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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Betsy Quint-Moran to Lael Brainard. Subject: Notes from Today's Meeting. (2 pages)	11/08/1996	P1/b(1)
002. statement	Opening Statement, WTO Accession for China Negotions. (2 pages)	10/07/1996	P1/b(1)

COLLECTION:

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
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DRAFT FOR FINAL CLEARANCE Wednesday 9-4-96

Statement by Dan Glickman
Secretary of Agriculture
Before the House Committee on Agriculture
September 12, 1996

Mr. Chairman, members of the Committee, I am pleased to come before you today to discuss state trading enterprises (STEs), their role in agricultural trade, and the international measures we are proposing to better monitor and discipline their operations. I want to state for the record that the U.S. Department of Agriculture shares this Committee's concerns that current World Trade Organization (WTO) notification procedures and controls on the activities of STEs are in need of strengthening.

We believe that STEs, in some instances, are operating in ways that can and do distort agricultural trade. We believe that, under current rules, countries may be tempted to use STEs to circumvent their Uruguay Round commitments. We regard the lack of adequate requirements for transparency and the need for improved disciplines on STEs as areas requiring further attention in the WTO.

Along with the Office of the U.S. Trade Representative and other government agencies, we are working toward this end. STEs are one of a number of areas where we are seeking to build on the progress already achieved toward eliminating unfair trade practices, leveling the playing field, and increasing export opportunities for U.S. producers, processors, and exporters. These efforts call for firm, aggressive action in enforcing trade agreements, as well as continued U.S. leadership in mobilizing international support for stronger disciplines, new initiatives, and expanded trade liberalization. Such support is essential if we are to realize our broader objectives and maintain the global momentum toward fair and open trade.

We are addressing the specific challenges posed by STEs, in part, through negotiations on several fronts, where we are proposing mechanisms to ensure greater transparency in the activities and operations of these entities. In conjunction with these efforts -- and with the support and encouragement provided by the Congress -- we are working to lay the groundwork and build a consensus for putting the issue of stronger STE disciplines high on the agenda for the next major round of WTO multilateral trade negotiations.

If we are to continue to phase out export subsidies, we need equivalent disciplines on STEs and related trade-distorting practices. Other countries besides the United States have to bear their share of the burden as we move to an increasingly open, market-oriented agricultural trade system.

Mr. Chairman, in my statement today, I intend to discuss the various types of STEs and how they affect trade and production, current WTO requirements and controls, our efforts to bring greater transparency and improved disciplines to state trading, and why these changes are important to American agriculture as the global trading community expands. In elaborating on each of these areas, I hope to address as clearly as I can the questions posed in your invitation so that we might, in turn, benefit from this committee's counsel and guidance as we continue to refine U.S. negotiating strategies and proposals related to state trading.

Defining and Describing State Trading Enterprises

Trade policy successes often build incrementally from what may seem at the time as minor, technical achievements. In citing the need for further attention to STE's in the next round of multilateral trade negotiations, I am not suggesting that progress on this issue must wait. Nor do I mean to downplay what has already been accomplished in the Uruguay Round.

Since 1947, Article XVII of the General Agreement on Tariffs and Trade (GATT) has laid out some general rules with regard to STEs, but these entities were never clearly defined. In 1994, the Uruguay Round Understanding on State Trading Enterprises established the first official working definition of STEs, as follows:

> Governmental and non-governmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through their purchases or sales the level or direction of imports or exports.

The Uruguay Round agreements also tightened the rules on state trading and established a WTO Working Party for State Trading Enterprises, which provides one important vehicle for our continued efforts.

STEs exist in a number of sectors, but the majority are found in resource-based products, including agriculture. In 1995 and 1996, 30 countries notified the WTO Working Party that a total of 121 STEs in their countries were involved in trade in agricultural products. Twenty of these countries listed STEs for grains, and 11 reported STEs involved in dairy products trade. STEs for cotton, horticultural products, livestock, meats, oilseeds, and some tropical products were also reported. Some countries reported separate STEs for individual product groups, such as the New Zealand Dairy Board, Kiwi Board, and Apple and Pear Marketing Board. Other countries, such as the Czech Republic, reported a single intervention and trade agency. Several countries reported large numbers of provincial liquor import and marketing boards.

These notifications, previously required under the GATT and now mandated under the WTO, indicated that 47 of the STEs were primarily involved in exports, 68 dealt mainly with imports, and the remaining six had some control over both exports and imports. This cannot by any measure be considered a complete inventory of agricultural STEs around the world because not all WTO members have complied with the notification requirement. In addition, we must note that STEs currently dominate agricultural trade in several countries that are seeking entry into the WTO but have not yet met the conditions for accession, such as China and some of the countries of the former Soviet Union.

How STEs Affect Agricultural Trade and Production

In the most general terms, state trading is an important concern to us for two reasons: It can give producers in countries with STEs an unfair competitive advantage over U.S. producers in export trade, and it can also be used to deny market access to U.S. products. In either case, domestic producers in countries with state trading are able to increase production, while other, perhaps more efficient producers are chased out of markets and may have to reduce production.

On the export side, the key concern is that STEs may be subsidizing exports or otherwise engaging in practices that may circumvent WTO disciplines on export subsidies. In addition to concerns about export subsidies and subsidized credit, other related practices of STEs, such as price pooling and predatory export pricing practices, can have the effect of unfairly supporting export sales.

Price pooling occurs when the final price paid to producers by a single buyer is a blended price based on net revenue of all sales in foreign and domestic markets. Predatory export pricing practices may complement price pooling in countries where there are single-desk (monopoly) sellers. In such cases, the STE can use its market power and control over prices to undercut the competition and drive other exporters from key markets. The potential of an STE to distort trade, circumvent WTO rules, and engage in unfair trade practices obviously depends on a number of factors, including its control over domestic supplies or export marketing and the government support it receives.

Under the WTO definition, the Commodity Credit Corporation (CCC) qualifies as an STE, and the United States reported it as such to the WTO last year. However, we and most other countries agree that the activities of the CCC do not significantly distort trade. The vast majority of CCC activities are devoted to domestic market programs, and the CCC does not benefit from a monopoly export position. I might add, too, that when the CCC has engaged in direct subsidized export sales, USDA has provided summary information to all interested parties, and we will continue to provide transparency and public reporting on CCC operations.

Many other STEs around the world have much broader authority and are not nearly so transparent. Here in the United States, we have focused a great deal of attention on a few of the most visible STEs operating in world markets, such as the Canadian Wheat Board, the Australian Wheat Board, and the New Zealand Dairy Board.

The June 1996 report by the General Accounting Office provides some useful insights on the operations of these three entities. It notes, for example, that when an STE like the Canadian Wheat Board enjoys a virtual monopoly on domestic purchases and provides farmers with an initial payment that is below market prices, it has a great deal of flexibility to engage in discretionary and perhaps predatory pricing. Other studies have provided additional information.

