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U.S. DEPARTMENT OF STATE
Office of the Spokesman

(As Prepared for Delivery)

September 18, 1997

Willard Inter-Continental Hotel
Washington D.C

Secretary of State Madeleine K. Albright "International Economic Leadership: Keeping America on the Right Track for the Twenty-First Century" American Business Conference and the Institute for International Economics

Thank you, Dick and Pete, for your kind words and for all you have done over the years to build American prosperity and extend American influence. I thank both the American Business Conference and the Institute for International Economics for participating in and arranging this event. And I am grateful that so many of you could be here.

Before I begin, I have a very brief statement to make about a tragedy that occurred early today in Cairo. Terrorists launched a grenade attack against a tourist bus in the downtown of the Egyptian capital, reportedly killing nine and injuring dozens more. On behalf of the United States Government, I condemn this cowardly act of terrorism in the strongest possible terms.

I offer our prayers and our condolences to the families of those who were killed or injured in this barbarous attack, and to the Governments of Egypt and Germany. We must never give in to terror. The United States supports President Mubarak in his efforts to prevent terrorism in Egypt and to oppose it everywhere around the world.

This morning, I would like to discuss with you a goal that is at the heart of America's international economic and foreign policy.

That goal is to take advantage of the empowering evolution in technology and trade to bring the world closer together around basic principles of democracy, open markets, law and a commitment to peace. By so doing, we can ensure that our economy will continue to grow, our workers will have access to better jobs, and our leadership will be felt wherever U.S. interests are at stake.

We will also fuel an expanding global economy that is creating new opportunities for people on every continent. And we will give more countries a stake in the international system, thereby denying nourishment to the forces of extremist violence that feed on deprivation across our planet.

We begin with the understanding that in an increasingly integrated global economy, the quest for prosperity is the opposite of a zero sum game. "Beggar thy neighbor" doesn't work; "prosper with thy neighbor" does.

Second, the driving force behind economic growth is openness: open markets, open investment, open communications and open trade. This is fundamental. Protectionism is an economic poison pill. We cannot expect to gain access to new markets elsewhere if we put a padlock on our own.

Third, when we make progress on the international economic front, we make progress on all fronts. A world that is busy growing will be less prone to conflict and more likely to cooperate. Nations that have embraced economic reform are more likely to move ahead with political reform. And as history informs us, prosperity is a parent to peace.

Finally, if we are to lead effectively abroad, we must maintain a consensus here at home for that leadership.

Our political leaders must approach the issue of trade on a nonpartisan basis.

Our policymakers must make the case for international engagement persuasively, repeatedly and in language a non-economist, such as myself, can understand. And our business community can help by emphasizing to its employees and to the public the benefits that accrue from an open global economy.

In this connection, I happened to notice a recent article in the Wall Street Journal about a businessman in the Midwest who started trading internationally only to find that his workers had begun to worry about their jobs. So he decided to raise a flag outside his company every time a sale to a new country was made. Soon, he was flying the banners of more than a dozen nations--each flag representing an additional market for the firm's goods and additional income for its employees.

The bottom line is that it will require a team effort to sustain a consensus for American leadership in the economy of the future. The President, and I, and the Administration's entire economic team are prepared to do our part. We count on you to do yours.

The message inherent in those flags and the message that we must all do our best to get across is that movement towards a more integrated global economy is not a choice or an option; it is a fact of life. Integration is fueled by technology which is driven by knowledge which has no reverse gear.

This means that, more and more, what happens anywhere will matter everywhere. Whether the "anywhere" is the financial markets of Southeast Asia, the croplands of Latin America, or the factory floors of Europe, developments there will be felt here, by U.S. workers, farmers, investors and businesspeople. Because we are a global power with interests and connections on every continent, we have a vital stake in creating and sustaining the conditions for global prosperity.

It is true that the accelerated tempo of change that results from globalization has its downside. Some industries expand, but others contract, as we move toward higher and higher value-added industries. Our consumers benefit and our overall economy grows. But it is no consolation to a worker displaced by foreign competition to know that he or she is part of a global phenomenon.

Still, the best course for our nation is not to curse globalization, but to shape it, to make it work for America. It would be foolish to get up from the table and leave the game to others. For we are competing very, very well.

With leadership from the White House and bipartisan support on Capitol Hill, we have put our fiscal house in order. More U.S. jobs were created during the first Clinton Administration than in any other Administration in history. And because of the genius and enterprise of our people, we have the most competitive economy and most productive workforce in the world. To maintain our edge, we must continue sound fiscal policies that drive deficits down and keep interest rates low.

