Mexico has tripled, surpassing $250 billion last year. Trade between the United States and Canada reached $400 billion in 2000—a figure double the pre-NAFTA level. This explosion in trade has allowed companies in all three NAFTA countries to generate millions of new jobs. The NAFTA is one of the main reasons why some 12 million U.S. jobs rely on exports.

While enhanced competition in the marketplace has led to job losses in some industries, the new, trade-related jobs that have been created tend to provide better pay than the jobs that were lost. Studies show that export-related jobs pay 13 to 18 percent more than other jobs.

As Ambassador Zoellick has pointed out, the combined effects of the NAFTA and the Uruguay Round trade agreement that created the World Trade Organization (WTO) have increased U.S. national income by $40 billion to $60 billion a year. Thanks to the lower prices that these agreements have generated for such imported items as clothing, the average American family of four has gained between $1,000 to $1,300 from these two pacts.

The NAFTA has proven to be a foreign policy masterpiece, transforming Mexico's economic prospects and arguably paving the way for the democratic breakthrough witnessed in last year's elections. From a national security perspective, the possibility of reproducing these results on a hemispheric scale is enticing.

Potential Obstacles to Hemispheric Free Trade

Some believe that protectionism in the United States is the biggest obstacle to hemispheric free trade. They point out that Congress voted down "fast-track" trade negotiating authority in 1998, and President Clinton never saw it renewed.

However, the American people continue to embrace free trade. The highly respected Pew Center for the People and the Press found recently that over 60 percent of Americans support free trade and reject protectionism.

More recently, Congress has shown that it will support trade liberalization when business makes the case for it. The approval of permanent normal trade relations for China and the Trade and Development Act of 2000 give eloquent testimony to the fact that Congress will pass major trade legislation by solid majorities when the business community pushes the argument for expanded trade.

A more serious obstacle to the FTAA is the ongoing dispute over efforts to link trade agreements to labor and environmental standards. When the Clinton Administration pushed for trade-linked rules to enforce labor and environmental standards at the Seattle WTO meeting in December 1999, the vast majority of countries were strongly opposed.

AACCLA and the U.S. Chamber strongly support efforts to protect the environment and ensure improvement in the quality and conditions of workers, but these concerns should be addressed separately. There are other avenues for the United States to discuss labor and environmental issues with other nations. For instance, President Bush already has the authority to address labor issues through the International Labor Organization.

In the final declaration issued at their April meeting, the hemisphere's 34 trade ministers indicated that most ministers are firmly opposed to the use of trade sanctions in connection with rules on labor or the environment. Our hemispheric partners have made very clear that they will oppose a final FTAA agreement if it makes market access contingent upon labor and environmental standards. AACCLA and **the U.S. Chamber share this view, and we will oppose any trade agreement that includes labor and environmental provisions and accompanying sanctions in the agreement.**

We need to remember that trade is part of the solution—not the problem—when it comes to protecting the environment and improving working conditions.

The Andean Trade Preference Act

Before concluding, I would like to urge the Congress to renew and enhance the Andean Trade Preference Act (ATPA). As you know, the ATPA grants duty-free access to the U.S. market for selected exports from the Andean countries, but it will expire in December. AACCLA, the American Chambers of Commerce in Bolivia, Colombia, Ecuador, and Peru, and the U.S. Chamber of Commerce all strongly support ATPA renewal.

Taking advantage of the market access granted by the ATPA in 1991, a wide range of export-oriented businesses have been established in the Andean countries, generating jobs, boosting tax revenues, and strengthening civil society. Renewal of the ATPA will ensure that these economic benefits endure, thereby fostering social stability and deterring the illegal narcotics trade. By the same token, failure to renew the ATPA would undermine the new business ventures that have prospered through legitimate trade with the United States.

In addition to renewal of the ATPA, Congress should consider expanding the list of Andean goods that qualify for duty-free access to the U.S. market. The Act's success over the past decade can be leveraged in the years to come by making its provisions more generous.

Finally, Congress should also consider making Venezuela a beneficiary of the ATPA. Recent history shows that efforts to oppose the narcotics trade in one country are undermined if production can be easily shifted elsewhere. By granting these simple trade benefits to all the Andean countries, we can support the thousands of small and medium-sized businesses that must be the bedrock of economic progress, democracy, and peace in the Andean region.

Conclusion

Trade expansion is an essential ingredient in any recipe for economic success in the 21st century. If U.S. companies, workers, and consumers are to thrive amidst rising competition, completing the FTAA and renewing the ATPA must be top priorities.

In the end, U.S. business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level. All we are asking for is the chance to get in the game.

This concludes my testimony. I will be happy to try to answer any questions.

Chairman CRANE. Thank you.

Mr. Vargo, you point out that South American duties average 14 percent while U.S. duties average less than 1.6 percent and that the EU is currently negotiating free trade agreements with several Latin American countries that will significantly undercut American exports.

How damaging do you think the status quo is to the health of the U.S. economy over the long term?

Mr. VARGO. Well, I think over the long term, Mr. Chairman, that it could be quite damaging because Latin America has the prospects for being a rapidly growing market. A WTO analysis that came out a couple of weeks ago shows that South America has the world's highest average level of bound tariffs, and if we do not get those down, not only would we not share in the growth if the Europeans had duty-free access, but we would lose a lot of what we already have.

We have, frankly, not made an estimate of just exactly what would happen if Europe had duty-free access while we continue to pay 20 and 30 percent, but it would be a substantial amount of that $60 billion. So this is very important. We lose under the status quo. Nobody gains. I am convinced that the environmentalists do not gain, Mr. Sweeney's members do not gain. We have got to find a way to move ahead. You know, by engaging the Latins, I think that we can help raise environmental standards, by raising their living standards, we help raise living standards. We need to move ahead.

Chairman CRANE. Mr. Sweeney, do you have Mr. Vargo's text in front of you?

Mr. SWEENEY. No, I do not.

Chairman CRANE. Mr. Vargo, could you show him your Exhibit 1?

That Exhibit 1 in Mr. Vargo's written testimony compares the level of wages paid by companies that are most trade-intensive versus those that are least trade-engaged, and I was wondering what your commentary was on that. The figure here, if I am not mistaken, this is 60,000 a year for the most trade-intensive, and for the least trade-intensive in this chart, it is a little over 40,000 a year. Is that correct, Mr. Vargo?

Mr. VARGO. Yes, sir, it is.

Mr. SWEENEY. Well, I am not sure, with all due respect, what the source of Mr. Vargo's information is, and I would have to take a closer look at it.

Chairman CRANE. All right. Mr. Gambrel, Mr. Sweeney testified that the NAFTA has utterly failed to deliver the promised benefits to working people in the three North American countries. Would you please comment on that statement?

Mr. GAMBREL. Certainly. The figures that we are looking at in terms of the benefits of the NAFTA show a different story. We have seen and we have heard comments in terms of exports increasing by more than 60 percent in some cases. That has actually created more jobs in the United States and more jobs in the countries, both Canada and Mexico.

We have seen the case of a Mexico that in the past has struggled with democracy, where it had a one-party system. We have recently seen the effects of a democratic change of power from one party to another, and we think that that has something to do with the trade benefits and the linkages with the United States of the market such as Mexico.

We also saw a financial crisis in Mexico, which in the past has had a multiple effect on other countries in Latin America, last a very, very short period of time. We think that also has a direct relationship to its contacts with trade through NAFTA. So we think that there have been many more benefits of the NAFTA than not benefits.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Thank you. Well, Ambassador Fisher, now that you are a free man, you do not have to be nice to us. [Laughter.]

As a free man, could you tell us why, as we seek to do business with these communist nations—Red China and North Korea and North Vietnam—as a free man, why could we not try to break

down the communist regime in Cuba by using the same tactics as we have used, using trade as a method for encouraging democracy?

Mr. FISHER. Well, we have made an effort in Vietnam. As you know, we negotiated a bilateral commercial agreement with Vietnam.

Mr. RANGEL. I guess I did not make my question clear. Why do we exclude Cuba while we make these efforts in these other countries? And I ask you this as a free man.

Mr. FISHER. As a free man, I would tell you that the politics of that situation are so complicated; that, as you know, USTR was never allowed to delve into Cuba. This is the nature of a political equation. Whether it is right or wrong, it does not seem to square the corner with what we have tried to do with WTO accession for China, what we are trying to do elsewhere in the world. But that is a political reality, and, Congressman Rangel, as a free man, I know you know a lot more about politics than I do, but that is the nature of the situation.

Mr. RANGEL. Well, the politics of Florida seem to be more important than the international politics.

Why did you say, a man that is as genteel as you, that you wanted to be blunt and it takes two to tango and we cannot get our Latin partners to the dance floor if we talk about labor and environment? That seemed like really rough language for a diplomat.

Mr. FISHER. My point was that I do not believe sanctions as a remedy—that that dog will not hunt. In other words, just to mix my metaphors—neither will that dog dance. The point is if we are going to insist on sanctions, unless we are willing to focus all of our effort to capture that, I do not believe that our Latin partners will come to the dance floor.

Mr. RANGEL. Do you feel as strongly——

Mr. FISHER. I am not saying we abandon the effort, but I am just saying my point was simply on sanctions. They will not agree to sanctions as remedies.

Mr. RANGEL. Do you feel as strongly about sanction as it relates to violation of our intellectual property laws?

Mr. FISHER. Do I personally feel about this?

Mr. RANGEL. That is all we are talking about.

Mr. FISHER. Well, we currently have in place remedies for violation of our intellectual property laws. All I am saying is that in order to do a deal, in terms of this very vexing and important question of labor and environment, from the standpoint of what we can expect our partners to be able to come to the table for——

Mr. RANGEL. Well, sanctions——

Mr. FISHER. If we make sanctions part of the deal, they are not going to come to the table, so we have no deal.

Mr. RANGEL. So you are saying that——

Mr. FISHER. I am not saying it is right or wrong. That is a fact.

Mr. RANGEL. So they are willing to come to the table when we protect our pharmaceuticals by having sanctions against them if they violate their intellectual property rights or with electronic trade, and somehow they dance, they tango. And, of course, if our Ambassadors do not put it on the table, nobody wants to be put in the position that sanctions are going to be made against them. I think it violates a nation's pride. But we do not have a problem

with it when it works. You do not have a problem with sanctions. You just have a problem with sanctions as it relates to labor and environment, because you do not believe—and you are the professional—that it reached the same level as intellectual property rights when it comes to trade negotiations.

Mr. FISHER. I could tell you from my experiencing of 3 years of teeing up the Free Trade Area of the Americas that this subject, whether we want it or not, is not the point. The point is that our partners—and it takes two to do a deal, two sides—our Latin partners will not come to the table. They have made that very clear, if on this subject of environmental and labor the remedies result in sanctions.

Mr. RANGEL. Did our Jordanian partners come to the table and tango with us with the treaty that was negotiated with them?

Mr. FISHER. They did. They did come to the table, but I am simply making a point that from my experience our Latin partners will not. But you can ask the Ministers who are here. That is the reality. From the standpoint of intellectual property rights, again, that has already been negotiated in previous agreements globally. And it is a WTO area of activity, and we do have our disputes and differences on that front, as they are very clear right now with Brazil.

But, Congressman, I am just trying to sort of define the parameters here on these three very difficult areas. These are the realities, no matter how we feel. I do not think they will play with us—again, unless we want to focus all of our attention on this area. They are attracted by the strength of our market—this is a $10 trillion economy. We are the biggest consumer in the world. That would be part of the trade. I just do not think they are going to accept it, and I wanted to be frank and point out to you that I think that is a non-starter.

Mr. RANGEL. Well, Mr. Ambassador, I do not blame them for not accepting it, if our former trade negotiator is saying that they are not going to accept it. It is really to me a question of what you believe is good for our country. And I know that you would believe that a part of the history and improvement in the quality of life, that the trade unions have played a true part in making us a more productive country. Everyone. No one challenges that, not even the Chamber of Commerce. And, you know, the extreme of not being concerned about the conditions of the worker could be slavery in this country, which worked for us. It did not work for the slaves, but it did work for us.

And, of course, we would want other nations to know that you do not have to be labeled a protectionist when you are saying there should be some basic human labor rights that America—this is what we stand for. When we see super-stars that are investors in overseas garments that are made under conditions that make Americans cringe, America responds to it, whether it is child labor, slave labor, prison labor. And all we are saying to our partners is you have got to have some—you do not have AFL–CIO contracts. You do not reach the standards of an industrialized nation overnight. But you got to have something locked in place that is enforceable because that is the kind of country we are. We want you

to have disposable income. We want you to be healthy. We want you to be productive so that you can be our trading partner.

It is so American—it is so American that I wonder why people would refuse to tango with us.

Mr. FISHER. Well, again, I do not disagree with your point of view, and, in fact, let me remind you, as Congressman Levin reminded me the other day in a good speech he gave at the Center for Strategic and International Studies, CSIS, trade is a means to an end. In the preamble of the GATT, it talks about raising living standards, about engendering full employment and developing the full use of the resources of any country, including its people. We do not dispute that. That is not the purpose of my statement. I do not disagree with you, Congressman. But I do feel that if we are not careful in this area, given the way that this thing has proceeded over the last few years, given the reality of Seattle, we have to be extremely careful to deal with this issue that does not send protectionist signals, whether it is truly protectionist or just being interpreted as such.

And I simply wanted to make the statement that from the standpoint of this particular exercise, Free Trade Area of the Americas, I do not believe that the remedy of sanctions is workable in this case.

Now, on the subject area in general, I did point out that I do believe that it is possible to figure out a way or engineer a system or an architecture, as I put it, that has monetary assessments for violations of domestic laws as long as they impact trade. I think that is the most we will be able to get in this discussion, if we can get that much. And I simply, out of respect for you, want to give you my opinion based on my 3 and a half years of experience of negotiating this particular issue.

This is not a personal judgment. Do not interpret it that way. It is simply a matter of what I think can work and what is a nonstarter. And, by the way, I say that very respectfully, Congressman, as you know.

Mr. RANGEL. Oh, no, I understand that. It is just that I really do not think you can understand how powerful your statement might appear to those people that we are negotiating with, because if I belong to one of these countries and heard a former trade representative such as you say that, do not even think about it because it is going to be unacceptable and it is supported by protectionists, then I would hang up, too. It is almost—like Mr. Pickle once said, it is like going to a wife-swapping party and someone does not bring their wife. [Laughter.]

We do not have anything to negotiate with because our people already said it is not going to work.

Mr. FISHER. Congressman, that is just one individual citizen's opinion.

Mr. RANGEL. Well, you are a very powerful man, and other people can call—you know, there was a time that you said you were talking about Cuba, you must be pro-Castro or pro-communist, except when you are talking about China. And now if you are saying that you would like to have some rights for labor and human rights, you are protectionist.

I think that if we want to move forward toward having the bipartisanship that we used to enjoy on this Committee and in the Congress, we really ought to give up the labels and to rely some more on dance instruction and see whether or not we can make this thing fit, because trade policy, like foreign policy, should be bipartisan. And we are trying desperately hard to talk with people, even those that say that it may not work. We are trying to make it work.

Thank you for coming back and giving us guidance. Next time, whisper. [Laughter.]

Mr. FISHER. Thank you, Congressman.

Chairman CRANE. Thank you. Mr. Houghton.

Mr. HOUGHTON. Thanks, Mr. Chairman.

I would like to ask you gentlemen, but particularly Mr. Vargo and Mr. Price, about the Jordanian agreement. I have never really been sure what is negotiable and what is not. Is it the dispute settlement? Is it the sanctions versus the fine? Is it the labor standard? What is it?

But when you take a look, as I have here, at the Jordanian agreement, there are some things that sort of make some sense here. Now, what are the things that bother you about it, or do you agree that this is a good concept?

Mr. VARGO. Well, I assume you are talking about the labor and environmental provisions in the Jordan agreement.

Mr. HOUGHTON. Yes, right.

Mr. VARGO. Well, the NAM has not taken a position on that yet. I have to say that we candidly do not like the fact that embodied within the agreement is the possibility of taking trade actions to enforce labor and environmental provisions. We have not taken a position on it, however, because we have——

Mr. HOUGHTON. Sanctions, you mean?

Mr. VARGO. That is right.

Mr. HOUGHTON. Right.

Mr. VARGO. We have not taken a position because, in the spirit Mr. Rangel mentioned, we look forward to working on a bipartisan basis to seeing an overall solution to the question of labor and environment, which, as I indicated in my testimony, has stalled us for too long and we cannot afford it anymore.

Mr. HOUGHTON. I do not want to put words in your mouth, but in taking a look at some of these articles here, in terms of labor laws, the right of association, to organize and bargain, prohibition of any form of forced labor, compulsory labor, minimum age for employment, things like that, if the sanctions were out, this would not be a problem for you?

Mr. VARGO. It would not be a problem for us.

Mr. HOUGHTON. All right. So how do you feel, Mr. Price?

Mr. PRICE. Congressman, I am afraid I will not be able to give you a very satisfactory answer as I am here on behalf of the USCIB on the issue of investment only and cannot really express the views of the association on that point. I could offer a personal view, but I do not know how satisfactory that would be.

Mr. HOUGHTON. Okay. Well, you know, Mr. Sweeney, it always seems to come down to, to me, although the environment obviously is very important, it is the whole conditions of the labor market

and are we dealing with our labor force fairly when we are trying to encourage international trade. And I do not know whether this sanction issue is critical for you or there are other things, the dispute settlements or whatever. What are the things which are really critical for you here?

Mr. SWEENEY. Well, the labor movement really feels that labor provisions of trade agreements must be enforced through the same means as commercial provisions. We feel also that fines themselves——

Mr. HOUGHTON. Can I just ask, so, in other words, if——

Mr. SWEENEY. We are looking for parity.

Mr. HOUGHTON. If a country says that we will abide and enforce our labor laws, that is not good enough for you.

Mr. SWEENEY. We would have to see the details. I mean, the Jordanian agreement is an example of an agreement with a country that basically has good labor laws. The Jordanian labor movement and the Chamber of Commerce in Jordan support the agreement. Those are really some major steps for a good agreement. But we would have to see the details in terms of sanctions and fines and how enforceable they were.

Mr. HOUGHTON. But let me just press this thing further. Unless a country has an egregious set of labor laws and an inability to enforce them, you would think that with reasonable conditions in their country and enforcing those laws, similar to those of Jordan, that these would be acceptable for you?

Mr. SWEENEY. There would definitely have to be some enforceable provisions.

Mr. HOUGHTON. Okay. Now, Mr. Fisher, could I ask you a question? What are those non-negotiable issues on the part of our Latin American neighbors that are critical in any negotiation?

Mr. FISHER. What are the non-negotiable issues? Across the board, or are you just talking about this area of——

Mr. HOUGHTON. What are the critical ones?

Mr. FISHER. I think this comes down to, from a Latin standpoint, a very simple issue, again, which is market access in the United States, in return for which not only—again, it was mentioned earlier. Our applied tariff here is about 1.5 percent, 1.6, whatever it is, as far as these trading partners are concerned. So the tariff issue is not the issue.

The issues are other aspects of market access, with the exception of the high tariffs imposed in agriculture, but then the non-tariff barriers to agriculture and to other exports, especially goods, because the rest of the hemisphere, particularly south of Mexico, although they are growing their production of services, are not huge service producers.

From our standpoint, of course, we want to have access to their markets. And, again, we talked earlier, some of the tariffs there are awfully high, so it is meaningful to reduce the tariff barriers. But then it is the non-tariff barriers, the procedures, the efficiencies in the economy, the rules, the way laws are enforced and so on, that is the trade.

And I think, again, listening to my former counterparts and Mr. Zoellick's current counterparts in the hemisphere, the key issues come down to these very tough issues. Agriculture is a big produc-

tion area for the southern cone in particular. To get Brazil to play ball here—and it is the largest country south of Mexico; it is 173 million people—they have said pointblank that we have to have agriculture on the table. Very tough for us to do as we are crafting a farm bill. Very tough for us to do to take on these very important constituencies for us, the farmers and ranchers of this country.

Similarly, in terms of antidumping activity, as I mentioned earlier, they want that on the table. And that is what they are looking for.

So are they non-negotiable? Everything is negotiable. I do not believe, however, again, just to go back to this point earlier, that certain remedies in terms of sanctions are not negotiable. I think that would basically throw this trade out the window.

We may decide, Congressman, that we do not want to do an FTAA, by the way, that we cannot get it.

One, that certain countries do not want to participate in this thing, that we cannot move Brazil, that we are limited in what we are able to spend politically. And we may decide, as Ambassador Zoellick said earlier, that we will just proceed with bilateral after bilateral or with smaller groupings. The purpose of my testimony was simply to point out that there are certain tough areas for us that we are going to have to look into our hearts to see if we can deal with them, and those are the ones I mentioned.

Mr. HOUGHTON. Well, thanks. My time is up. Mr. Chairman, thank you.

Chairman CRANE. Let's see. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Let me first thank all of the gentlemen for their testimony and their comments with regard to the issues that we face in trying to negotiate these agreements with our Latin American partners.

Let me just go through a list of objectives and standards and ask if any of you object to or disagree with any of these.

First would be the freedom to associate. Does anyone here object to or disagree with the right of people to freely associate in their country? And just chime in if you think no. What about the right to organize? Anyone disagree or object to that right?

Mr. SWEENEY. I am in favor.

Mr. BECERRA. Duly noted. The right to collectively bargain, does anyone disagree with the right or object to the right to collectively bargain? What about do you object to or disagree with the elimination of child labor? What about do the elimination of forced labor, slave labor? Does anyone object to or disagree with the elimination of discrimination in employment?

Those are, for the most part—I may have missed one or two, but those are the core labor standards in the ILO's Declaration of Fundamental Principles and Rights to Work.

If no one disagrees with them, is there any reason why anyone would disagree with including those within any trade agreement that we have with any country, whether it is Latin America or otherwise? Mr. Vargo?

Mr. VARGO. Mr. Becerra, we certainly do not disagree with those core labor standards. We do not disagree with the idea that nations should do more to bring them about. We do disagree, though, that one can take a trade agreement and say the purpose of the trade

agreement is to bring about compliance with these objectives. The purpose of a trade agreement to us is a simple one. It is to remove trade barriers, and that first and foremost is what we want.

We do not think that this is necessarily incompatible with taking steps to bring about greater adherence to labor rights around the world, or environmental standards. We do definitely object to the possibility of creating a new trade barrier or an opportunity to restrict trade in the future from it. That is the only thing we are objecting to.

Mr. BECERRA. Wouldn't it be considered a trade barrier if a country were to use much less expensive labor to manufacture or produce a product that we ourselves could produce here and as a result create, in effect, a better bargaining position for that trade?

Mr. VARGO. No, that is not a trade barrier. It affects trade. It may affect competitiveness. It may not be fair trade. But it is not a trade barrier.

Mr. BECERRA. So, Mr. Vargo, are you implying that you would support unfair trade?

Mr. VARGO. No. I am saying that there are many things that can affect trade. Competition policy can affect trade.

Mr. BECERRA. So how are we to compete with other countries if we do not require in our agreements that they not engage in, for example, forced labor or child labor? How will our industries compete domestically?

Mr. VARGO. Well, Mr. Becerra, we are competing with them now. The question is: Are we going to get them to lower the trade barriers that are now keeping out our products? To us that is the issue. It is not are we going to trade with them or not. We do trade with them. But we trade with them under circumstances under which, for many reasons, our trade barriers are very low. And that is a fact, sir. They are very low. And theirs are high. And we want to get them down.

Mr. BECERRA. And as a result, we are saying to them we are going to open up our markets completely to you if you do certain things. And it seems to me that we would want them to do the right things.

Now, we cannot force them necessarily to have our wage standards because we are working on different planes. But certainly we would want them to at least function and operate under at least core labor standards, which do not ask for a great deal beyond what most people think are humane policies.

Mr. Price, let me ask you a question. In response to Mr. Houghton, you said you really could not give him a direct response to the question about the issue of labor standards. And yet in your testimony, you talked about how investors do not necessarily go to the cheapest countries or the countries with the cheapest labor because if that were the case, you would see a lot of investment going into the poorest countries, and you mentioned that it really would be a race to the bottom. I think you did comment on labor standards, so I hope you could give us a more complete answer to Mr. Houghton's question.

But let me ask you to comment. I agree with you. You are not going to see investment going to the countries that are poorest simply because the atmosphere there is not the best for investments.

But I think last week's reaction by the stock market to the news in this country that unemployment had shot up dramatically and how the stock market was jubilant and went up is clearly a sign that investment does operate on what is a lower-cost market. And, therefore, I think it would be difficult, I think, to argue—and I would hope you are not arguing—that indeed investors look for the highest-cost markets. And to me it seems that labor is one of the components of the production of any particular good, and, therefore, you are going to as an investor take into account what a country has with regard to wages in its country, would you not?

Mr. PRICE. Let me try and answer that. Congressman Houghton asked me to comment specifically——

Mr. BECERRA. You have to get closer to the microphone.

Mr. PRICE. I am sorry. Let me try and answer your questions. Congressman Houghton asked me to comment specifically on the provisions of the Jordan FTA, and I said I was not in a position to do that on behalf of the organization that sent me here since I am talking about investment.

Let me respond to your question now. I think it is true that investment flows—and it is demonstrable—to high-wage jurisdictions with a high standard of living. The point that I was making in my testimony is that if wages were the principal determinant of the location of investment, you would expect the majority of investment to be in low-wage jurisdictions——

Mr. BECERRA. But no one has ever argued that wages are the sole determinant of where investment goes. And providing wage or environmental standards within a trade agreement would not in and of themselves affect investment decisions by people throughout the world in a country with a core labor standard within a trade agreement, would it?

Mr. PRICE. Well, I think we are talking about two different things. One is the question of whether wages or labor costs are a factor in investment decisions. I think that was your first question. And I think the answer is they are. They are among the factors that are taken into account. Again, it depends on what the purpose of the investment is, and it depends how the other factors are weighted.

What I think you have just asked me now is whether investment decisions would be affected if labor and environmental provisions were included in trade agreements. And I think the answer to that is it would depend on what those provisions said and whether the provisions create new risks to foreign investment or not.

Chairman CRANE. The gentleman's time has expired.

Mr. BECERRA. Thank you, Mr. Chairman.

Chairman CRANE. Let me alert everybody on the Committee that we have only one more hour to go, and we have our Foreign Ministers coming up in the next panel. And so if you will all please adhere to the lights and remember that when the green light goes off and the red light goes on, your time has expired. And I am talking to Members of the Committee. With that, I recognize Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman. I will keep my questioning disciplined.

Ambassador Fisher, it is a pleasure to have you here. May I say, I think you have an expertise that is particularly useful in this dis-

cussion, and commenting, as I imagine you guessed I would, about your testimony with regard to antidumping and countervailing duty issues being put on the table, I think that you have made a case that there is a good basis for having a discussion worldwide about the sorts of standards that are applied to 201- and 301-like processes, and encouraging other countries to adhere to our standards when it comes to those laws.

We do, though, have a WTO antidumping code in place, and given that—and I presume you agree with me on this—I believe that having strong trade protections, strong methods of policing our market against unfair trade practices, is critical to maintaining support for free trade within our country.

Do you think that an FTAA is really an appropriate place to have a negotiation? This is, after all, a negotiation for a regional trading pact. Would this not be better handled either under the WTO or would it not be better handled as a side agreement separate from any FTAA that might be developed? Since we like, some of us like side agreements, as it applies to labor and the environment, would not a side agreement be a more appropriate place to deal with an antidumping or countervailing duty understanding?

Mr. FISHER. First, I am certainly not advocating changing our laws, Congressman.

Mr. ENGLISH. Very good.

Mr. FISHER. Secondly, I'm not advocating abandoning our right to take action against people that dump into our market.

I think I heard Ambassador Zoellick say earlier what we always said, that this new anti-dumping regime has just been put in place, and our arguments were that, until we saw how this worked and what its efficacy was, we did not want to put it back on the table. That makes a lot of sense.

Frankly, what I'm saying is I'm tired of hearing from our Brazilian and other friends that we're unfair. Look at how many antidumping cases Argentina and Brazil combined filed when we only 17—they filed 40. Let's call their bluff on this. In other words, let's say, "you say that our system is arbitrary, let's examine, with a fine-tooth comb, how you apply these in your own country," let's achieve a common understanding of how we're putting this new regime in place——

Mr. ENGLISH. Would it not be easier, though, to move forward—I don't mean to interrupt, but I'm under strict time here.

Would it not be easier to conduct this discussion outside of an FTAA? Wouldn't it be easier to conduct this discussion in a way that doesn't increase how controversial the FTAA already is domestically?

Mr. FISHER. Well, again, this is one of the—remember, we have nine negotiating groups within this structure, already carved out by common agreement amongst the 34 countries that this will be discussed. I'm not sure you can remove it, Congressman, at this stage.