Both the Canadian and Australian Wheat Boards practice price discrimination -- different prices to different importers. There are similar concerns about the ability of the New Zealand Dairy Board to engage in price discrimination and potential cross-subsidization between foreign markets (using higher prices in one import market to subsidize sales in another market at prices below acquisition costs), as well as the special advantages it accrues through its subsidiaries in more than 60 countries, including the United States.

Many STEs, including the Canadian Wheat Board and New Zealand Dairy Board, have other important advantages as well. An STE that controls domestic supplies or one that controls exports representing a major share of domestic production has a sure supply, as long as the weather cooperates. This gives the STE much greater freedom than a private firm in making export sales commitments, resulting in a significant advantage in reaching long-term trade agreements with importing governments. The Canadian Wheat Board also benefits from government support ranging from direct subsidies to indirect subsidies, such as lower interest rates on government loans.

It must be said that these relationships, benefits, and trade activities -- including price discrimination -- are not prohibited by international law or trade agreements. Within the free market system, a certain degree of pricing flexibility is common and commercially acceptable. An STE may, in fact, have an incentive to engage in price discrimination because it has a public responsibility for moving all of a country's production at whatever price can be obtained. However, there is a point at which discretionary pricing becomes excessive, begins to seriously distort trade, and may constitute an illegal export subsidy.

Without increased transparency, it is very difficult to determine whether an STE is exploiting its special privileges and using price discrimination to engage in predatory pricing or subsidy practices that violate WTO commitments. The lack of pricing transparency has been a particularly contentious issue in the case of the Canadian Wheat Board, but it is an important issue with most STEs. It is a key issue that I will return to repeatedly in my statement today.

The operations of the Canadian Wheat Board are treated in considerable detail in the report by the Canada-U.S. Joint Commission on Grains. The commission's final report pointed to the potentially trade-distorting effects of discretionary pricing by both the U.S. and Canadian governments and included some specific recommendations regarding the Canadian Wheat Board. The monopoly powers of the Canadian Wheat Board, its pooling arrangements, and the lack of transparency in its operations have also been challenged by some producer groups within Canada.

In fairness here, we should acknowledge that some governments are taking or have already taken positive steps to reform and privatize the operations of their STEs. Two notable examples are the Australian Wheat Board and the New Zealand Dairy Board. While these boards may still enjoy residual benefits from past government support, privatization has limited, if not totally eliminated, the advantages these entities formerly enjoyed over private trading companies. We welcome these changes and are cautiously optimistic that their days of functioning as government-supported monopoly exporters are over.

With regard to the Canadian Wheat Board, one potentially encouraging development is the recent report by a grain industry panel there (the Western Grain Marketing Panel) that reviewed Canada's grain marketing system and presented its recommendations to the Canadian government. Among other things, the panel recommended that export sales of feed barley be removed from the Board's exclusive control. Canada's Minister for Agriculture announced that he would address the recommendations by late fall or early winter. We await any Canadian decisions with great interest to see if the government intends to adopt these recommendations.

In each of these countries, however, the changes undertaken and those being considered do not fully address issues related to the trade-distorting effects of their STEs, the potential for circumvention of WTO rules, the ability to employ predatory pricing and other anti-competitive practices, or the lack of transparency.

So far, I have focused mainly on the activities of *export STEs*. Although it is important to understand their role in world markets, we believe that it is just as important to understand the operations of *import STEs*.

In general, import STEs influence domestic production and pricing, as well as imports. They often act as the sole importers of specific commodities or control imports through contracting arrangements or licensing. Some import STEs establish price markups for products imported under tariff-rate quotas, control the processing and distribution of imported goods, and conduct quality, quantity, and safety inspections on imports. They typically cite national food security and the need for stable producer or consumer prices as reasons for their existence.

When import STEs support producers by raising the price of imports, by limiting the entry or distribution of imported products, or by discriminating among suppliers, their actions affect production and trade in much the same way as any other import-restricting practices. Domestic production in these countries is greater than it would otherwise be and potential imports are reduced -- all of this potentially at the expense of competitive producers and exporters like the United States.

Of course, some STEs in developing countries operate with different objectives, seeking to artificially hold down consumer food prices by capping domestic farm prices and bringing in imports to supplement local supplies. These policies discourage internal production and may result -- at least in the short term -- in greater opportunities for exporting countries than would otherwise be available under freer market conditions. It must be noted, however, that the long-term consequences of such policies tend to be negative for trade, inhibiting economic growth, development, and potential gains in purchasing power that would lead to increased future import demand in these countries.

Current WTO Requirements and Controls on STEs

Although state trading is permitted under the WTO, STEs are subject to all the GATT disciplines, including rules on most-favored-nation treatment, national treatment, tariffs and markups, subsidies, and general requirements for transparency. In addition, under specific rules for state trading in GATT Article XVII, STEs are required to "make any such purchases or sales solely in accordance with commercial considerations."

As a result of pressures from the United States and some of our trading partners, the rules for state trading were further tightened during the Uruguay Round negotiations. All agricultural imports, including those by STEs, were subject to new rules on market access. Quantitative and budgetary limits were established on agricultural export subsidies, including subsidies provided by STEs regardless of their specific governmental relationship. Earlier, I noted the adoption of an official definition, for the first time, of what constitutes an STE, and the formation of the WTO Working Party on State Trading Enterprises. These were all positive steps that help lay the foundation for further progress.

As this Committee knows, both the Congress and the Administration have given a high priority to monitoring compliance with trade agreements. The Office of the U.S. Trade

Representative and the Department of Commerce have established high-level monitoring and enforcement units to ensure that countries live up to their obligations. The U.S. Department of Agriculture has also established a system for monitoring the implementation of agricultural commitments, with special emphasis on the many commitments made under the Uruguay Round.

In USDA, specialists in the Foreign Agricultural Service and other agencies work with WTO experts, our Office of General Counsel, and our agricultural officers in countries around the world. We monitor compliance with specific commitments and evaluate the policies and practices of foreign governments that may violate WTO obligations. Within this context, we are paying particular attention to the activities of STEs.

As part of these monitoring efforts, the U.S. government has actively used the resources available through the WTO Committee on Agriculture and the WTO Working Party on State Trading Enterprises. Through the Committee on Agriculture, we have examined the records of other countries, including those that use STEs, in complying with WTO export subsidy, market access, and domestic support commitments. Through the Working Party, we have examined the practices of STEs and vigorously questioned other countries about these practices.

We have exerted a lot of pressure and raised the visibility of issues involving state trading around the world. We have been encouraged in this effort by the Congress and several U.S. producer groups.

