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**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503**

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November 1, 1993

LEGISLATIVE REFERRAL MEMORANDUM

**LRM #D-472
DRAFT #95**

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**FROM: RONALD K. PETERSON (for) *Ronald K. Peterson*
Assistant Director for Legislative Reference**

**OMB CONTACT: Annette ROONEY (395-7300)
Secretary's line (for simple responses): 395-6194
Karin KIZER (395-3947)**

**SUBJECT: USTR Draft Bill North American Free Trade
Agreement Implementation Act of 1993**

DEADLINE: 10:00, A.M. November 2, 1993

**COMMENTS: Attached for your review is the proposed
PRESIDENTIAL TRANSMITTAL LETTER for NAFTA. If you do not
respond by 10:00 A.M., Tuesday, we will presume that your
agency has no comment.**

**OMB requests the views of your agency on the above subject before
advising on its relationship to the program of the President, in
accordance with OMB Circular A-19.**

**Please advise us if this item will affect direct spending or
receipts for purposes of the the "Pay-As-You-Go" provisions of
Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

7 pg

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DRAFT

November , 1993

Dear Mr. Speaker:

Pursuant to section 1103 of the Omnibus Trade and Competitiveness Act of 1988 ("Trade Act"), I herewith transmit the final legal text of the North American Free Trade Agreement, which the United States, Canada, and Mexico entered into on December 17, 1992.

With this historic agreement, I am submitting the proposed North American Free Trade Agreement Implementation Act, which will revise domestic law as necessary or appropriate to implement the Agreement and fulfill our international obligations. Further, in accordance with section 1103 of the Trade Act, I am submitting:

- 1) a statement that--
 - o outlines proposed administrative actions to implement the Agreement;
 - o explains how the implementing bill and proposed administrative actions change or affect existing law; and
 - o provides reasons as to why the implementing bill and proposed administrative actions are required or appropriate to carry out the Agreement;
- 2) a statement describing how and to what extent the Agreement makes progress in achieving the applicable purposes, policies, and objectives of Title I of the Trade Act, and why and to what extent the agreement does not achieve other applicable purposes, policies, and objectives;
- 3) a statement regarding how the Agreement serves the interests of U.S. commerce;
- 4) a statement that describes the efforts made in negotiating the Agreement to obtain international exchange rate equilibrium and any effect the Agreement may have regarding increased international monetary stability; and
- 5) a statement describing the extent to which Canada and Mexico maintain non-commercial state trading enterprises that may adversely affect, nullify, or impair U.S. benefits under the Agreement, and the extent to which the Agreement applies to or affects purchases and sales by such enterprises.

The submission of this legislation, which is so important to our nation's economic interest, completes a process that has been

accomplished in the best spirit of bipartisan teamwork. The Administration has worked closely with the members and staffs of numerous committees, from both sides of the aisle, to draft this legislation. This cooperation reflects and affirms the way in which the "fast track" legislative process was originally intended to be conducted.

The North American Free Trade Agreement (NAFTA) will create a tariff free zone from the arctic to the tropics that will be the largest market in the world -- more than 370 million consumers and over \$6.5 trillion of production.

By eliminating Mexican tariffs, which are two and a half times larger than U.S. tariffs, as well as non-tariff barriers, it will level the playing field for U.S. workers. It will increase U.S. exports and create jobs. It will make us more competitive not just in Mexico, but with Europe, Asia and the rest of the world. At the same time, the supplemental agreements will help ensure that increased trade does not come at the cost of workers or the environment.

Most importantly, it is an essential part of the economic strategy of this country: expanding markets abroad to make us more competitive, and to raise our standard of living here at home. We expect 200,000 jobs will be created by 1995 as a result of increased exports.

Among the highlights of the agreement are:

- Half of all U.S. exports to Mexico will be eligible for zero Mexican tariffs when NAFTA takes effect on January 1, 1994.
- U.S. exports for tariff-free entry into Mexico include some of our most competitive products, including semiconductors and computers; machine tools; aerospace equipment; telecommunications equipment; electronic equipment; and medical devices.
- Within the first five years after NAFTA is implemented, two-thirds of U.S. industrial exports will enter Mexico duty-free.
- Mexico will open its market significantly to U.S. manufactured exports. For example, for automotive parts, Mexico will eliminate 75% of its duties over five years and phase out the rest over ten years.
- Remaining tariffs are completely eliminated within 15 years of implementation.
- Mexico will open its market to U.S. service exports. This will benefit such industries as enhanced telecommunications services, insurance, banking,

accounting, and advertising.

- Numerous non-tariff barriers will be eliminated. These barriers often forced companies to move to Mexico to do business there. For example, Mexico's Auto Decree has the effect of barring automotive imports from the United States through a complex series of investment requirements that will be phased out with NAFTA. That is why U.S. car companies, which only sold 1,000 cars in Mexico last year, expect to sell 60,000 in the first year alone.

In addition, the United States, Mexico and Canada signed supplemental agreements on the environment, labor, and import surges on September 14. These help ensure that the economic growth and development that will result from NAFTA does not come at the expense of the environment or workers' rights, and that no nation is harmed by import surges.

Among the highlights of the supplemental agreements are:

- Commissions on the environment and labor will be created that will help improve conditions for workers and the environment and will help ensure enforcement of national laws.
- The agreements are marked by public access to enforcement procedures, and a dispute settlement mechanism for ensuring effective enforcement.
- If increased imports ("surges") from Mexico seriously injure a domestic industry, a bilateral safeguard mechanism permits a country to "snap back" tariffs to pre-NAFTA rates for up to three years.

These supplementals help ensure that the changes in our relationship with Mexico that we propose with NAFTA occur smoothly.

That's what NAFTA is all about, after all: change. NAFTA is an agreement that changes the status quo in our trading relationship with Mexico. Many of the aspects of our relationship with Mexico are precisely what we are trying to change with NAFTA. For example, the maquiladora program, which has led some U.S. companies to move their facilities to Mexico, is effectively eliminated with NAFTA.

And NAFTA helps our nation adapt to the changes that are sweeping the world -- the development of a globalized economy and nation after nation dismantling its centralized economic and political systems. Ensuring that U.S. workers and companies can engage those countries as trading partners is in our best interest, and theirs.

Mexico is a country which has had the courage to change in recent years. In 1986, President Salinas led his country on a path of reform that has resulted in an explosion of trade with the United States. Exports from the U.S. to Mexico more than tripled -- from \$12.4 billion in 1986 to \$40.6 in 1992. Our \$5.7 trade deficit with Mexico in 1987 was transformed into a \$8.4 billion surplus in 1992. Today, more than 700,000 U.S. jobs are supported by exports to Mexico.

Mexico is a rapidly growing country with an expanding middle class with a large pent-up demand for goods. Key U.S. companies are poised to take advantage of the market of 90 million people. NAFTA ensures that Mexico's reforms take root, and then flower.

NAFTA is also a path to even larger markets throughout Latin America -- 400 million people in the second fastest growing region on earth. These countries are watching the NAFTA debate closely. Rejecting NAFTA would be a slap in the face of not only Mexico, but all the nations of Latin America. Approving NAFTA asserts U.S. leadership in this hemisphere, and is a doorway to new trading opportunities in Central and South America and the Caribbean.

Encouraging the economic development of these countries is in our best interest. I support NAFTA because I am convinced that it is a path to economic renewal for the U.S.; to making us more competitive; and to creating high-wage, high-skill jobs.

The fact is, we have to compete in a global economy now. We have to expand our access to foreign markets to give our workers and companies, which are increasingly dependent on trade, new opportunities. Our ability to tear down trade barriers around the world, and our resistance to the temptation to retreat behind trade barriers is the key to our future economic success. Breaking down barriers and expanding trade is what we are trying to accomplish with our negotiations in Japan, in the Uruguay Round, and here, with NAFTA.

Therefore, because it will result in the creation of new jobs, make us more competitive, eliminate barriers that will level the playing field for U.S. workers, and is essential to our economic future and that of our neighbors, I urge prompt approval and implementation of the North American Free Trade Agreement. It's good for the United States -- and the rest of North America.

Sincerely

Bill Clinton

File 9/94

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

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March 4, 1994

LEGISLATIVE REFERRAL MEMORANDUM

LRM #M-1165

TO: Legislative Liaison Officer -

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FROM: RONALD K. PETERSON (for) *Ronald K. Peterson*
Assistant Director for Legislative Reference

OMB CONTACT: Annette ROONEY (395-7300)
Secretary's line (for simple responses): 395-6194

SUBJECT: USTR Proposed Testimony on GATT: Subsidies
and Countervailing Duties (S. Finance)

DEADLINE: NOON, Monday March 7, 1994

COMMENTS: Commerce will also be testifying at this hearing. We will circulate Commerce's testimony as soon as it is received. If you do not respond by the deadline, we will presume that your agency has no comment.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
K. Kizer
R. Tuccillo
D. Heath
K. McGinty
L. Matlack
L. Miller
L. Koch
T. Follows

THE URUGUAY ROUND -
R&D PROVISION IN THE SUBSIDIES AGREEMENT

March 9, 1994

Mr. Chairman, thank you for the opportunity to present to you the position of the Administration regarding the R&D provision in the Uruguay Round Subsidies Agreement. My testimony will highlight four key points. First, the Uruguay Round Subsidies Agreement establishes the strictest subsidy discipline ever on all members of the new World Trade Organization. Second, the United States has provided, and continues to provide, more support to industrial R&D than any other country. Without a "green light" category for R&D many of our key R&D programs would have been at risk. Third, we successfully redrafted the R&D provisions of the Subsidies Agreement to protect existing U.S. research programs. Fourth, there is no danger that this provision will become a loophole under which other countries will be able to provide production or marketing subsidies. I will now expand on these points.