Mr. ENGLISH. Your point is well-taken.

Mr. FISHER. But we shouldn't be afraid to talk about it, because I think we're going to find that we might have some common cause here if we're careful.

Mr. ENGLISH. Mr. Sweeney, I agree with many of the things that you have included in your testimony, and I would encourage you to look at House Resolution 1446, which I have introduced, that would provide for a standard trade negotiating authority.

But you say in your testimony, "We believe that any fast track legislation must require—your emphasis—the inclusion of enforceable workers' rights and environmental standards in the core of all new trade agreements."

I guess my question in view of that is, what would be the appropriate core labor and environmental standards to be included in a specialized trade agreement, like financial services, competition policy, or intellectual property rights? Are there not some trade agreements we may want to have with our hemispheric partners, or our partners world-wide, that are so specialized they don't naturally have a labor and environmental component to them?

Mr. SWEENEY. We would have to say that we think the core labor standards and environmental concerns have to be addressed in all trade agreements.

Mr. ENGLISH. Okay. Mr. Gambrel, from your perspective, what is the appropriate core labor or environmental standards to be included in a financial services treaty?

Mr. GAMBREL. I can't think of any, Congressman.

Mr. ENGLISH. Ambassador Fisher.

Mr. FISHER. The financial services is just part of a total trade agreement. I don't think that's what Mr. Sweeney was saying, in terms of specifically financial services itself. I believe what he was saying is that it's part of the total agreement, and he feels it should be part of——

Mr. ENGLISH. I'm out of time. My point is that there are some things that we may want to negotiate that don't include labor and environment, and I think my bill addresses it. Thank you, gentlemen. Excellent testimony.

Chairman CRANE. Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

We regret that the ministers and others on the next panel have been delayed. But I think, though, this has been an especially useful panel, and I think it's good that we have all heard it.

Some of you I know well, and that should not detract from my commenting directly.

First of all, let me suggest, in terms of our discussion of core labor standards, I hope the ministers here and others not only listen to the former Deputy USTR and others, but those who are presently in the U.S. Congress.

I think it is a mistake to have the total focus on exactly what remedy and to forget—for example, in the GSP, sanctions have been available to the U.S. for many, many years. Most of the Latin American countries have operated within a GSP system that allowed the U.S. to utilize what are called trade sanctions. We have done that responsibly, and there has been the threat—and Mr. Sweeney spells this out rather at length, and I think interestingly—there has been the threat they haven't been utilized. But GSP has moved the issue of core labor standards along.

So the notion that countries will not, under any circumstances, negotiate, I hope isn't misread. If that had been the standard 15

years ago on intellectual property, we never would have done anything, because countries were saying to us "never". We were saying let's move ahead and let's discuss it, and eventually we came up with that kind of a structure.

Secondly, let me say to you, Mr. Vargo, we have had a lot of discussion about these issues. If I might say so, I think the purpose of trade agreements isn't simply to remove trade barriers. The WTO talks about a standard of living being uplifted, and I think you agree with that. Anti-dumping laws are there not to remove trade barriers, competition policy, safeguard mechanisms that are permitted under WTO. It's because the feeling is you have to have rules of trade, terms of trade, and that the only issue isn't only opening up trade barriers of other countries. I hope we will think about that.

Thirdly, if I might just pick up briefly on Mr. Becerra's point, Mr. Price, I just want to go back to this because you say, "If lax environmental standards, low wages and the absence of worker rights were the principal determinants of investment flows, one would expect the least developed countries to be the host of the vast majority of foreign investment." You also say, "The critics confuse the cause and cure: problems of environmental protection and labor standards are preeminently problems of economic development."

No one is saying that labor standards and environmental standards are "the" principal determinant of investment flows. Really, in your back and forth, you acknowledge the relevance of environmental and labor standards to decisions in many cases of investment. There is no single principal determinant of investment. I think you'll agree.

The question is, is it part of the mix. I think the answer clearly is—and as evidence, I referred earlier to the Equadorian situation—is that it's relevant in many situations. For example—and I'll say this bluntly—if Brazil feels that we won't discuss environmental issues in the FTAA, and that will be part of the bargain, that's a non-starter. No agreement will pass this institution if there isn't a consideration of environmental issues. I see Mr. Fisher shaking his head, I think in agreement.

Last, I just want to make clear, Mr. Sweeney, and I think others of you have said this, the issue of labor standards and environmental standards, the thrust does not come basically from any effort at protectionism, any form of it. It comes from a number of us who want expanded trade. It's an essential ingredient of that. Thank you.

Chairman CRANE. Thank you.

With that, I want to express our appreciation to all of the members of this panel. I will excuse you after your outstanding presentations.

Now it's a delight to introduce the next distinguished panel to discuss the renewal of the Andean Trade Preference Program. I especially welcome Colombian Minister of Foreign Trade, Marta Lucia Ramirez, and the Bolivian Vice Minister of Trade, Ana Maria Solares. And because the Andean Trade Preference Program is part of a close partnership effort between the United States and the Andean countries that strongly impacts national security interests of

the United States, I have elected to waive normal Committee rules so that we may hear your testimony today.

I want to thank both of you and the other Andean Ministers in the audience for taking time out of your business schedules to be here today.

Due to Committee time constraints, we have included you on a panel with representatives from U.S. industry. I recognize that this is unusual and I appreciate your patience and understanding in graciously accommodating our time constraints.

If you folks could take your seats, please. We have to conclude today's hearing at 6:00 o'clock sharp, and as a result, I want to remind colleagues on the Committee here to watch the lights with regard to their questions, and also all of our witnesses who will be testifying today, if you can keep your oral testimony to 5 minutes or less, please do so. Any written testimony will be made a part of the permanent record.

With that, I now welcome Minister Ramirez to begin.

STATEMENT OF THE HON. MARTA LUCIA RAMIREZ RINCON, MINISTER OF FOREIGN TRADE, GOVERNMENT OF COLOMBIA

Ms. RAMIREZ. Thank you very much, Mr. Chairman.

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to appear before this panel today. If you allow me, I am going to read the short version of my statement, but I am going to leave both for your records.

I am Marta Lucia Ramirez, Minister of Foreign Trade for the government of Colombia. I appear here today on behalf of the Andean community countries not only to express our strong commitment for a Free Trade Area of the Americas, but also to ask your support for the early enactment of legislation to renew, expand and enhance the Andean Trade Preference Act.

As you know, the ATPA expires in December of this year. It is appropriate that this Committee today looks at both the FTAA and the ATPA. These two important trading initiatives are interrelated. A hemispheric free trade area will increase economic growth and employment and create new opportunities for all of our countries. That is why we are pleased with the outcome of last month's summit in Quebec City. We look forward to advancing negotiations toward the implementation of the FTAA by no later than year 2005.

More immediately, the issue of ATPA renewal, expansion and enhancement must be addressed by the U.S. Congress. ATPA was designed to promote export diversity and strengthen legal activities in our country through new exports and through the generation of new legal jobs in order to confront the destabilizing threats to our democracies posed by illegal narcotics production and trafficking.

ATPA is also about saving lives. It's about the strength of our democracy, both in Andean countries and in the United States, because it reinforces our common goal, which is the fight against illegal drugs and the corruption it generates.

USTR stated in their last report that the ATPA is strengthening the legitimate economies of the countries in the region and is an important component in the U.S. effort to contain the spread of the illegal drug trade.

Moreover, both the Andean countries and the United States have benefited economically from the ATPA. Over the last 9 years, the ATPA has created 140,000 new jobs in the Andean Region. In dollar terms, U.S. exports to ATPA countries have risen 75 percent between 1991 and the year 2000.

The United States serves as the leading source of raw materials, capital goods and technology imports for each of the ATPA countries, as well as our leading export market. As a result, ATPA benefits have generated employment in both the United States as well as in the Andean Region.

Colombian flowers are an excellent example of why ATPA is working, and of the social and economic benefits that ATPA promotes. The $439 million in cut flowers that ATPA shipped to the United States last year resulted in some $9 billion in retail sales in America, generating jobs and income for many Americans. But equally important, the Colombian flower industry is a world-recognized leader in the war on drugs, maintaining state-of-the-art drug interception technology and collaborating closely with the United States Customs Service on interdiction.

In addition, due directly to the benefits ATPA provides, the Colombian flower industry initiated major labor and environmental programs that are models not only in Colombia but also in so many other countries.

We are well aware of the suggestions that ATPA could be rewritten to match the benefits provided to the Caribbean and Central American countries last year. Indeed, Senator Graham of Florida has already introduced such a bill in the Senate, S. 525. We appreciate that first step. However, the Andean Region and the CBI region are very different. The structure of our productive sector is so different. We in the Andean Region have more vertically integrated industries and the purposes of the CBI are very different from what the ATPA must accomplish. Therefore, we believe that the ATPA must reflect those differences.

One of the sectors offering the greatest opportunities for the generation of new jobs in our region is textiles and apparel chain. The ATPA countries are currently a minor player in the U.S. apparel market, accounting for less than one percent of the total U.S. apparel imports, and that is all we have accounted for every year since 1992.

By contrast, the CBI countries account for almost 23 percent of total U.S. apparel imports. These numbers demonstrate that, with respect to textiles and apparel, the ATPA countries are more like the sub Saharan African countries than we are like the CBI countries. Therefore, we believe that an enhanced ATPA should be based more on the model established in the African Growth and Opportunity Act rather than the one in the CBI.

The Andean countries also need to promote new foreign investment in key business sectors to achieve economic recovery and effectively fight the drug war. While the original ATPA, with its 10-year term, initially brought new investment into the region, recently new investment has declined considerably, mainly because of the uncertainty of the medium- and long-term market access conditions to the North American market.

To generate new interest in the region, we need ATPA to be extended for a term sufficient to ensure that the FTAA has come into force before the ATPA completes another term. Additionally, we would like you to consider that, of the five Members of the Andean community who have benefited from the ATPA, these preferences do not cover Venezuela. Our trading block, as well as the United States, will benefit if ATPA were expanded to include all the Members of the Andean community.

Mr. Chairman, members of the Subcommittee, the Andean countries greatly appreciate your support in holding this hearing today to discuss renewal of the ATPA. We are very hopeful that you will act quickly to enact a new ATPA before the current program expires. Time is of the essence. It is absolutely essential that we create jobs to assist those who are displaced by illegal crop eradication and to lure workers back to those areas where legitimate employment can be developed.

In particular, we ask that this Subcommittee take up and pass ATPA legislation preferably before the July 4th recess, in order to generate momentum for this legislation. Such momentum is needed if a new, expanded and enhanced ATPA is to be enacted before the current ATPA expires in December.

We welcome the opportunity to work with you, and with the Bush administration, which has been very supportive, to achieve both an enhanced ATPA and an FTAA as quickly as possible.

Mr. Chairman, I thank you for this opportunity and honor to be here sharing with you such an important Subcommittee.

Thank you very much.

[The prepared statement of Ms. Rincon follows:]

Statement of the Hon. Marta Lucia Ramirez Rincon, Minister of Foreign Trade, Government of Columbia

I. Introduction

Mr. Chairman, members of the Subcommittee, I am Marta Lucia Ramirez, Minister of Foreign Trade for the Government of Colombia. I appear here today on behalf of the Andean Community countries to express our strong support for a Free Trade Area of the Americas (FTAA) and for early enactment of legislation to renew and enhance the Andean Trade Preferences Act (ATPA). As you know, the ATPA expires in December of this year.

It is appropriate that this committee today looks at both the FTAA and the ATPA, as these two important trade initiatives are integrally related. A hemispheric free trade area will increase economic growth and employment and create new opportunities for all our countries. It will also provide direction for the Andean countries to establish a firm schedule for liberalization and to achieve consistency in the breadth of our liberalization schemes. In this respect, we were pleased with the outcome of last month's Summit in Quebec City. We look forward to advancing negotiations toward creation of the FTAA by no later than 2005.

More immediately, the issue of ATPA renewal and enhancement must be addressed by the U.S. Congress, and soon since the current ATPA will expire in December. ATPA was designed to promote export diversity and to create new legal employment in our countries, and thus help to confront the destabilizing threats to our democracies posed by illegal narcotics production and trafficking. But ATPA is also about saving lives both in Andean countries and the United States because it reinforces our fight against illegal drugs.

II. Renewal and Enhancement of ATPA

The current ATPA has been meaningful for both the Andean countries and the United States. The report of the Office of the U.S. Trade Representative (USTR) on the operation of the ATPA makes clear that ATPA is working. The report states explicitly that the ATPA is strengthening the legitimate economies of the countries in the region and is an important component in the U.S. effort to contain the spread

of the illegal drug trade. USTR has concluded that the ATPA has resulted in export diversification for our countries and that net coca cultivation has declined.

The Andean countries are firmly united in their quest for prompt enactment of legislation to renew and enhance the ATPA. A renewed and enhanced ATPA will serve as a stepping stone toward completion of the FTAA. Moreover, expanded trade offers the most effective means for the Andean countries and the United States to work together to make progress against illegal narcotics production and trafficking.

An unintended impact of the Caribbean Basin Trade Partnership Act is that the ATPA countries have lost competitiveness against the Caribbean and Central American nations. In Colombia alone, almost 2,000 jobs already have been lost because U.S. importers have moved orders to the CBI region in order to obtain the duty savings. Many more jobs remain threatened. To prevent job losses, some Colombian companies have been forced to reduce their prices in order to keep the business, but obviously they cannot sustain this practice.

Expanded trade will complement the investments we have made together to combat drugs. Indeed, our partnership to fight drug production and trafficking will not succeed without economic growth spurred by expanded trade between our countries. It is absolutely essential that Colombia and other Andean countries create jobs to assist those who are displaced by illegal crop eradication and to lure workers back to those areas where legitimate employment can develop.

No country has had to incur more sacrifices to stop drug production and trafficking than Colombia. We count our dead by the thousands and our material losses by the billions of dollars. Currently, with unemployment at 20%—the worst level in our history—it is absolutely essential to generate more jobs. President Pastrana has implemented tough reforms and austerity measures to address the economic downturn in Colombia. These reforms have resulted in a fragile economic recovery.

A renewed and enhanced ATPA will help Colombia fortify its economy and lay the foundation for sustainable long-term economic growth. We therefore believe it is imperative to renew the ATPA before it expires on December 4, and to enhance it to include the products currently excluded from the legislation.

III. ATPA Benefits the Andean Region and the United States

Andean industries benefiting from ATPA—including cut flowers, non-traditional fruits and vegetables, jewelry and electronic components—have generated $3.2 billion in new output since ATPA's inception in 1991, and $1.7 billion in new exports. Over the last nine years ATPA has created 140,000 new jobs in the region.

U.S. General Imports From ATPA, Top Ten ATPA Items for the Year of 2000

4-digit HTS	Description	ATPA Value (US$)
7403	Refined Copper And Copper Alloys (Other Than Master Alloys Of Heading 7405), Unwrought.	565,169,004
0603	Cut Flowers And Buds Suitable For Bouquets Or Ornamental Purposes, Fresh, Dried, Dyed, Bleached, Impregnated Or Otherwise Prepared.	439,531,768
3212	Pigments Dispersed In Nonaqueous Media, In Liquid Or Paste Form, For Paint Manufacture; Stamping Foils; Dyes And Other Colors Packaged For Retail Sale.	199,392,893
7113	Articles Of Jewelry And Parts Thereof, Of Precious Metal Or Of Metal Clad With Precious Metal.	155,196,411
1604	Prepared Or Preserved Fish; Caviar And Caviar Substitutes Prepared From Fish Eggs.	80,220,426
7901	Zinc, Unwrought	58,373,185
2843	Colloidal Precious Metals; Inorganic Or Organic Compounds Of Precious Metals, Chemically Defined Or Not; Amalgams Of Precious Metals.	50,117,850
0709	Vegetables Nesoi, Fresh Or Chilled	43,557,681
3921	Plates, Sheets, Film, Foil And Strip Nesoi, Of Plastics.	28,869,065
4202	Travel Goods, Vanity Cases, Binocular And Camera Cases, Handbags, Wallets, Cutlery Cases And Similar Containers, Of Various Specified Materials.	26,744,716

U.S. General Imports From ATPA, Top Ten ATPA Items for the Year of 2000—Continued

4-digit HTS	Description	ATPA Value (US$)
1701	Cane Or Beet Sugar And Chemically Pure Sucrose, In SolidForm.	22,595,104

But it is important to note that there has been a two-way benefit. The United States is an extremely important trading partner for the Andean countries, with the United States serving as the leading source of imports for each of the ATPA countries as well as our leading export market. In dollar terms, U.S. exports to ATPA countries have risen 75 percent between 1991 and 2000, with two-way trade increasing dramatically from $9.2 billion in 1992 to $17.9 billion in 2000. As a result, ATPA benefits have generated employment in the U.S. as well as in the Andean region. A review of the trade data indicates that many of the items shipped by the United States to the Andean region are used to generate ATPA qualifying goods. These items include, among others, fertilizers, paperboard and plastics, which are used in our flower industry, including for the greenhouses in which these flowers are grown.

U.S. Exports to ATPA Countries for the Year of 2000—Intermediate Products and Raw Materials

4-digit HTS	Description	Export Value
4804	Kraft Paper & Paperboard, Uncoat Nesoi, Rolls Etc.	156,213,581
2903	Halogenated Derivatives Of Hydrocarbons	130,800,177
3901	Polymers Of Ethylene, In Primary Forms	107,340,801
3100	Fertilizers, Exports Only Incl Other Crude Mat'Ls.	84,282,265
7108	Gold (Incl Plat Plated), Unwr, Semimfr Or Powder.	74,911,310
8474	Machinery For Sorting Screening Etc Minerals, Pts.	72,573,269
5201	Cotton, Not Carded Or Combed	71,113,180
2902	Cyclic Hydrocarbons	62,371,090
8413	Pumps For Liquids; Liquid Elevators; Parts Thereof.	52,716,305
3907	Polyethers, Expoxides & Polyesters, Primary Forms.	51,615,093
2304	Soybean Oilcake & Oth Solid Residue, Wh/Not Ground.	45,487,152
3808	Insecticides, Rodenticides; Fungicides Etc, Retail	36,993,530
2905	Acyclic Alcohols & Halogenat, Sulfonatd Etc Derivs.	33,283,418
3920	Plates, Sheets, Film Etc No Ad, Non-Cel Etc, Plast.	31,925,844
8406	Steam Turbines & Other Vapor Turbines, Parts	31,032,456
2901	Acyclic Hydrocarbons	28,491,214
3902	Polymers Of Propylene Or Other Olefins, Prim Forms.	27,926,250
4002	Synth Rubber & Factice, Inc Nat-Syn Mix, Pr Fm Etc.	24,640,263
3906	Acrylic Polymers In Primary Forms	22,977,269
2915	Sat Acyclic Nonocarbox Acid & Anhyd, Halogon Etc.	22,815,228
2926	Nitrile-Function Compounds	22,387,343
5402	Synthetic Filament Yarn (No Sew Thread), No Retail.	22,383,281
4810	Paper & Paperboard, Coated With Kaolin Etc, Rl Etc.	20,435,308
3824	Binders For Found Molds; Chemical Prod Etc Nesoi.	20,103,857
2933	Heterocyclic Comp, Nit Hetero-Atoms Only	18,908,820
2836	Carbonates; Peroxocarbonates; Comm Amm Carbonate.	18,420,841

U.S. Exports to ATPA Countries for the Year of 2000—Intermediate Products and Raw Materials—Continued

4-digit HTS	Description	Export Value
4703	Chemical Woodpulp, Soda Or Sulfate, Not Dissoly Gr.	17,733,992
4802	Paper, Uncoat, For Writing Etc, Rolls; Hndmd Paper.	17,295,361

The Colombian flower industry is an excellent example of how trade between our countries is mutually beneficial. In Colombia last year, one percent of total household income came from the cut flower industry, with Colombia shipping $400 million worth of flowers to the U.S. Approximately two thirds of $14 billion worth of cut flowers sold in the U.S. last year came from Colombia. Importantly, that means that the $400 million in cut flowers Colombia shipped to the U.S. resulted in some $9 billion in retail sales in America. Clearly, we are bringing profit to U.S. companies.

Colombia's flowers are not simply generating economic rewards for the U.S. market. They also are a prominent example of how our two countries' trade, national security and social policy objectives are intertwined. The Colombian flower industry is a world-recognized leader in the War on Drugs, maintaining perhaps the most state-of-the-art drug interception technology in our region and has long collaborated with the US Customs Service on interdiction. In addition, since ATPA was inaugurated, and due directly to the benefits ATPA provides, the Colombian flower industry has been able to initiate major labor and environmental programs that stand out as models in Colombia. Among other things, the Colombian flower sector has initiated anti-violence training programs for its 75,000 workers; established an aggressive anti-pesticide program for Colombia's many flower farms to help promote a greener Colombia; launched a new program to build better homes for the workers of the Colombian flower industry; and established strong child care and nutrition programs for the tens of thousands of working mothers who are critical to the flower industry.

This is positive news, but the fact remains that last year only about 10 percent of all Andean exports to the United States were eligible for ATPA benefits, according to a Congressional Research Service study. ATPA must be expanded to cover all products, not just selected goods. Strengthening the legal economies in our countries is absolutely vital to stabilizing the region economically and politically. Only through such enhancement of the ATPA will we generate the level of new employment opportunities needed to help those workers whose jobs are eliminated as a result of crop eradication as well as the many skilled workers who are currently unemployed. Even USTR's report notes that the ATPA has just "begun to show important successes." Beginning, after almost ten years, is not enough. To achieve full success, ATPA must be both extended and enhanced.

An enhanced ATPA that provides duty-free access to the U.S. market for a maximum variety of labor-intensive goods would offer great support for democratic institutions in the region. This program would also attract new investment and economic development, thereby redirecting the unemployed and underemployed away from the coca and poppy fields and providing alternative employment for those displaced by the eradication of illegal crop production. Moreover, an enhanced program that undermines the economic power of insurgents and credits our democratic leaders with achieving that program would inevitably strengthen the hand of democratic institutions in the region. Key to such success, however, is an ATPA renewal that is sufficiently broad in scope, without being overly complicated, and of a duration that is adequate to ensure that investors believe there is sufficient time to reap a return.

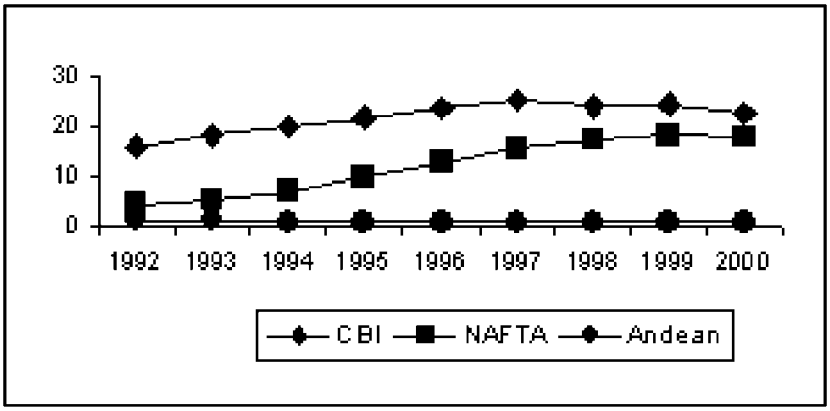
IV. Crafting Textile and Apparel Provisions in the ATPA

We are well aware of suggestions that ATPA could be rewritten to match the benefits provided to the Caribbean and Central American countries last year, under the Caribbean Basin Trade Preferences Act. Indeed, Senator Graham of Florida already has introduced such an ATPA renewal bill in the Senate, S. 525, and we appreciate that first step. However, the Andean region and the CBI region are very different and the purposes of the CBTPA were very different from what the ATPA must accomplish. Therefore, we believe that the ATPA must reflect those differences.

One of the sectors offering the greatest opportunities for the generation of employment is textiles and apparel. The ATPA countries are currently a minor player in the U.S. apparel market. The ATPA countries account for only one percent of total apparel imports—and that is all we have accounted for every year since 1992. The

CBI countries account for almost 23 percent of total U.S. apparel imports, and their share of the U.S. market has been growing over the past decade. Those numbers demonstrate that, with respect to textile and apparel exports to the United States, the ATPA countries are more like the sub-Saharan African countries than we are like the CBI countries. Therefore, we believe that an enhanced ATPA should be based on the model established in the African Growth and Opportunity Act rather than the one in the CBTPA.

Apparel Imports to the United States



CBI versus NAFTA versus Andean Region (% of total apparel imports to the U.S.)

Unlike the CBI region, the Andean region is not dominated by so-called 807 assembly operations. The apparel industry in the ATPA countries is highly vertical, meaning that we manufacture yarns, fabrics, and finished garments and textile goods, offering our customers a "full package" of services. To do this, we import a great deal of inputs from the United States. We would import even more if there were benefits for our textile and apparel exports to the U.S. under ATPA.

The fact is that today the Andean countries already import far more raw cotton from the United States than the CBI countries, even though there are only 4 ATPA countries and there are two dozen CBI countries ($72 million versus $58 million worth of raw cotton). The United States is by far Colombia's top supplier of raw cotton, accounting for 50 percent of our imports. The ATPA countries also import a significant quantity of manmade fibers and manmade fiber yarns from the United States—a total of $57 million worth in 2000. (The U.S. exported $32 million worth to the CBI region during the same period.) These inputs provide some indication of the extent to which enhanced ATPA offers real export opportunities for the U.S. cotton, manmade fibers and yarn industries.

U.S. Exports to the ATPA Countries for the Year of 2000—Value of Wool, Cotton and MMF Inputs

4-digit HTS	Description	APTA export value	% Share
Raw Wool:			
5101	Wool, Not Carded Or Combed	3,895	0.1
	Total raw wool	3,895	0.1
Wool Yarn:			
5106	Yarn Of Carded Wool, Not Put Up For Retail Sale.	8,979	0.5
5107	Yarn Of Combed Wool, Not Put Up For Retail Sale.	478,977	8.5
5109	Yarn Of Wool Or Fine Animal Hair, For Retail Sale.	35,144	2.0
	Total wool yarn	523,100	5.8

U.S. Exports to the ATPA Countries for the Year of 2000—Value of Wool, Cotton and MMF Inputs—Continued

4-digit HTS	Description	APTA export value	% Share
Wool Fabric:			
5111	Woven Fabrics Of Carded Wool Or Fine Animal Hair.	1,003,721	4.1
5112	Woven Fabrics Of Combed Wool Or Fine Animal Hair.	1,114,008	2.2
5113	Woven Fabrics Of Coarse Animal Hair Or Horsehair.	3,645	1.0
Total wool fabric		2,121,374	2.8
Total Wool Products		2,648,369	3.0
Raw Cotton:			
5201	Cotton, Not Carded Or Combed	71,113,180	3.8
5202	Cotton Waste (Including Yarn Waste Etc.).	402,883	1.2
5203	Cotton, Carded Or Combed	744,673	8.1
	Total raw cotton	72,260,736	3.8
Cotton Yarn:			
5205	Cotton Yarn (Not Sewing Thread) Nu85% Cot No Retail.	1,197,918	0.5
5206	Cotton Yarn (Not Sewing Thread) Un85% Cot No Retail.	1,626,213	6.0
5207	Cotton Yarn (Not Sewing Thread) Retail Packed.	91,772	1.0
Total cotton yarn		2,915,903	1.0
Cotton Fabrics:			
5208	Woven Cotton Fabrics, Nu 85% Cot, Wt Nov 200 G/M2.	12,083,580	3.8
5209	Woven Cotton Fabrics, Nu 85% Cot, Wt Ov 200 G/M2.	9,217,064	1.3
5210	Woven Cotton Fabrics, Un85% Cot, Mmfmix, Nov200G/M2.	3,859,125	2.6
5211	Woven Cotton Fabrics, Un85% Cot, Mmfmix, Ov200G/M2.	1,019,031	0.9
5212	Woven Cotton Fabrics Nesoi	1,133,715	3.3
6002	Knitted Or Crocheted Fabrics, Nesoi	4,037,827	0.7
Total cotton fabrics		31,350,342	1.6
Total Cotton Products		106,526,981	2.6
Manmade Fibers:			
5501	Synthetic Filament Tow	9,595,901	18.6
5502	Artificial Filament Tow	1,384,611	0.4
5503	Synthetic Staple Fibers, Not Carded, Combed Etc.	12,881,397	3.5
5504	Artificial Staple Fibers, Not Carded, Combed Etc.	953,370	1.3
5506	Synthetic Staple Fibers, Carded, Combed Etc.	472,318	3.9
Total manmade fibers		25,287,597	3.0
Manmade Fiber Yarns:			
5402	Synthetic Filament Yarn (No Sew Thread), No Retail.	22,383,281	2.8
5403	Artificial Filament Yarn (No Sew Thread), No Retail.	492,416	0.7
5404	Syn Monofil Not Un 67 Dec, Cr-Sect Nov1Mm, Stno5Mm.	7,703,640	4.2
5406	Manmade Filament Yarn (No Sew Thread), Retail Pack.	346,773	3.5
5509	Yarn (No Sew Thread), Syn Staple Fib, Not Retail.	669,603	0.7
5510	Yarn (No Sew Thread), Art Staple Fib, Not Retail.	548,361	20.0
5511	Yarn (No Sew Thread), Manmade Staple Fiber, Retail.	144,748	0.7

U.S. Exports to the ATPA Countries for the Year of 2000—Value of Wool, Cotton and MMF Inputs—Continued

4-digit HTS	Description	APTA export value	% Share
Total manmade fiber yarns.		32,288,822	2.7
Manmade Fiber Fabrics:			
5407	Woven Fab Of Syn Fil Yn, Incl Monofil 67 Dec Etc.	4,309,513	0.4
5408	Woven Fab Of Art Fil Yn, Incl Monofil 67 Dec Etc.	765,996	0.4
5512	Wov Fabric, Synth Staple Fib Nu 85% Synth St Fiber.	770,603	0.1
5513	Wov Fabric, Syn St Fib Un85%, Cot Mix, Nov17Og/M2.	560,543	0.6
5514	Wov Fabric, Syn St Fib Un85%, Cot Mix, Ov 170 G/M2.	1,172,606	1.6
5515	Woven Fabrics Of Synthetic Staple Fibers Nesoi.	537,033	0.6
5516	Woven Fabrics Of Artificial Staple Fibers.	411,983	1.0
Total Manmade fiber fabrics		8,528,277	0.5
Total Manmade Fiber Inputs		66,104,696	1.8
Parts of Clothing (All fibers)		15,529,867	3.0
Total Wool, Cotton, Manmade Fiber Inputs		190,809,913	2.3

V. Greater Incentives for the Andean Region

It also must be acknowledged that simply providing the ATPA countries with the same benefits as the CBI countries will not necessarily induce investors or U.S. importers to do business with the Andean countries. We need a greater incentive to overcome the higher cost of labor in our countries and to overcome the security concerns of American business.

