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Legislation - Fast Track

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Finance Committee

International Trade Subcommittee (Chairman Grassley, R-Iowa) will hold a hearing on the need for fast track negotiating authority. Fast track authority requires Congress to take up-or-down votes on trade agreements within 90 days and gives trading partners assurance that Congress could not order changes to an agreement that had been negotiated. Officials will testify on how the U.S. can manage global and regional trade policy without fast track negotiating authority, and will focus on the Free Trade Area of the Americas (FTAA).

Where and When: July 14 3:00 pm SD-215 Dirksen Bldg.

Witnesses scheduled:
PANEL: Charlene Barshefsky - U.S. trade representative; David L. Aaron - undersecretary of commerce for International Trade; U.S. Department of Commerce
PANEL: Sam Gibbons - former congressman and former chairman, House Ways and Means Committee; Robert D. Hormats - vice chairman, Goldman Sachs (International), New York, N.Y.; William T. Pryce - former U.S. ambassador to Honduras and vice president, Washington Operations, Council of the Americas

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

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SUBJECT: Fast Track Q&A's

COMMENTS:

Q: *Is Chile ready to negotiate labor and environment in the context of an FTA?*

A:

- In the FTAA, Chile has recognized the importance of addressing the social dimension of trade, which of course would include the relationship between labor and environmental issues and trade.

- In fact, Chile has been constructive in finding ways to address these issues responsibly in the context of the FTAA negotiations. For example, Chile was critical to the establishment of the FTAA's Government Committee on Civil Society – the very first time that a trade negotiation has had such mechanism to help negotiators take into account the views of civil society.

- I would note that Chile's labor regime is considered generally respectable and that the Frei Government has taken substantive steps to improve its labor relations. In addition, the current head of the ILO is a Chilean official. Regarding the environment, during his term President Frei sought and gained passage of a landmark Basic Framework Law on the Environment, providing for central environmental policy planning by the National Environment Commission. Since the development of this Commission in 1994, the Chilean Government has taken further steps to deepen its environmental regime. In fact, Chile is quite good on both of these issues compared to many others in the hemisphere and indeed the world.

- In addition to being helpful on labor and environmental issues in the FTAA context, these are issues that Chile has not been afraid to discuss bilaterally. We have had some useful exchanges of views on these matters, but have not gotten into a level of specificity that would allow me to say that the Chilean Government is categorically committed to negotiating labor and environmental provisions in the context of an FTA with us.

- I would note, however, that Chile did negotiate side agreements to its FTA with Canada that are virtually identical to the NAFTA side agreements. Therefore, if one wanted to be presumptuous, one probably could assume that this is something that Chile would at the very least consider.

Q. *Have we lost ground in South America because of a lack of fast track? What does it mean when Europe is extending its reach to Mercosur and Chile? Aren't we being left behind?*

A.

- Clearly, the overture made by Europe indicates that they do not want to be left behind in light of the significant progress we are making in the FTAA. We will watch closely to ensure that we do not lose ground to our European competitors as these talks progress.

- However, for now, it is not clear *how* exactly these talks will progress. There appear to be many issues left to sort out before real negotiations begin, both between Europe and Mercosur and between Europe and Chile.

- All sides in these negotiations have made public assurances that any negotiations will conform to their WTO obligations, meaning that "substantially all trade" will be covered by the agreement. In turn, we have reinforced our expectation that any negotiations would conform to WTO rules.

- Since nearly 50% of all exports to Europe from these countries are agricultural, we can expect that any WTO-consistent negotiation would include agriculture. We particularly support our Mercosur trading partners in their effort to improve access to the EU's protected and heavily subsidized agricultural market. We know that this is a difficult road, having spent a lot of energy pressing the Europeans on this matter ourselves, and we wish them well given our deep mutual interests in breaking down Europe's protectionist agricultural regime.

- Brazilian President Cardoso himself has stated that Mercosur's initiatives with the Europeans are compatible – not at odds – with Mercosur's participation in the Free Trade Area of the Americas (FTAA) negotiations. I would note that Mercosur's trade historically has been balanced between Europe and North America; it is only natural that Mercosur would be engaged with both of us.

Q: ***What about the sub-regional arrangements being negotiated in the hemisphere? Isn't Mercosur consolidating and strengthening its position against the United States in the FTAA? How can we negotiate from such a position of weakness?***

A:

- Actually, we are encouraged by all efforts to liberalize trade. We have consistently supported Mercosur's efforts to deepen and expand its trade liberalizing policies.