The Uruguay Round Agreement Is the Right Agreement at the Right Time for the United States

The United States is uniquely positioned to benefit from the Uruguay Round trade agreements and the new world trade system it will create. U.S. workers will gain from significant new employment opportunities and additional high-paying jobs associated with increased production for export. U.S. companies will gain from significant opportunities to export more agricultural products, manufactured goods and services. U.S. consumers will gain from greater access to a wider range of lower-priced, higher-quality goods and services. As a nation, we will compete; and we will prosper.

This historic agreement will:

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

- ensure open foreign markets for U.S. exporters of services such as accounting, advertising, computer services, tourism, engineering and construction;
- greatly expand export opportunities for U.S. agricultural products by limiting the ability of foreign governments to block exports through tariffs, quotas, subsidies, and a variety of other domestic policies and regulations;
- assure that developing countries live by the same trade rules as developed countries; and
- create an effective set of rules for the prompt settlement of disputes, thus eliminating shortcomings in the current system which allowed countries to drag out the process and to block judgments they did not like.

Strong bipartisan support in the Senate for the Round strengthened our negotiating hand in Geneva and was of great assistance in our successful effort to achieve this historic result. I hope that we can count on the strong support of this Committee for the final implementing bill, and we look forward to working closely with you in this effort.

The Subsidies Agreement Provides the Strictest Subsidies Discipline Ever

The Subsidies Agreement establishes a three-class framework for the categorization of subsidies and subsidy remedies:

- (1) the "red light" category for prohibited subsidies;
- (2) the "yellow light" category for actionable subsidies which are subject to dispute settlement under the WTO in Geneva and countervailable unilaterally under domestic laws if they cause adverse trade effects; and
- (3) the "green light" category for protected subsidies which are non-actionable and non-countervailable if they are structured according to criteria intended to limit their potential for distortion.

The strict new disciplines and effective new dispute settlement system of the Subsidy Agreement will apply to all 117 members of the World Trade Organization. This is a vast improvement on the Tokyo Round Subsidies Code, which has only 27 signatories.

The Agreement sets forth (for the first time in the GATT) the definition of a subsidy and the conditions which must exist in

order for a subsidy to be actionable (i.e., U.S. rules on "specificity"). It retains U.S. countervailing duty practice with respect to the specificity of sub-national subsidies, so that generally available subsidies provided by state governments will not be considered specific, but central government subsidies to a region will be specific except where the criteria for assistance to a disadvantaged region are met.

The Agreement extends and clarifies the 1979 Subsidies Code's list of prohibited practices to include de facto as well as de jure export subsidies and subsidies contingent upon the use of local content. Whenever the facts demonstrate that a subsidy is in fact tied to actual or anticipated exportation or export earnings, we will be able to use the WTO dispute settlement process to force the country to remove it. Other countries no longer will be able to argue, as they now can, that only those subsidies expressly linked to exportation in the text of a law are prohibited.

The Agreement also specifies how to prove "serious prejudice" (adverse effects) to a country's trade interests and creates an obligation for the subsidizing country to withdraw the subsidy or remove the adverse effects when such effects are identified. The absence of such a provision in the 1979 Subsidies Code has been one of that Code's greatest deficiencies. In our 1981 dispute settlement challenge to the EC's subsidies regime affecting Wheat Flour, in fact, the dispute settlement panel refused to make a substantive decision because it said that certain key terms were not defined and the panel was unsure how to interpret them. The present Agreement clearly defines all key terms!

The Agreement introduces a presumption of serious prejudice in situations where the total ad valorem subsidization of a product exceeds 5 percent (calculated on the basis of the cost to the subsidizing government of granting the subsidies), or when subsidies are provided for debt forgiveness or to cover operating losses. (In circumstances where serious prejudice is presumed, the burden is upon the subsidizing government to demonstrate that serious prejudice did not result from the subsidization in question).

Countervailing duty rules have been made more precise, and the effectiveness of the U.S. countervailing duty law and practice has been preserved. For the first time there is international acceptance of U.S. "benefit-to-the-recipient" calculation methodologies for purposes of determining the "benefit conferred" by subsidies.

Multilateral subsidy disciplines will be introduced for developing countries (another first). This is a tremendous achievement. Developing countries were virtually exempt from the 1979 Subsidies Code and the Code provided no incentive for them

to bring their subsidy practices into conformity. Given that the Uruguay Round package must be accepted as a "single undertaking," all World Trade Organization members will be subject to a framework for the elimination of their export subsidies. No country can join the WTO without also accepting the disciplines of the new Subsidies Agreement.

The strengthening of multilateral disciplines and clarification of terms, combined with speedier and binding dispute settlement, will make multilateral subsidy remedies significantly more "user-friendly" than in the past. This will help U.S. industries that must increasingly rely on global markets, rather than merely the U.S. market, to maintain their competitiveness.

The 1991 Draft Final Act Text on Subsidies Would Not Have Provided Green Light Safe Harbor Protection to Important Existing U.S. R&D Programs

The United States has been, and continues to be, the greatest supporter of industrial research in the world. In 1991, for example (the most recent year for which comparative data are available), the U.S. spent one-third more on R&D than Japan, the former West Germany, the United Kingdom and France combined. Where one looks solely at non-defense R&D spending, that of the U.S. still exceeded that of Japan, Germany, and the United Kingdom combined.

Over the last several years these programs, for which there is a long history of bipartisan support, have contributed to the promotion of America's competitiveness.

The text of the 1991 Uruguay Round Draft Final Act on subsidies would not have provided so-called "green light" safe harbor protection from countervailing duty investigations or GATT dispute settlement proceedings for important existing U.S. R&D programs. These programs include:

Cooperative Research and Development Agreements (CRADA's) in several agencies, notably the Technology Transfer Initiative of the Department of Energy (FY94 funding in DOE for CRADA's is \$225 million);

the Partnership for a New Generation of Vehicles;

the Advanced Technology Program at NIST (FY94 funding is \$200 million);

biomedical research and commercialization at NIH; and

the Technology Reinvestment Project (FY94 funding is \$554 million) and other cost-shared dual use programs of the Defense Department's Advanced Research Project Agency (ARPA).

These programs support and create thousands of jobs across the country. They enhance our ability to stay on the leading edge of technology-- a step ahead of our competition. Without the assurance of freedom from countervailing duty actions or dispute settlement in Geneva, many of our industries would not be willing to engage in cooperative research programs with the Government. This would frustrate development of the technologies of tomorrow and stifle competitiveness. We as a country would be the loser.

The Final Text of the Subsidies Agreement Reflects the Structure of Existing U.S. Technology Programs

In response to the urgent concerns of our science and technology community and Members of Congress from both parties, we sought incremental changes to the 1991 Uruguay Round Draft Final Act to increase our ability to protect government-sponsored research programs. We succeeded. The changes made to the Subsidies Agreement's provisions governing R&D (which we drafted) protect the nature and level of ongoing U.S. Government assistance in R&D activities. These changes were made in order to provide greater certainty that existing U.S. technology programs and the firms which participate in them would not be subjected to unwarranted trade harassment by our trading partners. What we achieved was the reversal of a situation in which only foreign R&D programs would have been protected by new subsidy rules.

Let me repeat, because it is very important-- the final R&D provisions protect the type of technology programs the U.S. currently has, while excluding the type of development and production assistance which other countries typically grant. U.S. support of technologies relevant to competitive industrial performance and economic growth is mostly in the form of R&D funding. Other countries customarily use a whole range of technology policies in support of industry. For example, Japan and EU member states (e.g., France and Germany) have used government procurement quite extensively to support selected industrial sectors. Very large success-dependent loans have been the principle subsidy mechanism for Airbus. Other typical forms of foreign industrial support include quasi-public leasing companies that buy high tech equipment from domestic manufacturers and lease it at below-market rates to domestic users. (Japan has several such systems).

Only two operative changes were made to the 1991 Uruguay Round Draft Final Act:

- (1) The cut-off for activity which can be supported by the government within the green light safe harbor was expanded slightly-- going from immediately before creation of any prototype to allowing involvement in the creation of the first non-commercial prototype; and
- (2) the permissible level of government assistance was increased from 50% of basic industrial research to 75% and from 25% of applied research to 50% of what is now called "pre-competitive development activity" (i.e., up to the first non-commercial prototype).

The protected levels of government assistance were not selected at random. Rather, they reflect the level of assistance provided in U.S. programs. This also is true of the choice of the first non-commercial prototype as the cut-off for the green light safe harbor. This cut-off will ensure that we will be able to continue to provide the type of R&D support which we already provide while ensuring that other countries cannot provide development or production subsidies free from countervailing duty actions or dispute settlement in Geneva.

This Provision Will Not Be a Loophole

Other countries will not be able to use the R&D provision to provide production subsidies in the guise of research assistance.