We therefore sincerely hope that the U.S. Congress will craft an ATPA enhancement law that is simple and uncomplicated, providing unlimited duty-free access for all textile products made from either U.S. or Andean origin inputs. It is also essential to provide duty-free access for garments made in the region from third country inputs so long as the most important manufacturing operations occur in the Andean region. We hasten to note that the jobs generated by these benefits will in no way take away jobs from the United States. The duty-free access will instead permit the ATPA countries to compete with suppliers in Asia.

The Andean countries need duty-free access for all other products as well. We urge Congress to eliminate all of the exclusions that are part of the current ATPA. In our view, just as in the African Growth & Opportunity Act, duty-free access should be provided to all footwear, leather goods, watches, canned tuna, petroleum products, and any other product eligible for GSP treatment, if the GSP rules of origin are met.

For example, the labor intensive fishing industries of the ATPA beneficiary countries have developed significantly during the last years, but have been precluded from becoming competitive in the U.S. market because of the high duties and restrictive access rules that apply. Thus, ATPA countries account for only $10 million of the $600 million worth of tuna imported into the U.S. each year. Additionally, 90 percent of the capital goods and inputs necessary to produce canned tuna reflects U.S. investment in the ATPA countries. Improved access to the U.S. market would serve the interests of this U.S. investment in tuna processing plants and also provide new employment opportunities.

Additionally, we would like the Subcommittee to consider that while four of the five members of the Andean Community have benefited from ATPA, these preferences do not cover Venezuela. Our trading bloc, as well as the United States, would benefit if ATPA were expanded to include all the members of the Andean Community.

Conclusion

Mr. Chairman, members of the Subcommittee, the Andean countries greatly appreciate your support in holding this hearing today to discuss renewal of the ATPA. We are very hopeful that you will act quickly to enact a new ATPA before the current program expires. Time is of the essence. Colombia needs to promote new foreign investment in key economic sectors to achieve an economic recovery and effectively fight the drug war. While the original ATPA, with its 10-year term, initially brought new investment into the region, new investment has declined considerably. In order to generate new interest in the region, we need ATPA to be extended for a term sufficient to ensure that the FTAA has come into force before the ATPA completes another term. Only then will investors trust that they will have sufficient time to see a real return on that investment.

In particular, we ask that this subcommittee take up and pass ATPA legislation rapidly, preferably before the July 4th recess, in order to generate momentum for this legislation. Such momentum is needed if a law to renew and enhance ATPA is to be enacted before the current ATPA expires in December.

We welcome the opportunity to work with you, and with the Bush Administration, which has been very supportive, to achieve both an enhanced ATPA and a FTAA as quickly as possible. Thank you.

Chairman CRANE. Thank you, Minister Ramirez. Minister Solares.

STATEMENT OF THE HON. ANA MARIA SOLARES, VICE-MINISTER OF TRADE AND ECONOMICS, MINISTRY OF FOREIGN AFFAIRS, REPUBLIC OF BOLIVIA

[The following testimony was interpreted from Spanish:]

Ms. SOLARES. Thank you, Mr. Chairman. First of all, I would like to thank you very much for taking the initiative to invite us to participate in this panel to deal with a subject that is so important for the Andean Group countries.

Thank you, also, for your personal interest in this subject.

I have provided a document in writing explaining in detail my presentation, and I'm aware that I have a short amount of time right now.

I will be going directly to the point on the subjects that I want to mention to you, but I hope you will give me a little bit of consideration with regard to time because I need interpreting.

Chairman CRANE. If you will yield, we will, indeed. All of the written testimony will be a part of the permanent record as well.

Ms. SOLARES. Thank you.

First of all, I would like to indicate that the countries of the Andean Region are here in this room and in this country to encourage a reaffirmation and breathing new life to the terms of the strategic alliance that was agreed on ten years ago between our countries.

This alliance was formed because of a common problem that we have, and because of a common goal that we share. This alliance was conceived with a holistic approach that would create actions to confront the problem of drug trafficking and its levels of demand, consumption and distribution. This would create a type of cooperation. The goal was to have cooperation that in economic terms would result in trade and investment.

This Andean Trade Preferences Act has been an expression of this strategic alliance, which has been as very effective means for encouraging trade in both directions between our countries. Indeed, we have seen that, as a result of this agreement of ATPA, there

has been an increase in exports to the United States. There has also been a generation of imports to the Andean countries from the United States in machinery products and imports and, to be honest, this results in a greater amount of imports than Israel and Brazil.

We can also see this Andean Trade Preference Act as a way to—as an instrument to lead to free trade, which is something that we all desire. Nevertheless, we must return to the original concept that led to the agreement. It was originally conceived in order to create alternative forms of work so that people who would be involved in illicit drug production would be able to have other types of work that would be legitimate jobs.

Something else that we must recognize as the goals of this agreement is to lead to national security, the health of our people, and stability in the Andean countries. Mr. Chairman, we have made tremendous strides over the past ten years, but as you know, drug trafficking never sleeps. We must preserve our accomplishments, but also deepen our efforts.

So what we must do at this time with regard to the Andean Trade Preferences Act is renew the terms, broaden them, and also incorporate Venezuela in the Andean Group countries of this Act.

In order to do this, we would like to propose a new modality. We would suggest a general opening up of the U.S. markets, excluding some of the sensitive sectors to the United States. We would hope in this regard to see a priority given to the textile sector. We would hope that in this production we would be able to contribute to all aspects of the chain of production, using inputs from the U.S. as well as those from our own region.

Mr. Chairman, please allow me to refer to my country's case. As you know, my country has accomplished tremendous progress with a lot of difficult effort. By applying the dignity plan, we have almost completely eradicated or removed our country from the vicious circle of drug trafficking.

We have been able to withdraw from international markets 240 tons of cocaine. Obviously, these tons would have multiplied tremendously on the streets of large cities throughout the world. Mr. Chairman, we need to preserve this progress. So one way to do this would be to open up alternative employment sources for people to be able to reduce the terrible effects of unemployment that we're seeing these days. The only way to do this is to produce more and export more, because we have a very small market in our country. Thus, we have a tremendous need to be able to participate in international markets and, of course, principally that of the U.S.

We must also see textiles as a priority sector, but not in the form of assembly plants. If we were to stick to that modality, then Bolivia would not be able to take advantage of this opportunity. With regard to the purchases that you make in this sector, our purchases are very small in number.

Mr. Chairman, we trust that, through the opening up of U.S. markets, you will show to our Andean community your solidarity in struggling against the common problem that we share.

Thank you very much.

[The prepared statement of Ms. Solares follows:]

Statement of the Hon. Ana Maria Solares, Vice-Minister of Trade and Economics, Ministry of Foreign Affairs, Republic of Bolivia

Thank you very much Mr. Chairman for calling this important hearing on an issue so vital to the Andean countries, in such a timely matter.

Mr. Chairman: In the last decade, the Andean countries have engaged in a serious effort to combat the scourge of drugs that was destroying the youth and the social fabric of our nations. We committed ourselves to fight vigorously and relentlessly in the elimination of all production of illegal coca plantations, to destroy drug laboratories, to seize drug shipments and to arrest individuals engaged in this illicit business. Our countries even created laws and government institutions to better address the problem. In no uncertain terms, Mr. Chairman, I would like to start my presentation by assuring you that the countries represented here, have invested all the human and economic resources available to us in this fight.

But as you know very well, the global nature of the problem surpasses the capacity of individual action by any nation. The fight against drugs, from the beginning, has demanded a global alliance between producing and consuming countries, based on the principle of shared responsibility. With this in mind, ten years ago, the United States of America and the countries of the Andean region established a strategic partnership, developing an integral vision of the problem. We all committed to confront the different aspects of the illicit drug trade—supply, demand, and consumption—through a combination of programs in the interdiction, prevention, and economic development areas.

The Andean Trade Preference Act (ATPA) was conceived a decade ago within this context. The United States and the nations of the Andean region would use trade as part of our mutual effort to strengthen our economies, which in turn, would help us in the war against drugs. Trade and the economic prosperity that accompanies it, we, and are seen, as the right way to push back against the drug cartels.

The good news is we have had some success. In 10 years of existence, ATPA has become an essential tool for the commercial interchange between the United States and the Andean region. Approximately 140.000 new jobs have been created in the region. In addition it has created important flows of investment and has doubled the two way trade between the United States and the nations of the region. During this period, the Andean countries have also made important strides in the war against drugs. More than three hundred sixty six hectares of coca were eliminated preventing the availability of hundred tons of drugs in the U.S. streets; important drug cartels were disbanded; and hundreds of cocaine labs were destroyed.

Our fight has been aggressive, but our social and economic costs have also been extremely high. There have been thousands of lives lost, unemployment grew to unprecedented levels, and in the process, our democratic institutions have been under permanent threat.

Today, the Andean region face a very critical moment, and in accordance with the concept of shared responsibility that inspires our cooperation, we see the renewal and expansion of ATPA as critical to guarantee sustainability of our achievements and our ability to make further progress. Further, ATPA renewal and expansion is needed even more because of the competitiveness of the Andean nations in the U.S. market has been diminished due to the establishment of NAFTA and the preferential trade mechanisms granted to Caribbean and Sub-Saharan countries.

We, the Andean countries, are fully committed to the idea of and the process for negotiating the Free Trade Area of the Americas. But until the FTAA becomes a reality, we need a robust ATPA that would remain in place until the FTAA becomes a reality.

THE SITUATION OF BOLIVIA

Mr. Chairman let me address for a minute the specific situation of my country, Bolivia.

As you know, in 1997, President Hugo Banzer made the historic commitment to eliminate all production of illegal coca/cocaine in our territory in only 5 years. When his plan was presented, many, including people in the United States were skeptical. At the time, Bolivia was the second major producer of coca/cocaine in the world. We had 45.800 hectares of coca plants in our territory. We were the second poorest nation in the Hemisphere after Haiti.

In three years, my government has eliminated 100% of coca production in the Chapare region, the largest area of coca cultivation for illicit purposes, with only 2000 hectares of illegal plantations remaining in the Yungas area. We have conducted more than 16.900 drug interdiction operations, have destroyed more than 4.000 labs of cocaine, have arrested more than 14.400 people implicated in narcotrafficking, have seized more that 50.000 kilos of cocaine, but most impor-

tantly, our anti-drug strategy has resulted in preventing the availability of some 240 tons of cocaine in the U.S. streets.

The social, economic and political cost of this fight, Mr. Chairman, has been extremely high in my country. We have lost in this process thousands of jobs, elevating the unemployment and underemployment levels to more than 24%. The coca/cocaine sub-economy in Bolivia, albeit illegal, went much beyond generating important levels of direct employment, it also fostered related economic activities in transportation, trade and industry. It is calculated that in the last 3 years, since the implementation of our anti-drug Dignity Plan, Bolivia lost $370 million dollars due to the reduction of the gross value of the coca, and $230 million dollars due to the concept of value added given to it. This means a loss of $600 million U.S. dollars, which comparatively amounts to 60% of our total exports.

This deep deactivation of our economy has also been aggravated by the impact of other necessary economic reforms taken by the Government of Bolivia. For example, Bolivian Customs reform, designed to eliminate corruption fueled by money laundering, and discourage informal trade, has also taken away another $300 million dollars, which contributed to increased unemployment levels. In addition, the strict compliance of Bolivia in abiding agreements in the area of intellectual property, and the fight against piracy, has meant another negative impact. In could go on mentioning other examples, but the bottom line is that all those factors have helped to create an economic downturn and very serious social unrest.

Because of all this, we face an urgent need to further develop our economy and to generate new sources of income. Our traditional exports have been agricultural commodities. If we are to use trade as an engine of growth for the Bolivian economy, we must diversify our export base. We believe that the textile and garment industry offers great potential for additional export income, which in turn, will also generate much needed new jobs.

Currently, the manufacturing sector in Bolivia represents 15% of our total exports, which last year grew to 1 billion dollars. The textile and garment industry represents 4% of that amount. Our objective for the coming years would be to foster the growth of the textile and garment industry to 20%, equivalent to $200 million dollars. Even if we manage to grow to that level, the total exports of textiles and garments from Bolivia to the United States will represent a mere 0.3% of the total U.S. imports of textile and garment from abroad.

Within this context, Bolivia, united with all the Andean countries beneficiaries of ATPA, would like to see a renewal and expansion of the law that would be as wide and as simple as possible. Listing, only if needed, the products that would not be included for the preferential treatment. Bolivia would not be benefited if in the new law, regional inputs in the whole chain of production are conditioned or limited. The practice of "maquila" can be highly beneficial to other countries, but not to ours given its great distance form the U.S. market, its land locked condition and the high costs of transportation. Bolivia also hopes that in granting trade preferences to the Andean countries, the United States will consider the particular needs of Bolivia and the other nations of the region with regard regards to the raw material and the finished products made from llama, alpaca, and vicuña.

In conclusion, Mr. Chairman, I would like to thank you for the interest you have put in this very important matter to the Andean region, and request that the cooperation of the United States be expressed, fundamentally, in opportunities of market access to as wide range of products as possible.

Thank you very much, and I am prepared to answer any questions you might have on this topic.

Chairman CRANE. Thank you. Mr. Moore.

STATEMENT OF CARLOS MOORE, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. MOORE. Mr. Chairman and Members of the Committee, my name is Carlos Moore. I am Executive Vice President of the American Textile Manufacturers Institute, the national trade association of the U.S. textile industry. Our member companies operate in more than 30 States and process approximately two-thirds of all textile fibers consumed by mills in the U.S.

With respect to the subject of a Free Trade Agreement of the Americas, ATMI believes that the details will prove critical as to whether an FTAA will help the U.S. textile industry establish beneficial trading partnerships in this hemisphere. We believe the goal of an FTAA, from a textile perspective, must be to establish measures that will benefit our industry. We believe the same to be the case of an Andean Trade Preference Act.

This has become even more crucial in the past year. The U.S. textile industry is being seriously injured by low-priced imports, primarily from Asia, and also by the economic slowdown in our economy. In 1999, our industry earned $690 million from total shipments of $78.6 billion. Last year, our industry lost $529 million, on sales of $76 billion. Employment dropped by 25,000 over the past calendar year, and many thousand more jobs have been lost already this year.

As imports continue to take away domestic business from our members, we are working hard to find markets outside the U.S. However, many markets, primarily those in Asia and especially India, are closed to imports. That is why NAFTA has become increasingly important to us and why we believe that an effectively implemented Caribbean Basin law can contribute to our industry's growth.

Let me address a few key concerns about the FTAA. As ATMI stated in its March 7th statement to this Subcommittee, it is important that the FTAA governments create a sub-group within the market access negotiating group that is dedicated to textile and apparel access issues. These market access issues include safeguards, customs enforcement, verification, and negotiation of over 1,500 tariff lines, and they are technical and detailed. To date, no such sub-group has been established.

We also believe that an FTAA, like NAFTA, should include a basic yarn-forward rule of origin, but without the large tariff preference levels included in NAFTA that granted benefits to countries outside the agreement.

On the matter of renewal and expansion of the ATPA, we have serious concerns regarding the inclusion of textiles and apparel, particularly coming so close on the heels of last year's Trade and Development Act of 2000. This law, which went into effect only seven months ago, has not been given the opportunity to achieve its desired results. Moreover, there are still a number of outstanding issues which must be resolved before the new Caribbean Basin trade partnership's potential benefits and impact can be properly determined and evaluated.

While ATMI endorsed and supported the CBI portion of the law, we are still concerned about U.S. Customs' interpretation of key provisions of the Act, especially with respect to texturing of U.S. yarn and the dyeing and finishing of U.S. fabrics which we believe should be carried out only within the United States.

The sub Saharan Africa portion is also troubling to our members, including our concerns about a surge mechanism, the size, structure, and growth rate of quotas on apparel made of non-U.S. components, and generally its weak anti-transshipment measures.

Senator Bob Graham, who was helpful in securing enactment of the CBI law, has introduced legislation in the Senate to renew the

ATPA and to extend it to textile products, provided the final product is made of U.S. fabric, of U.S. yarn.

Let me state very clearly that ATMI would strongly oppose any efforts to weaken this fabric and yarn requirement. If the U.S. is to grant Andean countries greater access to our markets on a unilateral basis, the principles of fairness and reciprocity require that U.S. textile components be used.

We also note that Senator Graham's bill would permit duty-free entry for knit-to-shape apparel articles assembled in the Andean Region, and it also provides benefits to Andean knit-to-shape apparel from components formed in the U.S., regardless of where the yarns were made. They could be U.S., Andean, or Asian. It doesn't matter. These are significant differences from the precedent set in last year's Caribbean legislation and are in opposition to the intent of the legislation which is to promote increased trade in goods sourced from the region.

We further note that Senator Graham's bill provides for an additional 70 million square meters of imported apparel made of regional knit fabric of U.S. yarn, which would be allowed to increase over the next 3 years. While ATMI represents yarn spinners who could benefit from this provision, we also represent knitters who could be harmed by its inclusion.

Finally, as we stated earlier regarding the CBI law, we believe that texturing of yarns and dyeing and finishing of fabrics should be done only in the U.S., and U.S. Customs has yet to issue a final ruling on these issues. Because these issues are still unresolved, that adds greatly to our concerns with respect to the expansion of the ATPA to include textiles and apparel.

In light of our concerns cited above, and particularly in light of reports that this body might seek an even further weakening of the Graham bill to the detriment of our Members, we are opposed to expanding the ATPA to include textiles and apparel.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Moore follows:]

Statement of Carlos Moore, Executive Vice President, American Textile Manufacturers Institute

My name is Carlos Moore. I am Executive Vice President of the American Textile Manufacturers Institute (ATMI), which is the national trade association for the U.S. textile industry. Our member companies operate in more than 30 states and process approximately two thirds of all textile fibers consumed by plants in the United States.

ATMI welcomes this opportunity to discuss the outcome of the recent Summit of the Americas held in Quebec City, particularly with respect to how that meeting has set the stage for negotiations on a Free Trade Agreement of the Americas (FTAA). We will also discuss renewal of the Andean Trade Preference Act (ATPA) and its possible expansion to include textiles.

As we stated in a submission to the committee earlier this year, we are an industry that is simultaneously both a major exporter and one that is deeply impacted by foreign imports. Accordingly, since we do endeavor to compete in this global trading environment, the domestic textile industry believes that United States trade policy should be motivated by principles of fairness and equity. I would refer you to my statement of March 7 for a detailed account of this overall issue, as well as how our industry has fared in recent years, largely as a result of the financial problems in Asia and despite our efforts to constantly modernize and seek new export markets.

To preface my remarks, which will make several references to NAFTA, I would like to remind the Committee that ATMI initially took no firm position for or against the North American Free Trade Agreement. Rather, our Board of Directors

instructed ATMI's officers at the time, and ATMI staff, to work with our government to seek a yarn-forward rule of origin and effective Customs enforcement provisions. When the first Bush Administration incorporated this as its negotiating position, and was subsequently successful in getting such provisions into the final agreement, ATMI's Board then adopted a position in strong support of NAFTA, and we forcefully lobbied the Congress to urge NAFTA's adoption. The textile portion of the NAFTA is an outstanding case where a trade agreement is both fair and equitable to the textile sectors of all three NAFTA partners.

This is evidenced by the billions of dollars of two-way trade in textile and apparel exports that have been created since NAFTA was implemented. Indeed, during the past seven years, Mexico has overcome China to become by far the largest supplier of apparel to the United States. It was a deal that embodied the fairness and equity we would urge in an FTAA, although customs fraud has become an increasingly serious problem, as I will discuss later.

With respect to the subject of today's hearing, ATMI recognizes that the leaders of the 34 nations at the recent Summit of the Americas clearly support the goal of completing negotiations for an FTAA by January 2005. But as with all trade agreements, the details are critical as to whether an FTAA will help the U.S. textile industry establish beneficial trading partnerships with customers in these nations, as has been the case under NAFTA and in the Caribbean Basin. We believe that the goal of an FTAA from a textile perspective must be to establish measures that will benefit our industry.

As we stated in our March 7 testimony, it is important that the governments create a subgroup within the market access negotiating group dedicated to textile and apparel access issues. This would mirror the process that has been used in every major negotiation—including the Uruguay Round, NAFTA and the U.S.-Canada FTA—that has involved textiles and apparel to date. The issues involved in textile and apparel market access, which include safeguards, customs enforcement and verification and the negotiation of over 1,500 tariff lines, are technical and detailed. A dedicated sub-group on textile market access is absolutely necessary for a successful outcome. To date, no such sub-group has been established.

As was the case with NAFTA at this stage of the negotiations, ATMI's Board of Directors has not yet taken a formal position on an FTAA. However, in general terms we believe the agreement should, like NAFTA, have a basic yarn-forward rule of origin, but without: (a) the large tariff preference levels (TPLs) included in NAFTA that granted benefits to countries outside the free trade agreement; or (b) the special preferences given to 807A goods under NAFTA that did not require U.S. yarn. We also believe that customs enforcement provisions in the FTAA should include not only the provisions in NAFTA, but should be expanded to take into account the difficulty in policing an entire hemisphere. New customs programs should include those in the recently enacted Trade and Development Act of 2000. Other enforcement measures should also be included and ATMI will be ready to advise U.S. negotiators about them.

Specifically, the FTAA must be fair and beneficial to U.S. textiles; it must have enforceable rules and governments must commit to enforcing those rules. To use NAFTA as a point of reference, the textile and apparel rules must exclude granting benefits to non-participating countries through TPLs, have strict origin requirements, allow for cross-country customs verification and have reciprocal tariff phase-outs. Enforcement is key; each time that free trade is expanded, the opportunity for goods from outside the free trade region to enter illegally through transshipment or smuggling is expanded, to the detriment of all of the participating countries.

Indeed, seven years into the NAFTA agreement it has become clear that large-scale smuggling of textile and apparel goods into Mexico and the United States to avoid quotas and tariffs is now a problem of the first magnitude. These goods, which falsely declare NAFTA origin and which deprive the U.S. and Mexican Treasuries of many millions of dollars in duties, cause great harm to U.S. and Mexican producers of textiles and apparel and their workers. Despite the authorization of funds and of dedicated agency personnel to NAFTA textile enforcement in the NAFTA legislation, U.S. Customs has yet to crack down on this illegal trade.

To summarize, ATMI believes that the FTAA can provide benefits to the industries of all the participating countries, including U.S. textile producers, but only if a separate negotiating subgroup succeeds with a final package that includes textile and apparel provisions based on NAFTA, with the improvements we describe above.

On the matter of renewal of expansion of the ATPA, which expires in December, our industry is aware that the leaders of the four Andean Pact nations—Bolivia, Colombia, Ecuador and Peru—met with President Bush in Quebec City on the need to include textiles in a new agreement. We have serious concerns regarding this issue, particularly coming so close on the heels of last year's Trade and Development

Act of 2000. This law, which went into effect only seven months ago, has not been given the opportunity to achieve its desired results. We should be careful about doing anything which might diminish the benefits which the new law is intended to provide to the apparel producing countries of the Caribbean and to their yarn and fabric suppliers in the United States.

Moreover, there are still a number of outstanding issues which must be resolved before the new Caribbean Basin Trade Partnership Act's potential benefits and impact can be properly determined and evaluated. While ATMI endorsed and supported the CBI portion of that law, ATMI is still concerned about U.S. Customs' interpretation of key provisions of the Act, especially with respect to texturing of U.S. yarn and dyeing and finishing of U.S. fabrics.

ATMI's position is not unreasonable. Our position supports post-assembly apparel dyeing and finishing in the Caribbean. Our position also supports dyeing and finishing in the Caribbean for U.S.-formed yarn and thread required for use in qualifying apparel, as well as for regional knit fabric. Our position for U.S.-only dyeing and finishing would apply only with respect to U.S. fabric in garments not qualifying for the regional knit apparel or T-shirt allowance and to fabric used in textile luggage. Our position with respect to textured yarn—that is, that such yarn must be both extruded and textured in the U.S.—reflects the commercial reality of the most efficient and cost-effective way of producing textured yarn.

Also, the Sub-Saharan Africa portion of the Trade and Development Act of 2000 Act contained sections that were very troubling to our members. These included the lack of a workable surge mechanism, the size, structure and growth rate of the quota for garments made of non-U.S. components and generally weak anti-transshipment measures. These concerns will be taken into account in our evaluation of any Andean Pact renewal proposal that might include textiles.

Senator Bob Graham, who was so helpful in securing enactment of the CBI law, has introduced legislation in the Senate, S. 525, to renew the ATPA and to extend it to textile products provided the final product is made of U.S. fabric of U.S. yarn. Let me state very clearly that ATMI would strongly oppose any efforts to weaken this U.S. fabric and yarn requirement. If the U.S. is to grant the Andean countries greater access to our markets on a unilateral basis, the principles of fairness and reciprocity demand that only U.S. textile components be used.

We also note that Senator Graham's bill would permit duty-free entry for knit to shape apparel articles assembled in the Andean region from components knit to shape in the U.S. and/or a beneficiary country of U.S. yarn. It also provides such benefits to Andean knit to shape apparel from components formed in the U.S. regardless of the source of these yarns—they could be U.S., Andean, Asian—it doesn't matter. These are significant differences from the precedent set in last year's Caribbean Basin legislation, and are in opposition to the intent of the legislation, which is to promote increased trade of goods sourced from the region.

We further note that Senator Graham's bill provides for an additional 70 million square meters equivalent (sme) worth of imported apparel made of regional knit fabric of U.S. yarn, which would be allowed to increase by 16 percent annually over the next three years. While ATMI represents yarn spinners who could benefit from this provision, we also represent knitters who could be harmed by its inclusion.

Finally, we would like to reiterate our support for a ruling by Customs, as stated above, regarding texturing of yarns and dyeing and finishing of fabrics under last year's CBI law, and we are still waiting for that favorable determination. Because that issue is still unresolved, that is another uncertainty that adds to our concerns with respect to the expansion of the ATPA.

In light of all the concerns cited above, and particularly in light of reports that this body might seek an even further weakening of the Graham bill to the detriment of our members, we are opposed to expanding the ATPA to include textiles.

In closing, Mr. Chairman, ATMI is not opposed to fair and equitable trade agreements which establish mutually beneficial trading arrangements and thus create a true economic partnership between U.S. textile companies and our customers in other regions. That is why we supported NAFTA and the Caribbean provisions of last year's trade bill. Let's establish a true economic partnership within this hemisphere that benefits apparel makers throughout the FTAA region and U.S. textile producers.

Thank you.

Chairman CRANE. Thank you, Mr. Moore. Mr. Lamar.