And we must invest in our people by striving for excellence in the classroom and by ensuring that our workers enter the twenty-first century with twenty-first century skills. On the global chessboard, we want more and more of our citizens equipped to be bishops or knights, rather than pawns. That's why we're lifting educational standards nationwide and investing in training as never before.

Finally, we must use our diplomatic tools to sustain momentum towards an increasingly open and fair system of global investment and trade.

Consider that trade accounts for twice as much of our economic activity as it did a quarter century ago, and has fueled the remarkable period of sustained economic growth we have enjoyed these past five years. Today, eleven to twelve million American jobs are supported by exports and this number is rising rapidly. And these are good jobs, paying--on the average--13% more than others.

Since President Clinton took office, we have negotiated more than 200 trade agreements, including NAFTA and the Uruguay Round.

We have forged historic commitments to achieve free trade and investment across the Asia-Pacific through APEC and across the Americas through the Miami Summit process. We are working to expand our economic ties with the European Union through the Transatlantic Business Dialogue, and in Africa through our proposed Partnership for Economic Growth and Opportunity.

We have also been doing everything we possibly can to ensure that agreements made are agreements kept. Like Secretary Christopher, I have made it clear to our diplomats that one of their principal jobs is to see that the rights of American companies are respected and their opportunities enhanced. To that end, our trade negotiators are making full use of every available enforcement tool, including a strengthened WTO.

We do not intend to stop here. We are determined, as President Clinton has said, to keep growing our economy. That is why we have asked Congress to renew the Executive's traditional fast track negotiating authority this fall.

The President needs this authority to negotiate smart new agreements that will break down barriers to American exports, create better jobs and raise our standard of living.

With that authority, the President can pursue free trade with Chile, a Free Trade Area for the Americas and new market access agreements in the Asia-Pacific. We can also work towards agreements to open up whole new sectors of the global economy in fields where our nation is highly competitive. These agreements work to our advantage because our tariffs are currently lower than those of other countries.

For example, we are preparing to negotiate a further opening in agricultural markets. Our farmers are by far the world's most productive. They help feed the world. But they do so, despite tariffs on U.S. products that in some cases are as high as 100%. They also confront many non-tariff barriers. In gaining access to this \$500 billion a year market, we want a level playing field for American agriculture--but to get it, we need fast track.

During the next quarter century, the world will invest trillions of dollars, yen, marks, francs and other currencies in the infrastructure of a modern economy. They will pour money into sectors such as energy, information systems and environmental technology. We want to open these sectors to free and fair trade--but to do so, we need fast track.

We want to protect our intellectual property--and stop the rip-off of billions of dollars worth of American products illegally copied every year--but to make that happen, we need fast track.

Latin America is a market of half a billion people. Their incomes are rising and they buy what we sell. More than forty percent of the region's imports come from the U.S. even though Latin tariffs average four times our own. We would like to negotiate agreements that push their tariffs down and lift our exports up--but for that to happen, we need fast track.

We know that sectoral agreements benefit the United States. Last year's information technology agreement will produce an estimated \$5 billion reduction in tariffs on American computers and related equipment. In Colorado, where I grew up, we would call that a tax cut. Where I live now, we would call that five billion good reasons why restoring traditional negotiating authority deserves bipartisan support.

As economists and business people, you know that if we fail to participate in shaping the global trading system, we will nevertheless be shaped by it.

Earth is, after all, the only globe we have and only one out of every twenty of the world's consumers live on our share of it. If we choose to hide behind walls rather than tear them down, our products will face higher tariffs; our services will be harder to sell; our businesses will find it more difficult to win contracts; our economy will create fewer jobs; and--because we are absent from the bargaining table--we will have no success at all in promoting higher environmental and labor standards.

Whatever we decide, others will move forward. Since 1992, in Latin America and Asia alone, our competitors have negotiated more than 20 free trade pacts that exclude the United States. Some of our leading trade partners have reached agreements that will vastly expand trade among themselves. As supporters of economic integration and trade, we should be on the inside shaping these agreements, not on the outside looking in.

Fast track is an essential and proven tool of diplomatic leadership. Until it lapsed three years ago, it was an instrument every President for the past two decades has had and has used to the benefit of the United States. It does not in any way detract from the constitutional authority of the Congress to approve trade agreements. In fact, the legislation that has just been submitted by the Administration includes language that would make Congress a full partner in setting our trade objectives and priorities.

What fast track does do is assure our trading partners that there will be an up or down vote on any deals we strike and that those deals will not be unraveled provision by provision. Our partners argue that this is the only sensible way to conduct business. And they are right. Without fast track, America will find itself alone. With fast track, America can lead.