The Subsidies Agreement establishes clear rules and strong disciplines designed to avoid the potential that government assistance to R&D will significantly harm U.S. commercial interests. The criteria for entitlement to claim green light coverage are clear and limiting. Assistance may cover only:

- (1) those personnel and consultancy costs (and associated overhead) exclusively relating to permissible R&D; and
- (2) the cost of instruments, equipment, buildings and land (a) which relate exclusively to permissible R&D and (b) which can never be used for commercial activity.

The prescribed way to secure green light status is to earn the approval of the Subsidies Committee after it reviews the subsidy notification to determine if the criteria for green light status are met. To do this, a country must notify the program for which

it seeks such status, providing whatever information Members of the Committee believe necessary. I can assure you that this Administration intends to scrutinize very carefully all requests by other countries for green light status. (A country may choose not to notify programs that meet the green light criteria. If a program that is not notified is later challenged in a countervailing duty action or WTO dispute settlement in Geneva, it still will be immune from sanction if it is found to conform with the green light criteria).

Even if the Committee grants green light status to a program, it can be stripped whenever it is established that a particular R&D program has resulted in production which causes serious adverse effects to the competing industry of another World Trade Organization member. In addition, the Agreement requires a review of the R&D provision after 18 months with a view to making all necessary modifications to improve the operation of the provision. This will give us an opportunity to correct any deficiencies that have come to light.

The Agreement also provides the ultimate safety valve: both the non-actionable subsidy provisions and the provisions establishing a rebuttable presumption of serious prejudice will expire automatically 5 years after the entry into force of the agreement, unless it is decided by consensus to continue them in current or modified form. Thus, if the United States objects to the continuation of these provisions, they will not continue.

Conclusion

In closing, I believe we struck the appropriate balance between strict subsidies discipline and protecting the cooperative government-industry partnerships which have existed for years in the United States. The Subsidies Agreement does not promote competitive subsidization. Rather than stimulating higher levels of subsidization, it provides clearer and improved rules of the road to prohibit or discipline subsidies.

As I said at the start of this testimony, the Administration believes that the Uruguay Round agreement is a good deal for America. American business, workers and consumers will benefit. The Round represents the latest step in a long-term bipartisan effort to expand global trading opportunities for our companies and to enhance U.S. competitiveness. We look forward to working with you to achieve implementation of this historic trade agreement.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

URGENT

September 10, 1993

LEGISLATIVE REFERRAL MEMORANDUM

LRM #M-645

TO: Legislative Liaison Officer -

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FROM: RONALD K. PETERSON (for)
Assistant Director for Legislative Reference

OMB CONTACT: Annette ROONEY (395-7300)
Secretary's line (for simple responses): 395-6194
Karin KIZER (395-3947)

SUBJECT: USTR Proposed Testimony on North American
Free Trade Agreement

DEADLINE: 5:00, TODAY September 10, 1993

COMMENTS: Labor and EPA will also be testifying at this hearing. We will circulate these testimonies as soon as they are received. If you do not respond by the deadline, we will presume your agency has no comment.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
M. Walsh
R. Fairweather
H. Paster
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DRAFT**DRAFT****DRAFT**

TESTIMONY OF AMBASSADOR MICKEY KANTOR
United States Trade Representative

before the House Ways and Means Committee
September 14, 1993

DRAFT

The Administration's Case for NAFTA

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

NAFTA and the Administration's Economic Strategy

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

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

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

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

As all of you are all too aware, over the last twenty years, real wages and job opportunities for unskilled workers in manufacturing have declined. But at the same time, technological advances have made American workers more productive. Technology has revolutionized the world, as well. Our economy is no longer self-contained. We compete in a global economy, where capital, technology and labor are mobile. These trends are here to stay. The

question is not whether we adapt to them, but how.

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

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

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

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

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

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

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

taking down tariff and non-tariff barriers worldwide, and writing new rules for the international trading system -- remains a top priority for us.

But it is no accident that Canada is our number one trading partner, despite having a population of only 27 million, and Mexico has become our third leading trading partner, despite its historic policy of maintaining a closed economy. Shared borders and geographical proximity do matter, even in this globalized economy. The EC has a natural advantage in expanding trade and investment with the countries of Eastern Europe and Russia and the other states of the former Soviet Union. Japan has a natural advantage in expanding trade and investment with Malaysia, Indonesia, China and the rest of Asia.

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

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

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

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

In the new global economy, there are challenges and risks, as well as great opportunities. I am confident that American workers are up to that challenge -- and will reap the benefits. One reason I am so confident is because we are not going into NAFTA blindly.

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We do not have to speculate about the results from this change; we have gone through a seven year trial run.

Job Growth and Trade with Mexico

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

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

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

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

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

While we may not agree on the precise employment impact

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

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

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

NAFTA and the Status Quo

The status quo in our trade relationship with Mexico is, quite simply, unacceptable. NAFTA will end an unbalanced trading relationship that has existed between the United States and Mexico that has worked to disadvantage U.S. companies and workers producing in the United States.

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

Perhaps the closed Mexican economy reflected the historical Mexican mistrust for, and antagonism toward, the United States. For whatever reason, Mexico remained largely closed to U.S. business until U.S. and Mexican law combined to produce the maquiladora program. The maquiladora program permits U.S. components to enter Mexico duty free, as long as they are reexported in finished products. Products exported to the United States face no import duty on the embedded U.S. components, only on

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the Mexican value added and any non-U.S. inputs.

But the maquiladora program created incentives for companies to move jobs and production out of the U.S. and distorted U.S. business decisions to the disadvantage of U.S. workers. It gave products assembled in Mexico from U.S. components preferential access to our market while maintaining all of Mexico's trade and investment barriers. In effect, the maquiladora program established an export platform in Mexico and encouraged U.S. companies to move there. U.S. companies accepted the invitation. By 1992 there were nearly 2,000 maquiladora factories operating in Mexico, the overwhelming number of which were owned, in whole or part, by U.S. corporations, employing 467,000 Mexican workers. At the same time, it was virtually impossible for companies producing in the United States to sell into Mexico.

In addition to high Mexican tariffs, U.S. companies faced non tariff barriers -- licensing, citizenship requirements and a host of other regulations. These byzantine rules served as de facto trade barriers and were especially hard on small businesses, which do not have the resources to navigate through the bureaucratic maze. Overall, this distorted relationship cost the U.S. jobs and weakened our manufacturing base. This is precisely what we are trying to change with NAFTA.

Much of the opposition to NAFTA reflects justifiable anger about the policies of the past that have disadvantaged U.S. workers. Despite Mexican progress in voluntarily opening markets, Mexican tariffs remain, on the average, 2.5 times higher than ours. NAFTA transforms the situation by opening Mexico's market and eliminating the distortions created under the maquiladora program.

Major Features of NAFTA

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

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

One of the concerns often expressed about the NAFTA is that it will result in production and jobs moving from

the United States to Mexico. For the computer industry, just the opposite is true. Today, U.S. tariffs on computer and computer parts are 3.9% and 0%. Mexican tariffs on the same products range from 10-20%. The NAFTA will reduce those Mexican tariffs and make it more economic and efficient to serve the Mexican market through exports from the U.S.

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

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

The benefits of removing these non-tariff barriers will be substantial. For example, today the Big Three auto companies export only 1000 cars annually into Mexico. A maze of Mexican restrictions prevent the export of autos from the U.S. For instance, today there is a "trade balancing requirement" that permits a company to export an automobile into Mexico, only if it exports two out of Mexico. NAFTA changes that trade balancing requirement immediately, making the ratio .8 to 1 instead of 2 to 1. This is further reduced in stages and completely eliminated in 2004. The Big Three believe it will be able to export 60,000 automobiles to Mexico in the first year that NAFTA takes effect.

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

Protecting U.S. copyrights, patents and trademarks. NAFTA will ensure a high level of protection under Mexican law for U.S. owners of patents, copyrights, trademarks, trade secrets, and

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

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

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

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

Enhancing Environmental Protection. EPA Administrator Browner will present the main discussion of the environmental aspects of NAFTA. There is no doubt in my mind that NAFTA, strengthened by a precedent-breaking environmental side agreement, will contribute to a major advance in environmental protection at the U.S.-Mexico border, and throughout North America.

During his campaign, President Clinton pledged to negotiate a side agreement that would break new ground in North American cooperation and provide added insurance that the environmental laws on the books in Mexico would be effectively enforced. As the Administrator will explain, the environmental side agreement, negotiated by a team from USTR, EPA and State, consulting with other agencies, redeems that pledge. We benefitted greatly from the hard work and constructive spirit of members of Congress and major environmental groups who recognized the potential benefits that NAFTA could have for the environment in North America.

[I am gratified that yesterday, NAFTA, strengthened by the supplemental agreements, received the emphatic endorsements of (name the groups)]. The groups endorsement reflected the recognition that nothing in NAFTA will prevent each nation, and states and localities, from setting their own stringent environmental, health and safety standards; that nothing in NAFTA will require the federal or state governments to lower their standards; and that the supplemental agreement commits the nations to strive for a higher levels of environmental protection and

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engage in an unprecedented degree of cooperation.