STATEMENT OF STEPHEN LAMAR, DIRECTOR, GOVERNMENT RELATIONS, AMERICAN APPAREL AND FOOTWEAR ASSOCIATION, ARLINGTON, VIRGINIA

Mr. LAMAR. Thank you. My name is Steve Lamar and I'm Director of government Relations for the American Apparel and Footwear Association, the national trade association of the apparel and footwear industries.

Just to give you a sense of where we fit in, our Members purchase fabric from companies like those in Mr. Moore's group, or we make our own fabric. We then go and make clothing either in the United States or abroad, and then we sell the clothing ourselves or through companies like those in Mr. Autor's group.

Thank you for providing our Association the opportunity to appear before you today. I would like to focus my comments this afternoon on the need for a robust renewal and expansion of the ATPA as it relates to the apparel industry.

The American Apparel and Footwear Association supports enhancement of the ATPA to provide additional benefits for apparel produced in the Andean Region. Expansion of the current ATPA to provide such benefits, to the extent they provide an effective incentive to sourcing and production in the region, is a natural extension of our policies to promote hemispheric integration and to eliminate the economic conditions that permit drug trafficking in the Andean Region. Expansion of the ATPA is also a key stepping stone to negotiation of a well-balanced and commercially viable Free Trade Area of the Americas, a goal we also support.

In general, we believe any expansion of the ATPA benefits to cover apparel products should incorporate the following principles:

First, the program should be simple to use. As this Subcommittee knows all too well, a similar extension of benefits to the Caribbean Basin and African countries is mired in disputes over arcane and complex rules of origin. Although these programs provided important new incentives for apparel production and, consequently, U.S. textile and yarn exports—by the way, I congratulate the Subcommittee for the leadership they exhibited last year in getting this legislation passed—it has been difficult to realize fully these incentives because of problems in delays and interpreting the law and in promulgating rules and regulations.

Second, the program should be unique to the trading relationships with and within the Andean Region. One of the goals of the program is to provide legitimate job creation opportunities in the region. Such goals are thwarted, however, if existing Andean exports to other Andean markets are diminished by an overly restrictive rule of origin. Similarly, an overly restrictive rule of origin will make it difficult for new investments and production—which may depend on Andean, Asian or European fabrics—to stimulate job creation.

Third, the program should promote flexible sourcing of apparel and their inputs within a given rule of origin. For example, the rule of origin should reflect a negative list of goods that cannot qualify for preference, rather than a positive list of goods that can. This would ensure maximum opportunities to navigate within a particular rule of origin and eliminate some of the interpretation

problems we have seen with regard to the Caribbean Basin and Africa legislation.

Fourth, the legislation should be of sufficient duration to provide meaningful incentives for investment and trade. This is especially important if the preferences are subject to significant labor, antinarcotics, and trade conditionality. If the countries are going to be required to make long-standing commitments to gain better access to the U.S. market, fairness dictates that the access be given an equally longstanding nature.

Finally, this legislation should provide a bridge to the Free Trade Area of the Americas for the ATPA region. It should help prepare countries for their FTAA commitments while promoting the kind of trade linkages that will develop and strengthen under the FTAA.

In my written statement I have provided some statistics and graphs that highlight features of the ATPA apparel trade environment. These statistics show significant differences between the ATPA and the CBI regions, suggesting that the CBI trade partnership model, per se, may not be the most appropriate and effective model for the Andean region. The data also show that there are well-developed patterns of input sourcing that rely upon other Andean sources, as well as sources outside the region.

Finally, the data emphasize that, although this region is not an important sourcing center for the United States, this region depends greatly on access to the U.S. market for its apparel products.

In conclusion, I would like to emphasize that the AAFA strongly supports expansion of the ATPA to include apparel. A number of our members are manufacturing in those countries and others have signaled their interest in sourcing from those countries in the future if a flexible and easy-to-use program is created.

An ATPA program that is simple, flexible, and accommodates and maximizes the natural advantages of the region, will offer the best opportunities and incentives for our members to commence and expand their trade partnerships with these countries. But one that is overly restrictive, or which effectively negates the duty savings by imposing additional costs, will be largely ignored by our industry.

Thank you for providing us this opportunity to be here today, and I'm available for any questions.

[The prepared statement of Mr. Lamar follows:]

Statement of Stephen Lamar, Director, Government Relations, American Apparel and Footwear Association, Arlington, Virginia

Thank you for providing us the opportunity to discuss the need for a "robust" renewal and expansion of the Andean Trade Preference Act (ATPA) as it relates to the apparel industry.

The American Apparel and Footwear Association (AAFA)—the national trade association of the apparel and footwear industries—supports the enhancement of the ATPA to provide additional benefits for apparel produced in the Andean region. Expansion of the current ATPA to provide such benefits, to the extent that they provide an effective incentive to sourcing and production in the region, is a natural extension of our policies to promote hemispheric integration and to eliminate the economic conditions that permit drug trafficking in the Andean region. It is also a key stepping stone to negotiation of a well-balanced and commercially viable Free Trade Area of the Americas (FTAA), a goal we also support.

In general, we believe any expansion of the ATPA benefits to cover apparel products should incorporate the following principles.

First, the program should be ***simple*** to use. As this Subcommittee knows all too well, a similar extension of benefits to the Caribbean Basin and African countries is mired in disputes over arcane and complex rules of origin. Although those programs provided important new incentives for apparel production (and consequently U.S. textile and yarn exports), it has been difficult to realize fully these benefits created by those incentives because of problems and delays in interpreting the law and in promulgating rules and regulations.

Second, the program should be ***unique*** to the trading relationships with and within the Andean region. One of the goals of the program is to provide legitimate job creation opportunities in the region. Such goals are thwarted, however, if Andean exports to other Andean markets are diminished by an overly restrictive rule of origin. Similarly, an overly restrictive rule of origin will make it difficult for new investments and production—which may depend upon Andean, Asian, or EU fabrics—to stimulate job creation.

Third, the program should promote ***flexible sourcing of apparel and their inputs*** within a given rule of origin. For example, the rule of origin should reflect a "negative list" of goods that cannot qualify for preference rather than a "positive list" of goods that can. This would ensure maximum opportunities to navigate within a particular rule of origin and eliminate some of the narrow interpretation problems we have seen with regard to the Caribbean Basin and Africa legislation.

Fourth, the legislation should be of ***sufficient duration*** to provide meaningful incentives for investment and trade. This is especially important if the preferences are subject to significant labor, anti-narcotics, and trade conditionality. If the countries are going to be required to make long-standing commitments to gain better access to the U.S. market, fairness dictates that the access be of an equally long-standing nature.

Finally, this legislation should provide a ***bridge to the Free Trade Area of the Americas*** for the ATPA region. It should help prepare countries for their FTAA commitments while promoting the kind of trade linkages that will develop and strengthen under the FTAA.

With these five goals in mind, I would like to provide some observations on the textile and apparel industry trade with and in the Andean region.

Apparel trade from the ATPA region is fairly small both in absolute terms and compared with other U.S. imports. In 2000, the United States imported 159.9 million Square Meter Equivalents (SMEs) of apparel from the ATPA region. This represents less than one percent of the total U.S. apparel imports and less than 5 percent of imports when compared against those from the Caribbean Basin Initiative (CBI) countries. At the same time, the U.S. represents a significant market for apparel exports from the ATPA countries. (Figure 1A and 1B).

ATPA apparel trade is not based on the same production-sharing module that is the basis for the CBI countries. In 2000, about 35 percent of all apparel imported from the ATPA region was entered under the 807 program (meaning components were cut in the United States). Because there is no special access program in place with the ATPA countries, no apparel was entered under an 807A-style program (which requires the use of U.S. fabric). In contrast, in 2000, at least 82 percent of apparel imported from the CBI was entered under a program that requires U.S. components, with a large portion of that requiring U.S. fabric. (Figure 2).

When examining the make up of the ATPA's production sharing trade, it becomes clear that Colombia, the largest source of overall apparel imports from the Andean region, is the dominant player. More than 91 percent of all ATPA production sharing trade with the United States takes place with Colombia. Although once a dominant part of Colombia's trade with the United States, 807 trade has diminished in recent years as Colombia has repositioned itself away from the production sharing trade. From 1997 to 2000, the percentage of Colombia's production sharing trade with the United States dropped from 80 percent to less than 55 percent of all apparel exports to Colombia. (Figure 3).

Apparel imported from the Andean countries is generally more expensive than that imported from the CBI countries. ATPA woven apparel is approximately 25 percent more expensive (when examining $/Kg for Chapter 62 imports) than similar goods from the CBI region. ATPA knit apparel is approximately 75 percent more expensive than similar goods imported from the CBI region. Conversations with manufacturers in the region attribute a variety of factors to this cost increase, including security expenses, transportation costs, higher labor costs, and higher prices commanded by certain apparel products made with specialty fabrics (Figures 4A and 4B).

In general, the Andean countries import fabrics from a variety of sources. During 1997, the last year that such figures are available from the OAS, the U.S. was a leading supplier of fabric, yarns, and fibers to the Andean region. However, Andean countries imported significant quantities of fabrics, yarns, and fibers from within the Andean region and from countries in Asia and Europe, depending upon individual fabric requirements. For example, fine woolen fabrics for tailored clothing are sourced in Europe because of diminished sources of U.S. woolen fabrics and because the Andean woolen fabrics are not of sufficient quality for those particular garments. Cotton fabrics are sourced in the Andean region (primarily Peru and Colombia) and the United States, which has an established presence in all markets. Man made fiber fabrics are sourced in various regions, including the United States and Asia (Figures 5A, 5B and 5C).

Looking at it another way, Andean countries represent a significant export market for fabrics from other Andean countries. Bolivia, for example, relies upon other Andean countries to consume about a third of its wool fabric exports. Similarly, Colombia and Peru have significant export markets in the region for cotton and some man made fibers. These figures, of course, do not include fabrics produced and consumed entirely within a single Andean country.(Figure 6).

Together, these statistics show significant differences between the ATPA region and the CBI region, suggesting that the CBI trade partnership model *per se* may not be the most appropriate and effective model for the Andean region. The data also show that there are well-developed patterns of input sourcing that rely upon other Andean sources as well as sources outside the region. Finally, the data emphasize that, although this region is not an important sourcing center for the United States, this region depends greatly on access to the U.S. market for its apparel products.

In conclusion, I would like to emphasize that the AAFA strongly supports expansion of the ATPA to include apparel. A number of our members are manufacturing in those countries and others have signaled their interest in sourcing from those countries in the future if a flexible and easy to use program is created. An ATPA program that is simple, flexible, and accommodates and maximizes the natural advantages of the region will offer the best opportunities and incentives for our members to commence and expand their trade partnerships with these countries. But one that is overly restrictive, or which effectively negates the duty savings by imposing additional components, compliance and logistical costs, will be largely ignored by our industry.

Thank you for providing us this opportunity. I am available to answer any questions.

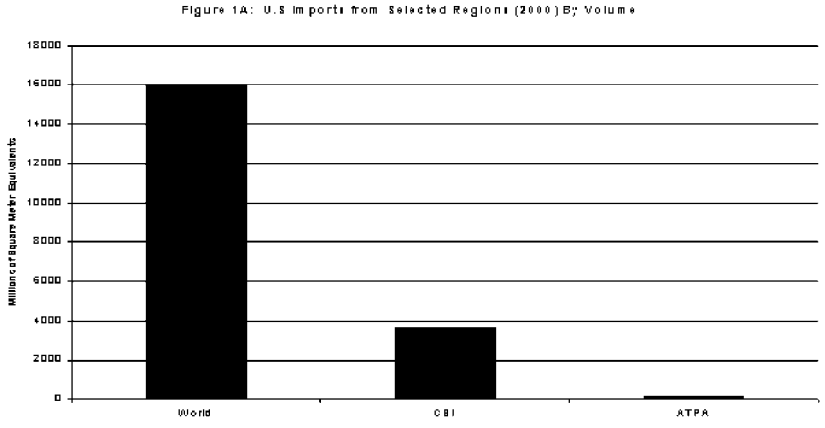


Figure 1.B: Percent of Andean Apparel Exports Destined for U.S.
(1997) (Based in Dollar)

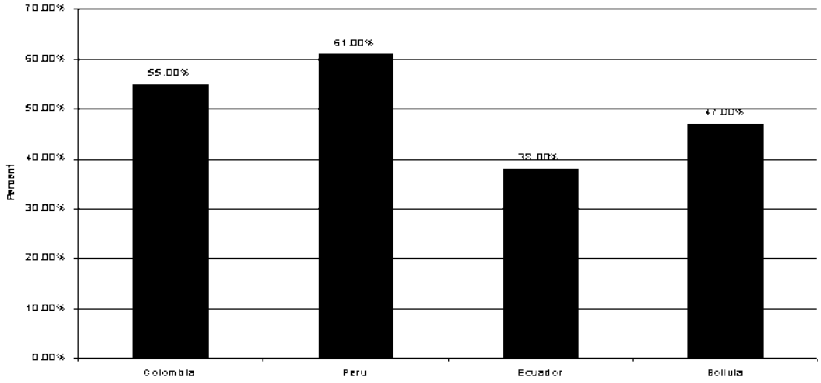


Figure 2: CBI and ATPA Composition of 807/807A Trade
(2000 – based on volume)

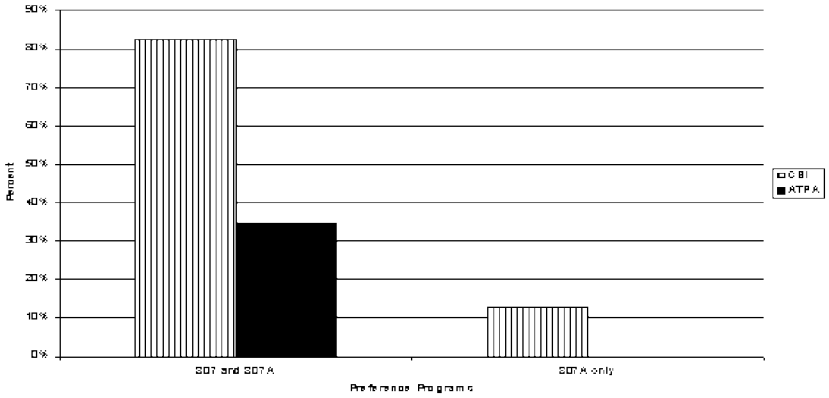


Figure 3: 807 Percent of Total Apparel Imports from Colombia
(Volume)

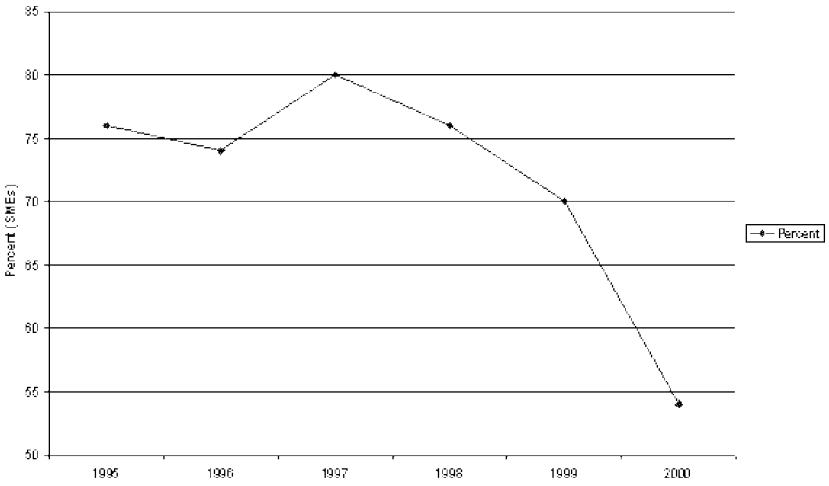


Figure 4A: Import Prices Between CBI and ATPA (Wovens)

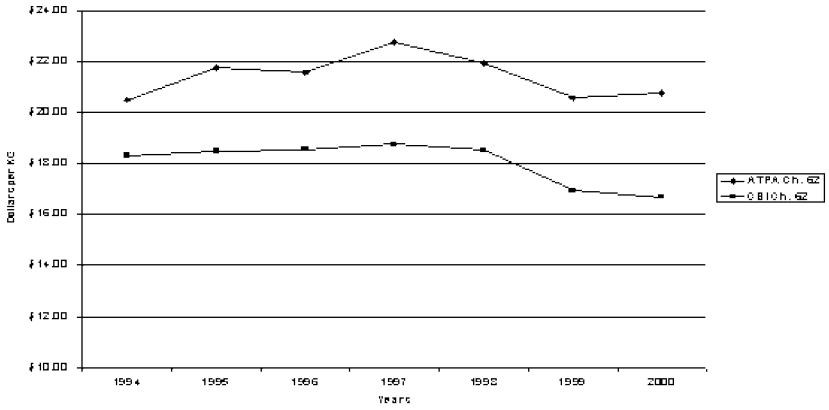
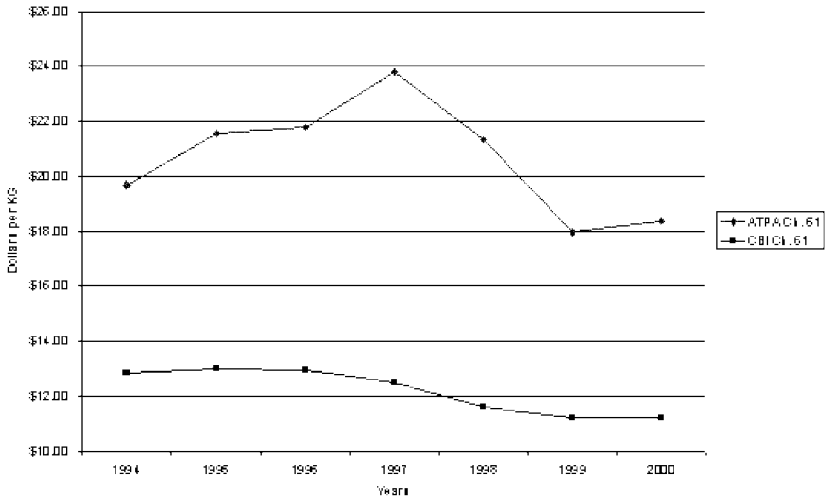
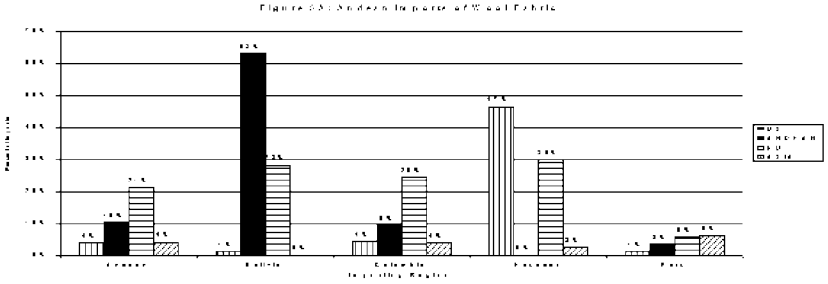


Figure 4B: Import Prices Between CBI and ATPA (Knits)





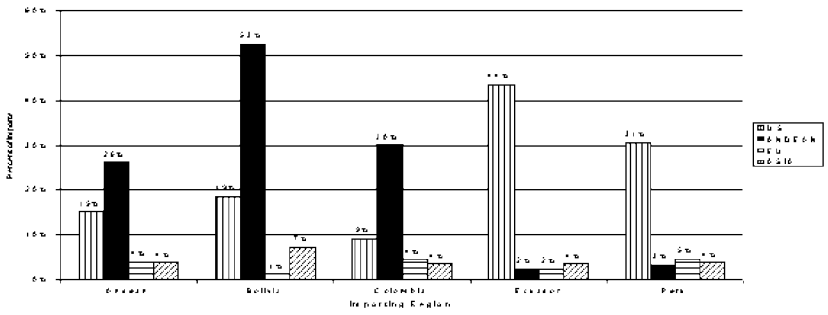
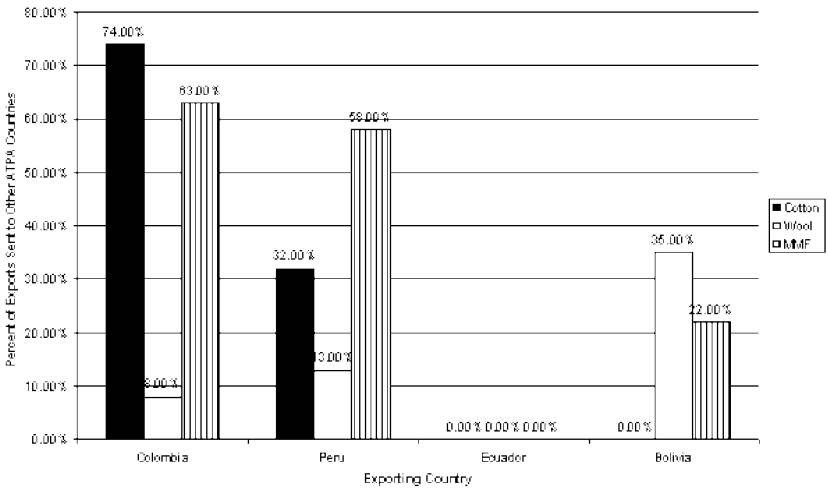


Figure 6: Andean Consumption of Andean Fabric Exports in 1997 (Dollars)



Chairman CRANE. Thank you, Mr. Lamar. Mr. Autor.

STATEMENT OF ERIK AUTOR, VICE PRESIDENT AND INTERNATIONAL TRADE COUNSEL, NATIONAL RETAIL FEDERATION

Mr. AUTOR. Thank you, Mr. Chairman.

My name is Erik Autor. I am Vice President and International Trade Counsel with the National Retail Federation. The National Retail Federation appreciates the opportunity to present the views of the U.S. retail industry on an enhanced Andean initiative and on the Free Trade Area of the Americas.

NRF is the Nation's largest trade association representing the retail industry. NRF Member companies cover the entire spectrum of retailing, including department, specialty, discount, catalogue, Internet and independent retailers. U.S. retailers employ 23 million Americans, about one in five workers in this country, and registered sales in 2000 of over $3 trillion.

First of all, I would like to associate myself with Mr. Lamar's comments. We discuss the retail industry's views on the FTAA in our written statement, and, in the interest of time, I shall focus my remarks on the Andean initiative, which we view as a building block to the FTAA.

An Andean initiative should advance the larger U.S. policy goals for the Andean region: stopping narcotics production and trafficking, and promoting political and economic stability. To reflect those larger goals, we believe this initiative should be called the Andean Regional Stabilization and Development Act. It is doubtful, however, that these goals can be achieved without a trade program

that provides economic options and opportunities for the people of the region.

Currently, workers and farmers in the Andean countries have few decent employment opportunities in legitimate industries. An Andean initiative that includes trade preferences for apparel could quickly provide thousands of jobs for these people, particularly women. These jobs would not threaten U.S. production or jobs. The Andean countries are small suppliers to the United States market, at less than 1 percent of imports, and are likely to remain so for the foreseeable future.

By providing needed business and investment, U.S. retailers can play an important role in helping to develop an integrated textile and apparel industry in the region. U.S. retailers are interested in new apparel sourcing opportunities in the Andean region, but that new business will be created if, and only if, the right incentives are in place.

In structuring a trade preferences program for apparel, the Caribbean Basin Trade Initiative that Congress passed last year is not an appropriate model for the Andean region. Looking at their competitiveness, the cost of doing business, the structure of their textile and apparel industries, the size and patterns of trade, the Andean countries have more in common with sub-Saharan Africa than the Caribbean Basin region.

In our view, a viable textile and apparel trade program for the Andean countries must be simple to use and structured to recognize the unique problems and needs of the Andean region. It must avoid complex rules of origin and eligibility restrictions that become disincentives for using the program. I have in mind here restrictions that require the use of only U.S. inputs, such as yarn and fabric, or require that certain production operations occur only in the United States, such as dyeing and finishing of yarn and fabric.

A viable textile and apparel trade program must also provide sufficient incentives for retailers and other U.S. businesses to use the program. Under a viable trade program, we believe that trade preferences should apply to any apparel assembled or knit-to-shape in one or more Andean countries from inputs produced in the United States and/or one or more Andean countries that provide the essential characteristics to that apparel; from yarn or fabric, regardless of origin, determined to be in short supply, and yarn and fabric produced outside the United States and the Andean region subject to reasonable limitations, to encourage the development of an integrated textile and apparel industry in the region.

U.S. retailers want to see trade with the Andean region grow, and by increasing their business in the region, are prepared to play a role in furthering the larger U.S. policy goals for the region. However, retailers have other sourcing options in places where, quite frankly, it is easier to do business—Asia, Mexico, and the Caribbean Basin. Without adequate incentives in place, retailers will go elsewhere and there will be no new business in the Andean region.

If the incentives are insufficient to attract U.S. retailers, who sell clothing, to do more business in the region, the result will be lost business opportunities for U.S. cotton growers, yarn spinners, fabric producers and apparel manufacturers, who make clothing and

the inputs for producing clothing, as well as producers and workers in the region.

More importantly, the likelihood of achieving our country's larger foreign economic and drug policy goals for the region would be diminished.

Thank you for the opportunity to speak before the Subcommittee.

[The prepared statement of Mr. Autor follows:]

Statement of Erik Autor, Vice President and International Trade Counsel, National Retail Federation

I. Introduction

My name is Erik Autor. I am a Vice President and International Trade Counsel for the National Retail Federation (NRF). NRF is the nation's largest trade association representing the U.S. retail industry. NRF members cover the entire spectrum of retailing—department, specialty, discount, catalog, Internet, and independent stores—and also include 32 national retail associations and all 50 state retail associations. NRF speaks for an industry that encompasses over 1.4 million retail establishments, employs more than 23 million people—about 1 in 5 American workers, and registered sales of over $3 trillion in 2000.

NRF and the U.S. retail industry strongly support the negotiation of a Free Trade Agreement of the Americas (FTAA), and expanding the current trade program through the Andean Trade Preferences Act (ATPA) as an important stepping-stone towards creation of the FTAA. Initially, we would make the following general points on these initiatives:

- With respect to the Andean program, a "robust" trade initiative is critical to achieving the larger U.S. foreign, economic, and drug policy goals for the region.
- An essential component of a "robust" Andean trade initiative is to provide trade benefits for apparel products produced in the Andean region with strong incentives to encourage U.S. investment and business in the region and create jobs in legitimate industries.
- With respect to the FTAA, NRF strongly believes that the Administration should not exclude any issue, including the U.S. trade laws, from the negotiating agenda.

II. The Andean Regional Initiative

It should first be emphasized that the United States has critical foreign policy interests in the Andean Region. This region is the most politically and economically unstable area in the hemisphere and is a major production point for illegal narcotics smuggled into this country. Economic and political instability has also resulted in an increase in illegal aliens coming into the United States from countries in the region. It is, therefore, in the interests of the United States to implement policies that will effectively address these problems—curtail the production and trafficking of illegal narcotics, encourage political and economic stability in the Andean countries, help build democratic institutions, foster market-based economic reforms, generate economic growth, and create decent employment opportunities in legitimate industries.

With these larger goals in mind, we do not believe that an expanded Andean initiative should be seen primarily as a unilateral trade preferences program and certainly not mainly as a textile and apparel trade initiative. Bigger issues are at stake. Indeed, we might even suggest that the Congress consider a new name for this initiative—The Andean Regional Stabilization and Development Act (ARSDA).

That being said, we believe it will be difficult, if not impossible to achieve these larger policy goals without a trade component that will actually work to encourage U.S. investment and trade with the region. Only U.S. trade and investment can provide the capital necessary to reverse the massive unemployment in the Andean countries and create economic and employment opportunities in legitimate industries as an alternative to coca production and narcotics trafficking.

On this point, U.S. retailers can play an important role. Many retailers are interested in new apparel sourcing opportunities in the Andean region. The countries of the Andean region—Colombia, Peru, Ecuador, and Bolivia—have integrated textile and apparel industries that, while comparatively small, produce high-quality cotton knit shirts and trousers, baby garments, and specialty items, such as swimwear. However, to increase sourcing of apparel in the region, retailers need the right incentives in place. The obstacles to doing business in much of the Andean region are daunting. Crime, corruption fed by the insidious influence of narco-traffickers, polit-

ical instability, and lack of adequate infrastructure present huge disincentives for American companies doing business in the region when other alternatives in Asia, Mexico, and the Caribbean Basin are available. However, the picture is not all bleak. As the example of the development of a thriving cut flower industry in Colombia and other Andean countries demonstrates, when the right incentives are in place, legitimate industries can grow and prosper in the region.

Other than a handful of industries, like cut flowers, workers in the Andean countries currently have few decent employment opportunities. Many peasants in the Andean highlands have few economic alternatives to growing coca. However, the members of the drug cartels take the lion's share of the profits from drug trafficking, not the peasant growers, most of whom survive at a bare subsistence level. The region also has large unemployed and underemployed urban populations. Moreover, jobs in the region's existing apparel industry are threatened as companies have begun moving production to Mexico and countries in the Caribbean Basin, which are more competitive than the Andean region, have closer proximity to the U.S. market, and can take advantage of existing trade preferences under the NAFTA, the U.S.-Caribbean Basin Trade Partnership Act (CBTPA) and the Caribbean Basin Initiative (CBI).