However, we continue to encounter a significant obstacle -- probably the largest obstacle we currently face. Transparency is a basic principle in many of the trade reforms adopted in the Uruguay Round. Yet, in nearly all cases, the activities of STEs remain largely shielded. They are not sufficiently transparent to determine whether WTO rules and commitments are being violated. The specifics of their operations are too frequently hidden behind government privilege or claims of business confidentiality.

As I noted earlier, most of the formal functions and activities of STEs outlined here, including those activities with the potential to distort production and trade, do not represent *prima facie* violations of WTO rules. On the export side, for example, STEs can subsidize exports, but they cannot subsidize beyond the limits established in their respective country's WTO commitments. They can engage in price pooling and targeted price discrimination, unless it can be demonstrated that these practices constitute export subsidies above those negotiated in the Uruguay Round.

Similarly, STEs can be used to control imports, as long as these controls are consistent with commitments on market access and other GATT/WTO rules. They can mark up prices for imported products, but markups cannot exceed levels committed to in the WTO and cannot be used to discriminate among suppliers or to price imported products out of domestic markets.

For each of these activities, and others, the information necessary to distinguish between practices consistent and those inconsistent with WTO rules and commitments can, in many cases, be hidden from public view. As long as the operations of STEs can be largely concealed, countries may be tempted to employ practices that violate WTO rules and commitments. Lack of transparency will continue to handicap our efforts to monitor compliance.

Efforts to Bring Greater Transparency and Increased Disciplines to STEs

This is a situation, Mr. Chairman, that we are working to remedy, and I am convinced we are making progress.

Since 1960, GATT members have been required to submit notifications or responses to a questionnaire on STEs. The questionnaire asks for a listing of STEs, the products controlled by STEs, the reasons for maintaining STEs, and some information and statistics on how STEs function and their role in trade. Before the Uruguay Round, compliance with the STE notification requirement was spotty, at best.

Part of the problem in years past was the lack of a definition, which in many cases permitted countries to exercise arbitrary judgment on whether a specific trade entity should be reported as an STE. Under the WTO, we now have a working definition.

Part of the problem was the lack of serious attention to the activities of STEs. With the new WTO Working Party on State Trading Enterprises and persistent U.S. pressure within the WTO and elsewhere, high-level attention is no longer in question.

Finally, part of the problem involved the questionnaire itself, which failed to elicit essential information in a consistent, usable format, even when members did respond. I am talking again about transparency.

Within the Working Party, the United States has taken the lead in the development of a new notification format that will expand the reporting requirements on STEs. The U.S. proposal generally elaborates and improves on the existing questionnaire. Our main objectives are:

1. Getting countries to report more data on the import activities of STEs, including information on prices paid for imports and the subsequent markup for sales in the domestic market. This information is needed to determine whether the effective markup and tariff barriers constitute a violation of that nation's Uruguay Round commitments.
2. Getting countries to provide information on the average price paid to producers as compared with the average price at which the product is being sold in export markets.
3. Getting countries to provide specific data (such as the sales price) at the individual export transaction level, when so requested by another WTO member.

We are also seeking more information on the activities of STEs generally and on the nature of the special privileges they enjoy, such as government-sanctioned status as the sole exporter or importer of designated products.

In addition to expanded reporting requirements, the Working Party -- again with U.S. prompting -- has also developed an illustrative list of what constitutes an STE based on its activities, mechanisms, and privileges. We are commenting on this list and are prepared to discuss some refinements and additions to ensure that the reporting requirements for STEs under the WTO capture the types of organizations and activities that concern us. When finalized, the illustrative list should contribute to better and more thorough reporting of information on the role, relationships, activities, and trade-related functions of STEs.

The efforts to improve monitoring and reporting through the WTO Committee on Agriculture and the WTO Working Party on State Trading Enterprises hold a lot of promise for further intensifying the scrutiny of STE operations and increasing transparency. However, I want to emphasize that we are not confining U.S. efforts on this issue to the WTO process. We are pursuing our concerns about STEs in other multilateral fora, including the OECD negotiations on export credits; the talks on a Free Trade Area of the Americas (FTAA) under the Working Group on Subsidies, Antidumping, and Countervailing Duties; and negotiations within the Asia Pacific Economic Cooperation forum (APEC).

I would like to comment particularly on the OECD talks in Paris, because of their importance and relevance to this issue. In the Uruguay Round negotiations, the United States agreed to discuss the development of guidelines on export credits and credit guarantees. These discussions are being held in Paris within the Export Credit Group of the OECD Working Group on Agriculture.

In these talks, the United States has taken the position that if there are to be new disciplines on credit and credit guarantees, then there also must be adequate price transparency on all export activities of STEs to avoid the circumvention of any new credit disciplines. In effect, we are working to shift the focus of debate to the issue of transparency. Our proposal within the OECD calls for periodic notifications on the activities of STEs in several areas, including the quantity of exports, the revenue received from these sales, and the portion of sales backed by credit or credit guarantees. If the issue of transparency can be advanced within the OECD, this may provide the basis for progress on STEs within the WTO.

In my statement, I have repeatedly emphasized the issue of transparency. Let me explain briefly why increased transparency is such a primary objective at this point, and why we believe that transparency itself represents a substantial step toward resolving many of our concerns about the role of STEs in world agricultural trade.

First, increased transparency would discourage countries from using STEs to circumvent WTO rules and engage in anti-competitive practices because these practices would no longer be so easily concealed from the public.

Second, increased transparency would dramatically improve our ability to monitor the activities of STEs and uncover violations of WTO rules and commitments, whether related to hidden subsidies, import barriers, or lack of "commercial considerations" in making purchases or sales. We would then be in a strong position to effectively challenge these practices.

This Administration, with the support of the Congress, has already demonstrated its willingness and determination to use all the tools at its disposal, including the WTO dispute-settlement process, to enforce compliance with trade agreements and challenge unfair trade practices. We are more than eager to bring this same aggressive determination to the questionable trading practices of STEs, wherever they can be rooted out.

Last but not least, increased transparency will help lay the groundwork for any further work that needs to be done in the context of ongoing WTO work and future WTO negotiations. Transparency should help us document for the record how the activities of STEs distort trade, the extent to which current WTO rules may be insufficient, and the detrimental impacts on other countries whose support we may need. It will give us the necessary information to develop proposals for any additional disciplines that might be required to more effectively curtail and control the unfair trading practices of STEs.

Before we can fully diagnose the problem and prescribe an effective cure, we need to get the patient out into the light. Sunshine is good for everyone.

Preparing for the Expansion of the WTO

The final area I want to discuss in my statement involves the efforts we are making to address some of the concerns about state trading in those countries seeking entry into the WTO.

The expansion of the WTO provides the opportunity to bring some important trading nations now outside the organization under the umbrella of the new trade rules -- the opportunity to lock in commitments that will provide greater market access for U.S. producers in years to come. On the other hand, I have already noted the prevalence of STEs among several of the countries now seeking membership in the WTO.