Impact on Small Business. I have noted the statements of several sectors citing the benefits which will result from NAFTA; that sentiment is universally held in the business community, by businesses large and small. Indeed, small businesses stand to be among the major beneficiaries of NAFTA. Small businesses did not have the option of moving to Mexico to serve the Mexican market; nor is small business well-equipped to employ attorneys and other professionals to wrestle with the tariff and licensing requirements which presently block the way to the Mexican market. With tariffs reduced or eliminated, and non-tariff barriers coming down, U.S. small business, which makes up a growing share of U.S. exports will be able to sell into the Mexican market.

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

Responding to the Opposition

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

NAFTA comes along at a time of great economic insecurity in this country. Bill Clinton became President because of weaknesses in our economy, reflecting 20 years in which we followed misguided economic policies and neglected the foundation of our economic strength. Jobs have been lost; our manufacturing base did go through a period of serious erosion; the fact that many companies did move to Mexico lends a touch of vivid reality to the frightening arguments of the opponents. But many of the opponents have been playing fast and loose with the facts, dealing with a complex issue through a combination of inaccuracies, misleading statements, and outright falsehoods. It is time to puncture the myths that opponents of NAFTA are trafficking in. I have already tried to dispel some misinformation today, but I wanted to cover a

few other areas.

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

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

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

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

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

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

Moreover, we should understand the likely nature of Mexico's growth in the coming years. Driven by the determination to move

from the third world to the first world in a decade, Mexico plans to spend billions of dollars to build the infrastructure of a modern state. They will be investing in roads and highways, ports, major construction, power generating equipment, telecommunications, environmental protection technology, and countless other projects.

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

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

3. Rejecting NAFTA will NOT lead to a "better deal."

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

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

At bottom, the critics often seem to argue: if this deal is good for the United States, why does Mexico want it so much? The

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honest answer has two parts. Because Mexico is still a poor nation, with an economy only one-twentieth the size of ours, the passage -- or rejection -- of NAFTA will have more impact on Mexico than it does on us. But more importantly, this is not a zero sum game. NAFTA can benefit both the United States and Mexico, and Canada as well.

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

Conclusion

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

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

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

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

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

The Administration has the responsibility of convincing

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

STATUS REPORT

SEPTEMBER 21, 1993

NAFTA

* After the President signed the treaty last Wednesday, September 15, the package went to the House. It is scheduled for hearings both today, 9/21, and Thursday, 9/23, at 9:30 a.m. with the Trade subcommittee of the House Ways and Means Committee.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

URGENT

April 30, 1993

LEGISLATIVE REFERRAL MEMORANDUM

LRM #M-225

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FROM: RONALD K. PETERSON (for) *Ronald K. Peterson*
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OMB CONTACT: Annette ROONEY (395-7300)
Secretary's line (for simple responses): 395-6194
Karin KIZER (395-3947)

SUBJECT: USTR Proposed Testimony on The North American
Free Trade Agreement

DEADLINE: 10:00, A.M., Monday May 3, 1993

COMMENTS: This is the third piece of testimony for this NAFTA hearing that we have circulated. (Customs and Treasury/Enforcement have already been circulated). We will circulate Commerce testimony as soon as it is received.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
K. Kizer
R. Fairweather
K. McGinty
L. Matlack

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APR 30 '93 14:15 FROM USTR CONG AFFAIRS

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DRAFT
4/29/93

RULES OF ORIGIN
FOR THE TEXTILE AND APPAREL SECTOR
IN THE NORTH AMERICAN FREE TRADE AGREEMENT

TESTIMONY OF

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

BEFORE THE COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

MAY 4, 1993

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you to discuss the rules of origin and enforcement procedures for the textile and apparel sector in the North American Free Trade Agreement (NAFTA).

We believe the NAFTA rules of origin are one of the most important features of the textile and apparel section of the agreement. By working with Mexico and Canada to construct tough, but fair rules of origin, which draw on the vast resources of the region and encourage regional partnership and growth, we have been able to move very quickly to liberalize trade among our three countries, to open the Mexican market to U.S. exports and to create new opportunities for firms in all three countries to expand their competitive opportunities in the region and worldwide. The rules of origin ensure that goods traded under the NAFTA provisions are indeed products with very substantial U.S., Canadian or Mexican content.

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As background to a description of the rules of origin for textiles and apparel in the NAFTA, I would like to briefly describe the rules applicable generally to the textile and apparel sector and in other free trade agreements to which the United States is a party. The rule of origin is very significant because it determines how much actual content must be included before a product can be deemed to have been "made in" a given country.

First, the general rule of origin for textile and apparel imports into the United States, which is used to administer our quota agreements under the Multifiber Arrangement, is one of "substantial transformation." This rule is established in Customs Regulation 12.130, which states that a good has undergone a substantial transformation if it has been transformed by means of substantial manufacturing or processing operations into a new and different article of commerce. The rules of origin under free trade agreements take the substantial transformation test as a starting point but ultimately move to a higher standard of content before preferential treatment is provided.

The U.S.-Israel Free Trade Agreement, which was enacted in 1985, contains an overall domestic content requirement of 35 percent, of which not more than 15 percent may be U.S. content. The requirements of "substantial transformation" also apply. These requirements apply to all articles under the U.S.-Israel

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Free Trade Agreement, including textiles and apparel.

In 1989, the U.S.-Canada Free Trade Agreement (CFTA) was enacted. The agreement established for the first time special rules of origin for the textile and apparel sector. In general, the CFTA rules of origin require a "double transformation" test, which is often referred to as a "fabric forward" rule of origin for finished apparel and made-up textile products such as sheets and towels. This rule means that a garment, for example, must be manufactured in the United States or Canada (i.e., cut and sewn) from fabric which is itself manufactured in the United States or Canada.

At the outset of the negotiations with Mexico and Canada on NAFTA, commitments were made to the Congress that tough but fair rules of origin would be negotiated. The goals of the negotiations were to (a) draw on the resources of the region to expand production and trade, (b) avoid overly restrictive rules that would have mitigated the benefits of NAFTA by forcing the exclusive use of regional content and most importantly, (c) ensure that the benefits of the NAFTA accrued principally to the NAFTA parties rather than to other countries. For the textile and apparel sector, the rules of origin in the CFTA were used as a starting point and significantly strengthened from there.

The NAFTA rule of origin for textile and apparel products

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can be generally described as a "yarn forward" rule, which requires regional content from the yarn manufacturing stage to the end product before a particular product is eligible for preferential treatment under the agreement. As an example, a garment must be manufactured in a NAFTA country (i.e., cut and sewn) from fabric which is itself manufactured in a NAFTA country from yarn which is manufactured in a NAFTA country. The NAFTA therefore includes the additional step of requiring that the yarn that is used to produce fabric must itself be made in either the U.S., Mexico or Canada before the final textile or apparel product is eligible for NAFTA's duty-free and quota-free treatment. As such, the NAFTA requires that one more manufacturing step be taken in a NAFTA country than under the U.S.-Canada Free Trade Agreement.

As under the CFTA, there are some specific departures in the NAFTA from the "yarn forward" rule. Certain products are required to meet the stricter "fiber forward" rule of origin, certain others are under a "fabric forward" rule, and certain other products, such as apparel made from silk and linen, are under a less rigid single, substantial transformation rule of origin.

Products that are under a "fiber forward" rule of origin in NAFTA include cotton and man-made fiber knit fabrics and man-made fiber non-woven and specialty fabrics; man-made fiber tire cord

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and belting, man-made filament fiber hose, man-made fiber made-up products, and, for trade between the United States and Mexico, man-made fiber sweaters and tufted carpeting. Cotton and man-made fiber spun yarn and sewing thread are themselves under a fiber forward rule of origin. The "fiber forward" rule was developed in part to provide continuity from applicable rules under the CFTA, and to strengthen them in certain cases. It was also developed to reflect the reality of particular production processes involved for certain products.

A "fabric-forward" rule of origin is required for man-made fiber luggage, handbags and flat goods, certain coated fabrics and one specific curtain fabric.

A single, substantial transformation rule of origin applies normally to items that are produced from inputs not generally available in the NAFTA countries. Particular items under the substantial transformation rule of origin are apparel and other textile products that are made from pure silk and linen; apparel made from certain fabrics, including Harris tweed, velveteen, and fine wale corduroy; men's dress shirts made from a designated group of specific cotton and cotton and man-made fiber fabrics, brassieres, and nightwear and women's underwear made from certain very fine cotton knit fabric. These rules were established to ensure that preferential treatment was available for those products that are made in a NAFTA country from fabric or yarns

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that are not available in or not produced by any of the NAFTA countries.

Additional, specific improvements from the CFTA rules were also established in the NAFTA. For example, the NAFTA requires that linings in tailored clothing and coats originate in one of the three NAFTA parties from the fabric stage forward. Also, the NAFTA rule of origin applies to all components of a blended fiber product, whereas under the CFTA, the rule of origin only applied to the component that predominated by weight. The only exception to this rule is an allowance for a 7 percent by weight de minimis threshold for imported components.

As under the CFTA, provisions were included which permit certain goods which are manufactured in the region, but which do not meet the applicable rule of origin, to be traded at the preferential rate of duty. Under Tariff Preference Levels (which were known in the CFTA as Tariff Rate Quotas), goods that do not meet the rules of origin will be allowed access to each NAFTA market at the preferential rate of duty but only up to specific quantities. Goods entered above those quantities will be subject to the applicable Most-Favored-Nation rate of duty. The Tariff Preference Levels were developed primarily to alleviate short supply problems which occur from time to time in the region. Tariff Preference Levels are available between the United States,

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Canada and Mexico for cotton and man-made fiber apparel, wool apparel, cotton and man-made fiber fabric and made-up products, and cotton and man-made fiber spun yarn.