This matters because of the economic dividends that well-designed trade agreements generate. But fast track is about more than dollars and cents; it is a foreign policy imperative. It is indispensable to U.S. economic leadership and that leadership is indispensable to U.S. influence around the globe.

American prestige is not divisible. If we want our views and interests respected, we cannot sit on the sidelines with a towel over our heads while others make the trade and investment plays that will determine the economic standings of the twenty-first century.

In many capitals, if we have nothing to say on trade, we will find it harder to have productive discussions on other issues of direct importance to American interests. In contrast, strong economic ties can be a foundation for cooperation across the board.

In the Asia-Pacific, our efforts to expand investment and trade have helped to deepen understanding among our partners of their shared stake in security.

In Europe, economic integration is a major contributor to our strategic goal of a continent that is becoming--for the first time in history--wholly united, wholly at peace and fully free.

In Latin America and the Caribbean, our initiatives on trade are a vital part of a larger process of cooperation that includes working together to fight narcotics trafficking, crime, pollution, illegal immigration and other threats to the well-being of our citizens.

For decades during the Cold War, we Americans spread the gospel of competition, free enterprise and open markets. Today, people and governments everywhere are converting to the faith. But make no mistake, they will be watching the fast track debate closely to see whether we continue to practice what we have so long preached.

That is why, as Secretary of State, I will do everything I possibly can to persuade Members of Congress to be true to America's own philosophy, to say "yes" to restoring the President's traditional negotiating authority and "yes" to continuing American prosperity at home and leadership abroad.

Of course, fast track and trade are not the only economic tools we use to help create an international system that is more open, democratic and respectful of the rule of law.

For example, China is seeking to enter the World Trade Organization. We are negotiating with Beijing to ensure that it do so only under commercially viable rules that would require it to end unfair trade barriers, enforce trade laws uniformly and use WTO procedures to settle disputes.

We are using our foreign assistance program, modest as it is, to enlarge the circle of market democracies by helping newly-free nations to create a better climate for investment, curb corruption and reduce crime.

We are using our economic aid to make the benefits of lasting peace more tangible for people in the Middle East, Bosnia, and Northern Ireland.

And we are relying on you, the American business community, to help spread the word from Manila to Moscow to Maputo to Mexico City that the path so many countries have chosen--the path of openness, participation and integration--is the right path for the 21st century.

The connections we make through increased investment and trade complement our efforts to spur development and prevent conflict. As we encourage reform, expand markets and forge new agreements, we give more and more nations an equity interest in peace. In this way, shared prosperity yields the golden dividend of shared security.

Despite this, there are many in our own country and overseas who oppose or resist the trend towards a more integrated world economy. They disregard its role as a great stabilizer in international affairs and focus instead on the fear that globalization will put downward pressure on wages and reward employers who cut corners on working conditions and environmental protection.

These are serious concerns that must be addressed seriously if we are to maintain a consensus in favor of free trade and open markets in the United States and around the world.

To do so, we must remember that opening the world economy is not an end, but a means. Our purpose is not simply to increase the volume of global commerce; it is to improve the quality of peoples' lives. The evidence is clear, however, that globalization is not lowering standards around the world, it is raising them. Open economies are more likely to lift people out of poverty than economies that are stagnant and closed.

It is no accident that as East Asian nations have reformed their economies during the last quarter century, the percentage of their citizens who are poor has plummeted, and large, educated middle classes have emerged. This, in turn, has created new pressures for decent wages, environmental protection and greater democracy.

A similar trend is gathering steam in Latin America.

These trends will continue to spread as more nations embrace economic reform. The World Bank estimates that, during the next decade, developing countries will grow collectively at an annual rate of more than five percent, double the pace of the 1980's. Growth is expected in every region, including Africa, where the continent's best new leaders have embraced policies designed to help private enterprise take hold.

As the world's economies grow, a variety of tools will be available to shape that growth in socially constructive ways.

For example, the fast track legislation submitted by the Administration reflects the President's commitment to promote worker rights and responsible environmental protection.

It is vital to bear in mind, however, that trade is but one very limited instrument for promoting higher environmental and labor standards. The Administration can--and is--pursuing these goals through other avenues such as the International Labor Organization, the WTO, the international banks, the Commission on Sustainable Development and the Montreal Protocol. Also important are the initiatives that consumers and businesses can take.

Last spring, the President personally invited business, labor and other NGO's to come together around an Apparel Industry Initiative that will bring "No Sweat" garments and footwear to America from workplaces that are monitored overseas. Similar labeling initiatives make it possible for consumers to purchase South Asian rugs and soccer balls and know that these products were not made with child labor.