- Particularly in this era of globalization, increased trade liberalization is welcome wherever it occurs, as it helps to prepare economies to compete and enjoy the benefits of further liberalization.

- We support WTO-consistent efforts world-wide to dismantle trade barriers. We believe that sub-regional efforts undoubtedly serve to encourage further trade liberalization and to heighten momentum toward the WTO Round—if they adhere to the WTO.

- Given the recent economic crisis and the corresponding risk of a return to protectionism, we believe that all of these trade liberalization efforts are a positive sign that we are on the right track.

- The best U.S. policy response to these sub-regional arrangements is to work diligently toward the completion of the FTAA. By integrating the various rules of the existing trade arrangements under a unified umbrella, we will greatly reduce the confusion sometimes involved in doing business in the hemisphere. In addition, we will progressively eliminate tariffs under the FTAA, which will take trade liberalization in the hemisphere to deeper level by creating the largest free trade agreement in the world.

Q: ***When will you need "fast track" for the FTAA?***

A:

- While we are making great progress in the FTAA negotiations (and will have annotated outlines of the FTAA chapters ready for the Toronto Ministerial in early November), we are not currently at a stage at which we require fast track negotiating authority.
- In a trade negotiation, one eventually reaches a critical point at which the parties must make very difficult decisions that cause them to expend political capital back home.
- Once one reaches that point, one's trading partners generally want to see a certain level of domestic commitment to the negotiation to assure them that the commitments made at the negotiating table will come to fruition.
- There is no magic date on which this happens, but we certainly anticipate that we would have negotiating authority by that time to meet the Miami Summit timetable of concluding the FTAA negotiaitons by the year 2005.

Q: ***What is the status of our trade relationship with Chile, given that we essentially left it at the altar in 1995 and thus far have been unable to follow-through on President Clinton's commitment to Chile of December 11, 1994 (NAFTA accession)?***

- Actually, our trade relationship continues to be extremely dynamic.
- We have coordinated bilaterally with Chile to great benefit in multilateral fora such as the FTAA, WTO and APEC, and in multilateral talks such as the biosafety negotiations. We don't see eye-to-eye with Chile on absolutely everything of course; but as Chile is one of the leaders in trade liberalization in the hemisphere and the world, there is a remarkable amount of substance on which we can cooperate.
- Bilaterally, our trade has grown steadily over the past six years. From 1993 to 1998, U.S. exports to Chile grew 53%, to slightly less than $4 billion. From 1993 to 1998, Chilean exports to the U.S. grew 67%, to **$??? billion.** Each year between 1993 and 1998, the U.S.has run a trade surplus with Chile **($??? million in 1998).**
- With these numbers, it is hard to argue that our trade relationship has stagnated.
- In addition, immediately prior to the April 1998 State Visit to Chile, the Chileans took the initiative to establish a rejuvenated bilateral consultative mechanism on trade and investment. Our governments subsequently established the Joint Commission on Trade

and Investment, JCTI, through which we have been able to address the full range of trade issues in our relationship - both bilateral and multilateral. We hosted Chilean Foreign Minister Insulza for the first meeting of the JCTI in Washington last October, and we are currently looking to schedule the second meeting of the Joint Commission for this October in Santiago. We have found this to be an effective mechanism for addressing trade-related issues in a productive manner.

Q: ***What kind of a candidate for an FTA would Chile be?***

A:

- Chile has many attributes of a strong partner in an FTA. Over the last decade, Chile has had one of the most successful economies in the hemisphere.

- Chile continues to take steps to liberalize its trade regime, unilaterally lowering tariffs in January of this year. On 1/1/99, Chile's uniform *ad valorem* tariff decreased from 11 percent to 10 percent for imports from all countries that have not already negotiated FTAs with Santiago. The uniform tariff is set to decline by one percentage point per year until it reaches six percent in 2003.

- Even through the financial crisis, the Chilean economy has experienced moderate levels of growth, despite hitting a few speed bumps. In 1998, Chilean GDP grew by 3.4%, moderate only in Chile, which had average growth of 7.5% from 1995-97. In 1999, when many in the hemisphere can expect GDP to decline, Chile expects growth of 1%.

- Chileans save more than anyone else in the hemisphere - due in part to their privatized social security regime that has served as a model for many other countries in the hemisphere.