Increased trade with the United States would lead to the building of new textile and particularly apparel factories that would quickly provide jobs to thousands of rural peasants and urban workers. Following the current pattern in developing countries, jobs in these factories would pay wages at higher levels than the national average wage. They would also provide employment opportunities, particularly for women. The pattern of economic development in every country, including the United States and Japan, has shown that the establishment of a viable textile and apparel industry has always been the first rung on the ladder to creating a modern, industrial economy. The pattern has also shown, that giving women employment opportunities and control over their family's finances is the best way to provide people in developing countries the economic resources to move up the economic ladder and obtain marketable education and training.

It is important that we take quick action to stop the flight of apparel production from Colombia to Mexico and the Caribbean Basin and make the textile and apparel industries in the Andean region more competitive. Like the sub-Saharan African countries, the small textile and apparel producers in the Andean region are likely to be big losers to the more efficient producers in Asia once textile and apparel quotas are eliminated at the end of 2004. Just as AGOA has given the sub-Saharan African countries a fighting chance to get into the game, we need an Andean initiative that will allow the textile and apparel producers in the region to become more competitive and attractive to U.S. business in preparation for a quota-free world in 2005. This goal cannot be achieved without a sensible, incentive based textile and apparel program.

It should be emphasized that an increase in textile and apparel jobs and production in the Andean region does not threaten U.S. jobs. In 2000, American consumers spent about $300 billion on apparel. U.S. textile and apparel imports from the ATPA region totaled just $831 million (before markup) or about 0.5 percent of the U.S. market. This level of trade is comparable to that of the sub-Saharan region. In contrast, Mexico and the Caribbean Basin region account for 27 percent of total U.S. textile and apparel imports. Therefore, for the foreseeable future, it is evident that, the Andean region is likely to be a comparatively small, niche player in supplying apparel to the United States and that any sourcing shifts created as a result of increased trade with the Andean countries will come at the expense of other foreign producers, most likely in Asia.

The question arises—what incentives would U.S. retailers need to increase sourcing and investment in the Andean region? The experience of the CBTPA over the last year provides us some useful lessons. Unfortunately, with the CBTPA we have faced a host of implementation problems, in which the Customs Service has interpreted most ambiguities in the language in the most trade restrictive way. Moreover, the complex rules of origin, exclusions of certain categories of apparel made from regional fabric, quantitative limitations on categories of eligible apparel products made from regional fabric, and weak short-supply procedures, have proven to be disincentives for retailers in using the program. As a result, U.S. retailers, apparel manufacturers, textile and apparel importers, yarn spinners, cotton growers, and fabric manufacturers, as well as the Caribbean Basin countries have been so far disappointed that the program has failed to generate as much trade as hoped.

The potential problems that could arise in constructing the Andean initiative are of even greater concern. With their competitive handicaps vis-à-vis the Caribbean Basin countries, it is clear that if Congress merely provides the Andean countries the same trade benefits as under the CBTPA, there will be *no* new trade and invest-

ment. In order to avoid the problems in the CBTPA legislation and create a viable program that would be more than window dressing, the trade preferences for apparel must be simple, easy to use, and provide more generous level of incentives than are available under the CBTPA. Specifically, we would advocate that the Andean program provide trade preferences to any apparel assembled or knit-to-shape in one or more Andean countries from:

- Inputs (yarn and fabric) produced in the United States and/or one or more Andean countries.
- Yarn or fabric regardless of origin that is determined to be in short supply.
- Yarn and fabric produced outside the United States and the Andean region subject to reasonable limitations.

Without such incentives, U.S. retailers will not increase sourcing and investment in the Andean countries and will continue to source largely from Asia, Mexico, and the Caribbean Basin. If the incentives in the program are insufficient to attract U.S. retailers, it will also mean lost business opportunities for U.S. cotton growers, yarn spinners, and fabric producers, and apparel manufacturers. If the companies that sell apparel at retail in the U.S. are not doing business in the region, then the U.S. suppliers of inputs to make that apparel will not have any new business in the region. But, more disturbingly, without the business of U.S. retailers in the Andean countries, the likelihood of achieving our country's larger foreign, economic, and drug policy goals for the region is also diminished.

II. The Free Trade Area of the Americas

It is our view that regional trade initiatives such as the CBTPA and the Andean initiative can serve as important building blocks for negotiation of the Free Trade Area of the Americas (FTAA). NRF has been a strong supporter of the FTAA since its inception, under the Clinton Administration, and its predecessor, the Enterprise for the Americas Initiative, under the first Bush Administration.

In the FTAA and other trade negotiations, some domestic industries have pressured U.S. negotiators to take certain issues, such as the U.S. trade laws, off the table. It is widely held that, in trying to develop a negotiating agenda for the next round at the World Trade Organization (WTO), use of this tactic played a key role in the failure of the WTO Ministerial in Seattle. Therefore, as a negotiating strategy, we strongly urge the Bush Administration not to tie their hands by excluding any issue, and especially trade remedies laws, from the FTAA negotiating agenda.

As a substantive matter, application of the antidumping law is frequently defended on the basis that foreign producers are using protected ″sanctuary″ home markets as a way to subsidize their foreign exports at dumped prices. Since a free trade agreement would eliminate the ability of a producer to create a sanctuary home market, we believe that the application of the antidumping laws is an appropriate topic of discussion in negotiations on free trade agreements.

We are also of the opinion that, with the elimination of the global textile and apparel quotas in less than four years, the inclusion of any special protections for the textile and apparel sector in the FTAA negotiations is unwarranted. We are particularly concerned about an unduly long phase out of textile and apparel duties, burdensome textile and apparel rules of origin (often in the guise of addressing illegal transshipment) that inhibit rather than encourage trade, and special safeguards that apply only to textiles and apparel. If we are serious about eliminating trade barriers and liberalizing trade across the board in free trade agreements, then we need to seriously address the remaining trade barriers on textiles and apparel, including U.S. duties that average 16 percent on these products.

Chairman CRANE. Thank you, Mr. Autor.

Before we get to questions, let me remind colleagues on the Committee here that tomorrow our Andean Trade Ministers have agreed to meet with us, with the full Committee on Ways and Means, and we're looking forward to that meeting. So we will reserve questions for you folks until we sit with you tomorrow. Anyone who has any questions for our other witnesses, since we have to be out of here in approximately eight minutes, I will start with Mr. Rangel.

Mr. RANGEL. I will yield, Mr. Chairman.

Chairman CRANE. Mr. Rangel yields back his time. Mr. Levin.

Mr. LEVIN. Thank you very much.

Let me just ask one question, because, as mentioned, we are going to have the opportunity to meet with the Trade Ministers tomorrow. If I might then focus a question on those of you who won't be here tomorrow. Again, thank you for your testimony. I think you have helped to focus this discussion very well, all of you. You clearly have somewhat different interests in mind, and that is what this is all about, seeing how we can talk about apparel and fabrics and piece them together.

Mr. Moore, let me ask you, so that I'm clear, and my colleagues are clear, in your testimony—and we won't have time to go into a lot of detail, but let's just spend a minute or two probing this. You say at the bottom of the third page, "If the U.S. is to grant the Andean countries greater access to our markets on a unilateral basis—" and any Andean agreement, I suppose, would be unilateral, though eventually part of a multilateral agreement "—the principles of fairness and reciprocity demand that only U.S., textile components be used." Then you go on to conclude that, in light of the concerns that you've laid out, particularly in light of reports that this body might seek an even further weakening of the Graham bill, to the detriment of your Members, you are opposed to expanding the ATPA to include textiles. Let me, if I might, just ask you a question or two about that.

As I understand it, there is, within the Andean countries, some considerable use of materials, or fabric, that doesn't compete with that produced in the United States. There is some of that, isn't there?

Mr. MOORE. Certainly there is some, and we never suggested there was no textile production in the Andean countries.

Mr. LEVIN. But there is some production there of fabric that isn't made in the United States—in other words, it's not competitive with American production of materials or fabric? Or am I wrong?

Mr. MOORE. There may be. There may be some exotic fibers that we don't process here. But I'm not aware of a lot of fabrics that are made in the Andean countries that we do not make.

Mr. LEVIN. So you're saying there isn't any substantial material, fabric, that is made in the Andean region which is not also made in the United States?

Mr. MOORE. There may be some, I said, but——

Mr. LEVIN. But you think it's small?

Mr. MOORE. As I said, maybe some exotic fibers, but in both the NAFTA and CBI law, there were provisions to exclude fabrics that were not made at all in the United States. So we would not be opposed to——

Mr. LEVIN. You wouldn't be opposed to that kind of provision?

Mr. MOORE. No. It was other provisions we were concerned about.

Mr. LEVIN. Mr. Chairman, our time is running out. We have just started on this today and I know we'll work on it further. Thank you. It has been an excellent panel, and thank you for your patience.

Chairman CRANE. I think Minister Ramirez wanted to respond to your question.

Mr. LEVIN. Okay. I didn't want to take up the time of my other colleagues for questions. Please.

Ms. RAMIREZ. Mr. Chairman, thank you, and thank you, Congressman Levin.

I just want to add something to Mr. Moore's comments. This is not only a question about exotic fibers. This is also a question about some specific fibers and jobs that we are doing with some American raw materials. In the case of cotton, for example, we are importing into the Andean region something close to $80 million of cotton from the United States. We are using this cotton in order to produce jobs and textiles. So these textiles can be used for a Colombian or Peruvian or Equadorian or Bolivian apparel that we are expecting to export to the United States. So that's why I like very much the association of retailers proposal, in order to have a regional content that permits us to use Colombian fibers or regional fibers made with some of the American raw materials, which gives the United States also the benefit of including some of your goods in the apparel that we are going to export to you with preferential access. So this is not only exotic fibers. These are regular fibers that we are expecting to use also. Thank you.

Chairman CRANE. Thank you.

Mr. LEVIN. Mr. Moore, do you want to briefly comment?

Mr. MOORE. Well, that was my point. As I mentioned, our industry is really being clobbered right now with several major developments that have occurred in the last year—the slowdown of the economy and the imports that continue from countries that keep their own markets closed. We are facing bankruptcies, two this week, and one mill was closed by creditors. We lost over 25,000 jobs last year, and thousands this year.

Now, the ATPA is a true unilateral grant of access to the U.S. market. We're not talking about this in the FTAA context. We recognize in the FTAA context that that's a two-way deal, like NAFTA is. But in a unilateral grant, we do not want to endanger our workers and our production any further. We think there can be gains for both under the CBI model, gains in U.S. textile production and in U.S. textile employment, and gains in apparel production and employment in the Andean region.

So that is the position that we are taking. We are being hammered right now, very badly, and when you look at job losses of thousands and thousands in one year, and the first loss on sales that our industry has ever sustained in modern times—a $500 million loss in 2000—we believe that you need to structure an agreement so that you can provide some incentive for growth and survival for our industry.

Mr. LEVIN. Thank you.

Chairman CRANE. Let me thank all of our panelists. Unfortunately, we are going into session and it's my understanding we will have a recorded vote on the floor very soon, if not immediately. But I want to express appreciation to all of you for participating as panelists today. We are sorry for the program running as long as it did, and for our Ministers here from the Andean countries, we look forward to seeing you tomorrow.

Thank you all. The Subcommittee standards adjourned.

[Whereupon, at 6:02 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of the American Farm Bureau Federation

The American Farm Bureau Federation is the nation's largest agricultural organization with over five million member families. Our members produce every crop raised in America and depend on exports for over one-third of their total production.

Negotiations now underway in the Free Trade Area of the Americas are important to our members from both an import and export perspective. This agreement will create an open market of 34 countries. Several of these nations produce many of the same commodities that we grow in America. According to a recent U.S. Department of Agricultural report, the commodities that are expected to benefit from an FTAA include wheat, soybeans, cotton and corn. Conversely, increased competition in the U.S. market could substantially affect U.S. sugar, peanut and orange juice producers. Producers from these countries already enjoy significant access to our market and also compete with us in the international marketplace. It is imperative that U.S. producers begin to enjoy access to the FTAA markets on equal terms.

We also view the FTAA as an opportunity to apply the trade lessons we learned from the North American Free Trade Agreement. On average, NAFTA has significantly benefited the U.S. agricultural sector. When you take a closer look at specific commodities, however, there have been some winners and losers. While we cannot expect significant gains for all commodities in all trade agreements, we can, and must, ensure that the rules that are adopted as part of the FTAA result in fair trading opportunities. To this end, we have requested that special safeguards be implemented in the FTAA for perishable commodities that account for seasonality and regionality.

Recognizing the importance of achieving such an agreement, the Farm Bureau believes very effort must be made to develop negotiating consensus in the Western Hemisphere that underscores the objectives the United States seeks to achieve in the WTO negotiations. Although important gains can be made in the FTAA including eliminating export subsidies, disciplining state trading enterprises and ensuring market access for bioengineered commodities, the real gains from trade are more likely to be achieved in the WTO negotiations on agriculture.

Most importantly, any agreement reached in the FTAA must recognize the existing rights and obligations of the General Agreement on Tariffs and Trade (GATT) 1994 as provided in the Marrakesh Declaration, which established the WTO. Agreements reached as a result of the FTAA negotiations should in no way subordinate or prejudice member parties' WTO commitments.

The Farm Bureau supports adoption of the following general objectives for the FTAA negotiations:

- Require compliance with existing WTO commitments of all WTO-member trading partners in the FTAA.
- Stipulate that no signatory should be permitted to protect or exclude any sector, or commodity within that sector, from meeting the terms of the agreement.
- Provide for the continued and regular use of private commodity and trade policy advisory group input into the FTAA negotiation process.

General Market Access:

Customs Procedures:

- Develop equivalent customs procedures to facilitate the flow of traded products and minimize market disrupting commercial disputes.

Rules of Origin:

- Establish standardized rules of origin.

Agricultural Market Access:

- Allow for adoption of zero-for-zero sectoral initiatives where commodity specific support for such an approach exists.
- Improve the administration of tariff-rate quotas to increase the transparency and predictability of market access opportunities.
- Eliminate nontariff barriers to trade in agricultural products, including, but not limited to: domestic absorption requirements (barring market access until the domestic supply of a commodity is exhausted); price pooling of domestically supplied and exported products; discriminatory licensing procedures, reference price calculations that overstate the value of imports, product certification and labeling procedures that discriminate against approved exports and sanitary and phytosanitary measures that are not science-based.

Export Subsidies:

• FTAA member countries should eliminate export subsidies as called for in the San Jose Ministerial Declaration by FTAA Ministers.
• FTAA signatories should call for the elimination of export subsidies in the WTO negotiations on agriculture.

Domestic Support:

• Domestic support negotiations should take place in the WTO and not in the FTAA.

Additional Agricultural Objectives:

• Develop principles for the immediate, unrestricted, science-based trade of agricultural products produced with genetically modified organisms.
• Obligate signatory countries to adhere to science-based sanitary and phytosanitary measures in accordance with the WTO Agreement on Sanitary and Phytosanitary Measures and require all FTAA countries to come into full compliance with its provisions.
• Eliminate state trading enterprises or adopt disciplines that require full transparency of STEs that operate in the region.
• Institute special safeguard provisions that remedy price depressing import surges of perishable commodities in a quick and efficient manner and establish disciplines that address seasonal and regional import surges for agricultural products.
• FTAA countries should support the harmonization of labeling requirements and product certification procedures (including harmonization of pesticide registration requirements) in regional and international standard setting bodies.
• Promote the development of science-based international standards in recognized regional and international standard setting bodies.

Dispute Resolution:

• Develop expedited dispute resolution procedures and processes for perishable commodities.
• FTAA dispute settlement procedures should provide strong provisions for compliance with dispute settlement rulings and should facilitate trade.

Environment and Labor:

• Environment and labor issues that restrict trade should not be included in the agreement.

The United States, in negotiating the FTAA, should insist on strict implementation of international trading rules to prevent unfair practices by countries in the hemisphere and to ensure unrestricted access to these important markets. This agreement, as with all others, should be continually evaluated with emphasis on fair trade as well as free trade.

Andean Trade Preferences Act (ATPA)

Farm Bureau will not support renewal of the ATPA unless certain import sensitive products such as asparagus are excluded. The act should only be renewed if this exclusion is granted and a competitive trigger similar to that of the Generalized System of Preferences (GSP) is implemented that eliminates the tariff preference once a country becomes internationally competitive in a specific commodity and the safeguard mechanism for perishable products is improved.

While the objectives of the ATPA are laudable, U.S. producers should not be put out of business as a result of the Act. Considerable injury to U.S. producers resulted from the duty-free importation of cut flowers under the ATPA and the same scenario is beginning to unfold for our asparagus producers.

Providing duty-free treatment for imports from Andean countries—Bolivia, Colombia, Ecuador and Peru—has measurably affected trade in certain horticultural products and has had a significant impact on domestic production of those commodities. For example, the duty-free treatment provided to asparagus growers in Peru has further enhanced an already competitive industry that existed in Peru prior to enactment of the ATPA. Once a small industry in the early 1980's, Peru has become the world's largest producer and exporter of asparagus. Asparagus is Peru's second largest agricultural export item with about $130 million in annual export earnings.

Asparagus imports from Peru have grown more than ten-fold since 1990. Imports of Peruvian asparagus, predominantly for the fresh market, have more than doubled in the last three years. Steady increases in Peruvian asparagus imports are expected for the next several years. The U.S. market absorbs up to 80 percent of the Peruvian fresh asparagus crop. In addition, a sizeable asparagus processing industry exists in Peru. Although most of the processed product is white asparagus des-

tined for European markets, significant quantities of green asparagus are now being diverted to frozen utilization.

U.S. industry sources indicate that five to 10 million pounds of Peruvian frozen asparagus have been made available to the U.S. market in the past year. Imports of this magnitude are significant because the total U.S. market for frozen asparagus is only 10 million pounds annually. Duty free access for Peruvian frozen asparagus has exacerbated the situation. Peruvian imports are displacing U.S. frozen asparagus production at an alarming rate.

Peru produces asparagus for two distinct markets: green asparagus (primarily fresh, with an increasing portion dedicated to frozen/processed product) for the U.S. market and processed white asparagus for the European market. Peruvian cultivation of asparagus occurs year round with very high yields per acre experienced by its growers.

The extent to which the ATPA has advanced narcotics eradication in Peru is highly questionable largely because cultivation of asparagus in Peru occurs in the desert region along Peru's coastline, not in the foothills and mountains where Peruvian drug cultivation is known to exist.

Farm Bureau believes that duty-free treatment should not be accorded under the ATPA for specific commodities wherein a country is deemed economically competitive. The determination of economic competitiveness should follow the criteria now used in the Generalized System of Preferences program requirements.

The GSP competitive need limitation revokes duty-free treatment for certain goods once that article/commodity accounts for 50 percent or more of the total value of imports of that commodity or exceeds a pre-established dollar value (in 1996 the value was set at $75 million). Once GSP treatment is revoked for a commodity, the tariff for that product reverts to the MFN level.

Instituting this change would support the objective of the ATPA of providing economic alternatives to narcotics production, but would not allow foreign imports to put U.S. producers out of business in the process.

Second, a safeguard mechanism should be instituted to address import surges of perishable agricultural commodities. Import surges can be extremely disruptive to U.S. agricultural markets, especially considering seasonality concerns and the price variability of perishable agricultural products. Criteria now exist in the NAFTA and the WTO agreement on agriculture that enable safeguard actions to be taken under specified conditions. Certain trade remedies, such as the U.S. 201 law, allow the administration to take action to mitigate import surges when they are determined to be causing or threatening injury to U.S. producers. However, imports from ATPA and other countries are exempt from consideration in the investigation of 201 cases.

In order to address the often irreparable damage caused to U.S. producers of perishable products due to import surges, we request that any extension or renewal of the ATPA include an automatic, transparent, and temporary safeguard mechanism. The safeguard mechanism would provide much needed import relief to U.S. producers being injured by an import surge and would still provide market access for ATPA beneficiary countries during the remedy phase.

Farm Bureau appreciates this opportunity to comment on the Free Trade Area of the Americas and the Andean Trade Preferences Act.

[By permission of the Chairman.]

Statement of Asociacion De Exportadores De Prendas De Vestir A Los Estados Unidos De America, Lima, Perú

Mr. Chairman, the Association of Apparel Exporters to the United States (EXPORAMERICA) is a non-profit association compromised of private Peruvian companies that export apparel to the United States. Our members create jobs in the clothing sector that are instrumental in battling illegal drug production and trafficking. We are pleased that an extension and expansion of the Andean Trade Preferences Act (ATPA) is on the Committee's agenda. We look forward to working with the Committee on an ATPA that benefits all four Andean nations in order to reduce the drug trade by strengthening the local legal economies.

The ATPA was enacted on December 4, 1991 to authorize preferential trade benefits for the Andean nations. The purpose of the ATPA is to expand economic incentives to assist Bolivia, Ecuador, Colombia, and Peru to generate an alternative to employment in the drug production and trade. The goal is to increase legal employment through exports to the United States market. The beneficiary countries have

to meet criteria for cooperating in the drug war. Duty-free treatment only applies to certain products. The product list does not include textiles and apparel. Yet, these products create many farming and manufacturing jobs that provide alternatives to work in the coca fields. The ATPA expires on December 4, 2001. It is essential that the ATPA be extended and expanded promptly.

The ATPA has had only a moderate impact in generating new employment opportunities in Peru because textiles and apparel are excluded from duty free treatment. Textiles and apparel are the principal industrialized exports to the U.S.A. Peruvian products that currently benefit from the ATPA are mostly minerals that do not involve an intensive labor process and have very low import duties. By contrast, we have a fully integrated and highly efficient apparel industry that creates many jobs vital to the fight against drugs. Most apparel from Peru and Bolivia is made from high quality, locally grown cotton or from llama or alpaca that is native to the region. The use of cotton grown in Peru and Bolivia is an essential part of our industry. Cotton is an important alternative crop to the coca and provides an important source of lawful employment for both our agricultural and factory workers.

Recently, the Trade Ministers of the Andean community at a meeting in Lima stated their joint position on the inclusion of textile apparels in the ATPA in a document called "Position of the Andean Community to the Andean Trade Preference Act." The Trade Ministers believe that textiles and apparel should be included in the ATPA and more specifically, "the expansion of the coverage of the ATPA should not be conditioned to regulations regarding the origin of raw materials that restrict the access of our textiles and apparel."

Hundreds of thousand of jobs are at stake. The Trade and Development Act of 2000 now provides the Caribbean Countries with preferential tariff treatment for certain textile and apparel products. This expansion of benefits to CBI countries places Andean farmers and manufacturers at a competitive disadvantage and threatens to undermine the drug war. Peru's textiles sector supports 32 percent of the population employed in the manufacturing industry, which amounts to approximately 180,500 jobs. Another 200,000 jobs are in the agriculture industry. Workers who would otherwise have lawful jobs will be left without an alternative to coca production, if our industry continues to be at a competitive disadvantage due to high tariff barriers in the United States.

Expanding the ATPA to include textiles and apparel would not have a substantial negative impact on the U.S. economy. In 1999, textile/apparel exports from Andean countries represented only 1.1 percent of the total textile/apparel exports to the United States and 0.46 percent of this is exported from Peru. The ATPA countries export far less textiles/apparel than the CBI region. In addition, Peruvian apparel exporters are interested in importing additional cotton from the United States to supplement the Peruvian cotton production. Thus, to the extent, we can sell more apparel to the United States, the more cotton we will import from the United States, providing export markets and jobs to your country as well.

We look forward to working with you to expand your initiative to provide a solution that benefits all the Andean nations. The drug war cannot be won without improving the economies in the entire Andean region. The data on the drug trade clearly shows that the coca economy is regional, and that actions adopted in one country affect the drug combat efforts in neighboring countries. The success in Peru's drug fight, for instance, has corresponded with an increase in Colombia's coca-growing activity. Any bill that does not help the entire region will only move the drug problems from one country to the next, which does not help you or us.

An expansion of the ATPA to include textiles and apparel would provide the necessary economic incentives to eliminate the lure of illicit jobs and build a stronger more stable hemisphere.

Statement of the Coalition for Sugar Reform

We appreciate the opportunity to present testimony before the subcommittee to discuss the implications of the proposed Free Trade Area of the Americas to American sugar consumers. The Coalition for Sugar Reform is an umbrella organization representing some 20 U.S. trade associations, consumer and environmental groups, businesses and taxpayer advocates united in their belief that the U.S. sugar program should be fundamentally reformed. The Coalition commends the subcommittee for holding this hearing. We cannot emphasize strongly enough the vital importance of increased U.S. market access for sugar to the Administration's overall goal of low-

ering trade barriers and increasing the level of trade in goods and services in the Western Hemisphere.

Simply stated, maintaining the archaic U.S. sugar program in anything like its present form will undercut our ability to open foreign markets for a whole range of U.S. products and services, particularly agricultural commodities and value-added products. This isn't simply about the price of a five-pound bag of sugar, or even the $2 billion extra that consumers spend annually because of our sugar program. It's actually about our ability to deliver on the promise to open markets more fully around the world for our farmers, ranchers, food processors and everyone else who is part of America's food industry. The sugar program is the Achilles heel of U.S. trade policy.

Through the Free Trade Area of the Americas, we have a unique opportunity to continue the extraordinary period of trade expansion that began with the completion of NAFTA and the Uruguay Round in 1993 and has continued through last summer's approval of Permanent Normal Trade Relations. By any measure, markets around the world are far more open than they were a decade ago, thanks to U.S. leadership. Under the new Bush Administration, we are poised to continue that record of trade expansion through the conclusion of a successful FTAA. However, the inconsistency in the U.S. position created by our domestic sugar program has the potential to jeopardize these future negotiations and will certainly not engender good will from our Latin American neighbors.

The special importance of trade to U.S. agriculture has long been clear; our farmers and ranchers were many years ahead of the rest of the economy in recognizing the vital importance of access to foreign markets. As Agriculture Secretary Ann Veneman stated last month,

> Expanding trade is the President's top priority for U.S. agriculture. With 96 percent of the world's population living outside the United States, the work market is essential to the future of the American food chain. Nearly one-half of our annual production of wheat and rice, one-third of our soybeans, one-fifth of our corn and two-fifths of our cotton are sold overseas. In addition, we are exporting growing quantities of grains and oilseeds through meat exports, and an increasing volume of other high-value products. Agricultural trade barriers and production-distorting subsidies continue to inflict heavy costs on consumers, producers, and exporters around the world. Recent analysis by USDA's Economic Research Service shows the average global tariff on agricultural products is over 60 percent, compared to about 12 percent for products coming into the United States. Clearly, the U.S. has much to gain from further reform. As trade barriers continue to fall, exports to our NAFTA partners are growing faster than those to other regions of the world. That's why we will continue to work toward regional trade agreements, such as the FTAA.

Trade is also vital to the growth of value-added and processed foods and feedstuffs. Global trade in processed food is growing twice as fast as bulk commodity trade, and consumer products now account for a greater percentage of U.S. agricultural exports than raw commodities.

The progress in opening markets around the world has undeniably benefitted U.S. agriculture and the food sector. The Uruguay Round was a landmark accomplishment, which finally began to bring agricultural trade under fair and internationally accepted rules. The Uruguay Round Agreement on Agriculture abolished quotas, ensuring that countries would use only tariffs to restrict imports; and went on to reduce and bind those tariffs. It subjected export subsidies and trade-distorting domestic support measures to specific limits, reducing them as well. Through the Agreement on Sanitary and Phytosanitary Measures, WTO members agreed to use science-based sanitary and phytosanitary standards to protect human, animal and plant life and health, taking away, at least in principle, one of foreign governments' most powerful protectionist tools. NAFTA gave our farmers and ranchers preferential access to Mexico as well as to Canada; our agricultural exports to those countries have grown by nearly $4 billion since 1993, and now represents more than one-fourth of our agricultural exports. We have successfully negotiated numerous bilateral agreements opening up new opportunities in a large range of commodities: tomatoes and apples in Japan; citrus and other fruits in Brazil, Chile, Mexico and other countries; beef in Korea, cattle, hogs, wheat and barely into Canada. China's WTO accession agreement is an historic achievement in many respects ,but certainly in terms of dramatic new opportunities for U.S. agriculture. USDA predicts more than $1 billion annual increase in processed food exports as a result of this agreement.