It is also encouraging to see the competition that has begun in many segments of American industry for bragging rights about which company has done the most to help the environment, improve working conditions or train employees. This competition is good for our friends overseas; it advances the goals of U.S. foreign policy; it helps us here at home; and it is a trend that consumers welcome and will reward.

The pursuit of free trade places a responsibility on the business community to conduct itself in a way that preserves the consensus for free trade. And I am certain that most Americans would agree that profits should come from inspiration and perspiration, not exploitation.

For more than half a century, the United States has played the leading role within the international system, not as sole arbiter of right and wrong, for that is a responsibility widely shared, but as pathfinder.

Our predecessors had the foresight to forge alliances such as NATO, institutions such as the World Bank and initiatives such as the Marshall Plan to defend freedom and build prosperity. They did so on a bipartisan basis.

Today, under President Clinton, we are constructing a new framework to address the challenges of our time, based on principles that will endure for all time.

In so doing, we are heeding the lessons of this century that economic strength is essential to national strength; that open markets are essential to prosperity which is a friend to security; that there can be no progress without the rule of law; and that problems abroad, if left unattended, will all too often come home to America.

We look out upon a world no longer held back and driven apart by divisions between east and west and north and south; a world in which the benefits of the international system are open to every nation able to accept its responsibilities and willing to play by its rules.

We anticipate a tomorrow not without danger or free from disappointment; but we also see an opportunity we must seize; an opportunity to create a future liberated by freedom of thought and empowered by freedom of enterprise; a future of greater promise and possibility than any generation has known.

America is not a slow track society. Although tempted at times to rest, we cannot stand still; nor can we merely move. Like the great explorers of half a millennium ago, we must embark upon a new Age of Discovery.

We must strive not merely to stay afloat; but rather raise our sails high and catch the propelling winds of change at their fullest. And with economic and political liberty as the North Star by which

we navigate, we must chart a course to the far horizon so that we may disembark in the new century free and respected, prosperous and at peace.

Thank you very much.

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Despite this, there are many in our own country and overseas who oppose or resist the trend towards a more integrated world economy. They disregard its role as a great stabilizer in international affairs and focus instead on the fear that globalization will put downward pressure on wages and reward employers who cut corners on working conditions and environmental protection.

These are serious concerns that must be addressed seriously if we are to maintain a consensus in favor of free trade and open markets in the United States and around the world.

To do so, we must remember that opening the world economy is not an end, but a means. Our purpose is not simply to increase the volume of global commerce; it is to improve the quality of peoples' lives. The evidence is clear, however, that globalization is not lowering standards around the world, it is raising them. Open economies are more likely to lift people out of poverty than economies that are stagnant and closed.

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These trends will continue to spread as more nations embrace economic reform. The World Bank estimates that, during the next decade, developing countries will grow collectively at an annual rate of more than five percent, double the pace of the 1980's. Growth is expected in every region, including Africa, where the continent's best new leaders have embraced policies designed to help private enterprise take hold.

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For example, the fast track legislation submitted by the Administration reflects the President's commitment to promote worker rights and responsible environmental protection.

It is vital to bear in mind, however, that trade is but one very limited instrument for promoting higher environmental and labor standards. The Administration can--and is--pursuing these goals through other avenues such as the International Labor Organization, the WTO, the international banks, the Commission on Sustainable Development and the Montreal Protocol. Also important are the initiatives that consumers and businesses can take.

Last spring, the President personally invited business, labor and other NGO's to come together around an Apparel Industry Initiative that will bring "No Sweat" garments and footwear to America from workplaces that are monitored overseas. Similar labeling initiatives make it possible for consumers to purchase South Asian rugs and soccer balls and know that these products were not made with child labor.

It is also encouraging to see the competition that has begun in many segments of American industry for bragging rights about which company has done the most to help the environment, improve working conditions or train employees. This competition is good for our friends overseas; it advances the goals of U.S. foreign policy; it helps us here at home; and it is a trend that consumers welcome and will reward.

The pursuit of free trade places a responsibility on the business community to conduct itself in a way that preserves the consensus for free trade. And I am certain that most Americans would agree that profits should come from inspiration and perspiration, not exploitation.

For more than half a century, the United States has played the leading role within the international system, not as sole arbiter of right and wrong, for that is a responsibility widely shared, but as pathfinder

Our predecessors had the foresight to forge alliances such as NATO, institutions such as the World Bank and initiatives such as the Marshall Plan to defend freedom and build prosperity. They did so on a bipartisan basis.

Today, under President Clinton, we are constructing a new framework to address the challenges of our time, based on principles that will endure for all time.

In so doing, we are heeding the lessons of this century that economic strength is essential to national strength; that open markets are essential to prosperity which is a friend to security; that there can be no progress without the rule of law; and that problems abroad, if left unattended, will all too often come home to America.