- Chile's investment regime is also relatively open, offering many opportunities to U.S. investors.

Q: ***A number of Central American countries have indicated their desire to proceed with negotiations with the U.S. for bilateral Free Trade Agreements (FTA), even in the absence of Fast Track authority. Does the Administration support such talks?***

A:

- As you know, we have a long-standing obligation to negotiate the next FTA with Chile, so it would not make sense to put Central American countries ahead of that commitment.

- The countries of Central America have made impressive strides in recent years to reform their economies and open their markets, and we certainly want to continue to encourage this trend. This is evidenced, in part, by the Bilateral Investment Treaties (BITs) that we have signed with El Salvador, Honduras and Nicaragua and the

Intellectual Property Rights (IPR) Agreements with Nicaragua and Honduras that we have negotiated in the past few years as well as by the meetings of the Trade and Investment Councils (TICs) that we have had with our partners. At the same time, however, we do not want to overload the systems or tax the negotiating resources of these countries.

- Countries from the Central American region have taken important roles in the negotiations for a Free Trade Area of the Americas (FTAA). Costa Rica chairs the Investment Negotiating Group (NG), Nicaragua chairs the Services NG, Honduras is Vice-Chair for Government Procurement, El Salvador is Vice-Chair of Agriculture and Guatemala is Vice-Chair of the Smaller Economies Consultative Group. The negotiating demands on Central American countries will increase further when the WTO Round gets under way next year. The Administration believes it is important to keep these nations focused on the important work of the FTAA process and not to become side-tracked by bilateral FTA negotiations. We think we will achieve valuable results in the short-to-medium term through these two sets of negotiations.

NAFTA/Mexico/Canada & Fast Track

- The lack of trade agreement implementation authority (fast track) has not significantly hindered our trade policy or trade growth in North America -- Canada and Mexico are now our two biggest export markets.

- During NAFTA's first five years, U.S. goods exports to our NAFTA partners rose $93 billion, or 66 percent (to $235 billion), including $56 billion in export growth to Canada and $37 billion in export growth (a 90 percent increase) to Mexico.

- Jobs supported by U.S. goods exports to Canada and Mexico total an estimated 2.6 million in 1998, 31 percent (600,000 new jobs) more than in 1993.

- Most of the implementation of the NAFTA at the trilateral level is carried out by more than twenty-five trilateral committees and working groups established under, or in connection with, the agreement under the central leadership of the NAFTA Commission. This implementation does not require additional Congressional negotiating authority.

Mexico/Canada FTA Negotiations and the U.S. Role

- Mexico has a very ambitious FTA negotiating agenda in Latin America and with Europe at this time.

- Mexico's trade negotiations with the Caribbean, Central and South America can be beneficial to the process of trade liberalization generally, insofar as the disciplines under negotiation advance open markets and help prepare nations in the Americas for an eventual Free Trade Area of the Americas (FTAA).

- At the same time, we need to continue to advance our interests thru the FTAA negotiations to ensure U.S. commercial interests are not disadvantaged significantly by the trade agreements of our trading partners in the Americas, including Mexico.

- The EU is negotiating a free trade agreement with Mexico. The European action reflects the recognition by the nations of Europe of the significant advantages gained by the U.S. in the NAFTA negotiations. Furthermore, it reflects Mexico's desire to diversify its trade and investment interests globally.

- As long as any resulting trade agreement is consistent with WTO obligations, it is perfectly within the EU's prerogative to engage in FTA negotiations. Of course, we are closely monitoring the progress of the negotiations, and we intend to review any results to ensure our rights and interests are protected in light of the WTO's obligations re FTAs.

- At the same time, we need to continue advancing our interests thru the FTAA in the Americas to ensure we are effectively countering potential EU efforts to maximize their commercial competitiveness at our expense.

- Canada too has a negotiating agenda in the Americas. For example, in addition to the NAFTA, Canada concluded an FTA with Chile (as did Mexico) modeled on the NAFTA and its side agreements when our joint efforts with Mexico and Canada to negotiate Chile's accession to the NAFTA stalled in 1995.

- Furthermore, Canada has expressed interests in negotiating an agreement with MERCOSUR, but we have not seen much progress on that front. Canada remains keenly interested in building the FTAA and is an activist in the WTO as well.

- As with Mexico, Canada is attempting to diversify its trade opportunities with the world outside the U.S., although in both cases their predominant export market is our market.