Just as the NAFTA recognized that certain products were generally unavailable in the region and therefore allowed production of the products under a single, substantial transformation rule of ^{NAFTA} origin, the NAFTA also recognized the strength of producers in the region in certain other product areas. In these instances, the NAFTA established that TPLs between the United States and Mexico could not be used for man-made fiber sweaters and any apparel made from oxford cloth or blue denim. Also, the U.S. and Mexican TPLs will not be available for t-shirts and men's and women's underwear made from cotton and man-made fiber circular knit fabric under 100 metric number, although access to the TPL for women's underwear assembled from Mexico from fabric cut in the United States under outward processing arrangements is available.

The United States and Mexico agreed in the NAFTA to permit the possibility of annual adjustments to TPLs through negotiation, as did Canada and Mexico. For trade between the U.S. and Canada, we have agreed to permit annual incremental increases to Canada's Tariff Preference Levels for at least the first five years of the agreement instead of adjustment through negotiation.

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The NAFTA contains a general provision that allows any party to request a review of any particular rule of origin at any point. In addition, in the textile and apparel sector, the three parties have agreed to specific reviews of applicable rules of origin in certain instances. For example, the agreement sets out an agreed review procedure for the single, substantial transformation rule of origin applicable to brassieres. In addition, the NAFTA provides that the parties can review the specific items subject to a single, substantial transformation rule of origin in the event of any changes in the availability of inputs in the region. This means that, for example, if fine count circular knit cotton fabric becomes abundantly available in the region, a party could request consultations with a view to changing the single, substantial transformation rule for apparel made from that fabric to a yarn forward rule. Similarly, if certain yarn or fabric inputs become chronically scarce in the region, a party could request consultations with the other parties to seek to change a yarn forward rule of origin to one of single, substantial transformation.

The three parties have also agreed to an overall review of the rules of origin for the textile and apparel sector no later than five years after implementation of NAFTA. This review is intended to determine if any changes are necessary to the NAFTA rules in light of the situation existing in world trade in the sector at the time, taking into account the effect of the

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anticipated completion of the Uruguay Round agreements, the evolution of free trade and preferential agreements in other parts of the world and the impact of the rules of origin in those agreements on the competitiveness of firms in the NAFTA region.

The Industry Sector Advisory Committee on Textiles and Apparel, in its advisory report on the NAFTA, concluded with respect to the rules of origin that:

"The NAFTA rules of origin are a major improvement over the U.S./Canada origin rules and will ensure that significant North American manufacturing occurs in NAFTA trade. While some members continue to support fiber-forward as a single origin rule, the Committee supports the yarn forward rule and its variations as agreed to in the negotiations.

The Committee strongly recommends, however, that the fiber, textile and apparel rules of origin provisions be incorporated into the implementing legislation. Origin rules are the single most crucial element in this Agreement and accordingly should not be rewritten by subsequent administrative fiat or regulation."

I understand that witnesses from the Treasury Department and U.S. Customs Service will be discussing the implementation of

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these rules of origin and the process established under NAFTA to ensure that the rules are adequately enforced.

We look forward to working with you, Mr. Chairman, representatives of the affected industries, and other Members of Congress, in constructing implementing legislation that meets these needs and the interests of U.S. producers and consumers.

Thank you.

END

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

URGENT

September 27, 1993

LEGISLATIVE REFERRAL MEMORANDUM

LRM #M-700

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FROM: RONALD K. PETERSON (for)
Assistant Director for Legislative Reference

OMB CONTACT: Annette ROONEY (395-7300)
Secretary's line (for simple responses): 395-6194
Karin KIZER (395-3947)

SUBJECT: USTR Proposed Testimony on North American
Free Trade Agreement

DEADLINE: 5:00, TODAY September 27, 1993

COMMENTS: Agriculture and EPA will also be testifying at this hearing. We will circulate these testimonies as soon as they are received. If you do not respond by the deadline, we will presume your agency has no comment.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
M. Walsh
R. Mertens
H. Paster
L. Fernandez
K. MCGINTY

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DRAFT**NOTE TO REVIEWERS:**

The following testimony was prepared for delivery to the House Agriculture Committee. It is very similar to the testimony given to the Senate Agriculture Committee, except for the following:

1. The first two paragraphs were re-written
2. The conclusion was shortened
3. The following sections were added --
 - a. health and safety standards (simply included language from the Senate Finance testimony)
 - b. import surges and safeguards (used paper from North American Affairs office)
4. The following sections were deleted
 - a. funding the NAFTA (we'll put this in a Q. and A.)
 - b. benefits to small business
 - c. responding to the opposition
5. Changed date reference in Side Agreements section from "last Tuesday" to "on September 14".

Will be circulating to the agencies. Appreciate any comments by C.O.B. Monday

L. Condon 395-5006

TESTIMONY OF AMBASSADOR MICHAEL KANTOR
United States Trade Representative

Before the House Committee on Agriculture
September 29, 1993

THE ADMINISTRATION'S CASE FOR NAFTA

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Mr. Chairman, members of the Committee, I am pleased to appear before you today, along with Secretary Espy and EPA Administrator Carol Browner, to set forth the Clinton Administration's case for the North American Free Trade Agreement (NAFTA), with the recently negotiated supplemental agreements.

Two weeks ago, I presented testimony on this issue to the Senate Finance Committee with Secretary of State Warren Christopher and Secretary of the Treasury Lloyd Bentsen, and to the House Committee on Ways and Means with the Secretary of Labor Robert Reich and Administrator Browner. And, last Tuesday, Secretary Espy and I appeared before the Senate Committee on Agriculture, Nutrition and Forestry on this subject.

Over the next few weeks, I and my cabinet colleagues will be participating in other hearings focusing on the NAFTA in both the House and the Senate. We appreciate these opportunities to present the Administration's case on why the approval of NAFTA is strongly in the national interest.

NAFTA and the Administration's Economic Strategy

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

NAFTA will reinforce and enhance the free trade agreement negotiated between the United States and Canada and will help equalize the terms of trade between the United States and Mexico. Current rules clearly are in Mexico's favor. Mexico's trade-weighted tariffs average 10 percent, compared with four percent for the United States. Mexico is also a major beneficiary of the Generalized System of Preferences (GSP). This means that a significant portion of its exports to the United States enter duty free under this GATT-sanctioned tariff preference program for developing countries. The GSP program is a one-way tariff preference program.

In the agricultural sector, Mexico maintains an extensive system of

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licenses issued at the government's discretion which control imports of a broad range of farm goods. In most cases, Mexico's agricultural import licensing requirements were established specifically to protect against the threat of unrestricted imports from the United States. While the United States also maintains non-tariff barriers on certain agricultural products (Section 22 quotas on dairy products, peanuts, certain types of cotton, and sugar-containing products, as well as potential restrictions on beef and other meats under the U.S. Meat Import Law), Mexico is not a major exporter of any of these products. In our bilateral relationship, the maintenance of these non-tariff barriers helps Mexico much more than it helps us. Conversely, the elimination of these barriers will be more beneficial to the United States than to Mexico.

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

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

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

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

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

Our drive for health care reform is fundamentally motivated by the desire to secure for every American access to the health care that they and their families need. But the soaring cost of health care also makes our strongest corporations uncompetitive and threatens the existence of many small businesses. Similarly, our

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initiative to reinvent government is intended to make government more effective and accessible, but it will also reduce the size and cost of government, freeing up resources that can be used for productive investment.

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

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

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

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

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

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

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

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

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

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

Japanese firms have long benefitted from having a look on the emerging markets of Asia. NAFTA will give U.S. firms a definite advantage in the Mexican market. The NAFTA gives the U.S. the potential to compete more effectively with Japanese economic strategies. Japanese companies have invested heavily in the emerging economies of the Far East and set up assembly plants to assemble Japanese components into finished products for export. This creates a trade surplus for Japan with these countries and increases Japan's production and exports. The NAFTA can be an instrument for helping the United States and Mexico cooperate in meeting Japanese competition and producing more globally competitive products.

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

Job Growth and Trade with Mexico

Starting in 1985, Mexico, recognizing that its economic policies had been disastrous, began to lower trade and investment barriers. The results have been dramatic for the United States:

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

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

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

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

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

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trade relationship with Mexico, which we seek to change through NAFTA.

NAFTA and the Status Quo

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

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

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

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

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

The result of the maquiladora program and Mexican protection has been to distort U.S.-Mexican trade, limiting exports from the

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

Much of the opposition to NAFTA reflects justifiable concern about the policies of the past that have disadvantaged U.S. workers. Despite Mexican progress in voluntarily opening markets, Mexican tariffs remain, on the average, 2.5 times higher than ours. By contrast, over 30% of our imports from Mexico already enter duty-free. Our average tariff on imports is only 4%.