We look out upon a world no longer held back and driven apart by divisions between east and west and north and south; a world in which the benefits of the international system are open to every nation able to accept its responsibilities and willing to play by its rules.

We anticipate a tomorrow not without danger or free from disappointment; but we also see an opportunity we must seize; an opportunity to create a future liberated by freedom of thought and empowered by freedom of enterprise; a future of greater promise and possibility than any generation has known.

America is not a slow track society. Although tempted at times to rest, we cannot stand still; nor can we merely move. Like the great explorers of half a millennium ago, we must embark upon a new Age of Discovery.

We must strive not merely to stay afloat; but rather raise our sails high and catch the propelling winds of change at their fullest. And with economic and political liberty as the North Star by which

we navigate, we must chart a course to the far horizon so that we may disembark in the new century free and respected, prosperous and at peace.

Thank you very much.

Republican demands and gave up insistence that fast-track authority allow him to negotiate protections for workers rights and the environment in the core part of future free-trade agreements.

But in an effort to sway moderate Democrats, Clinton's proposal would seek to pursue labor and environmental side agreements and it also sought authority to negotiate global agreements in these areas through agencies such as the World Trade Organization.

Republicans let the administration know at Wednesday's hearing that this also was unacceptable.

Gramm said such language could force Congress to approve pollution taxes on an up-or-down vote as part of some future trade deal or force lawmakers to vote on repealing states' right-to-work laws, the prohibition 21 states have against mandatory union membership.

Barshefsky refused to tell reporters after the hearing whether the administration would jettison the provisions on worker and environmental protections to satisfy Republican demands. But she stressed that the administration was willing to work with both Republicans and Democrats to build the majority needed for passage.

"Everybody is putting their concerns on the table," she said. "We will work with the Senate Finance Committee. We will work with the House Ways and Means Committee and see if we can reach a common understanding."

The entire fast-track debate is shaping up to be a replay of the bruising 1993 battle Clinton won to approve NAFTA, which opponents charge has cost thousands of lost jobs that have gone to low-wage factories in Mexico.

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- NEWS ADVISORY -- TO NATIONAL AND LABOR EDITORS:

Teamsters from 24 States Converge on Washington
To Fight Against Fast Track NAFTA Expansion

Workers will be available for interviews before and after their visits with U.S. Representatives on Friday, September 19, in Washington, D.C. To schedule an interview, call 202-624-6911.

Teamsters from 24 states will visit their representatives in Congress on Friday, September 19, to tell them why working families across America are fighting President Clinton's "Fast Track" legislation to expand NAFTA.

Under Fast Track, Congress would only be able to vote up or down on an expansion of the North American Free Trade Agreement, and would be barred from removing harmful provisions.

"Clinton and Gingrich are dancing to the tune of big business," said Teamsters General President Ron Carey.

"This legislation would permit the president to negotiate trade deals that

will make the problems of NAFTA even worse -- more unsafe food, more drugs in our schools and communities, more jobs lost, and lower wages."

Teamsters from the following states will be on Capitol Hill: California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Texas, Virginia, Washington, and Wisconsin.

CONTACT: Cynthia Kain or Carter Wright of the International Brotherhood of Teamsters, 202-624-6911.

SOURCE International Brotherhood of Teamsters

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/PRNewswire -- Sept. 18/

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To Nicholas B...
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INTERNATIONAL TRADE

Current attitudes toward international trade may make it difficult for President Clinton to win fast track authority from Congress. First, granting President Clinton special powers to negotiate new trade pacts would be much easier for Congress if Americans were more comfortable with the agreement already in place, but Americans are not certain NAFTA has been a good deal for our economy. Only 23% think NAFTA has had a positive impact on the nation's economy, while another 29% think its impact has been negative and 32% don't think it has had much of an impact. College educated men are the most likely to think NAFTA has had a positive impact (34%). Those most likely to think its impact has been negative include rural residents (40%) and Dole voters (40%).

Second, either Americans don't like ceding Congress' power to the President, or they don't like the idea of additional trade pacts, or both. Whatever the reason, a 56%-37% majority oppose having Congress grant the President fast-track authority to negotiate new free trade agreements. Overall, 31% strongly oppose this idea, while only 11% strongly favor it. A significant problem for President Clinton is that he does not have enough support within his own party to counter the strong opposition of Republicans. Democrats favor granting fast-track by a narrow 49%-43% margin, while Republicans strongly oppose it (26%-67%). A 56% majority of union households oppose fast-track as do 57% of blue collar workers and 59% of white collar workers. Nearly half of Dole voters (45%) strongly oppose granting fast-track authority to President Clinton.