Because of the size of their economies and their role in trade, China and the countries of the former Soviet Union represent a particular concern. The United States and other WTO members recognize the importance of ensuring that new members are not permitted to use state trading to circumvent their WTO obligations or undermine the integrity of the trade organization. These are countries with very limited experience in private trade, openness, and the commitment to international trade rules.

In negotiations on the conditions for accession, the United States is requiring countries to identify all STEs and provide information on their activities. In countries where STEs appear to engage in trade-distorting practices, we are seeking specific commitments regarding these practices. In general, we encourage such countries not to use state trading to regulate trade.

With China, for example, the United States has been involved in detailed negotiations over state trading practices. On the import side, we have focused on transparency and the need for a commitment to expand the right to trade to all individuals and firms, whether private or state owned. In the case of oilseeds and oilseed products, where China recently re-introduced state trading, we are seeking a commitment to phase out state trading. On the export side, we have similar concerns and would like to see a commitment to avoid certain trade-distorting practices, such as price pooling and targeted export practices. More work is required before the United

States and other WTO members can have sufficient confidence that China's system of STEs will be consistent with WTO rules and not impair the benefits that should accrue when China enters the trade organization.

Failure to have appropriate controls and requirements for transparency in place as the WTO expands could have far-reaching implications for the trading system. Our concerns are shared by other major exporters, including Canada, New Zealand, and Australia. These common interests regarding the state trading practices of new entrants provide an opportunity, and one of the most compelling arguments we have, for enlisting broader support for efforts to achieve greater transparency and controls with regard to the operations of all STEs.

Conclusion

Mr. Chairman, we have entered a new era in trade. World markets have never been more open, and U.S. agricultural exports are booming. The Uruguay Round and other trade agreements have brought new and greater opportunities, but also new and often tougher challenges. Today, we face an ever-expanding agenda of trade issues, and we are monitoring compliance with agricultural trade agreements on many fronts. One major concern today is the increased use of sanitary/phytosanitary measures and other technical restrictions on agricultural trade, but there are many others.

Still another challenge posed by the new trade environment involves its increasingly multilateral nature. A global commitment to new trade rules also entails a commitment to a multilateral process -- a process that still permits a firm, unyielding stand when core U.S. interests are at stake, but one that more often requires U.S. leadership in building a consensus among other nations behind trade initiatives.

STEs are one of the issues that require close attention, a firm stand, and strong U.S. leadership if we are to achieve our objectives.

In the Federal Agriculture Improvement and Reform Act of 1996, the Congress took special note of the need "to discipline monopolistic trading practices of state trading entities...that use nontransparent and discriminatory pricing as a hidden de facto export subsidy."

In closing, Mr. Chairman, I want to state once again that we share these concerns. More than 120 countries, including the United States, undertook major commitments to adopt new trade disciplines and reform the global agricultural trading system in the Uruguay Round. The prospect of circumvention of these commitments through state trading or any other means is not acceptable.

We are committed to ensuring fair trade and open markets for U.S. producers, and we will aggressively pursue issues related to state trading through the WTO and all other available fora until we are satisfied that effective controls are in place. As we continue to address these issues, we welcome the opportunity to work with this Committee and the Congress.

I will now be happy to take your questions.

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LEVEL 2 - 1 OF 1 STORY

South China Morning Post

September 13, 1996

SECTION: News; Pg. 11

LENGTH: 507 words

HEADLINE: Congress seeks say over admission to trade body

BYLINE: SIMON BECK in Washington

BODY:

The US Congress signalled its discontent over trade policy with China yesterday, proposing to force the White House to seek its backing on Beijing's accession to the World Trade Organisation.

In a move which is sure to infuriate the administration, the Democrats' leader in the House of Representatives, Richard Gephardt, introduced a bill to require the backing of both Houses of Congress before the US can approve China's entry.

The plan would also force the US to withdraw from the trade body if China gained entry without Washington's permission.

Although no action on the bill is likely before Congress goes into recess next month, the House Ways and Means Committee is due to hold a hearing on China's admission into the organisation next week, where the matter is almost certain to be debated.

With the annual Most Favoured Nation status issue now accepted as an out-of -date trade weapon, Congress members are concerned that Washington does not give up the leverage of the trade organisation question without exacting gains from China.

Beijing's overtaking of Japan last month as the nation with the biggest trade surplus with the US has added fuel to the fire on Capitol Hill.

Mr Gephardt, a critic of China's trade and human rights record, has been supportive of President Bill Clinton's policies in the run-up to the election, and this new challenge may cause surprise.

"There are some really serious concerns here about just what the administration gave away in order to get the intellectual property agreement with China," said a senior congressional aide. "We don't know what they agreed to do with China with regard to the World Trade Organisation. This is a very major issue."

LANGUAGE: ENGLISH
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JUL 31 1996

Inside U.S. Trade

An Inside Washington Publication

An exclusive weekly report on major government and industry trade action

Vol. 14, No. 30 - July 26, 1996

U.S. SOFTENS KEY DEMAND ON SEMICONDUCTORS AS JAPAN SIGNALS HARD LINE

Acting U.S. Trade Representative Charlene Barshefsky this week told her Japanese counterpart that the U.S. is willing to scale back a key demand to renew a bilateral agreement on semiconductor market access, according to informed sources. The concession came in the wake of a clear signal from Japanese Prime Minister Ryutaro Hashimoto that Japan is unwilling to make any additional concessions to meet U.S. demands for government involvement in a new deal.

Barshefsky did not weaken U.S. demands for provisions to guard against a resurgence of injurious dumping of semiconductors in the U.S., even though she is under pressure from U.S. computer systems producers not to include any antidumping provisions in a new agreement, informed sources said.

In a letter this week to Minister of International Trade and Industry Shunpei Tsukahara that accompanied a

continued on page 18

CONFIDENTIAL DRAFT SHOWS NAFTA WIN FOR CANADA'S DAIRY, POULTRY FARMERS

In its confidential interim ruling backing Canada's right to keep high tariffs on dairy, poultry and egg products, a binational North American Free Trade Agreement panel has accepted Canada's argument that those tariffs were legitimate exceptions to obligations under NAFTA that its signatories not raise tariffs beyond the levels in effect at the outset of the accord.

In arriving at its unanimous interim decision on July 15, the five-person panel rejected the U.S. argument that Article 710 of the 1989 U.S.-Canada Free Trade Agreement, which was incorporated into NAFTA as an annex to its agriculture chapter, dealt exclusively with farm non-tariff barriers and could not be used to justify raising farm tariffs, according to the closely-held interim panel decision reprinted below.