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

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

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

NAFTA will give U.S. exporters a significant preference in the rapidly expanding Mexican market over Japanese, European, and other foreign suppliers. As I have already noted, Mexico's tariffs average 10 percent. Countries other than the United States (and Canada) will continue to face Mexican duties. In addition, Mexico's current import licensing requirements on agricultural imports would disappear for the United States (and Canada, for most products) when the NAFTA goes into effect. However, a license would be required to bring in covered products from all other countries.

U.S. exporters of most agricultural products will share unrestricted access to the Mexican market with their Canadian counterparts. For dairy, poultry, and egg products, however, U.S. shippers will have exclusive access to Mexico's market: Canada and Mexico agreed to exempt these items from their agreement. It should be noted that Mexico is the world's largest import market for powdered milk, and demand is expanding for all dairy, poultry and egg products. With the access provided by NAFTA, our proximity to the market, and our potential to produce large supplies of competitively-priced dairy, poultry and egg products, NAFTA will provide an excellent opportunity for boosting export sales of these products.

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Major Features of NAFTA

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

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

Major Benefits of NAFTA

Opening up Trade in Agriculture. I am sure that Secretary Espy will elaborate in more detail on the benefits NAFTA includes for American agriculture. But let me touch on some of these.

As this Committee knows, exports are the life blood of American agriculture. As much as one-quarter of our total agricultural production is exported and for some key commodities, the share shipped overseas is even higher. The economic well-being of our agricultural sector is directly linked to our ability to sell our products in international commerce. To ensure growth in our agricultural economy and prosperity in our rural communities, we must secure and expand our agricultural export markets. NAFTA does that.

After Japan, Canada and Mexico are the second and third largest markets for U.S. agricultural exports. Since 1987, shipments of American farm products to Mexico have nearly tripled, climbing from \$1.2 billion to \$3.8 billion in 1992 and establishing Mexico as our fastest growing market for farm-produced goods. In fact, our two neighbors accounted for more than 20 percent (\$8 billion) of U.S. agricultural exports in 1992. NAFTA secures our access to these markets and establishes a sound basis for further growth.

NAFTA contains separate bilateral undertakings on cross-border

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trade in agricultural products, one between Canada and Mexico, and the other between Mexico and the United States. As a general matter, the rules of the U.S.-Canada Free Trade Agreement on tariff and non-tariff barriers will continue to apply to agricultural trade between Canada and the United States.

The U.S.-Mexico agreement on market access for agricultural goods represents a significant change from the status quo and is one of the highlights of NAFTA. Upon implementation of NAFTA, tariffs and tariff-rate quotas will replace current non-tariff barriers in U.S.-Mexican agricultural trade. Roughly one-half of U.S.-Mexican trade will be duty free when the Agreement goes into effect. Nine years later, all agricultural tariffs between the United States and Mexico will be eliminated except duties on certain highly sensitive products.

Barriers on U.S. imports of sugar, peanuts, orange juice and a few fruits and vegetables will not be eliminated until the fourteenth year after the Agreement takes effect. Also at the beginning of the fourteenth year, Mexico will fully eliminate its barriers on corn, dry beans, powdered milk, sugar and orange juice.

Mexican import licensing requirements for covered U.S. agricultural products will be eliminated as soon as the NAFTA takes effect. This will secure access to the Mexican market for U.S. producers of products such as corn, dried beans, non-fat dry milk, poultry, barley/malt, animal fats, potatoes, eggs, tobacco, grapes and other products. While we have shipped significant quantities of many of these commodities to Mexico, the cessation of licenses has been a constant threat. Exporters who have been regularly supplying the market suddenly find that their Mexican importer cannot obtain a license. Under present circumstances, there is little or no recourse.

Another threat to our access has been the fact that most of Mexico's tariffs are bound in the GATT at 50 percent. However, Mexico typically applies a lower rate -- usually from zero to 20 percent. Without a NAFTA, we have no basis for challenging an increase in Mexican tariffs, unless the GATT-bound rate of 50-percent is exceeded.

A decision by the Mexican government to increase duties on live cattle and beef last fall is instructive in considering the value of NAFTA. Although bound at 50 percent, Mexico had been applying no duty on cattle and beef. However, last November tariffs were increased up to 15 to 25 percent on live cattle and various categories of beef. Since we had no NAFTA rights and could not exercise our GATT rights because the increase did not exceed the GATT-bound rate, we could not effectively respond.

The NAFTA requires that Mexico eliminate all duties on U.S. and Canadian live cattle and beef. It may maintain the higher

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duties on all other countries.

Mexican demand for food is likely to grow significantly over the next few decades. The NAFTA, our proximity to the market, and our unparalleled ability to produce large quantities of competitively-priced farm products ideally positions U.S. farmers to satisfy much of that expected growth. As evidence of the potential for growth in Mexican demand for food:

- o Mexico's population is about 90 million. With a median age of 19, compared with 33 years of age for the United States and Canada, Mexico's population growth rate is, and will continue to be, significantly higher than ours.

- o Mexican demand for food is expected to strengthen, perhaps by 5 to 6 percent annually, throughout this decade as the population grows, the economy picks up steam, and incomes rise.

- o Mexico's, limited natural resource base (arable land and water supplies) will require increased imports of food and feedstuffs to keep pace with an expanding demand. Mexico has about 0.7 acres of arable land per person, compared with 1.9 for the United States. (With Mexico's population rising at a faster rate, the U.S. advantage will widen.)

The bottom line is that the NAFTA will give U.S. agricultural producers significant opportunity in our hottest market. We expect particular benefits for our exports of beef, pork, poultry, eggs, dairy products, fresh fruit, grains and oilseeds.

Increased import demand from Mexico will have a positive impact on U.S. farm prices and cash receipts, boosting U.S. farm cash receipts a projected 2 to 3 percent. USDA also projects that U.S. agricultural exports to Mexico will be \$2.6 billion higher annually when NAFTA is fully implemented than they would be without a NAFTA. This means about 56,000 additional jobs.

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

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NAFTA does not require the federal government to lower its environmental, health and safety standards. Indeed, NAFTA makes explicit that each government may establish the levels of protection for human, animal or plant life or health that the government considers to be appropriate and that any work under the NAFTA to make standards compatible among the three countries is to be done "without reducing the level of safety or of protection of human, animal or plant life or health, the environment or consumers." Moreover, under the NAFTA, state and local laws are free to differ from federal laws, and can be more stringent than those laws.

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

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

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

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

Far from weakening environmental, health and safety standards, the NAFTA and the supplemental agreements affirmatively encourage our three countries to improve and enhance protection of health, safety and the environment. The supplemental agreement requires

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the signatories to "ensure that [their] laws and regulations provide for high levels of environmental protection" and to "strive to improve them", and creates a framework for working cooperatively to harmonize our standards upwards. It also contain commitments for effective domestic enforcement of environmental and labor health and safety laws, as well as a dispute settlement system, backed ultimately by the possibility of trade sanctions, to expose and remedy problems of weak enforcement of such laws.

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

NAFTA includes important benefits for other key U.S. sectors:

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

Protecting U.S. copyrights, patents and trademarks. NAFTA will ensure a high level of protection under Mexican law for U.S. owners of patents, copyrights, trademarks, trade secrets, and integrated circuits, including strong safeguards for computer programs, pharmaceutical inventions and sound recordings. NAFTA obligates both Mexico and Canada to enforce intellectual property rights against infringement, both internally and at the border. By protecting intellectual property rights, NAFTA will increase trade and diminish losses from counterfeiting and piracy.

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

The Supplemental Agreements on Labor and the Environment

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

He made a promise to the American people which he has today kept: that he would make sure economic growth with Mexico did not

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come at the expense of the environment or workers' rights, and that we would be protected from the possibility of import surges.

On September 14, President Clinton, Prime Minister Campbell, and President Salinas signed historic agreements on environmental and labor cooperation. In addition, Mexican Trade Secretary Jaime Serra, Canadian Minister of International Trade Tom Hockin and I have concluded the negotiation of an understanding on import surges.

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

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

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

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

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

The agreements also provide for dispute settlement in the event of a persistent pattern of failure to effectively enforce national laws. Where consultations fail to resolve such disputes, a neutral panel of independent experts would be established by a two-thirds vote of the parties. Ultimately, if a panel found that

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there was such a persistent pattern, and if a party failed to remedy the matter, then there could be fines and trade sanctions. Canada has agreed, in lieu of trade sanctions, to make assessments and other panel-ordered remedies fully enforceable by the Commission in Canadian courts.

Import Surge and Other Safeguard Protections

The Import Surge Agreement will complement the NAFTA by improving the effectiveness of safeguard provisions that allow action against imports that might cause or threaten serious injury to a domestic industry including the workers of that industry. The understanding on import surges establishes a new mechanism -- we refer to it informally as an "early warning system" -- for consultations among the NAFTA countries and for examining economic factors, including employment, in the region. It is meant to anticipate national trade measures, authorized under the NAFTA, to respond to increased imports. For example, a country might call for consultations and a joint examination in the committee as a result of declining employment in a particular industry.

The NAFTA itself contains several important provisions to safeguard a country's industry and workers against import surges.