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[98] Third, Americans are divided on the jobs argument as it relates to international trade. While 44% would side with a candidate who argued free trade will create more skilled jobs with good wages, 45% say they would side with a candidate who argued free trade will result in a loss of jobs and lower wages for American workers. This election cuts clearly along lines of socioeconomic status. Majorities of those making over \$50,000 would choose the free trade candidate, as would professionals, and people with a college degree. Majorities voting for the anti free trade candidate include rural residents, people making under \$50,000, blue collar workers, and those with a high school degree or less.

Finally, whatever Americans think about the export argument in favor of free trade, they don't buy the import argument. Jobs are more important than cheap imports by a 55%-33% margin. Majorities of all except those making \$50,000 or more, professionals, and college graduates think imports are bad because they take away American jobs and hurt the wages of American workers.

ads - / undecided
Bill Doherty - Gen + Noun
for H. McHugh
reg'l phone calls
to H. McHugh
them -- it seems clear someone will offer an amendment to the next spending bill that comes to the floor. Expecting the amendment to be ruled out of order, the ruling of the chair will be appealed. When the vote is taken on that appeal, both Democratic and GOP sources predict the vote will ultimately doom the COLA, leaving some members with a record of having voted -- perhaps unwittingly -- for a pay raise that they will not receive.

- o Helms Offers Conditional Support For NATO Expansion. In a letter to Secretary of State Madeleine Albright, Senate Foreign Relations Committee Chairman Jesse Helms says, "We must work together to make sure that NATO enlargement is done the right way." In advance of expansion ratification hearings October 7, Helms wrote that the Clinton Administration has not outlined "a clear, strategic, military rationale" for NATO's eastward expansion, and has not defined the threats the alliance may face. He also said NATO allies should pay their fair share of the costs of expansion, and that Russia's role should be clearly limited. Helms made clear he supports NATO expansion, saying: "It is my hope and expectation that, if we work together, the hearing process will build sufficient support in the Senate." But he added, "However, my support must remain conditioned upon our ability to work together to include proper safeguards that ensure enactment of an amended treaty is in our nation's best interest."
- o Albright Plugs Fast-Track. In remarks to the American Business Conference and the Institute for International Economics today, Secretary of State Madeleine Albright called for Congress to approve new "fast track" trading authority for President Clinton, saying US leadership in the world would be enhanced and that the freer trade which would result would improve the quality of people's lives. Said Albright: "Fast track is about more than dollars and cents. It is a foreign policy imperative. Fast track is an essential and proven tool of diplomatic leadership."
- o Lawmakers Predict Passage Of Electricity Restructuring By 105th Congress. Key legislative proponents of competition in the retail electricity industry today expressed their confidence that the US Congress will pass legislation requiring competition by the end of the 105th Congress. Appearing at this morning's press conference were Sens. Don Nickles and Dale Bumpers, and Reps. Thomas Bliley, Dan Schaefer, Ed Markey, Joseph Kennedy, and Rick White. Sen. Slade Gorton had intended to attend, but issued a written statement instead.
Schaefer, who formally kicked off the process by introducing legislation last year, said today in a written release, "For those here today who still question whether the momentum is there to accomplish our goal, it is helpful to look back a year. A year ago, the industry's motto was 'just say no.' Today, few utility executives will deny that retail choice for their customers is coming. A year ago, the Clinton Administration was saying there is no reason to consider retail choice legislation. Today, we are all anxiously awaiting the Administration's own retail choice plan. A year ago, the Senate had adopted the utility line against consumer

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Sherrod Brown
Ohio's 10th DistrictBart Stupak
Michigan's 1st District

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U.S. House of Representatives

 Press Conference*"Fast Track and Food Safety"**11 a.m., Wednesday, Sept. 24, 2105 Rayburn HOB***Letter to President Clinton, major health report to be unveiled**

Major threats to U.S. food safety and public health as a result of the North American Free Trade Agreement will be the focus of a press conference at **11 a.m. Wednesday, Sept. 24, 1997, in Room 2105 of Rayburn House Office Building.**

Participants in the one-hour press conference will include:

- Reps. **Sherrod Brown**, D-Ohio, ranking member of the Health and Environment Subcommittee of the House Commerce Committee, and **Bart Stupak**, D-Michigan, member of the same subcommittee.

As President Clinton pushes for "fast track" trade negotiating authority, Reps. Brown and Stupak, in a letter signed by more than 75 members of Congress, have urged the president to renegotiate provisions of NAFTA to improve food safety, to increase funding for border inspections, and to institute a program to label all food with its country of origin. *Any new trade agreement should include these provision, they say.*

- **Lori Wallach**, director of Public Citizen's Global Trade Watch.