Instead, the panel accepted Canada's argument that FTA Article 710 provided an exception for the raising of

continued on page 20

KRISTOFF SEES CHINA WTO ACCESSION, PERMANENT MFN IN SECOND CLINTON TERM

The U.S. has initiated a high-level dialogue with China aimed at resolving key trade disputes and other areas of contention between the two countries in a second Clinton Administration. This initiative would include efforts to complete China's accession to the World Trade Organization and grant China permanent most-favored nation status, according to a senior White House official.

The recent trip by National Security Adviser Anthony Lake to China was intended to "lay the foundation for the breakthrough in what is anticipated to be a second Clinton Administration on issues like providing permanent MFN for China and getting them into the WTO," Special Assistant to the President for Asian Affairs Sandra Kristoff told the Foreign Correspondents' Club in Bangkok on July 11.

"If we are successful in pushing this through over the course of the next several months, what will ensue will

continued on page 31

STATE PLAN TO RESOLVE DRIFTNET DISPUTE CRITICIZED AS 'WEAK'

The U.S. is expected to reach an agreement with Italy as early as today (July 26) that would require Italy to take major steps toward curbing the use of driftnets by its fishing industry and avert the need for the Clinton Administration to impose a ban on its fish and fish product exports, sources said this week. The U.S. State Department, which is negotiating the agreement, is "optimistic" that a deal can be struck that would "bring about the end of driftnet use" in Italy, one informed source said.

But another informed source said State's proposed plan only provides voluntary incentives to Italian fishermen to stop using driftnets, and would not necessarily lead to an "immediate cessation" on driftnet use. The incentives include paying fishermen not to fish, increasing penalties against fishermen using driftnets, increased enforcement, and the option of selling fishing vessels to the Italian government, sources said.

continued on next page

be a more regularized, routine, normal relationship between the United States and China that includes, perhaps, even the exchange of state visits," Kristoff said. Improved relations would result in "a U.S.-China relationship that everybody doesn't cringe over every time there is a dispute between us," Kristoff said.

A normalized relationship would create "an implicit understanding between the United States and China [regarding] how each side will act on a series of issues," Kristoff said.

This effort to establish a "strategic framework" in which to manage U.S.-China relations would also cover a number of non-trade issues, Kristoff said. It would attempt to "get out of the annual, indiscriminate screeching match" at the Human Rights Commission in Geneva, and deal with issues such as nonproliferation and Taiwan, she said.

Lake's trip was intended as a follow-up to his March meeting with Liu Huaqui, director for foreign affairs at China's State Council. At that meeting, the two officials "went through the four or five key issues that were out there that could take this relationship over the cliff," Kristoff said. "We made very clear on nonproliferation, on trade, on human rights, and on the Taiwan issue, what it was that the U.S. was going to do over the next three or four months."

Kristoff emphasized that this "implicit understanding" ensured that the disputes over these issues "played out" in the manner anticipated by the two officials. Lake's subsequent visit to China to meet with Liu tried to create "the outlines of the second pragmatic balance" to address issues including permanent MFN and WTO accession.

Although she said that it is too early to draw "real hard conclusions" about the impact of Lake's most recent trip to China, Kristoff emphasized that it was "constructive and positive." By covering areas of agreement and disagreement, Lake and Liu were able to set the stage for progress on a range of issues. "The whole purpose of improving relations is to put you in a position where you can make progress on issues," she said.

Kristoff also said that the Lake visit marked the return of a "national interest calculus" to U.S. policymaking in Asia, which "for too long...focused on values." Engaging in "the wrong debate" on "Asian values, American values, democracy, not democracy" obscured a more important debate on national interest, she said.

Finally, the Lake visit "reflects a maturation of the foreign policy thinking in Washington," according to Kristoff. "We've gotten a better handle, I think, on how to do short-term management of issues, how to put them into a longer-term strategic framework," she said.

The initiative to develop a long-term plan to manage U.S.-China relations comes amid stepped-up contacts between the two countries at all levels, according to government sources. Secretary of State Warren Christopher was scheduled to meet with Chinese Foreign Minister Qian Qichen this week on the fringes of the Assn. of Southeast Asian Nations meeting in Indonesia. In addition, Deputy Assistant Secretary of State for Nonproliferation Robert Einhorn was scheduled to leave for Beijing as early as today (July 26) to discuss ways to strengthen Chinese export control measures, according to a State official.

After the November elections, Vice-President Gore is likely to travel to Beijing to meet with Chinese Prime Minister Li Peng, according to a White House official. Gore and Li chair a joint commission on sustainable development that last met in the spring.

President Clinton, if he is reelected, is also likely to meet with Chinese President Jiang Zemin early next year, either in Beijing or Washington, government officials said.

The Administration has also been discussing the possibility that Acting U.S. Trade Representative Charlene Barshefsky might meet with Minister of Foreign Trade and Economic Cooperation Wu Yi in September to discuss trade in general at a time when the two countries are not confronting each other over a particular issue, according to informed sources.

To the extent that the U.S. wished to raise particular complaints, they could be handled by Assistant USTR for Japan and China Lee Sands, these sources said. Having Sands raise continuing U.S. complaints over market access and intellectual property protection at the staff level would also avoid a high-profile clash at the ministerial level, one informed source pointed out.

The U.S.-China Joint Commission on Commerce and Trade (JCCT), now scheduled for Sept. 16-17, will bring Wu Yi to Washington to meet with Secretary of Commerce Mickey Kantor, according to a Commerce official. This will afford the U.S. an opportunity to "put concrete issues on the table in a non-confrontational format," one private-sector source pointed out.

The JCCT focuses on "doing business issues that have policy solutions," such as tax and tariff systems, according to the private-sector source. Although the Commission is a government-level body, interested private-sector parties are planning to submit recommendations to the Administration, the source added.

The U.S.-China Joint Economic Commission of Treasury Secretary Robert Rubin and his Chinese counterpart is also likely to meet sometime before the end of the year, according to a Treasury official. This group addresses "broader macroeconomic issues" such as foreign exchange requirements, taxation and central banking, according to a private-sector source.

Key House committees are also set to take up a number of China-related issues before Congress adjourns for the November elections. International Relations, Banking, National Security and Ways & Means are all expected to take up the China issue in accordance with the non-binding resolution passed when MFN revocation was rejected (*Inside U.S. Trade*, June 28, p. 1).

Ways & Means will take up possible changes to the term MFN, while the Banking Committee is planning to consider the implications of China's ascendancy as a world power in a hearing of private-sector witnesses (*Inside U.S. Trade*, July 19, p. 33).

The International Relations Committee is also considering holding two hearings in September, one on China-related proliferation issues and another on the role of the People's Liberation Army in the Chinese economy and U.S.-China trade.