- o A bilateral safeguard mechanism permits the "snap-back" to pre-NAFTA or MFN tariff rates for up to three years -- or four years for extremely sensitive products -- if increased imports from Mexico are a substantial cause of or threaten serious injury to a domestic industry.
- o A global safeguard mechanism allows the imposition of tariffs or quotas on imports from Mexico and/or Canada as part of a multilateral safeguard action when imports from either or both countries are a substantial cause of or threaten serious injury to a domestic industry.
- o Sensitive agriculture products are handled specially in the form of tariff-rate quotas, where high MFN tariffs kick in above a specified quantity of imports.
- o Sensitive textile and apparel products also have special safeguard provisions to respond to those industries needs.

The Working Group established under the agreement will consider how well NAFTA's safeguard provisions are working and make recommendations for revisions, as appropriate.

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

Foreign Policy Implications

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The NAFTA deserves to be approved on its economic merits. However, especially in the light of U.S. agriculture's heavy dependence on international markets, foreign policy implications of this issue should not be minimized. Echoing comments made by my friend and colleague, Secretary of State Warren Christopher, last week: "Rejection of NAFTA would seriously damage our relations with Mexico and erode our credibility with the other nations of the hemisphere and around the world. For the United States, failure to approve NAFTA would be a self-inflicted setback of historic proportions."

In my view a Congressional rejection of NAFTA would be a "shot heard around the world". It would be read across the globe as a seachange, marking a U.S. retreat from our traditionally strong advocacy for open markets and expanded trade.

As the Secretary of State pointed out, a U.S. failure to approve NAFTA would undermine Mexico's capacity to cooperate with us on vital cross-border issues that affect millions of Americans.

Second, it would send a chilling signal about our willingness to engage in Latin America at a time when so many of our neighbors are genuinely receptive to cooperation with the United States.

Third, it would hand our major economic competitors in Europe and East Asia a clear opportunity to gain an advantage in what should be natural and growing markets for us.

Fourth, it would undermine our position as a negotiating partner on global trade Agreements, like the Uruguay Round, which are vital to the economic renewal of the United States.

NAFTA is good economic policy and good foreign policy.

Conclusion

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

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

But when he studied it, he found that NAFTA -- particularly if strengthened by supplemental agreements -- would be strongly in the economic interest of the United States. It would not solve all our nation's economic problems, but it would be an important piece of

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the economic strategy that we were putting in place to build the world's most productive and competitive economy.

That concludes my testimony, Mr. Chairman. I would be pleased to answer any questions.

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Testimony to the House Ways and Means Committee

Ambassador Michael Kantor

U.S. Trade Representative

January 26, 1994

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

Mr. Chairman, thank you very much. It is a pleasure to be here today to discuss with you the Uruguay Round agreement, which sets the stage for a more competitive and prosperous nation in the coming years and into the next century. I look forward to working with you this spring as we prepare the legislation that will implement the Round, which I hope you will approve.

Mr. Chairman, on December 15, 1993, 117 countries concluded a major agreement to reduce barriers blocking exports to world markets, and to create a more fair, more comprehensive, more effective, and more enforceable set of world trade rules. In order to assure the efficient and balanced implementation of the agreements reached, they also created a new World Trade Organization (WTO).

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

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

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

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

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

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

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

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

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

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

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

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

The United States, then, is positioned economically, to reap the benefits of the global economy. In addition, our culture, and even our geography, gives us the opportunity to enter a new era of prosperity.

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

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

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

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

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

For other nations to enjoy the great opportunities here in the U.S. market, they must accept the responsibility of opening their own market to U.S. products and services. Ultimately, it is in their own self interest to do so, because trade fosters economic growth and create jobs in all countries involved. If a country closes itself to U.S. goods and services, they should expect the same from us.

The Uruguay Round ensures American workers are trading on a two-way street; that they benefit from this new globalized economy;

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that they can sell their products and services abroad; and that they can compete on a level playing field.

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

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

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

The Uruguay Round

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

This historic agreement will

- cut foreign tariffs on manufactured products by over one third, the largest reduction in history;
- protect the intellectual property of U.S. entrepreneurs in industries such as pharmaceuticals, entertainment and software from piracy in world markets;
- ensure open foreign markets for U.S. exporters of services such as accounting, advertising, computer services, tourism, engineering and construction;
- greatly expand export opportunities for U.S. agricultural products by limiting the ability of foreign governments to block exports through tariffs, quotas, subsidies, and a variety of other domestic policies and regulations;

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

This agreement will not

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

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

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

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

While the world has benefitted enormously from the reduction of trade barriers and expansion of trade made possible by the GATT, the GATT rules were increasingly out of step with the real world. They did not cover many areas of trade such as intellectual property and services; they did not provide meaningful rules for important aspects of trade such as agriculture; and they did not

bring about the prompt settlement of disputes. The old GATT rules also created unequal obligations among different countries, despite the fact that many of the countries that were allowed to keep their markets relatively closed were among the greatest beneficiaries of the system.

The WTO will require that all members take part in all major agreements of the Round, eliminating the free-rider problem. From agreements on import licensing to antidumping, all members of the WTO, will belong to all of the major international agreements.

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

Market Access. The WTO will reduce global tariffs by over one third. Between the U.S. and the European Community, the reduction is 50 percent. In an economy increasingly reliant on trade -- and over a quarter of our Gross National Product is now related to trade -- opening markets abroad is absolutely essential to our ability to create jobs and foster economic growth here at home.

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

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

Services. The WTO will extend fair trade rules to a sector that encompasses 60% of our economy and 70% of our jobs: services. Eighty-nine countries agreed to new rules in around eighty areas of the economy such as advertising, law, accounting, information and computer services, environmental services, engineering and tourism. When a company makes a product, it needs financing, advertising, insurance, computer software, and so forth. Competition for these services is now global. We lead the world in this sector with nearly \$180 billion in exports annually. The WTO will implement new rules on trade in services, which will ensure our companies and workers can compete fairly in the global market.

Intellectual Property. Creativity and innovation is one of America's greatest strengths. American films, music, software and medical advances are prized around the globe. The jobs of

thousands of workers here in this country are dependant on the ability to sell these products abroad. Royalties from patents, copyrights, and trademarks are a growing source of foreign earnings to the U.S. economy. The World Trade Organization will establish international rules to protect Americans from the global counterfeiting of their creations and innovations.

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

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

1. MARKET ACCESS FOR GOODS

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

Key provisions of the market access for goods agreement include:

- o Significantly increased access to markets which represent approximately 85 percent of world trade in terms of reduced tariffs on specific items of key interest to U.S. exporters;

- o The elimination of tariffs in major industrial markets, and significantly reduced or eliminated tariffs in many developing markets, in the following areas:

- Construction Equipment
- Agricultural Equipment
- Medical Equipment
- Steel
- Beer
- Distilled spirits
- Pharmaceuticals
- Paper
- Toys
- Furniture

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Together, these industries employ more than 2.9 million American workers. That is 2.9 million workers that will have more opportunity, more sales, and more prosperity because of the Uruguay Round.

- o Deep cuts ranging from 50 - 100 percent on important electronics items (semiconductors, computer parts, semiconductor manufacturing equipment) by major U.S. trading partners; and

- o Harmonization of tariffs by developed and major developing countries in the chemical sector at very low rates (0, 3.5 and 6.5 percent).

- o Vastly increased scope of bindings at reasonable levels from developing countries, which will ensure predictability and certainty for traders in determining the amount of duty that will be assessed.

In general, most tariff reductions will be implemented in equal annual increments over 5 years. Some tariffs, particularly in sectors where duties will fall to zero, such as pharmaceuticals, will be eliminated when the agreement enters into force. Other tariffs, particularly in sensitive sectors, including some sensitive sectors for the United States, will be phased-in over a period of up to ten years. The agreement is scheduled to go into force on July 1, 1995.

As part of the United States offer, many non-controversial duty suspensions introduced in the 102nd Congress, as well as many introduced in the 103rd Congress, were made permanent. Implementation of these reductions will occur on entry into force of the Agreement.

The final result on wood and certain non-ferrous metals is subject to further negotiation. Based on concessions granted thus far, the United States is continuing to pursue duty elimination in these sectors.

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

2. AGRICULTURE

The Uruguay Round agreement on agriculture strengthens long-term rules for agricultural trade and assures the reduction of

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specific policies that distort agricultural trade. U.S. agricultural exports will benefit significantly from the reductions in export subsidies and the market openings provided by the agriculture agreement.

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

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

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

Internal support measures and export subsidies that fully conform to reduction commitments and other criteria will not be subject to challenge for nine years. However, subsidized imports will

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continue to be subject to U.S. countervailing duty procedures, except for domestic support meeting the "green box" criteria, which will be exempt from countervailing duty actions for nine years.

3. TEXTILES AND CLOTHING

The Uruguay Round Agreement on Textiles and Clothing will benefit the U.S. textile and apparel industry by expanding market access abroad, by improving the safeguard mechanism during the 10 year phase-out of the Multifiber Agreement (MFA), and by improving protection against illegal transshipments. Importantly, tariffs cuts are made at a higher rate abroad than at home. While we achieved significant market access cuts abroad, we refused to close on inadequate offers, such as those from Pakistan and India, and we will work vigorously to secure adequate offers from these and other countries. Moreover, we insured that non-WTO members like China would not gain the benefits of the phase-out of the MFA until they become members of the WTO. Finally, the MFA's phase-out will reduce consumer prices for textiles and apparels.