Lori will a present a study by Public Citizen entiled "Fast Track to Unsafe Food," which looks at the impact of NAFTA and other imported food on U.S. food safety.

- **Bruce Silverglade**, director of legal affairs for the Center for Science and the Public Interest (CSPI).

Bruce will speak on the danger of the globalization of food standards, a policy that is tantamount to a dangerous lowering of U.S. standards.

- **Sue Doneth**, a Michigan parent whose daughter was stricken with hepatitis A earlier this year after consuming tainted strawberries from Mexico.

Information on this event is available by calling Steve Fought (Brown) at (202) 225-2401 or Bob Meissner (Stupak) at (202) 225-4735.

Public Citizen

NEWS RELEASE

For Immediate Release:
September 22, 1997

For More Information Contact:
Chris McGinn (202) 546-4996, ext.305

Media Advisory: Fast Track to Unsafe Food

New Public Citizen Report Documents How NAFTA and Trade Have
Increased the Sale of Unsafe Food in the United States

Congressional Letter Urging President Clinton To
Include Food Safety Measures in Fast Track

WHAT: Press Conference on Fast Track and U.S. Food Safety Featuring:

- The Release of a *Fast Track to Unsafe Food*, a new report by Public Citizen's Global Trade Watch which documents how, under NAFTA, the sale of contaminated imported food has increased while U.S. inspection has decreased;
- The Release of a new Congressional letter on food safety and fast track by Rep. Brown (D-OH) and Rep. Stupak (D-MI) urging President Clinton to renegotiate provisions in NAFTA relating to food safety, ensure that fast track includes food safety provisions, improve border inspection and begin a country of origin labeling program for all imported food;
- Appearance by Bruce Silverglade, director of legal affairs for the Center for Science in the Public Interest (CSPI), who will address the dangers of trade agreements weakening strong U.S. food safety standards;
- Appearance by Sue Doneth, a mother of a child infected with Hepatitis A by strawberries imported from Mexico, who will give a first hand account on the dangers of unsafe food.

WHEN: 11:00 am, Wednesday September 24, 1997

WHERE: 2105 Rayburn House Office Building

WHO: Rep. Sherrod Brown (D-OH) Bruce Silverglade, Director of Legal Affairs
Rep. Bart Stupak (D-MI) Center for Science in the Public Interest
Lori Wallach, Director, Public Sue Doneth, mother of child infected by
Citizen's Global Trade Watch strawberries imported from Mexico

Fast Track Cabinet Team in Washington, DC

Monday, September 22	Raines, Yellen
Tuesday, September 23	Raines, Yellen
Wednesday, September 24	Raines, Yellen
Thursday, September 25	Alvarez, Barshefsky, Browner, Daley, Glickman, Herman, Raines, Yellen
Friday, September 26	Alvarez, Barshefsky, Browner, Daley, Glickman, Herman, Raines, Yellen
Saturday, September 27	Alvarez, Barshefsky, Browner, Daley, Glickman, Raines, Rubin, Yellen
Sunday, September 28	Alvarez, Barshefsky, Browner, Daley, Glickman, Raines, Rubin, Yellen
Monday, September 29	Alvarez, Barshefsky, Browner, Daley, Raines, Rubin, Yellen
Tuesday, September 30	Alvarez, Barshefsky, Browner, Daley, Herman, Glickman, Raines, Rubin, Yellen
Wednesday, October 1	Alvarez, Barshefsky, Browner, Daley, Glickman, Herman, Raines, Slater, Yellen
Thursday, October 2	Alvarez, Barshefsky, Browner, Daley, Glickman, Herman, Peña, Raines, Slater, Yellen
Friday, October 3	Alvarez, Barshefsky, Browner, Herman, Peña, Raines, Rubin, Slater, Yellen
Saturday, October 4	Alvarez, Barshefsky, Browner, Herman, Peña, Rubin, Slater
Sunday, October 5	Alvarez, Barshefsky, Browner, Glickman, Herman, Peña, Rubin, Slater
Monday, October 6	Alvarez, Barshefsky, Browner, Herman, Glickman, Peña, Slater
Sunday, October 7	Alvarez, Barshefsky, Browner, Herman, Glickman, Peña, Rubin, Slater
Monday, October 8	Alvarez, Barshefsky, Browner, Glickman, Herman, Peña, Rubin, Slater
Tuesday, October 9	Alvarez, Barshefsky, Browner, Glickman, Herman, Raines, Rubin, Slater, Yellen
Wednesday, October 10	Barshefsky, Browner, Daley, Glickman, Raines, Rubin, Slater, Yellen

September 1997

Monthly Planner

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October 1997

Monthly Planner

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ABC NEWS

47 West 66th Street, New York, NY 10023

Press Contact: Su-Lin Cheng (202) 222-6896

Transcripts: Federal Document Clearing House, Inc.