Separately, Barshefsky this week said that the Administration will continue to pursue trade problems in several areas with China. China blocks U.S. agricultural exports through sanitary and phytosanitary standards that have no scientific basis, she said at a July 24 press conference. China has provided no satisfactory resolution to disputes over U.S. exports of wheat and other products, she added.

The Administration also believes that China has been instituting new market access barriers to replace those it is removing, especially for autos and other sectors that are considered "pillar industries," she said.

And she repeated the Administration's position that China can only join the WTO by making meaningful market access commitments and adhering to WTO rules. Those conditions are "unavoidable," she said.

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Inside U.S. Trade

An Inside Washington Publication

AUG 16 1996

An exclusive weekly report on major government and industry trade action

Vol. 14, No. 33 - August 16, 1996

ADMINISTRATION LAYING GROUNDWORK TO GRANT CHINA PERMANENT MFN

The Clinton Administration is beginning to lay the political groundwork for legislation that would spell the end of the annual debate over extending most-favored nation to China, government and private-sector sources said this week. The Administration has indicated that it wants to work with like-minded members of Congress, who have already called for an end to the annual MFN debate, to modify or repeal the Jackson-Vanik amendment, a senior U.S. official said.

But before China is granted permanent MFN status it will have to make progress on some other issues, the official stressed. For example, China will have to offer a "very strong package" of additional market access, according to the official. And China will have to live up to its other commitments, such as the 1995 bilateral intellectual property agreement.

There is no consensus in the Administration, however, over whether China will have to get into the World Trade Organization before the U.S. will offer permanent MFN. White House officials now believe that the two issues are not necessarily linked, government and private-sector sources said. But officials in the Office of the U.S. Trade Representative, who have been negotiating China's WTO accession, may take a harder line, these sources said.

"I don't think USTR and the White House are necessarily on the same page on that," one private-sector source said. "There may be mixed signals coming out of the Administration in the next few months."

Special Assistant to the President for Asian Affairs Sandra Kristoff said last month that National Security Advisor Anthony Lake's recent trip to China began to lay the groundwork for providing permanent MFN for China and getting China into the WTO during a second Clinton Administration (*Inside U.S. Trade*, July 26, p. 1).

The U.S. and China have now reached a point where they can make progress on some long-term issues, one U.S. official said. Some stability was restored to the relationship when the two countries were able to settle disputes over implementation of the IPR deal and allegations of nuclear proliferation against China, and when the U.S. renewed MFN for another year.

In addition, meetings in the spring and early summer between National Security Advisor Anthony Lake and Liu Huaqui, director of foreign affairs for China's State Council, gave more "texture" to the relationship, the official said.

Two long-term issues that keep coming up are proliferation and integrating China into the international economic system, according to the official. On the first point, the U.S. wants very much for China to join international non-proliferation regimes. Regarding the second, the U.S. will now consider how to get China into the WTO and how to end the annual struggle to renew MFN.

The push for permanent MFN for China is likely to be led not by the Administration, but by Congress and the business community, private-sector sources said. Several key members of Congress, including House Ways & Means Committee Chairman Bill Archer (R-TX) and International Relations Asia and Pacific subcommittee Chairman Doug Bereuter (R-NE), have said they will work for permanent MFN next year. In addition, business groups such as the U.S. Chamber of Commerce have also publicly endorsed permanent MFN for China.

Those efforts will depend on what happens in the upcoming congressional elections, one source said. Many moderate members, especially in the Senate, are leaving, which might make it more difficult to pass legislation for permanent MFN, he said.

This year's vote on MFN in the House showed a "solidifying consensus" in favor of engagement with China, the senior U.S. official said. But that consensus is not firm yet, the official added.

LEVEL 2 - 4 OF 69 STORIES

The Reuter Business Report

August 25, 1996, Sunday, BC cycle

LENGTH: 1167 words

HEADLINE: China sees bleak prospects for WTO talks

BYLINE: By William Kazer

DATELINE: BEIJING

BODY:
China said Sunday that prospects were bleak for progress at the next round of talks in Geneva on its proposal to join the World Trade Organisation.

It also said the United States was being inflexible on conditions for its entry to the organisation and that it saw little hope of a change in Washington's stance soon.

"I don't foresee any decision at the meeting- probably none," Li Zhongzhou, an official at the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) was quoted as saying in the official Business Weekly.

"Nor are we convinced the United States will soon turn flexible in its demands on the conditions for China's entry to the organisation."

China has been seeking to join the global trade organisation on easier terms with developing country status, but Western nations, including the United States, have maintained that its economy was too big for such treatment.

A working group on China's application will meet later this year in Geneva to try to resolve the differences.

"(All) countries are interested in joining the multilateral trade system because it aims at expanding global trade and hence stimulating the world economy," it quoted Li, director general of MOFTEC's international trade and economic affairs department, as saying.

But he said the United States was making unacceptable demands that China cut tariffs to zero on 10 sectors of imports, including beer, distilled water, farming machinery, furniture, medical equipment, paper products and toys.

The U.S. and other developed countries want to force China to acccept discriminatory clauses on trade protection, dumping and balance of payments beyond World Trade Organisation requirements, he said.

"These clauses, if accepted, threaten to curtail China's export growth- and without rising exorts, China cannot afford to increase its imports," Li said.

Last year, the United States put forward a "road map" by which Beijing could gain membership. While Beijing has not rejected this proposal, U.S. officials have said there had been no real engagement.

The United States and Australia said last month that China needed to go further in meeting the criteria for the World Trade Organisation before it could be accepted for membership.

The European Union ambassador to China also said recently that Beijing needed to reduce tariff and non-tariff barriers in the automobile industry to push its entry bid forward.

The Business Weekly also quoted Li as saying that the United States was likely to "further clarify" its willingness to grant permanent most favoured nation trade status to China in a visit to Washington next month by Minister of Foreign Trade and Economic Cooperation Wu Yi.

China has most favoured nation status, which allows lower tariffs on its goods imported to the United States, but this treatment must be reviewed annually.

"We hope they will show up with some flexibility on the most favoured nation and World Trade Organisation issues in the next two months but I am not very optimistic," Li said.

LANGUAGE: ENGLISH

LOAD-DATE: August 26, 1996

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LEVEL 2 - 41 OF 69 STORIES

European Report

June 5, 1996

SECTION: No. 2137

LENGTH: 1174 words

HEADLINE: EU/CHINA: BRITTAN OFFERS WTO ENTRY ROUTE FOR CHINA

BODY:

China might be able to join the World Trade Organisation before it complies with all the conditions of entry, European Trade Commissioner Sir Leon Brittan hinted on June 3. He said the European Union might be willing to allow China to phase in the trade reforms which are a requirement of entry to the WTO. But the Commissioner warned that media sanctions, like the recent Chinese crackdown on news reporting, were bizarre and would be counter-productive.