Despite these achievements, all over the world agriculture remains the most sensitive area—economically, politically and culturally—of international trade. While many barriers have come down, agricultural products, TRQs have created some access for imports, but continue to maintain restrictive conditions. The European Union continues to employ 90 percent of the world's export subsidies, damaging the interests of our farmers and ranchers, and harming many of the nations of the developing world. Countries still routinely invoke sanitary and phytosanitary barriers to block imports, in the absence of sound science. State trading enterprises still play far too large a role in agricultural trade. The economic health of our agricultural sector depends on getting strong rules, and breaking down these barriers, to ensure greater access to markets around the world.

For these reasons, in recent years every U.S. official has made it crystal clear that a primary goal for the United States in any future trade negotiation was agriculture trade liberalization. Our ambitious objectives are set forth clearly in the "Proposal for Comprehensive Long Term Agricultural Trade Reform" submitted in Geneva last year. That proposal "entails reforms across all measures that distort agricultural trade and that once adopted, will reduce levels of protection, close loopholes that allow for trade-distorting practices, clarify and strengthen rules governing implementation of commitments, foster growth and promote global food security and sustainable development." The proposal notes that "the United States believes there are compelling arguments for further reform. Too often and in too many countries, the production and marketing decisions farmers make are still driven by government programs and protections from market access barriers, rather than market conditions. As a result, competitive farmers, ranchers and processors are denied sufficient access to markets and face subsidized products and the trade-distorting policies of foreign governments, leaving the world with an agricultural market still far from the WTO objective of a fair and market oriented system."

There is no doubting the commitment of Congress and this Administration to continue world agricultural markets. The real question is how we will accomplish that vital objective. Because agricultural trade barriers still proliferate around the world, the U.S. comes to any negotiation with an ambitious list of liberalization objectives. Because the playing field is not currently level, the United States will press other nations to undertake more changes and more market opening than we are prepared to do. Because we are already so open, we have relatively little to use as leverage in exchange for the market opening that we seek.

Against this backdrop, it is quite clear that the U.S. sugar program stands as one of the principal impediments to our hopes for continuing agricultural trade liberalization. First, the program makes our calls for "a fair and market oriented system" sound hollow and hypocritical. If we saw this program in another country, we would regard it as a major and unacceptable distortion of trade. In fact, OECD estimates distributed by USDA show that this is one commodity where, during 1996–98, U.S. subsidies were actually somewhat higher than European Union subsidies, when expressed as a share of production value.

The 1996 Farm Bill ended government controls and phased out payments to farmers of corn, wheat, cotton and other crops. The sugar program is glaring exception to this progress. USDA continues to tightly control the marketplace through the TRQ, and high price support levels remain in effect. The lower duty applicable to in-quota imports is unchanged, while the over-quota duty rate actually rose initially and has remained at levels that are still prohibitive to imports. Thus, the Uruguay Round Agreement—despite its introduction of important principles for agricultural trade—made almost no progress in altering the basic features of the sugar program. While defenders of the sugar program point out that the United States imports approximately 15 percent of its sugar, this contrasts sharply with the 40 percent market share that foreign sugar had in the U.S. market before the current sugar program was put in place in 1981.

The U.S. sugar industry argues that the European Union's subsidy program is worse than that of the United States; thus, if the U.S. scraps its own sugar program, subsidized EU sugar will pour into the United States and drive U.S. sugar growers out of business. The European Union's sugar subsidy does, in fact, distort markets in ways the U.S. sugar program does not, because it depends on export subsidies. However, even without the U.S. sugar program, dumped and subsidized European sugar would be **unable** to enter the country due to the anti-dumping duties that have been in place for some time against European sugar producers (Belgium, France, Germany) and the countervailing duties applied to European Union sugar. In addition, the U.S. has deliberately chosen not to follow the European model in other agricultural products in the past, instead attempting to compete in world markets and tear down the trade barriers of other countries.

The sugar industry continues to argue that the decline of the world price of sugar in recent years is the result of dumping and is a sure sign of things to come if the sugar program is eliminated. In fact, both world and domestic sugar prices have declined recently due to unprecedented oversupply, stimulated by favorable weather conditions, increases in acreage due to lower prices for other commodities, and contracting markets in Russia and Asia. To the extent that a lower price may be reflective of dumping, however, U.S. antidumping laws provide an effectively remedy to a domestic industry that is being injured by less-than-fair-value imports. There is no reason why the antidumping laws and the countervailing duty laws, which protect other industries from unfairly traded products, will not afford similar protection to the sugar industry, assuming that dumping or subsidizing is occurring and resulting in injury.

There are few issues, if any, that matter to more developing nations—many included in the Free Trade Area of the Americas—than increased sugar access to the markets of the developed world. This issue stands close to the top of the agenda of two of the leading developing nations, Brazil and Chile. But, it is the highest priority for some of the smallest, struggling economies in our hemisphere: Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. These developing nations tend to maintain the highest tariffs against our agricultural products. They are potentially among the fastest growing markets for our farmers and ranchers if those barriers can be reduced. We know from Seattle, and the discussions since, that many developing nations believe that they have been shortchanged by the international trading system. Many believe that they made significant market opening commitments in the Uruguay Round and have received too little benefit in terms of reciprocal access to the markets of the developed world. The inequities of the U.S. sugar program compel the conclusion that the grievances of the developing countries are well justified, not just deeply felt.

Our own citizens will benefit from reform of the sugar program, including liberalized imports. According to the General Accounting Office, users and consumers of sugar paid nearly $2 billion more in 1998 for products containing sugar than if there had been no sugar program. In order to claim that consumers will see no benefit from sugar liberalization, one has to assert that there is no competition in the food industry. We submit that no one who shops for groceries will take this claim seriously. Our food manufacturers and grocers are intensely competitive, as anyone who compares prices and uses coupons can tell you.

The Coalition for Sugar Reform hopes this hearing marks the beginning of a serious discussion of the myriad costs of the archaic U.S. sugar program in the context of future international trade negotiations. Every nation has its sensitive commodities, and sugar is plainly one of ours. But when one sensitive commodity—produced by relatively few growers—is vitally important to the economic well-being of so many other nations in our own hemisphere, it can cause a major imbalance in the international trading system. Reform of the U.S. sugar program would provide a vital boost to the economies of many poor and developing nations in the Western Hemisphere. At the same time, such reform would clearly be a major catalyst in expanding export opportunities for American producers of grains, oilseeds, cotton, meat, processed foods and value-added agricultural products.

[The attachment is being retained in the Committee files.]

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES
Washington, DC 20005–3998
May 22, 2001

Ms. Allison Giles
Chief of Staff
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House office Building
Washington, DC 20515

Re: Comments on the Summit of the Americas and the Free Trade Area of the Americas

Dear Ms. Giles:

On behalf of the Distilled Spirits Council of the United States, Inc. (DISCUS), I am writing to provide a statement for the printed record of the hearing of the Subcommittee on Trade of Tuesday, May 8, regarding the Summit of the Americas and

the Free Trade Area of the Americas (FTAA), DISCUS is the national trade association representing U.S. producers, marketers, and exporters of distilled spirits products. DISCUS member companies export to more than 120 countries, including the parties of the FTAA. In 2000, U.S. producers exported approximately $63 million in spirits products to the countries of the western hemisphere, accounting for about 20 percent of global U.S. spirits exports. DISCUS strongly supports the efforts of the U.S. government to negotiate a comprehensive free trade agreement with the governments of the western hemisphere, and we welcome this opportunity to provide a written statement.

DISCUS has been a vocal supporter of the FTAA since the Miami Summit, and we applaud the progress made thus far toward completion of the agreement. We are encouraged by the recent progress made at the Quebec City Summit of the Americas. Although we supported the Chilean proposal for an accelerated time frame for completion of the agreement, we nonetheless welcome the Declaration of Quebec City instructing the negotiators to complete their work by January 2005 so that the agreement may enter into force no later than December 2005. We further applaud the decision to release to the public the preliminary draft negotiating documents, confirming the leaders' commitment to transparency during the negotiating process. DISCUS was also pleased that the Buenos Aires Ministerial Declaration directed that the actual market access negotiations begin no later than May 15, 2002.

High tariffs continue to present a significant market access barrier to U.S. spirits exports, particularly in our most important emerging markets. The distilled spirits industry benefitted from the "zero-for-zero" negotiations that began during the Uruguay Round. As a result of the Round and over the course of subsequent negotiations, the "Quad" countries—the United States, European Union, Canada, and Japan—agreed to eliminate tariffs on most categories of distilled spirits. As a consequence, the United States has eliminated all tariffs under Harmonized Tariff Schedule (HTS) Subheading 2208, with the exception of certain categories of rum. We view the FTAA as an excellent opportunity to expand the scope of the zero-for-zero initiative. Accordingly, we seek the immediate, hemisphere-wide elimination of tariffs on all spirits products, thus securing tariff treatment for U.S. spirits throughout the hemisphere that is equal to the treatment that the U.S. currently accords imported spirits.

Further, the FTAA presents an opportunity to eliminate non-tariff measures which continue to present major market access obstacles to U.S. spirits exports. DISCUS urges the U.S. government to use the opporunity of the FTAA as a mechanism to enhance hemispheric disciplines regarding:

- The use of discriminatory internal tax systems that place a disproportionate tax burden on imported products vis-á-vis like, substitutable, or directly-competitive domestic goods, or that serve to protect the domestic industry;
- Non-competitive practices by state monopolies concerning the production or sale of goods;
- The use of export restraints, export and import price requirements, and import licensing conditioned on the fulfillment of a performance requirement;
- Trade-distorting sanitary measures that are not based on sound science; and,
- Non-transparent notification procedures that provide inadequate time periods for public comment on, implementation of, and compliance with any new rules, laws, or regulations that may affect trade.

As part of the FTAA process, DISCUS also believes that participants should fully implement their obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), including the establishment of mechanisms to ensure and enforce the protection of geographical indications associated with distinctive distilled spirits. DISCUS and its member companies view the FTAA as a critical vehicle to secure from FTAA participants explicit protection for Bourbon and Tennessee Whiskey (which is a straight whisky authorized to be produced only in the State of Tennessee) as distinctive products of the United States, using language similar to that found in NAFTA Annex 313 ("Distinctive Products"). Accordingly, the FTAA participants should agree not to permit the sale of any product as Bourbon or Tennessee Whiskey unless it has been produced in the United States in accordance with the laws and regulations of the United States, nor permit the use of these designations for any product which is not Bourbon or Tennessee Whiskey.

Our trading partners are moving forward with numerous bilateral and multilateral agreements that favor competing spirits suppliers and place U.S. exports at a competitive disadvantage. Within the hemisphere, Canada currently has free trade agreements in place with Chile and Costa Rica, and is negotiating an agreement with El Salvador, Guatemala, Honduras and Nicaragua. Mexico currently has agreements with 31 nations, including Bolivia, Chile, Costa Rica, Colombia, El Salvador, the European Union, Guatemala, Honduras, Nicaragua, Uruguay, and Venezuela.

The Andean Community and Mercosur impose significant common external tariffs that impede U.S. exports to these markets. Our major competitors, including the countries of the European Union and the European Free Trade Association, have in place or are currently negotiating agreements with Chile and Mercosur. As these preferential trade agreements proliferate, U.S. spirits exporters are systematically locked out of critical markets. It is essential that the United States engage actively and constructively with the countries of the western hemisphere to bring the FTAA to fruition and maintain U.S. competitiveness in these markets.

As we enter this critical stage of the FTAA process, it is vital that U.S. negotiators be empowered to secure tangible benefits in the negotiations. Providing the President with Trade Promotion Authority (TPA) is essential to ensure that the U.S. government has the authority to negotiate the minute and painstaking details of comprehensive trade agreements, including the FTAA and the bilateral free trade agreements with Chile and Singapore. It also seems clear that prospects for securing TPA will be a key consideration of our trading partners in deciding whether to launch a much-needed new WTO round in Doha in November. Without TPA, U.S. negotiators will lack the tools they require to negotiate the best possible deal for the United States. DISCUSS stands ready to support efforts to secure prompt passage of TPA legislation this year.

Thank you again for the opportunity to offer our views on the FTAA negotiations.

Sincerely,

DEBORAH A. LAMB
Vice President
International Issues and Trade

FLORIDA FARMERS & SUPPLIERS COALITION, INC.
Lake Worth, Florida 33454–0623
April 12, 2001

Hon. E. Clay Shaw, Jr.
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Shaw:

We are writing to make known our position on Trade Promotion Authority (TPA), formerly known as Fast Track. On April 3, 2001 the industry leadership, by unanimous consent, agreed to oppose this legislation. In the past we have twice opposed Fast Track and most of the Florida Congressional Delegation has remained committed to vote against such legislation.

Since enactment of NAFTA, over 300 winter vegetable farmers have gone out of business in Florida alone. We are now learning that hundreds of smaller producers in southern States also suffered similar fate. We are further disappointed by the billions of dollars that have been paid to producers from apples to cranberries during the last two years. Florida has not received one cent of the supplemental appropriations to compensate our farmers for losses suffered by these unfair foreign competition practices.

Last year alone (1999–2000), our tomato growers in Florida lost $112 million. Our farmers employ over 100,000 workers, but no one seems to care about them either. We simply cannot compete with third world countries paying $4.00 per day in wages. Our industry cannot survive unless it is protected as a sensitive and strategic food industry.

We wish that in the spirit of free trade and better foreign relations, we could support such initiative, however, realistically we know we cannot survive under the present scenario. We urge you to vote **no** for Trade Promotion Authority.

Sincerely,

PAUL DIMARE,
Chairman

Statement of Michael J. Stuart, President, Florida Fruit & Vegetable Association, Orlando, Florida

The Florida Fruit & Vegetable Association (FFVA) submits the following comments to be included in the record of the May 8, 2001, hearing held by the House

Committee on Ways and Means regarding the outcome of the Summit of the Americans, and the prospects and timing for achieving the Free Trade Area of the Americas (FTAA). The following comments address specific FTAA objectives for the agriculture and market access negotiating groups to help ensure fair treatment for Florida's import-sensitive fruit and vegetable sectors.

FFVA is an organization comprised of growers of vegetables, citrus, sugarcane, tropical fruit and other agricultural commodities in Florida. Florida's unique geographical location in the United States affords growers an opportunity to provide American consumers and export markets with fruits, vegetables and seasonal crops during the months of the year when other domestic producers cannot grow and harvest these crops. Historically, competition for Florida's fruit and vegetable industry in the U.S. marketplace has come from Mexico, other areas that have farmland suitable for winter production in the northern hemisphere, and from Latin America. In export markets, Florida crops compete against low-cost, often subsidized producers from Latin America, Europe, and elsewhere.

I. General Views

FFVA's principal concern with the proposed FTAA is that it could lead to further reduction in import-sensitive U.S. tariffs in favor of competitive exporters in Chile, Brazil, Argentina and other western hemispheric countries, creating greater competition in the U.S. market for Florida's fruit and vegetable growers. Accordingly, FFVA's priority objective in the negotiations is to ensure that the tariff methodology adopted to eliminate agricultural tariffs allows for exceptions from tariff elimination for Florida's most import-sensitive fruit and vegetable products. FFVA is on record with the U.S. government in support of similar objectives for the U.S.-Chile Free Trade Agreement.

Florida's growers are skeptical about a FTAA in part because both the North America Free Trade Agreement (NAFTA) and the Uruguay Round Agreement in the World Trade Organization (WTO) have failed to protect Florida's import-sensitive products from increased competition in the U.S. market.

Sine the NAFTA Agreement took effect, Florida fruit and vegetable growers have lost significant domestic sales to Mexico of tomatoes, bell peppers, cucumbers and other crops. NAFTA encouraged this increased competition in two ways: first, by reducing U.S. tariffs, making already low-priced Mexican products more competitive; and, second, by encouraging investment in Mexico's agricultural industries from non-traditional sources. The increased investment has substantially advanced Mexico's technology, increased Mexico's production in competitive crops, and reduced per-unit costs of those commodities. These advantages, along with the cost savings derived from the devaluation of the peso shortly after the NAFTA took effect, have significantly increased Mexico's export competitiveness relative to Florida.

Likewise, the Uruguay Round "reforms," which reduced U.S. tariffs across the board, including tariffs on import-senstitive products, have left Florida's fruit and vegetable sectors more vulnerable to imports. While the Uruguay Round has contributed to limited progress in opening foreign markets for Florida tomato and citrus products, losses in the U.S. market have on balance outpaced gains inexport markets. Florida's fruit and vegetable exports continue today to face tariff quotas and unjustified phytosanitary restrictions.

With competition in the U.S. market increasing, many of Florida's producers have been forced to curtail their operations. Others have closed down altogether. Even import relief acions have not stopped the harm.

A hemispheric-wide free trade agreement will compound this adversity. Chile, Brazil and Argentina are competitive producers and exporters of fruit and vegetables that are also grown in Florida. Imports of these products at duty-free or preferential duty rates pose an immediate threat for Florida's growers.

FFVA therefore requests that high priority be given to the following comments respecting FTAA tariff elimination, tariff-rate quotas, safeguard measures, currency devaluation, and santitary and phytosanitary disciplines.

II. In the Area of Tariff Phase-Outs, FFVA is Seeking Special Exemptions For Flordia's Most Import-Sensitive Products

In NAFTA, despite the extreme import sensitivity of Florida's fruit and vegetable products, only frozen concentrated orange juice (FCOJ) and, for part of the year, cucumbers received the meximum tariff phase-out period of 15 years provided for under the NAFTA agreement. In many sectors like tomatoes, peppers, and cucumbers, ten-year phase-out periods have proven insufficient to protect against increased imports from Mexico. Consequently, U.S. growers have been forced to spend precious industry dollars to fight back unfair competition from Mexico through antidumping procedures and other trade remedy laws.

The FTAA is a regional trade agreement covering many more countries than NAFTA—including Brazil, Argentina and Chile, all countries that are highly competitive with Florida's fruit and vegetable sector. These countries currently export melons, lettuce, onions, tangerines/mandarins, and frozen concentrated orange juice to the U.S. market, products that compete directly with Florida production. To ensure that the FTAA negotiations do not lead to increased U.S. imports from these countries of principal fruit and vegetable products, FFVA is asking that a request-offer approach be pursued that explicitly authorities exemption from tariff phase-out for FFVA's most highly import-sensitive fruit and vegetable products. Although exemptions from tariff phase-out were not granted under NAFTA, there is no WTO requirement that this be the standard for an FTAA, nor is there a policy justification for such an approach, given the greater competitive threat presented by the larger trade agreement. Moveover, FTAA countries like Chile, Argentina, and others are themselves interested in product exemptions for import-sensitivie agricultural sectors.

A complete list is attached of FFVA's most important fruit and vegetable products for which special tariff exemptions are requested. Even where Generalized System of Preferences (GSP) benefits are currently being conferred on these products, FFVA considers the GSP exemption to be temporary and the Latin American countries competitive producer of many of these products. Accordingly, Florida's growers and processors oppose granting permanent duty-free access for these products under the FTAA.

III. Past Safeguard Measures Specific to Agriculture Have Been Ineffective

A major problem with both the NAFTA and Uruguay Round Agreement for Florida's import-sensitive fruit and vegetable products is the inadequate safeguard mechanisms included in those agreements. These measures have been ineffective in curbing increased imports resulting from the preferential tariff access.

NAFTA contains a special agricultural safeguard that is a volume-based TRQ mechanism that restores the pre-NAFTA tariff on a limited number of products if certain volume targets are met. There safeguards have been ineffective for two reasons. First, they are limited to only a few commodities, leaving many of Florida's import-sensitive products uncovered. Second, the volume ceiling that triggers the safeguard measure is met only at the very end of the season when the extra volumes in the markets have already depressed prices and injured U.S. growers. Although the Uruguay Round contains a priced-based mechanism, the safeguard does not apply to Florida's fruit and vegetable crops, since none of these were subject to non-tariff barrier measures prior to the Uruguay Round negotiations.

Because an FTAA will stimulate imports of perishable, senstivite agricultural producrs even if they are exempted from tariff reduction, any agreement should include a special safeguard mechanism for agriculture that is (1) broader in product coverage than the NAFTA mechanism (*i.e.,* one that covers all import-sensitive agricultural products); and (2) triggered automatically based on price, not year-end volumes of imports. A price-based mechanism is preferred, since it reacts to import volumes throughout the season whenever they increase because of unfairly low prices, and before irreparable injury has occurred to the U.S. industry. The duration of the safeguard should also be sufficiently long to allow the U.S. industry to adjust to the import surges and the injury caused by the increased imports. Finally, the safeguard mechanism should be structured to include effective relief once the trigger price or volume is reached. Under NAFTA, the relief was to "snap back" to the bound or applied pre-NAFTA tariff rate. A more effective mechanism might be to allow, at least indefined circumstances, a breach of binding to a higher tariff level if necessary to product the injured U.S. industry.

The U.S. proposal for the FTAA Group on Agriculture does not include a special agricultural safeguard measure. Under the general market access text, the U.S. proposes a hemispheric safeguard measure that would allow tariff increases, but no TRQs. The text reserves the right "to propose at a later date provisions on dispute settlement panel review specific to hemispheric safeguard measures, and sector-specific safeguard regimes." Under this reservation, FFVA urges the U.S. government to explore the inclusion of a special agricultural safeguard to protect import-sensitive U.S. agricultural sectors. Given the great number of countries involved in the FTAA, the competitiveness of many of these countries in the fruit and vegetable sectors, and the attractiveness of the U.S. market, adequate safeguard measures are imperative to protect import-sensitive U.S. fruit and vegetable products.

IV. The FTAA Should Include A Mechanm to Guard Against the Unexpected Effects of Currency Devaluation

NAFTA did not include provisions to address currency devaluation. As a result, when Mexico's peso dramatically devalued shortly after the NAFTA agreement took effect, Mexico's exports to the U.S. market instantly became much cheaper and increased significantly, while U.S. exports to Mexico became more expensive and declined. Many of Florida's fruit and vegetable industries experienced this rapid shift in import/export flows and incurred significant losses.

Several of the Latin American currencies not currently pegged to the U.S. dollar also are susceptible to rapid devaluation. To protect against the negative effects on trade, U.S. negotiators should consider ways in which FTAA "protections" could be structured to incorporate appropriate safeguards that would counter increased exports that occur when a country's currency unexpectedly devalues.

V. The FTAA Should Seek to Strengthen the Sanitary and Phytosanitary Disciplines Contained in the NAFTA And Uruguay Round Agreement

Despite the disciplines included in the WTO Agreement on Sanitary and Phytosanitary Measures, access for Florida's fruit and vegetable crops in many export markets continues to be limited by sanitary and phytosanitary restrictions and regulations. Chile and Argentina are two Latin American countries that have limited and delayed access for Florida citrus under the guise of sanitary and phytosanitary concerns.

The U.S. is proposing that FTAA countries collaborate in the WTO to strengthen international standards and to
coordinate on data exchange, research and technical assistance. FFVA supports that proposal, but further urges the U.S. government to include disciplines in the FTAA itself that will better ensure that FTAA countries do not use unjustified plan quarantine issues to prohibit or stall access for U.S. agricultural products. Another area of cooperation that should be explored in the FTAA is harmonization of pesticide regulations among the FTAA countries.

VI. Conclusion

The above objectives, especially those addressing tariffs and safeguard measures, are necessary to ensure that U.S. import-sensitive agricultural products from Florida and other U.S. states are not put at risk by a FTAA. FFVA looks forward to working with the Ways and Means Committee and Congress generally to ensure that these goals are achieved.

Florida Fruit & Vegetable Association Import-Sensitive Products

H.S. Number	Product Description	2001 U.S. Tariff Rates	
		MFN Rate	GSP Rate (does not include GSP for LDDCs)
0702.00.20	Tomatoes, fresh/chilled (3/1–7/14 or 9/1–11/14).	3.9/kg	
0702.00.40	(7/15–81)	2.8/kg.	
0702.00.60	(11/15 to end of next Feb.)	2.8/kg.	Free
0703.10.20	Onion sets	0.83/kg.	Free (Chile excluded)
0703.10.30	Pearl onions ≤ 16 mm. diameter	0.96/kg.	Free
0703.10.40	Other	3.1/kg.	Free
0704.10.20	Cauliflower and broccoli (6/15–10/15).	2.5%	Free
0704.10.40	Other (not reduced in size)	10%	Free
0704.10.60	Cut/sliced	14%	Free
0704.20.00	Brussels sprouts	12.5%	Free
0704.90.40	Kohlrabi, kale	20%	
0705.11.20	Head lettuce (6/1–10/31)	0.4/kg.	Free
0705.11.40	Other	3.7/kg.	Free
0705.19.20	Other than Head Lettuce (6/1–10/31).	0.4/kg.	Free
0705.19.40	Other	3.7/kg.	Free
0707.00.20	Cucumbers (12/1 to end of Feb.)	4.2/kg.	Free
0707.00.40	(3/1–4/30)	5.6/kg.	Free
0707.00.50	(5/1–6/30; 9/1–11/30)	5.6/kg.	
0707.00.60	(7/1–8/31)	1.5/kg.	Free
0708.20.10	Lima beans (11/1–5/31)	2.3/kg.	Free

Florida Fruit & Vegetable Association Import-Sensitive Products—Continued

H.S. Number	Product Description	2001 U.S. Tariff Rates	
		MFN Rate	GSP Rate (does not include GSP for LDDCs)
0708.20.20	Cowpeas	Free	
0708.20.90	Other	4.9/kg.	
0709.30.20	Eggplants (4/1–11/30)	2.6/kg.	Free
0709.30.40	Other	1.9/kg.	Free
0709.40.20	Celery (reduced in size)	14.9/kg.	
0709.40.40	Other (4/15–7/31)	0.25/kg.	Free
0709.40.60	Other	1.9/kg.	
0709.51	Mushrooms	8.8/kg. + 20%	
0709.60.20	Chili peppers	4.4/kg.	Free
0709.60.40	Other	4.7/kg.	Free
0709.90.20	Squash	1.5/kg.	Free
0709.90.90	Other vegetables	20%	
0804.50	Guavas, mangoes, mangosteens (fresh).	6.6/kg.	Free
0804.50.80	Dried	1.5/kg.	Free
0805.10	Oranges	1.9/kg.	
0805.20	Mandarins, clementines (fresh or dried).	1.9/kg.	
0805.30.20	Lemons (fresh or dried)	2.2/kg.	
0805.30.40	Limes (fresh or dried)	1.8/kg.	Free
0805.40	Grapefruit (fresh or dried) (8/1–9/30).	1.9/kg.	
0805.40.60	During October	1.5/kg.	
0805.40.80	Any other time	2.5/kg.	
0807.11.30	Watermelons (12/1–3/31)	9%	Free
0807.11.40	Any other time	17%	
0807.19.10	Cantaloupes (fresh) (8/1–9/15)	12.8%	
0807.19.20	Any other time	29.8%	Free
0807.19.70	Other melons nesi (fresh) (12/1–5/31).	5.4%	Free
0807.19.80	Any other time	28%	
0807.20	Papayas (papaws) (fresh)	5.4%	Free
1701.12.50	Beet sugar	35.74/kg.	
1701.11.50	Cane sugar	33.87/kg.	
1701.91.05	Cane/beet sugar subject to general note 15.	3.6606/kg. less 0.020668/kg. for each degree and fractions of a degree in proportion but not less than 3.143854/kg.	Free (Brazil excluded)
1701.91.10	Cane/beet sugar pursuant to U.S. note 5 of this chapter.	3.6606/kg. less 0.020668/kg. for each degree under 100 degrees and fractions of a degree in proportion but not less than 3.143854/kg.	Free
1701.91.30	Other	35.74/kg.	
2008.30.35	Orange pulp, otherwise prepared/preserved.	11.2%	
2009.11	Orange juice, frozen, unfermented.	7.85/liter	
2009.19.25	Orange juice, not concentrated	4.5/liter	
2009.19.45	Orange juice, other	7.85/liter	
2009.20.20	Grapefruit juice, not concentrated.	4.5/liter	
2009.20.40.20	Other/frozen	7.9/liter	

Florida Fruit & Vegetable Association Import-Sensitive Products—Continued

H.S. Number	Product Description	2001 U.S. Tariff Rates	
		MFN Rate	GSP Rate (does not include GSP for LDDCs)
2009.30.10	Lime, unfit for beverage, concentrate/non-concentrate (2009.30.10.20 and 2009.10,40).	1.8/liter	Free (Honduras excluded)
2009.30.20	Lime, other	1.7/liter	Free
2009.30.40.00	Other single citrus fruits, not concentrate.	3.4/liter	
2009.30.60	Single citrus juice/other, concentrate.	7.9/liter	
2009.90.40	Mixture of juices, other	7.4/liter	
2106.90.46	Syrups from cane/beet sugar, other.	35.74/kg.	
2106.90.48	Orange juice, fortified	7.85/liter	
2106.90.52	Juice of any single fruit or vegetable (other than orange juice), fortified.	The rate applicable to the natural juice heading in 2009.	Free (El Salvador excluded)
2202.90.30	Orange juice, fortified, not made from a juice having a degree of concentrate of 1.5 or more.	4.5/liter	
2202.90.35	Other	7.85/liter	
2202.90.36	Single fruit or vegetable juice (other than orange juice) fortified, not concentrated.	The rate applicable to the natural juice heading in 2009.	Free (Dominican Republic excluded)
2202.90.37	Mixed fruit or vegetable juice (other than orange juice) fortified, not concentrated.	The rate applicable to the natural juice heading in 2009.	Free (A*)

Statement of Grocery Manufacturers of America

The Grocery Manufactures of America (GMA) welcomes this opportunity to present our views on the Free Trade Area of the Americas (FTAA) negotiations. GMA supports the FTAA negotiations and has actively participated in the both the Toronto and Buenos Aires Americas Business Forums.