U.S. negotiators were especially sensitive to the U.S. textile industry during the GATT talks. While the average U.S. tariff cut on all industrial items is 34 percent, the U.S. offer reduces textile and clothing tariffs by only 12 percent overall. Particularly sensitive products receive even a lower cut.

The way we fashion the implementing legislation is very important for textile workers and companies. I look forward to working with you on these provisions.

4. SAFEGUARDS

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

The agreement also requires that existing Voluntary Restraint Agreements be phased out within four years, but allows each country one "grandfathered" exception until 1999.

5. ANTIDUMPING

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The U.S. objectives were to improve transparency and due process in antidumping proceedings, increase disciplines on diversionary dumping, and ensure that the antidumping rules continue to provide an effective tool to combat injurious dumping. The Agreement substantially achieves these objectives. Furthermore, it balances the interests of U.S. industries that use U.S. antidumping laws to combat unfair trade practices in the domestic market and those of U.S. exporters that are subject to unfair administrative practices in foreign antidumping investigations.

The transparency and due process requirements proposed by the United States were accepted in their entirety. For example, the agreement requires investigating authorities to provide public notice and written explanations of their actions. These new requirements should benefit U.S. exporters by improving the fairness of other countries' antidumping regimes.

The new agreement does not limit U.S. discretion to discipline diversionary dumping. Because there is no explicit reference to anti-circumvention in the text of the agreement, it does not inhibit the application of current U.S. anti-circumvention provisions.

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

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

The addition of an explicit standard of review to be applied by WTO dispute settlement panels is, without doubt, the most important benefit of the Antidumping Agreement. The provision, based on our drafting, acknowledges that there may be more than one permissible interpretation of the agreement or facts and requires panels to defer to permissible interpretations by WTO members.

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6. SUBSIDIES AND COUNTERVAILING MEASURES

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

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

Subject to specific, limiting criteria, the Agreement makes three types of subsidies non-actionable. Government assistance for industrial research and development is non-actionable if the assistance for "industrial research" is limited to 75 percent of eligible research costs and the assistance for "pre-competitive development activity" (through the creation of the first, non-commercial prototype) is limited to 50 percent of eligible costs. This will enable the Clinton Administration to continue to cooperate with industry to develop the technologies of tomorrow without the threat of countervailing duty actions, while ensuring that other countries cannot provide development or production subsidies free from such actions.

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

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

The Agreement also makes countervailing duty rules more precise, and in many cases reflects U.S. practice and methodologies. For example, for the first time, GATT rules will explicitly recognize

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U.S. "benefit-to-the-recipient" standard. In addition, the Agreement imposes multilateral subsidy disciplines on developing countries. Although subject to certain derogations, a framework has been established for the gradual elimination of export subsidies and local content subsidies maintained by developing countries.

7. TRADE-RELATED INVESTMENT MEASURES

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

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

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

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

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

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The Rules of Origin Agreement establishes a three-year work program to harmonize rules of origin among WTO Members. The Agreement also establishes a Committee which is to work with a Customs Cooperation Council Technical Committee to develop detailed definitions on which to base these harmonized rules of origin. During the transition period, criteria used to establish origin must precisely and specifically define the requirements to be met. These rules of origin are not to be used to influence trade or to create distortions or restrictions of trade. In addition, countries are required to publish changes to their rules of origin at least sixty days before such changes come into effect.

12. TECHNICAL BARRIERS TO TRADE

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

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

13. SANITARY AND PHYTOSANITARY MEASURES

The Agreement on the Application of Sanitary and PHYTOSANITARY ("S&P") Measures will guard against the use of unjustified S&P

measures against U.S. agricultural exports. At the same time, U.S. animal and plant health measures and food safety requirements are protected. S&P measures include a wide range of health protection measures (including quarantine procedures and food processing and production measures) and procedures for approval of food additives or for the establishment of pesticide tolerances. The S&P agreement clearly recognizes and acknowledges the sovereign right of each country to establish laws, regulations and requirements necessary to protect life and health, but specifies rules and disciplines intended to prevent a contracting party from using S&P measures as disguised barriers to trade.

The agreement requires that a government's S&P measures be based on scientific principles and sufficient scientific evidence. A government may determine whatever level of health protection it deems appropriate for its population, but must avoid arbitrary or unjustifiable distinctions in the levels if this would discriminate between imported products and domestic products or create a disguised barrier to trade. The agreement generally requires the use of international standards as a basis for S&P measures, but each government remains free to adopt an S&P measure more stringent than the relevant international standard where the more stringent measure is based on available scientific evidence and risk assessment as provided in the Agreement or where it is the consequence of the level of protection that the government has determined is appropriate.

14. SERVICES

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

Complementing the framework rules and annexes are binding commitments to market access and national treatment in services sectors that countries schedule as a result of bilateral negotiations. In order to fulfill the market access and national treatment provisions of the GATS, each government has submitted a schedule of market access commitments in services which will become effective upon entry into force of the GATS. Countries are also permitted to take one-time exemptions from the most-

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favorable-nation provision in the GATS. Schedules of commitments include horizontal measures such as commitments regarding movement of personnel and service providers. The schedules also include commitments in specific sectors, such as: professional services (accounting, architecture, engineering), other business services (computer services, rental and leasing, advertising, market research, consulting, security services), communications (value-added telecommunications, couriers, audio-visual services), construction, distribution (wholesale and retail trade, franchising), educational services, environmental services, financial services (banking, securities, insurance), health services and tourism services. Maritime and civil aviation commitments were also scheduled by a small number of countries.

The GATS contains a strong national treatment provision that requires a country to accord to services and services suppliers of other countries treatment no less favorable than that accorded to its own services and services suppliers. It specifically requires GATS countries to ensure that their laws and regulations do not tilt competitive conditions in the domestic market against foreign firms in services sectors listed in its schedule of commitments.

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

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

Given the breadth and complexity of the services sector, the GATS provides for the progressive liberalization of trade in services. Successive negotiations may be commenced at five-year intervals to allow improvements in market access and national treatment commitments and to allow liberalization of MFN exemptions. The GATS also sets out terms for the negotiation of several framework provisions which currently contain no substantive disciplines

such as subsidies, government procurement, and emergency safeguard actions. In addition, Ministerial Decisions related to the GATS establish work programs in several areas such as trade and the environment, long distance basic telephone services, maritime transport services and reduction of barriers to trade in professional services.

13. TRADE-RELATED INTELLECTUAL PROPERTY RIGHTS

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

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

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

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

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

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

As for trademarks, the Agreement:

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

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

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

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

16. DISPUTE SETTLEMENT

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

The process will be subject to strict time limits for each step. There is a guaranteed right to a panel. Panel reports will be adopted unless there is a consensus to reject the report and a

country can request appellate review of the legal aspects of a report. The dispute settlement process can be completed within 16 months from the request for consultations even if there is an appeal. Public access to information about disputes is also increased.

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

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

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

17. WORLD TRADE ORGANIZATION

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

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

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

18. GATT ARTICLES

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

19. TRADE POLICY REVIEW MECHANISM

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

20. GOVERNMENT PROCUREMENT

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

The new Code is like the old Code in limiting membership to those countries that specifically accede to it. Membership in the WTO does not necessarily lead to membership in the Procurement Code.

The new Code departs from the old one, however, in creating a structure that makes reciprocity more workable between individual countries and actively encourages new countries to join. By authorizing departures from most-favored-nation (MFN) treatment, the new Code ensures that our relationships with all signatory countries are strictly reciprocal.

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

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

We leave open the possibility, however, of extending coverage with any one country through bilateral negotiations in the future. Most importantly, the United States and the European Union agreed to accomplish this by April 15 of this year. We expect this expanded coverage to include the European Union's electrical sector under the Code and telecommunications sector under a separate, but parallel, bilateral agreement.

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

21. AIRCRAFT

The U.S. and the EC, and subsequently all other GATT parties, agreed to bring aircraft under the new Agreement on Subsidies and Countervailing duties. The agreement will be applicable to the entirety of civil aircraft products, including aircraft of all sizes and types, their engines and components, and to all WTO member parties. Bringing aircraft products under these stronger anti-subsidy disciplines and the more expeditious and certain dispute settlement procedures contained in the Uruguay Round trade agreement was the principal objective of the U.S. aerospace

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industry, whose foreign competitors have in the past often benefitted from substantial governmental subsidies. This was also a necessary outcome for the United States in maintaining the competitiveness of our aerospace industry that produces the largest trade surplus of any U.S. manufacturing industry, an estimated \$28 billion in 1993.

Although not formally a part of the Uruguay Round negotiations, we have also been seeking to tighten the existing disciplines on government support for aircraft development, production and marketing currently contained in the 1979 GATT Agreement on Trade in Civil Aircraft and to expand the coverage of that agreement to other countries that produce civil aircraft. We have agreed to continue those negotiations with the goal of reaching agreement by the end of 1994.

Conclusion

Mr. Chairman, America is back. I think we should all be heartened, and learn some lessons, from the numerous industries which, a few years ago, pundits were saying were headed for museums, but have since revived. The semiconductor industry leads the world again. The Big Three automakers are producing world class automobiles again. The textile industry enjoys a trade surplus with Japan.

These industries faced the challenge of global competition, changed the way they do business, sometimes making some tough decisions along the way, and are winning in the global economy. They explain why Americans are the most productive workers in the world.