Having left the General Agreement on Tariffs and Trade, the WTO's predecessor, shortly after becoming a founding member in 1949, China tried as long ago as 1986 to rejoin the multilateral trade arena, applying for GATT membership. Two years ago, when the WTO was being set up, China tried unsuccessfully to become a founder member, but its bid faltered mainly due to its intransigence in the face of demands to reform its internal trade policy. But even then, the EU showed a willingness to allow China to join the WTO on a provisional basis. Then, as now, the United States called for a greater commitment by Beijing to an open trade policy, and China's accession negotiations have remained deadlocked.

Phasing-in plan.

Sir Leon was prepared to sketch a way in for China, albeit with certain conditions. "There would be some requirements which would be taken on at the beginning and some which would be phased in over a period of time", he said in a speech in Australia on June 3. "You would obviously need comprehensive negotiations at the beginning which would determine which of the conditions would have to be met from the start and which commitments could be taken on over a period of time. And you would have to determine in relation to each commitment to be phased in, how long that phase-in period would be." But Sir Leon said there were some commitments which China would have to make at the start if it wanted European support for its entry to the WTO. "Clearly the levels of tariff that were currently applied would have to be most substantially reduced right at the beginning."

The role of China's state-trading companies would also have to be substantially reformed. Sir Leon said that the US was not opposed, in principle, to an acceleration of China's accession to the WTO. But he could not speculate on whether the commitments the US wanted to see made by China right from the start, and the nature and timing of the phase-in, might differ from the requirements which Europe and Australia would regard as necessary.

Developing or developed?

The debate over the conditions under which China becomes a member is expected to come to a head when the WTO holds its first Ministerial meeting in Singapore in December. The issue has been a major source of tension between Beijing and Washington, with China claiming the US is holding up its entry to the WTO for political reasons. Washington argues that China should not be allowed to enter the WTO as a developing country, but should be forced to meet the stricter requirements which are set down for membership by developed countries.

The WTO Director-General, Renato Ruggiero, indicated at a recent conference in Singapore that China's accession to the organisation should be a "shared responsibility" of all its members. Mr Ruggiero said the issue of China's entry into the WTO had become bogged down because it had been turned into a bilateral dispute. The EU has been attempting to differentiate itself from the US on this issue for some time, and now appears to be applying greater pressure to have some resolution at the Singapore Ministerial.

Press curbs under fire.

But the EU Trade Commissioner warned that joining the WTO had to be concurrent with moves to ensure an open trading system for foreigners. In Hong Kong, on May 31, Sir Leon told local and European business associations that the plans to restrict news reporting were "manifestly inconsistent" with China's plans for WTO membership. "I cannot be sufficiently emphatic about the disquiet caused by China's announcement that the New China News Agency - Xinhua - will be entrusted with the control of the distribution of economic news, and a monopoly for their dissemination", he said. "It seems to me a bizarre move at a time when China wants to reassure us that it is pursuing its economic transformation.".

The Commissioner emphasised the EU's support for the Joint Declaration between the United Kingdom and China on the handing over of Hong Kong to Chinese control next year, and he promised practical assistance during the transition from a colony to a Special Administrative Region (SAR). "We are looking for appropriate arrangements that take into account the specific mandate and interests of the SAR", he said. "One possibility is the sort of horizontal trade and cooperation agreement that links the European Union to Macao." But he said the EU could play no part in resisting China's plans to scrap Hong Kong's elected legislature and replace it with an appointed provisional body. "I do not think that in this situation any practical benefit can be served by EU intervention", he said. The Hong Kong Government has repeatedly resisted demands by China to cooperate with a provisional legislature that is established before the handover.

LANGUAGE: ENGLISH

LOAD-DATE: June 5, 1996

[DISCUSSION DRAFT]

MAY 2, 1996

104TH CONGRESS
2D SESSION

H. R. ____

IN THE HOUSE OF REPRESENTATIVES

Mr. GEPHARDT introduced the following bill; which was referred to the Committee on ______________

A BILL

To require prior congressional approval before the President supports the admission of the People's Republic of China into the World Trade Organization, and to provide for the withdrawal of the United States from the World Trade Organization if China is accepted into the WTO without the support of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. PRIOR CONGRESSIONAL APPROVAL FOR SUPPORTING ADMISSION OF CHINA INTO THE WTO.

(a) IN GENERAL.—The President may not support the admission of the People's Republic of China as a member of the World Trade Organization unless a provision of law is passed by both Houses of Congress and enacted into law after the enactment of this Act that specifically allows the President to support such accession.

(b) PROCEDURES FOR CONGRESSIONAL APPROVAL OF UNITED STATES SUPPORT FOR ADMISSION OF CHINA INTO THE WTO.—

(1) NOTIFICATION OF CONGRESS.—The President shall notify the Congress in writing if he determines that the United States should support the admission of the People's Republic of China into the World Trade Organization.

(2) SUPPORT OF CHINA'S ADMISSION INTO THE WTO.—The United States may support the admission of the People's Republic of China into the World Trade Organization if a joint resolution is enacted into law under subsection (c) and the Congress adopts and transmits the joint resolution to the President before the end of the 90-day period (excluding any day described in section 154(b) of the Trade Act of 1974), beginning on the date on which

the Congress receives the notification referred to in paragraph (1).

(c) JOINT RESOLUTIONS.—

(1) JOINT RESOLUTIONS.—For purposes of this section, the term "joint resolution" means only a joint resolution of the 2 Houses of Congress, the matter after the resolving clause of which is as follows: "That the Congress approves the support of the United States for the admission of the People's Republic of China into the World Trade Organization.".

(2) PROCEDURES.—(A) A joint resolution may be introduced at any time on or after the date on which the Congress receives the notification referred to in paragraph (1), and before the end of the 90-day period referred to in subparagraph (A). A joint resolution may be introduced in either House of the Congress by any member of such House.

(B) Subject to the provisions of this subsection, the provisions of subsections (b), (d), (e), and (f) of section 152 of the Trade Act of 1974 (19 U.S.C. 2192(b), (d), (e), and (f)) apply to joint resolutions to the same extent as such provisions apply to resolutions under such section.

(C) If the committee of either House to which a joint resolution has been referred has not reported it by the close of the 45th day after its introduction (excluding any day described in section 154(b) of the Trade Act of 1974), such committee shall be automatically discharged from further consideration of the joint resolution and it shall be placed on the appropriate calendar.

(D) It is not in order for—

(i) the Senate to consider any joint resolution unless it has been reported by the Committee on Finance or the committee has been discharged under subparagraph (C); or

(ii) the House of Representatives to consider any joint resolution unless it has been reported by the Committee on Ways and Means or the committee has been discharged under subparagraph (C).

(E) A motion in the House of Representatives to proceed to the consideration of a joint resolution may only be made on the second legislative day after the calendar day on which the Member making the motion announces to the House his or her intention to do so.