GMA is the world's largest association of food, beverage and consumer product companies. With US sales of more than $460 billion. GMA members employ more than 2.5 million workers in all 50 states. The organization applies legal, scientific, and political expertise from its member companies to vital food, nutrition and public policy issues affecting the industry. Led by a board of 42 Chief Executive Officers, GMA speaks for food and consumer product manufacturers at the state, federal and international levels on legislative and regulatory issues. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer products industry.

GMA views the FTAA negotiations as an important opportunity to build upon the success of the North American Free Trade Agreement (NAFTA), and enhance economic integration throughout the Western Hemisphere. In FY–2001, US exports of processed food products to the hemisphere reached their highest level since 1970. In fact, at roughly $9.44 billion, processed food exports alone represent 39 percent of all US agricultural exports to the region.

Economic factors, such as population and income growth indicate that there is room for significant expansion of trade in processed food products throughout the region. While the US and Canada have largely stable and aging populations, Latin America has a growing and relatively young population.[1] As a result, more food is demanded on a per capita basis in Latin America because of a younger population

[1] For example, roughly 30–35 percent of the population is under the age of 15 in Argentina, Brazil and Chile compared with 21 percent in the United States and Canada.

with higher caloric requirements and a propensity for purchasing non-traditional food.[2] In addition, rising incomes throughout the region should lead to increasing expenditures on processed food.

Yet, despite this optimistic outlook, food manufacturers have been unable to realize the full potential of the market due to trade barriers in the region. GMA believes the FTAA process is an appropriate vehicle through which to address these impediments. The following are GMA's specific comments with respect to negotiating modalities for the FTAA, and in particular, those of the Agriculture Negotiating Group. In addition, we also offer comments on the prospects for success of the negotiations.

Recommendations for the Agriculture Negotiating Group

Market Access

Barriers to processed food and beverages in the FTAA countries remain significantly higher than those for many other products. And, although the WTO Agreement on Agriculture delivered some benefits, the reductions in tariff for processed foods and beverages were mostly at the lower end of the allowable range. Because the rules allowed countries to average their tariff cuts, countries naturally chose to make high percentage reductions on already low tariffs and lower percentage reductions on higher tariffs. Consequently, tariffs on processed food product exports to the region range between 20 to 40 percent and, in some cases, exceed 100 percent.

To address these barriers, GMA recommends tariff elimination based on a formula approach that will accelerate the elimination of tariff peaks (asymmetrically high tariffs) and address the problem of tariff escalation, where tariffs increase with the level of processing. This approach should, in essence, reduce the higher tariffs faster than the lower ones to create meaningful market access for processed food products in a reasonable time frame. GMA also suggests that negotiations should also result in elimination of non-tariff barriers to processed food products. In addition, we recommend that this liberalization in tariff and non-tariff barriers be completed in less than the ten-year period negotiated in the NAFTA.

GMA also believes that there should be no product or policy exceptions in the FTAA negotiations. For the benefits of the FTAA to be truly realized by the food processing industry, it is imperative that sugar, peanuts an dairy be subject to meaningful reform and liberalization throughout the hemisphere. Tariff-rate quotas (TRQ), which are often utilized to provide access for sensitive commodities, must be employed judiciously and administered in a market-oriented and pro-competitive manner. Finally, we recommend that the negotiations on tariff reductions begin from applied rather than bound rates to ensure commercially meaningful reductions in a reasonable timeframe.

Export Competition

GMA supports the Ministerial objective of a hemisphere-wide "subsidy free zone." Export subsidies artificially distort world market prices and steal market share from efficient producers. Elimination and prohibition of future subsidies in the FTAA is an import fist step toward multilateral commitments in the same area.

Domestic Support

GMA believes the most effective means for achieving a reduction in domestic support for agricultural commodities will come through increased market access and an elimination of export subsidies. We recommends however, that any continued domestic support be decoupled from production so that it is the least trade distorting as possible, consistent with provisions in WTO Agreement on Agriculture.

SPS Issues

We urge negotiators to ensure that any FTAA sanitary and phytosanitary regulations are fully consistent with the WTO Agreement on Sanitary and Phytosanitary Measures (SPS) and based soundly on science. Sound science should necessarily be at the core of any agreement in order to ensure that national health and safety regulation are not used as disguised barriers to trade. In addition, we support increased cooperation and consultation on SPS-related trade barriers in the region. We recommend that the US consider a NAFTA-like SPS committee to work on harmonization of science-based regulations and standards throughout the region.

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[2] U.S. Foreign Direct Investment in the Western Hemisphere Processed Food Industry, ERS/USDA, March 98.

Prospects for the FTAA Negotiations

GMA firmly believes that the success of the FTAA is necessarily liked to the launch of a new round of negotiations in the WTO and the passage of Trade Promotion Authority.

Importance of WTO Round

Agriculture has emerged as one of the most contentious sectors in the FTAA negotiations. For example, at the April Trade Ministerial in Buenos Aires, many countries argued for a direct linkage between reductions in domestic support and reductions in tariffs. In addition, although countries have committed to the elimination of export subsidies in the region, they are conflicted as to how to deal with subsidized exports from third country markets. Unfortunately, these issues cannot realistically be solved in the FTAA context. Rather, they must be addressed in a multilateral context to achieve meaningful commitments from all trading partners. It makes no sense for the US to "unilaterally disarm" and lose leverage against our most significant and reluctant trading partners, the EU and Japan. Put simply, it is unlikely there will be an FTAA agreement without agriculture and extremely difficult to achieve any results in agriculture negotiations in the FTAA without comprehensive round of negotiations in the WTO.

Trade Promotion Authority

Trade Promotion Authority (TPA) is an essential and necessary tool for progress in the FTAA. TPA establishes a partnership between the Administration and the Congress that protects trade agreements negotiated by the Administration from amendment during congressional consideration. With TPA, the Administration can ensure trading partners that commitments made during negotiations will be honored when Congress considers these trade agreements. Without TPA, it is unlikely that trading partners will put forth meaningful offers for fear concessions will be withdrawn later. GMA is committed to the passage of Trade Promotion Authority by the end of this year.

Conclusion

Thank you for this opportunity to share our views on the Free Trade Area of the Americas. GMA firmly believes that it is of critical importance to farmers and producers alike to continue to expand market access, reduce tariffs and dismantle barriers to food and agricultural products. Achieving the objectives discussed above will benefit consumers throughout the hemisphere with a more reliable, diverse, safe and affordable food supply. We look forward to working with you and the Administration to achieve these goals.

KAL KAN FOODS
VERNON, CALIFORNIA
May 22, 2001

Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

I respectfully submit comments for the Committee's consideration on behalf of Kal Kan Foods concerning renewal of the Andean Trade Preference Act (ATPA). While Kal Kan Foods firmly supports assistance to the Andean Community to promote trade and economic development, the Committee's attention is also requested to the need to secure more fair and reasonable treatment by Andean Pact members for US exports.

Kal Kan Foods manufactures food for pet dogs and cats at factories in California, South Carolina, Ohio, Texas, Illinois, and Nevada for domestic consumption and for export worldwide including to Colombia and the Andean Pact countries.

I. Issue Summaries

Colombia is a member of the Andean Community and is participating in the Community's "price-band" tariff system which was implemented in 1995.[1] Pet food (HS 2309.10) is the only multiple ingredient processed finished product that is "linked" to the price band system. In this case the linkage is to yellow corn whether or not the pet food contains corn.

[1] Decision 371 of the Cartagena Agreement Commission.

Since April, 1995 Colombia's 20% basic tariff on pet food has been increased 40 times with the increases averaging 44%. Since early 1999 the duty has varied from 53% to 88% and by the end of the year was 100%.[2] A 7% IVA tax was imposed on pet food mid year but was not imposed on yellow corn.

The duty rate for the period June 1–15 will be 54%. Both the level of the tariff and the substantial, frequent fluctuations are major impediments to trade because they force retail prices beyond acceptable consumer levels (more than a 100% premium over local brands) and make it impossible for importers to predict costs and price products accordingly. As a direct result of Colombia's high tariffs on pet food, US pet food manufacturers, including Kal Kan, who make the world's leading brands are being forced out of the Colombia market.

Early last year, as part of negotiations at the WTO in Geneva regarding Colombia's request for a delay in implementing the WTO Agreement on Customs Valuation, the US Government secured an agreement from Colombia to de-link wet pet food from the price-band system. However, the Government of Colombia has thus far failed to act on this commitment to the United States.

II. Background

The stated purpose of the Andean price band system is to stabilize import costs for 13 agricultural commodities whose international prices are considered by the Pact countries to be volatile or "distorted." The commodities included are rice, malting barley, yellow and white corn, soybeans, wheat, crude palm oil, crude soybean oil, raw and refined sugar, powdered milk, poultry meat, and pork meat. This protection is achieved by increasing import tariffs when prices are low and lowering them when prices are high. The price band also links 147 additional commodities and one finished product (pet food) that are considered derivatives or substitutes for the 13 "marker" commodities. For example, derivative and substitute products linked to yellow corn are poultry mean, sorghum, starches, glucose syrup, bran, and food for pet animals and livestock.

The operation of the band is based on an Andean Community Board determination of a ceiling price, a floor price, and a reference price which are then used to calculate a duty surcharge or discount to be assessed on imports of marker and linked products. The floor and ceiling prices are derived from the international fob prices and are valid for one year. The reference price is the 15-day average price of the market product adjusted by so-called "international market information." None of these price relate to import transaction values. If the reference price is within the price band i.e. between the floor and ceiling prices, then the common external tariff (CET) will be applied to imports of the marker product. If the reference price is above or below the price band than a surcharge or discount will be calculated. The example below shows the most common situation—an import surcharge.

EXAMPLE OF A VARIABLE DUTY SURCHARGE CALCULATION

Marker or Linked Product	CET	Reference Price US$/mt	Floor Price US$/mt	Ceiling Price US$/mt
Yellow Corn	15%	117	161	192

Step 1: The difference between reference price and floor price or 161 − 117=44
Step 2: Calculate duty on the amount of difference, and add difference or 44+[44×15%]=$50.60
Step 3: Convert this specific duty to advalorem or $50.60+117=43%. This is the variable surcharge component of the total duty.
Step 4: Calculate total duty by adding the CET to the variable surcharge or 15%+43%=58%.
Step 5: This duty rate of 58% is applied against the reference price.
As of January 2000 the duty on yellow corn cannot exceed 44%.
Pet food (linked)—20%.
Because pet food is linked to yellow corn the import duty on pet food is the CET plus the variable duty surcharge. However, because the CET on pet food is higher than the CET on corn Article 12[3] of Decision 371 applies which adjusts the variable duty surcharge to reflect the difference between the CET on yellow corn (15%) and the CET on pet food (20%). In this case rule (b) applies and the calculation is 43% − 5%=48%. The total duty on pet food is 20%+38%=58%*
This duty rate of 58% is applied against the declared value of the imported pet food.
There is no ceiling on the pet food duty.

[2] Colombia has not yet exceeded its WTO bound rates for pet food. Colombia's 2000 bound rate for pet food is 106.6% ad valorem and the final bound rate is 97% in 2004.

[3] Article 12 provides that If the CET for the linked product is greater than the CET for the marker product, then the additional variable duty of the linked product *will be the greater of the following two values*: (a) Additional variable duty of the market product, multiplied by the "quotient" between the CET of the marker product and that of the linked product; (b) the additional variable duty of the marker product, less the difference between the CET of the linked product and the CET of the marker product.

Among the objections to the price band system are the lack of process transparency and arbitrary nature of reference price inputs. Also, the system's use of reference prices introduces volatility to the cost of importing and makes it impossible for importers to predict costs and build markets. The arbitrary nature of the system was evidenced in 1999 when Colombia, bowing to pressure from domestic poultry producers, reduced the duty on 100,000 mt of yellow corn to 35%. However, the tariffs on pet food and other products linked to yellow corn were not reduced. Similarly, early in 2000 the government decreed the duty on yellow corn could not exceed 44% but no such maximum duties were set for linked products.

Not all members of the Pact impose the additional duties on yellow corn and linked products. Bolivia and Peru do not participate in the price band system and their tariffs on pet food are 10% and 12% respectively which provides fair market access for imported products.

III. The Linkage of Pet Food to Yellow Corn Is Unjustified

The Andean price band system sets two criteria for products to be included as "linked": (1) the product includes the marker commodity as a raw material; (2) the product can be substituted for a marker commodity or a related product in industrial use. Pet food does not meet either of these two criteria.

Pet food is a highly processed product that is made to meet national and international standards for food for pet dogs and cats. Regulatory authorities [4] have determined the nutrition requirements for pet animals at each stage of life, for example, from puppies to mature dogs. Pet food recipes are designed to utilize ingredients that deliver complete nutrition in a digestible form that meets national standards. Corn may be included among the many ingredients used in pet food but could not be used alone if the regulatory standards for energy and nutrition content are to be met. In the case of wet pet food which has a high water content and is packed in cans, pouches or trays, the corn content ranges from 0 to 1%.

Further, it cannot be said that pet food is in any way derived from corn or that corn is an essential ingredient in pet foods for which there is no substitute. Additionally, it has been shown that there is no correlation between the price of yellow corn and the price of pet food.

Pet food cannot readily be substituted for corn. Pet food is made to meet specific energy and nutrient targets for pet animals and is more costly to produce than the yellow corn feed meal that would be used for livestock. The cost of feeding prepared pet food to livestock would be prohibitive.

Of the 147 products linked to the 13 marker commodities, including the 27 products linked to yellow corn, pet food is the *only* highly processed multiple ingredient product. This singling out of pet food among all processed products for linkage is discriminatory and reveals a misunderstanding of how pet food is formulated and the international nutrition standards that influence ingredient selection.

It is for the reasons stated above that a petition was filed with the Colombian Ministry of Agriculture to remove pet food from the price band and apply only the 20% CET to imported pet food.

Kal Kan Foods supports efforts by the Administration and Congress to advance trade liberalization among all countries of the Americas. The Andean Trade Preferences Act can be viewed as one component of this larger vision. With this in mind, it is important to build support among all US business sectors and the American public by ensuring that US exporters also have a fair opportunity to participate in all the markets of the Americas.

Sincerely,

MARIETTA E. BERNOT
President

[4] For example, the American Association of Feed Control Officials (AAFCO) has set out nutrient profiles for pet dogs and cats at each stage of life that prepared pet foods must deliver. The nutrients include crude protein, crude fat, crude fiber, Ash, Calcium, and Phosphorus.

Statement of the Michigan Farm Bureau, Lansing, Michigan

Michigan Farm Bureau appreciates the opportunity to present this written testimony on the impact the Andean Trade Preference Act (ATPA) has had on our domestic asparagus industry. Michigan Farm Bureau is the state's largest general farm organization, representing more than 45,000 farmer member families.

The ATPA provides the four Andean countries of Bolivia, Columbia, Ecuador and Peru with duty free and reduced duty access to our market. ATPA was enacted to assist those countries in their fight against narcotics trafficking. The extent to which the ATPA has advanced narcotics eradication in Peru, however, is highly questionable largely because cultivation of asparagus and other crops in Peru occurs in the desert region along Peru's coastline, not in the foothills and mountains where Peruvian drug cultivation is known to exist.

Providing this duty free and reduced duty treatment to imports from these countries has measurably affected trade in certain horticultural products and has had a significant impact on domestic production of these commodities.

The duty free treatment provided to asparagus growers in Peru has further enhanced an already competitive industry that existed in Peru prior to enactment of the ATPA. Once a small industry in the early 1980's, Peru has become the world's largest producer and exporter of asparagus. Asparagus is Peru's second largest agricultural export item with about $150 million in annual export earnings. Export production is for two different markets: green asparagus (primarily fresh) for export to the United States, and processed white asparagus for the European market. Peruvian cultivation of asparagus occurs year round with very high yields per acre experienced by its growers.

The U.S. market consumes 75% of the fresh asparagus produced in Peru. Peru's fresh exports to the U.S. market have increased by 10-fold in the last decade, doubling in just the last two years. Peru ranks second to Mexico in fresh asparagus sales to the U.S.

As the Peruvian industry has matured they have also begun to ship larger quantities of processed asparagus to the U.S. In 2000, Peru shipped 813 metric tons of canned asparagus and 1,560 metric tons of frozen asparagus to the United States. Processed asparagus imports from Peru in 2000 were almost eight times greater than the amount shipped in 1994. Peru is the largest offshore source of processed asparagus with a total volume exceeding the amounts imported from all other sources combined.

U.S. industry sources indicate that five to ten million pounds of Peruvian frozen asparagus have been made available to the U.S. market in the past year. Imports of this magnitude are significant because the total U.S. market for frozen asparagus is only ten million pounds annually. Duty free access for Peruvian frozen asparagus has exacerbated the situation. Peruvian imports are displacing U.S. asparagus production at an alarming rate.

U.S. Asparagus Production and Imports from Peru—Metric Tons

	U.S. Production	Imports from Peru	Peru as a Percent of U.S. Production
1994	99,656	8,593	8.6%
1995	91,808	10,032	10.9%
1996	90,220	11,574	12.8%
1997	91,899	13,368	14.5%
1998	92,806	15,151	16.3%
1999	99,383	23,424	23.6%
2000	103,572	32,196	31.1%

Asparagus production in the U.S. is centered in California, Washington and Michigan. These three states make up over 95% of annual production. Minor production is found in New Jersey, Illinois, Indiana, Maryland, Minnesota and Oregon. Over the past decade U.S. asparagus acreage had declined by 17%, while production has deceased 7%. Per capita consumption of asparagus in the U.S. has increased slightly in recent years.

In recent reports to Congress, the U.S. International Trade Commission [1] and the U.S. General Accounting office [2] concluded the following about ATPA and the asparagus industry:

- The ATPA has encouraged the production of nontraditional agricultural commodities, such as asparagus, in Peru (ITC).
- The Peruvian asparagus industry has dramatically increased production in the past decade and is projected to increase as much as 40% from 1999 to 2000 (ITC).
- Peru's substantial increase in asparagus production has allowed them to become a major exporter of frozen product, complementing their already strong position in canned and fresh asparagus (GAO).
- As U.S. imports of asparagus have increased, demand for domestic processed asparagus has declined (GAO).
- Imports of ATPA-exclusive products were estimated to have had a potentially significant effect on a number of domestic industries, including asparagus (ITC).
- Asparagus production in the U.S., particularly processed production, has been displaced by duty-free imports from Peru under ATPA, and reauthorization of ATPA will result in continued displacement of domestic producers (GAOP).
- A portion of this displacement will continue even without reauthorization of ATPA, due to Peru's climate and cost advantage (GAO).
- Asparagus is not listed as one of the crops that provide an alternative to the production of coca in Peru's major drug producing areas. However, asparagus production was found in areas adjacent to coca producing regions (ITC).
- Farmers and pro-coca local officials in Peru's coca areas have actively resisted coca eradication efforts and have shunned the development of alternative crops (ITC).

For the reasons noted above, Michigan Farm Bureau requests that significant modifications be made to the ATPA should it be renewed at all. First, we request that duty free treatment not be accorded for specific commodities wherein a country is deemed economically competitive. The determination of economic competitiveness should follow the criteria now used in the Generalized System of Preferences (GSP) program requirements. Once a country has reached the established level of economic competitiveness, it would no longer be eligible for duty-free access to the U.S. market for that commodity. Instead, the tariff for that product would revert to the MFN level.

Instituting this change would support the objective of the ATPA of providing economic alternatives to narcotics production, but would not allow foreign imports to put U.S. producers out of business in the process. We do not oppose competition with foreign imports, but we do oppose providing trade preferences to countries to the extent that such preferences result in the elimination of otherwise competitive U.S. production.

Second, a safeguard mechanism should be instituted to address import surges of perishable agricultural commodities. Import surges can be extremely disruptive to U.S. agricultural markets, especially considering seasonality concerns and the price variability of perishable agricultural products. Criteria now exist in the NAFTA and the WTO agreement on agriculture that enable safeguard actions to be taken under specified conditions. Certain trade remedies, such as the U.S. 201 law, allow the administration to take action to mitigate import surges when they are determined to be causing or threatening injury to U.S. producers. However, imports from ATPA and other countries are exempt from consideration in the investigation of 201 cases.

In order to address the often-irreparable damage caused to U.S. producers of perishable products due to import surges, we request that any extension or renewal of the ATPA include an automatic, transparent, and temporary safeguard mechanism. The safeguard mechanism would provide much needed import relief to U.S. producers being injured by an import surge and would still provide market access for ATPA beneficiary countries during the remedy phase.

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[1] *Andean Trade Preference Act, Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution.* USITC Publication 3358, September 2000. Seventh Report 1999, Investigation No. 332–352.

[2] *Agricultural Trade; Impacts of the Andean Trade Preference Act on Asparagus Producers and Consumers.* Government Accounting Office, March 2001.

Statement of Malcolm O'Hagan, President, National Electrical Manufacturers Association, Rosslyn, Virginia

Mr. Chairman, Members of the Committee. Thank you for this opportunity to discuss NEMA's experiences in the Americas and our perspective on the proposed Free Trade Area of the Americas (FTAA).

The National Electrical Manufacturers Association (NEMA) is the largest trade association representing the interests of U.S. electrical industry manufacturers. Our more than 450 member companies manufacture products used in the generation, transmission, distribution, control and end-use of electricity. Annual shipments exceed $100 billion in value.

NEMA brings a unique perspective to your hearing as a result of the successful outreach efforts that we have been conducting throughout the Hemisphere in recent years. Supported partly by a Commerce Department Market Development Cooperator Program grant, we have opened Sao Paulo and Mexico City offices that have not only helped our members do business in the Americas, but have proven invaluable with regards to addressing standards-related and other non-tariff barriers to trade. Moreover, we have also been engaging counterpart industry groups, in particular conducting a mini "Summit of the Americas" for our industry in Costa Rica last November, as well as taking the initiative to begin signing numerous memoranda of understanding with a variety of Latin trade associations. Finally, we have also attended several of the Americas Business Forums and last month were part of a U.S. business delegation that went to Santiago to meet with leaders there to show our strong support for the proposed US-Chile FTA.

In short, NEMA has found that there are plenty of groups and individuals throughout the Hemisphere who share our view that the FTAA is a "win-win" goal.

While NEMA applauds the limited progress made in the recent Buenos Aires and Quebec.

City meetings, our view is that participating governments need to catch up with the latent desires of their populations to further develop and integrate economically. Substantive FTAA negotiations are long overdue in starting, with many capitals still not seriously engaged in the process. In our view, the 34 governments should have moved up the deadline for the completion of negotiations from 2005 to 2003 so as to help the people of the Americas enjoy the benefits of trade liberalization as soon as possible.

Specifically, NEMA strongly encourages FTAA negotiators to attain the following as soon as possible as soon as possible as soon as possible:

- Tariff Elimination
- Openness and Transparency in Government Procurement
- No Mutual Recognition Agreements (MRAs) For Non-Federally-Regulated Products
- Energy Services Liberalization
- Protection of Intellectual Property Rights
- Compliance with all World Trade Organization (WTO) Technical Barriers to Trade (TBT) Requirements
- Inclusive Definition of "International Standards"
- Voluntary, Market-Driven Standards and Conformity Assessment
- As Many Market Opening Measures As Possible
- Effective Monitoring and Enforcement Mechanisms
- Free Trade Benefits Not Encumbered By Labor Or Environmental Provisions

Thank you for your consideration of these remarks.

Statement of Myles Frechette, North American Peruvian Business Council

Mr. Chairman, I commend you for the timeliness of this hearing on prospects for free trade in the Hemisphere. I am Myles Frechette, Executive Director of the North American Peruvian Business Council (NAPBC) whose fundamental mission is to facilitate investment and promote trade between Peru and North America. The Founding members of the NAPBC are Newmont Mining Corporation, Barrick Gold Corporation, Caterpillar Inc., Continental Airlines, J.P. Morgan, Compañía De Minas Buenaventura S.A., and Forza S.A. Other members of the NAPBC are Exxon-Mobil Corporation, Patton Boggs LLP, Riggs Bank N.A., Texaco Inc., Ferreyros S.A., Hunt Oil Company, and Schmeltzer, Aptaker & Sheppard, P.C. The NAPBC was in-

corporated in August 2000 as a non-profit organization and includes U.S., Canadian and Peruvian companies.

The NAPBC would like to work with Congress to promote and increase trade opportunities in the Hemisphere. The 1991 Andean Trade Preference Act (ATPA) grants Colombia, Bolivia, Ecuador, and Peru tariff preference on certain goods for ten years in an effort to help those countries fight narcotics trafficking. The ATPA has proven to be a valuable weapon in the war against drugs by creating economic incentives to encourage the Andean countries to avoid the illegitimate industry of narcotics, especially coca, and increase the production of legitimate products.

In January, the Office of the United States Trade Representative released its third report to Congress on the operation of the ATPA. the report indicates that the ATPA has generated significant job opportunities in a variety of sectors, including cut flowers, non-traditional fruits and vegetables, jewelry and certain electronic inputs. Between 1991 and 1999, total two-way trade between the U.S. and the ATPA beneficiary countries nearly doubled. The ATPA has been essential to strengthening the legitimate economies in the Andean countries.

I was Ambassador to Colombia from July 1994 to November 1997. During my service there, I saw at first hand the benefits of the ATPA and the potential of an extended and "robust" ATPA. The ATPA created thousand of jobs in Colombia, helped Colombia's economy and government offset the high cost of countering narcotics trafficking and turned the private sector into staunch and vocal supporters of anti-narcotics cooperation.

The ATPA did not include several import sensitive products such as apparel and textiles. Congress is now faced with the unique opportunity of expanding and extending the ATPA before it expires on December 4, 2001. Congress should not squander this opportunity to provide the ATPA countries with an effective tool for combating the war on drugs.

Even though in 1999 Bolivia, Colombia, and Peru achieved record levels of coca eradication, these cooperative efforts to combat the scourge of drugs are ongoing and should be strengthened.

The ATPA should be expanded to include textiles and apparel. The ATPA was based on the Caribbean Basin Initiative (CBI) which did not originally provide tariff relief for apparel and textiles. Recently, the Andean countries' competitors for textile and apparel have received beneficial trade treatment from the United States due to the recently enacted "Trade and Development Act of 2000." CBI beneficiaries now receive preferential tariff treatment for regional products made with American fabric and yarn. This expansion of CBI already compounds disadvantages to the Andean textile and apparel industries created by the North American Free Trade Agreement.

By including textiles and apparel, the ATPA would become a valuable weapon in the war against drugs in the Andean region. The data on the drug trade clearly shows that the coca economy is regional, and that actions adopted in one country affect anti-drug efforts in neighboring countries. The success in Peru's drug fight corresponds with an increase in drug production in Colombia which clearly indicates the interconnected relationship between drug protection and trafficking in Peru, Colombia and Bolivia.

We commend Senator Graham (D–FL) for taking the lead on expanding the ATPA and for including textiles and apparel. However, we are concerned about the limitations of the textile and apparel provisions included in S. 525, the Andean Trade Performance Expansion Act. The textile provisions included in S. 525 are based on the textile and apparel provisions included in the expansion of the CBI as passe in the Trade and Development Act of 2000. An approach based on the use of fabric and yarn does not help the Andean countries.

The use of cotton grown in Peru and Bolivia is an essential part of their industry. The cotton industry provides an important alternative crop to the coca industry and additional lawful employment for both agricultural and factory workers. These jobs are vital to Peru's efforts in the war against drugs. Peruvian products that currently benefit from the ATPA are mostly minerals but mining is not as labor intensive as the textile and apparel industries.

Recently, the Trade Ministers of the Andean community at a meeting in Lima stated their joint position on the inclusion of textiles and apparel in the ATPA in a document called "Position of the Andean Community to the Andean Trade Preference Act." The Trade Ministers believe that textiles and apparel should be included in the ATPA and more specifically, "the expansion of the coverage of the ATPA should not be considered to regulations regarding the origin of raw materials that restrict the access of our textiles and apparel."

Tens of thousands of jobs are at stake. Most apparel from Peru and Bolivia are made from high quality, locally grown cotton or are made from llama or alpaca that

is native to the region. In Peru alone, the textile sector supports 32 percent of the population employed in the manufacturing industry, which amounts to approximately 180,500 jobs. Workers who would otherwise have lawful jobs will be left without an alternative to coca production.

Expanding ATPA benefits to include apparel made with regional fabric will not have an adverse impact on the domestic U.S. industry. In 1999, textile and apparel exports from Andean countries represented only 1.1 percent of the total textile and apparel exports to the United States. The ATPA countries export far less textiles and apparel to the United States than the CBI region does.

An expansion of the ATPA to include textiles and apparel would provide economic and political stability to the Andean countries. Increasing the number of legitimate employment opportunities would provide a needed boost to the struggling economies of the Andean countries. The NAPBC looks forward to working with Congress to extend benefits under the ATPA in order to provide the necessary economic incentives to eliminate the lure of illicit drugs and strengthen democracy in the region.

Statement of the Hon. E. Clay Shaw, Jr., a Representative in Congress from the State of Florida

Mr. Chairman I am a avid supporter of free trade and the expansion of markets with open lines of movement of goods and services between our country and our trading partners, I have supported "Fast Track" and now support "Trade Promotion Authority," as well as voting in favor of the various trade agreements that now define our larger commercial relationship with the world, particularly the Uruguay Round agreements that formed the WTO and our partnerships with Canada and Mexico, which are embodied in NAFTA and other bilateral agreements in this hemisphere.

I support free trade because I understand how it benefits both the consumers and the producers in our own economy to modernize and advance our ability to make the most of our own comparative advantages and our trading partners' competencies. In addition, many of us are fully aware of the strategic role expanded trade plays in building diplomatic bridges and common purpose and other nations, sometimes more effectively than direct foreign aid or technical assistance. Even as some countries resent yet strive to emulate U.S. success, recent events underscore how some of the most thorny international security and internal political challenges can be subordinated to the desire for stronger economic commercial ties, when cooler heads prevail.

I have also heard the legitimate grumblings of parties in this country who do not feel that they got the best deal possible in recent agreements. Even worse, some have rightly observed that not all the commitments they received for their concessions have been squarely met. Some in these industries have communicated to me that they have reasonably concluded that further expansion of free trade in our hemisphere is not in their own best interest.

Today, rather than argue apples and oranges, I want to give voice to citrus and tomatoes. I remain committed to free trade, but I acknowledge that unless we forthrightly address the issues that hold back some individuals and certain industries from wholeheartedly supporting expanded trade in our hemisphere, we miss an important opportunity to assure that we are doing right by own citizens in all four corners of the U.S. If now is the time for debate, then let us meet the debate head-on with facts, understanding various parties' positions and prepared to continue improving in the future how we do business in international trade negotiations. This way, the people we represent can have confidence we are doing, for them, the best job possible of protecting their interests.

In particular, many fruit and vegetable growers in Florida have expressed frustration to me in recent years. At previous hearings and in personal discussions with many in this room, including Ambassador Zoellick, I have mentioned "seasonality" as an important element of assuring fairness to certain farmers in competing with Latin American during certain limited growing seasons. I raise it again today, asking for some specifies, so that we may move the debate forward.

A number of U.S. agricultural commodities, including fresh and processed citrus, have been found import-sensitive in the past, and been required to compete with unfairly traded or subsidized imports both in domestic and foreign markets. In addition, foreign advantages gained through looser antitrust laws and differing environmental standards and labor conditions, have permitted many foreign producers of horticultural products to overcome superior U.S. product quality. Trade relief laws

alone have not fully satisfied these industries in offsetting the very advantages that have launched and nurtured some of these foreign competitors.

Thank you for your attentiveness to these issues. I look forward to discussing them with you in more detail as we move forward on TPA and in negotiations with our trading partners.

Statement of Jay Mazur, President, Union of Needletrades, Industrial and Textile Employees, New York, New York

I appreciate having this opportunity to comment on last month's Summit of the Americas in Quebec City, Canada, on progress to date in negotiating a Free Trade Area of the Americas (FTAA) and on renewal and possible expansion of the Andean Trade Preference Act (ATPA). I speak for 250,000 members of the Union of Needletrades, Industrial and Textile Employees (UNITE) in the United States and Canada, many of whom were in Quebec City during the Summit. I also speak for an equal number of retired members of our union, many of whose lives were made more difficult because of United States trade policy.

In addition to the impact of trade on our members in Canada and the U.S. UNITE works with garment worker unions and union federations throughout Latin America. We are aware of the prolonged and profound economic hardships suffered by working people of the region, so we wholeheartedly support any policy of the United States that would raise the living standards of workers in the region.

The negotiations on FTAA and the expiration of ATPA provide a critical opportunity for the government of the United States to re-think how it can best help promote development in Latin America. There is no evidence that nearly 20 years of trade under various versions of the Caribbean Basin Initiative (CBI), 10 years of trade under the ATPA or 7 years of trade under the North American Free Trade Agreement (NAFTA) have advanced the most pressing development needs of the peoples of those respective regions. Furthermore, there is considerable evidence that the special U.S. apparel market access programs for Mexico and the Caribbean Basin countries, the model on which the proposed "enhancement" of ATPA is based, may actually retard development.

Any strategy for development must strengthen democratic institutions that move developing societies toward the rule of law and a more equitable distributions of wealth. A legitimate FTAA and a genuine enhancement of ATPA would place them in the context of such strategy, one adapted to the most pressing needs of the Western Hemisphere today.

The demonstrations in Quebec City, like those before them in Seattle, Washington, D.C., Buenos Aires, Prague and countless other cities in this Hemisphere and around the world, cannot be dismissed as the actions of a handful of radicals or a political version of spring break. They are reflections of serious concerns about the rules of trade that have been established since the creation of the World Trade Organization in 1994. Polling consistently shows that the uneasiness expressed by the demonstrators reflects the view of the vast majority of the American public.[1]

For all of its virtues, trade in the 90s has left multitudes of the world's citizens behind. While globalilzation has created spectacular wealth for the few, whatever has trickled down to the many must not be confused with social development or even economic growth. Workers in both developed and developing nations have seen their real incomes stagnate or decline over the past decade. Nearly 2 billion people are living on less than one dollar a day; 2.6 billion lack even basic sanitation. Hundreds of millions of people are malnourished. Globalization has increased income and social disparities within nations and between nations. I has left many people behind.

The sheer size and, with it, the power of multinational corporations is overwhelming nations. Of the 100 largest economies in the world, 51 are corporations—only 49 are countries.

Those who are negotiating trade agreements today and hereinafter ignore these facts at their peril. We do not believe Congress should or will continue to pass trade legislation or approve trade agreements that protect the interests of multinational corporations and investors and ignore the interests of working families.

As Dani Rodrik, Professor of International Political Economy at Harvard University, put it:

[1] See, e.g., Scheve, Kenneth and Slaughter, Matthew, Globalization and the Perceptions of American Workers, Institute for International Economics, March 2001.

The new agenda of global integration is built on shaky empirical ground and it seriously distorting policy makers' priorities. Making compliance with it the first order of business diverts human resources, administrative capabilities, and political capital away from more urgent development priorities such as education, public health, industrial capacity, and social cohesion.[2]

It is UNITE's position that steps must be taken to bring the Western Hemisphere countries into compliance with internationally recognized core labor standards, or the result will be increased inequality and the stagnation of living standards.

Trade policy liberalization is not a development strategy

"Development" and economic growth are not synonymous. According to a principal architect[3] of the United Nations Development Program's influential annual *Human Development Report*, development hinges on four elements:

- **productivity** growth:
- **empowerment** of people;
- **equity**; and
- **sustainability**.

The U.S. government has not evaluated whether current trade policies have promoted measurable progress on the above four dimensions in the Western Hemisphere. Exports of products to the United States have grown, according to the U.S. International Trade Commission. Officials from some transnational corporations say that they feel less inhibited about doing business in various parts of the region. No thorough study has been done by the U.S. Government, however, of the impact of NAFTA, CBI in its various forms and the ATPA on the working people who actually produce articles covered under the trade acts.

Evidence is available, however, about the impact of special apparel market access programs on the working people of Mexico and Central America. Both the CBI and NAFTA programs were promoted as development strategies for Mexico and the Caribbean Basin. The evidence from these countries suggests, however, that simple extension of special U.S. Market access to apparel and textiles (and by extension, other products) will fail to promote or consolidate any of the cornerstone elements of the development in the Hemisphere.

Trade boom, development bust

Apparel exports to the United States from Mexico and a few Caribbean Basin countries boomed during the 1990s. Employment in Mexico's apparel industry increased some 60 percent between 1993 and 1998. The CBI and Mexico apparel booms, however, have not driven forward development in those countries:

Productivity and living standards:

- Mexican apparel industry labor productivity *declined more than 15 percent* between 1993 and 1998.
- Real (inflation-adjusted) hourly compensation for Mexican apparel workers *dropped almost 25 percent* over the same period.[4]
- Apparel industry labor productivity in major Caribbean Basin apparel-exporting countries *dropped significantly* after 1986 (when the first CBI special access program for apparel was launched).[5]
- The wages of the majority of workers employed in the apparel *maquiladoras* and "export processing zones" of Mexico and the Caribbean Basin are insufficient to purchase nationally defined "basic baskets" of goods and services that satisfy physical needs.[6]

Empowerment

The rights of workers have long been defined by the International Labor Organization (ILO), and were made binding on all member-nations in 1998. The countries

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[2] Rodrik, "Trading in Illusions," "Foreign Policy, March/April 2001, p. 55.

[3] Mahbub ul-Haq, *Reflections on Human Development.* Oxford: Oxford University Press, 1999.

[4] UNITE analysis of official Mexican data on consumer price indices, total compensation, and hours worked. Data available via the internet at http://www.inegi.gob.mix.

[5] UNITE analysis of official Mexican data on consumer price indices, total compensation, and hours worked. Data available via the internet at www.inegi.gob.mix.

[6] See Equipo Tecnico Multidisciplinario Para Centroamerica, Cuba, Haiti, Mexico, Panama, y Republica Dominicana, *Fuerza Laboral, Ingresos y Poder Adquisitivo de los Salarios en Centroamerica, Panama y Republica Dominicana,* San Jose, Costa Rica: Oficina Internacional del Trabajo, 1998. This report contains data on the cost of basic *food* baskets for the larger countries of the Caribbean Basin. A simple rule of thumb to estimate the cost of a more complete basket is to double the cost of the food basket.

in the FTAA are all members of the ILO. They are, therefore, bound to "promote and realize" the basic rights of their workers: freedom of association, the right to organize and bargain collectively; and the right to be free from forced labor, child labor and discrimination in employment. There is no evidence that special access to the U.S. market encourages the exercise of workers' rights. Again the experience of export-oriented apparel promotion in Mexico and CBI provides a dismal record:

- *Only a few dozen collective bargaining agreement exist* in the CBI region, where approximately half a million workers in CBI countries employed at hundreds of companies produce apparel for export to the United States. Employers, in collusion with government authorities, systematically crush workers' organizing efforts. Employees are left defenseless against the arbitrary and abusive practices of their employers.
- Numerous studies exist that describe in detail the pervasive and systematic restriction of freedom of association and the right to organize in Mexico.[7] The university-founded Workers' Rights Consortium recently examined industrial relations at a supposedly "model" apparel factory in the Mexican state of Puebla and uncovered gross violations of workers' fundamental rights.[8]
- Human rights activists in Mexico and the CBI countries have documented patterns of attacks on women's rights and freedoms within export-oriented apparel firms.[9] Some abuses, such as pregnancy testing, appear to be motivated by an interest in avoiding the economic cost of legally mandated pregnancy and maternity benefits. Other abuses, such as occupational discrimination and tolerance of sexual harassment (and, less frequently, sexual assault), appear to be employed by managers as tools of control over the workforce.
- Export-oriented apparel firms have been found to employ children who fall below the legal age threshold and to discourage working youths from attending school. Countries and companies that have been subjected to international media attention focused on this issue appear to have taken some steps to eliminate these practices.

Equity:

What fruits there have been from the apparel export boom in Mexico and the CBI countries have been distributed inequitably. The principal beneficiaries of the market access programs have been U.S.-based apparel companies, retailers and importers, elites in Mexico and the CBI countries, and some Asian companies that have set up apparel and textile factories in Mexico and the Caribbean to export to the U.S. market. Workers in Mexico and the CBI countries are not getting their fair share.

The increasing integration of Mexican and Caribbean Basin production workers into the U.S. apparel supply chain has meant that the income gap between those at the top of the transnational industry pyramid and those at the bottom has grown. Without even taking stock options into account, CEOs of U.S. companies in the apparel industry frequently make over 500 times as much money in a year as the average Mexican apparel worker producing goods for their companies.[10]

Sustainability:

The United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) study of Mexican and Central American maquiladoras has aptly summarized a fundamental flaw with the maquiladora-led growth strategy:

> The contribution made by [Mexican and Central American maquila factories] to economic growth is more modest than that which one could suppose upon seeing the volume of their activity. *Should the maquila factories multiply in their current form, the countries would be specializing in supplying cheap labor, and [the sector's] growth would depend on the continual*

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[7] See various reports submitted to and issued by the U.S. National Administrative Office for the North American Agreement on Labor Cooperation.

[8] See the preliminary WRC report on systematic abuse of workers' rights at the Kukdong apparel factor via the internet at http://www.workersrights.org. Also see http://mikebiz.com for a less thorough report.

[9] See, for example, Human Rights Watch, Mexico: A job or your rights (New York: HRW, December 1998). Available via the internet at http://www.hrw.org/hrw/reports98/women2/.

[10] The annual earnings of top executives of large U.S. apparel retail and manufacturing corporations that source production in Mexico and the Caribbean Basin frequently exceed $1 million (see http://www.ecomponline.com/). The annual average wage of Mexico apparel production workers is about $2,000 (see official Mexican government statistics, available via the internet at http://www.inegi.gob.mx). Average annual earnings data are not available for the CBI countries.

cheapening of this factor. This is not compatible with a long-range strategy of growth with social equity.[11]

The data contained in Table 1 below support the ELCAC's assertion. Growth in apparel imports from CBI countries has tended to increase most rapidly where hourly labor costs have increased the least. Where labor costs increased significantly, growth in apparel exports to the USA slowed.[12] Apparel manufacturer and retailer executives are seeking out the lowest cost labor they can find. Is this not a race to the bottom? And will not those countries that are unwilling to pursue the race to bottom to its logical conclusion discover that reliance on apparel export-led employment growth leads to a dead end?

Table 1

Apparel Industry	Growth of U.S. imports	Growth of reported avg. hourly labor costs (USS)
	1989–98	1985–96
Honduras	2523%	10%
El Salvador	2512%	−27%
Guatemala	466%	8%
Dominican Rep	256%	56%
Costa Rica	206%	186%
Jamaica	74%	71%

- Sources: (imports) U.S. Department of Commerce, Major Shippers Reports, various years; (wages) Bobbin Consulting Group (1987), and Werner International Management Consultants (1998); (wages*) UNIDO available via the internet at http://www.unido.org.

Apparel executives see tariff preferences as a useful tool by which to pressure supplier companies to lower prices. The apparel industry magazine *Bobbin* recently related the expectations of the president of Sportif, a U.S. branded sportswear company, about the role of "NAFTA parity" for CBI countries. In the executive's view, Bobbin reported,

"It's possible that Caribbean competition will create supply-and-demand dynamics that could cause Mexico's labor rates or currency value to fall."[13]

This might seem to apparel industry executives to be a positive development. However, for the working people of North, Central and South America whose livelihoods are tied to the transnational apparel industry, intensification of the deregulated scramble for market share is cause for grave concern. The same is equally true of workers making other manufactured goods and even those providing soon-to-be integrated services.

Any policy that rests its hopes for development primarily on apparel industry export promotion is flawed. Any such policy that fails to promote and protect nationally and internationally recognized worker rights is fatally flawed. Such a policy makes the United States complicit in the perpetuation of worker abuse.

Systematic violation of workers' rights in Andean countries

For millions who live and work in the four Andean countries covered by the ATPA, freedom, as it relates to work is an illusion. Year after year, investigators from inter-governmental and non-governmental organizations document unconscionable violations of the most fundamental rights of trade union leaders and rank-and-file members.[14] It is alarming, but not surprising, that one-third of all complaints

[11] Comision Economica para America latina y el Caribe. Maquila y transformacion productiva en Mexico y centroamerica. LC/MEX/R.630. 28 de octubre de 1997. Translated by UNITE from the original Spanish. Emphasis added.

[12] Countries where wages have fallen the most are also the countries that have the worst record of abusing worker rights. For an interesting argument along these lines see: Dani Rodrik, Democracies Pay Higher Wages, NBER Working Paper 6364, revised October 1998, published in the Quarterly Journal of Economics.

[13] *Bobbin*, "Exploring the HOT Topics of 2000: Sourcing and electronic commerce." Dec. 2000.

[14] See *The Second Report of the Special Representative of the Director-General for Cooperation with Colombia* (Geneva: ILO, 2001); *Report of the United Nations High Commissioner for Human Rights on the human rights situation in Colombia;* International Confederation of Free

Continued

in the world filed with the Committee on Freedom of Association of the International Labor Organization (ILO) originate in the Andean region.

Despite condemnation from unions and the ILO, new labor laws in Colombia, Peru, Ecuador and Bolivia have undermined the right of collective bargaining in those countries. In Peru, according to the State Department's Human Rights Report for 2000, "the ILO specifically criticized a provision that permits businesses to employ youth workers between the ages of 16 to 25 as up to 30 percent of the workforce; *workers in this age bracket are precluded from union membership and participation"* (emphasis added).

As a result of these practices, the number of collective bargaining agreements in the region has dropped precipitously. A recent ILO study reports that the number of agreements in Peru dropped from 1,762 in 1990 to 623 in 1996, and in Ecuador from 315 in 1987 to 206 in 1996, while in Bolivia only two new agreements were signed in the decade from 1990 to 1999.

Additional weakening of labor laws in export processing zones (EPZs) serves to further impede union organization. According to the State Department, in Peru: "Special regulations aimed at giving employers in export processing and duty free zones a freer hand in the application of the law provide for the use of temporary labor as needed, for greater flexibility in labor contracts, and for setting wage rates based on supply and demand." In Colombia, there are no unions in the EPZs, while in Ecuador employers have used short-term contracts to prevent organization in the zones.

Colombia is the leading Andean exporter of apparel to the United States. Colombia also is the most dangerous country in the world in which to be a trade unionist. Killings of labor leaders and unionized workers remain a "regular" occurrence in Colombia, according to an ILO special Direct Contacts Mission, which visited the country in February 2000. *"Cases where the instigators and perpetrators of the murders of trade union leaders are identified are practically nonexistent, as is the handing down of guilty verdicts,"* according to the ILO investigative team.[15]

The Medellin-based National Labor School reports that approximately 1,500 union members have been murdered since 1991, when the ATPA first took effect.

- Over 100 union members were killed during 2000, according to a tripartite Colombian commission;
- Thirty-five additional killings of trade unionists have already been reported in 2001.

The U.N. High Commissioner for Human Rights, in her 2001 report on Colombia, lay a portion of the responsibility for the persistence of human rights abuses at the feet of the government:

> ". . . [P]rotection of human rights and compliance with international recommendations were neither accorded the importance nor pursued with the persistence or effectiveness that the serious situation in Colombia requires. This was reflected in the Government's limited follow-up, continuity and vigor regarding relevant mechanisms and standards. It was also reflected in the absence of adequate resources for programs and institutions that have a vital role to play in the human rights area and could contribute towards the resolution of the country's human rights crisis. The High Commissioner expresses her concern at the fact that the authorities have failed properly to follow up the majority of the international recommendations.
>
> *"The Office was able to confirm that the principal problem as regards human rights is not an absence of laws, programs, mechanisms or institutions, but a failure to use them and thus an absence of tangible decisions, action and results."* [16]

In addition to the extra-judicial violence perpetrated with impunity in Colombia, the latest Annual Survey of Violations of Trade Union Rights issued by the International Confederation of Free Trade Unions reports that authorities in the Andean countries utilize various tools to repress strikes. For example, in Colombia 149 people were injured and 418 arrested when security forces clashed with workers in 1999.

Trade Unions (various publications); and U.S. State Department, *Country Reports on Human Rights Practices* (various years).

[15] Report of the Direct Contacts Mission to Colombia, 7–16 February 2000. Emphasis added.

[16] Report of the United Nations High Commissioner for Human Rights on the human rights situation in Colombia. Emphasis added.

The Inadequacy of the Workers' Rights Provisions in Existing Trade Law

Under the Generalized System of Preferences (GSP), the U.S. extend trade preferences to a country only if it "has taken or is taking steps to afford to workers in that country . . . internationally recognized workers' rights." The U.S. trade union movement and other labor rights activists have tried on numerous occasions to utilize the workers' rights provision in response to gross and persistent violations of those rights in Western Hemisphere countries that benefit from U.S. trade preferences. The labor movement has found the enforcement mechanism flawed. One major problem is the snail's pace of investigations; another is the fact that the U.S. Government has too much discretion over whether or not to take action.

Take the example of Guatemala. Labor rights advocates in the United States first petitioned the U.S. Government to investigate gross violations of internationally recognized workers' rights in Guatemala in 1986. Petitions also were filed in 1987, 1989, and 1990, 1991 and 1992. The U.S. Government refused to act on the petitions until 1992. The Government engaged in a "review" of the state of workers' rights in Guatemala through 1993. In 1994 the GSP statue lapsed and the review process ended. The AFL–CIO submitted new allegations of violations of workers' rights in 1995—again, the U.S. Government chose not to suspend benefits, but to "review" Guatemalan law and practice. The U.S. terminated this review in 1997, having concluded that the government of Guatemala was, indeed, "taking steps" to afford Guatemalan workers their internationally recognized rights. The AFL–CIO filed a new petition in 1998. The U.S. Government rejected the new petition, then reversed itself and self-initiated an investigation in the wake of brutal physical attacks on Guatemalan banana workers' union leaders. Since the decision to investigate was made, the U.S. Government has made a good faith effort to promote respect for workers' rights in Guatemala. But while the U.S. Government investigated, the Guatemalan courts rendered judgments against the banana union leaders' assailants that amounted to a slap on the wrist and made a mockery of justice. The union leaders were forced to flee for their lives, and came to the United States in March of 2001.

The leaders of the Guatamalan banana workers' union join many other labor leaders and workers' rights advocates from throughout the Hemisphere likewise forced into exile. The absence of those activists and leaders represents a real setback for development in the Americas.

The workers' rights clause in the ATPA and the related enforcement mechanism established by the U.S. Trade Representative are simply inadequate to deal with the level and intensity of exploitation that takes place on a routine basis in many of the Andean countries. Both the law and the enforcement mechanisms are especially inadequate for dealing with countries here paramilitary forces, government authorities, and employers mount assaults on trade union rights on a daily basis.

The FTAA will not even include the weak labor provisions in the ATPA, the GSP or the CBI NAFTA Parity program adopted in 2000. It does not include the weak and mostly unenforceable labor side agreements that are in NAFTA. The ongoing negotiations for the FTAA have studiously avoided serious consideration of labor rights and the critical connection between labor rights and economic development. The nine negotiating groups for the FTAA do not include a group on labor issues, nor are labor issues being negotiated by any of the groups. The United States has not insisted that labor rights be included in the FTAA, nor has any other country.

Conclusion

Half a million U.S. apparel and textile workers have lost their jobs over the past ten years as U.S. apparel retailers and brand marketers have shifted production and sourcing to Mexico, the Caribbean Basin and, to a lesser degree, the Andean countries. These production and sourcing shifts have failed to contribute in any measurable way to development in those countries and have driven down standards for apparel workers in the United States, many of them immigrants from Latin America. members of UNITE, therefore, find it hard to understand why U.S. policy makers expect that expanding the NAFTA model of trade to the rest of the Hemisphere will improve working conditions, lift standards of living, and enhance people's freedom in the region.

Negotiations for expanded trade in the Western Hemisphere *must* include as a core commitment a concerted effort to strengthen institutions—both within individual nations and a the international level—that will (1) ensure substantial compliance with existing laws that promote and protect workers' rights and (2) promote movement by governments and employers in the region toward full respect of internationally recognized workers' rights.

Without such action, the FTAA and a renewed and expanded ATPA will simply accelerate the race to the bottom for millions of workers. That is not acceptable.

Statement of West Indies Rum and Spirits Producers Association

The West Indies Rum and Spirits Producers Association ("WIRSPA"), representing the major producers of rum and spirits in the Caribbean region, appreciates this opportunity to express its views on both (i) the proposed extension of the Andean Trade Preferences Act ("ATPA") and (ii) the proposed Free Trade Area of the Americas ("FTAA"). In both of these initiatives, special attention must be given to rum in order to avoid causing irreparable damage to the struggling economies of the Caribbean Basin.

Rum's Special Role in the Caribbean

Rum is a product of special significance to the Caribbean Basin, where it has been produced for centuries, contributing to local economies and enhancing the culture and folklore of the Caribbean region. U.S. trade policy has long reflected an appreciation for rum's unique role in Caribbean history—for example, establishing a tax "cover-over" mechanism to support rum production in the U.S. Caribbean territories (1983), by rejecting petitions for duty-free entry of non-Caribbean rum under the Generalized System of Preferences (1987 and 1990), and by excluding rum from the ATPA (1991).

Andean Trade Preferences Act

The ATPA provides special duty-free benefits to Bolivia, Colombia, Ecuador, and Peru. Some have advocated that this expiring program should be not only renewed, but expanded to include formerly excluded products such as rum. Adding rum to the ATPA would trigger sharp dislocations in the Caribbean Basin. Legislative history explains that rum was excluded from the original ATPA "in order to preserve the benefits that the Congress has provided to Puerto Rico, the Virgin Islands, and the Caribbean Basin countries ....Andean rum producers have significant natural resources and cost advantages over their Caribbean and U.S. Territorial counterparts as well as large excess production capacity." H.R. Rep. No.102–337 at 15 (1991). That description is as accurate as ever.

The only meaningful change in circumstances since those words were written in 1991 occurred as a result of the 1997 U.S.-EU tariff agreement on distilled spirits. As of 2003, most rums (and all branded rums) will be able to enter the United States duty free from anywhere in the world. Thus, much of what the Andean countries would get from bringing rum into the ATPA has already been accomplished by other means. However, the EU and U.S. negotiators in 1997 were careful to preserve their tariffs (and thus the Caribbean suppliers' duty preference) on low valued rums, upon which Caribbean suppliers depend to remain in business. This carefully negotiated solution appropriately balanced the interests of global spirits companies with the unique needs of the fragile Caribbean economics. *Expanding the coverage of ATPA duty-free benefits to include rum would threaten that balance.*

Exports from the ATPA countries, particularly Colombia, could quickly overwhelm and displace Caribbean suppliers. Approximately 2.3 million cases of rum per year are produced in Colombia, by government entities under a legal monopoly. Colombia also has substantial rum exports, and even with the remaining tariff on low-valued rums, U.S. imports from Colombia doubled in 2000 as Colombia took advantage of duty reductions already implemented since 1997. This increase includes Colombia's emergence, for the first time in 2000, as an exporter to the United States of bulk rum—an ominous indicator of what Colombia could accomplish if the remaining import duty on low-valued bulk rum were lifted. Colombia's competitive advantages include: (1) substantial surplus sugar production, so that molasses is readily available to rum producers at very low cost; and (2) large petroleum deposits that enable rum producers to secure inexpensive fuel oil, whereas Caribbean producers in the USVI, Puerto Rico, and most CBI countries must depend on more expensive imported fuel oil. Moreover, lower costs of labor and environmental compliance strongly suggest that overhead expenses—the only other significant cost category—are also lower in Colombia and the other Andean countries than in the Caribbean Basin countries. Therefore, displacement of Caribbean rum would be substantial, and the consequences, in a region whose fragile economies can ill-afford them, would include lost sales, closed distilleries, and lost jobs.

Free Trade Area of the Americas

For the same reasons that duty free access for low-valued rums should not be granted to the four Andean countries under the ATPA, it would be devastating to the Caribbean rum suppliers to grant duty free access to the *entire hemisphere*

under the FTAA. Duty free access for countries like Brazil and Venezuela would quickly wipe out the hard-earned position of Caribbean suppliers of rum in the U.S. market. The resulting damage to Caribbean economies, including those of the U.S. territories, would be unbearable. The tariff on low-valued rums was left in place for a reason, and that reason is every bit as valid today as it was in 1997.

We note that our positions on these issues are precisely aligned with the positions that the U.S. territories in the Caribbean are advocating through their representatives in Washington.

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The Committee on Ways & Means has long been a staunch defender of the Caribbean region. We urge you to maintain that role as you design these upcoming trade initiatives.

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