(3) CONSIDERATION OF SECOND RESOLUTION NOT IN ORDER.—It shall not be in order in either the House of Representatives or the Senate to consider a joint resolution (other than a joint resolution received from the other House), if that House has previously adopted a joint resolution under this section.

SEC. 3. WITHDRAWAL OF UNITED STATES FROM THE WTO.

(a) NOTIFICATION TO CONGRESS OF ADMISSION OF PRC TO THE WTO.—If the People's Republic of China becomes a member of the World Trade Organization without the support of the United States, the President shall immediately so notify the Congress and shall, by no later than the date on which the membership of the People's Republic of China in the World Trade Organization becomes effective, submit written notice of the withdrawal of the United States from the WTO Agreement pursuant to Article XV of the WTO Agreement.

(b) WITHDRAWAL OF UNITED STATES APPROVAL OF THE WTO AGREEMENT.—The approval of the Congress, provided under section 101(a) of the Uruguay Round Agreements Act, of the WTO Agreement shall cease to be effective on the date that is 6 months after the date on which the President submits written notice of the withdrawal of the United States from the WTO Agreement under subsection (a).

(c) DEFINITION.—As used in this section, the term "WTO Agreement" means the Agreement Establishing the World Trade Organization, entered into on April 15, 1994.

SEC. 3. CONFORMING AMENDMENT.

Section 125(b)(1) of the Uruguay Round Agreements Act (19 U.S.C. 3535(b)(1)) is amended by striking ", and only if,".

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Betsy Quint-Moran to Lael Brainard. Subject: Notes from Today's Meeting. (2 pages)	11/08/1996	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Lael Brainard
OA/Box Number: CF 1192

FOLDER TITLE:

China -- WTO 1996 [2]

2010-1024-F
vz1786

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

09/16/96 12:23 ☎202 647 6540 EB/TPP 002/002

TO: H (Miele, Harrison, Norton), EAP (Honnold)

FROM: EB

RE: LRM 5565 - Gephardt draft bill on China WTO membership

EB OPPOSES the proposed legislation. We believe it would unacceptably impinge upon the President's constitutional authority to conduct foreign relations, by requiring prior Congressional approval before the President would support the admission of China to the WTO.

Furthermore, we believe that existing Administration policy makes this bill unnecessary. The Administration has consulted closely with relevant Congressional committees on the issue of China's WTO accession process; Acting USTR Barshefsky will testify before the House Ways and Means Committee on this subject Sept. 17. This consultation process will continue.

The provision providing for U.S. withdrawal from the WTO if China is admitted is both unnecessary and counterproductive. The WTO operates by consensus, so that it would be extremely difficult for China to be accepted into the WTO without U.S. support. Moreover, U.S. withdrawal from the WTO would mean that the U.S. would no longer be able to use WTO rules -- rules that the U.S. worked hard to push through -- to hold our trading partners to their commitments. This would put at risk millions of jobs in exporters throughout the U.S. and could raise costs for U.S. consumers; the result could negatively affect U.S. economic performance.

Drafted: EB/STA:PABrown x75838 9/16/96
Cleared: EB/STA:LLange
EB/ODC:DBrown
L/EBC:KLoken (info)

OFFICE OF CHINESE AND MONGOLIAN AFFAIRS
U.S. Department of State
Washington, D.C. 20520

TO: NEC - Lael Brainerd

PHONE: **FAX:** 395-6853

FROM: **Hank Levine**

TEL: 202-647-6796 **FAX:** 202-647-6820

Number of pages including cover sheet:

Message

Lael - attached are EB comments re Gephardt bill. We propose to go back to OMB with this. Per our previous discussion - look ok?

Hank

VS OFFICE Friday 09/13/96 05:25 pm 1

Package Subject: Hamilton bill

Item Title: Hamilton bill From L/EBC - Keith Loken

Mary - I interpret the bill to give the President the discretion, for any reason, to remove a country from the application of title IV of the 1974 Trade Act (which includes Jackson-Vanik) and from the application of general note 3(b) of the HTS (which places countries in column 2 of the HTS, meaning high tariffs).

Note that certain countries currently subject to title IV (e.g., China) are not listed in general note 3(b) because they have obtained MFN treatment through a Jackson-Vanik waiver or a determination that they are in compliance with the J-V requirements. On the other hand, there are certain countries listed in general note 3(b) that are not subject to title IV: Afghanistan, Cambodia, and Laos (as you know, there has been some debate with certain folks in Congress regarding the latter two). Then there are a few states that are subject to both title IV and general note 3(b): Cuba, North Korea, and Vietnam.

I interpet section 1(a)(1)(B) to apply to countries like Afghanistan, Cambodia and Laos, notwithstanding that they are not subject to title IV. If this is accurate, then to be more precise the conjunction after section 1(a)(1)(A) should actually be "and/or" rather than "and".

I have given a copy of the bill to EB. Their initial reaction was favorable.

Informal L analysis of Hamilton bill.

[DISCUSSION DRAFT]

SEPTEMBER 6, 1996

104TH CONGRESS
2D SESSION

H. R. ____

IN THE HOUSE OF REPRESENTATIVES

Mr. HAMILTON introduced the following bill; which was referred to the Committee on ______________ ________

A BILL

To authorize the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products to countries not receiving such treatment.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION. 1. AUTHORIZATION OF EXTENSION OF NONDISCRIMINATORY TREATMENT TO CERTAIN COUNTRIES.

(a) PRESIDENTIAL DETERMINATIONS AND EXTENSION OF NONDISCRIMINATORY TREATMENT.—Notwithstanding any provision of title IV of the Trade Act of 1974 (19 U.S.C. 2431 et seq.) or general note 3(b) of the Harmonized Tariff Schedule of the United States, the President may—

(1)(A) determine that such title should no longer apply to a country otherwise subject to such title; and

(B) determine, in the case of a country listed in general note 3(b) of the Harmonized Tariff Schedule of the United States, that such general note should no longer apply to that country; and

(2) after making a determination under paragraph (1) with respect to a country, proclaim the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of that country.

(b) TERMINATION OF APPLICATION OF TITLE IV AND GENERAL NOTE 3(b).—On and after the effective date of the extension under subsection (a)(2) of nondiscriminatory treatment to the products of a country, title IV of the Trade Act of 1974 (in the case of a country described in subsection (a)(1)(A)) and general note 3(b) of the Harmonized Tariff Schedule of the United States (in the case of a country described in subsection (a)(1)(B)) shall cease to apply to that country.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. statement	Opening Statement, WTO Accession for China Negotions. (2 pages)	10/07/1996	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Lael Brainard
OA/Box Number: CF 1192

FOLDER TITLE:

China -- WTO 1996 [2]

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]