1100 Mercantile Lane, Suite 119, Landover, MD 20785

August 25, 1997
ABC Transcript #4241

Peter Seher

NIGHTLINE

Is Enough Being Done To Keep Your Food Safe?

In Washington

AARON BROWN..... Host

Guests:

DAN GLICKMAN, Secretary of Agriculture

DAVID THENO, Jack in the Box Restaurants

NICHOLS FOX, Author

Report from ABC News Correspondent

CHRIS BURY

TOM BETTAG..... Executive Producer

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Nightline

August 25, 1997 ABC Transcript #4241

This document may contain phonetic spellings; accuracy is not guaranteed.

**Is Enough Being Done to Keep
Your Food Safe?**

ANNOUNCER: August 25, 1997.

FAST FOOD WORKER: We have no beef at all tonight. Can I help you?

CUSTOMER: You have no beef?

FAST FOOD WORKER: That's what I said.

AARON BROWN, ABC News (voice-over): Today it's beef.

DIANE SAWYER, ABC News (voice-over): If you bought frozen hamburgers in the last six weeks, check your freezer.

AARON BROWN (voice-over): In March, it was strawberries.

REPORTER: Schools in 17 states are facing a hepatitis A threat.

AARON BROWN (voice-over): Before that, chicken.

PETER JENNINGS, ABC News: One in four chickens sold in grocery stores is contaminated with salmonella.

AARON BROWN (voice-over): Even vegetables can be dangerous.

Dr. MITCHELL COHEN (ph): Because of the changes in all of the technology and in society, we're very vulnerable to these kinds of emerging infectious diseases.

AARON BROWN (voice-over): With millions getting sick and thousands dying every year, is enough being done to keep your food safe?

ANNOUNCER: This is ABC News Nightline. Substituting for Ted Koppel and reporting from Washington, Aaron Brown.

AARON BROWN: On Saturday, a two-year-old girl in Colorado died from E. coli poisoning. A couple of things are noteworthy about her death. First, the E. coli that killed her did not come from the Hudson Company frozen beef that has been recalled and has been so much in the news of late. And second, this child was one of an estimated 9,000 Americans who die from bacteria in food every year.

The truth is, the meat inspection program today is not a whole lot different from meat inspection in 1930. Inspectors look and touch and smell, but they almost never scientifically test for the kind of bacteria that the naked eye can't see and that has no smell. That's just not the way it's done.

Beginning next year, that will start to change. The inspection program will be modernized, but that modernization will take several years to complete and in the meantime, most of us are going to get hungry. So tonight, not just a look at the current system and its problems, but also some simple things you can do at the store and at restaurants and at home to make sure that the food you eat doesn't kill you.

We begin with a background report from Nightline's Chris Bury.

CHRIS BURY, ABC News (voice-over): This month, the scare came from hamburgers -- 25 million pounds of ground beef recalled after 16 people in Colorado were poisoned from a rare and nasty strain of E. coli bacteria.

PETER JENNINGS: (March 1997) They were grown in Mexico, but they were processed and perhaps contaminated here.

CHRIS BURY (voice-over): In March, suspect strawberries imported from Mexico were pulled from school

lunchrooms - because some had been contaminated by hepatitis A.

REPORTER: *(October 1996)* Ten of the 15 cases that have been confirmed are associated with drinking Ordwalla (ph) food products.

CHRIS BURY (voice-over): Last October, more than 70 people, many of them children, became ill after drinking unpasteurized apple juice. In fact, such recalls of contaminated food in this country have increased fivefold since 1988, according to one study.

CAROLINE SMITH DUWALL (ph): I think consumers are tired of hearing, month after month, new reports of food-borne illness.

CHRIS BURY (voice-over): Caroline Smith Duwall is director of food safety at the Center for Science in the Public Interest.

CAROLINE SMITH DUWALL: The bacteria that caused the 25 million pound recall was just discovered in 1982 and, in fact, we are seeing increases in outbreaks from that bacteria. CDC estimates that somewhere between 10,000 and 20,000 cases of illness and up to 500 deaths occur each year from this bacteria.

CHRIS BURY (voice-over): The Agriculture Department now says the meat from Hudson Foods was contaminated before it ever reached the Nebraska plant, probably in one of 10 slaughterhouses. But Hudson's practice of mixing one day's beef with the next day's product made it hard to trace the bad batch. On Saturday, Burger King, Hudson's biggest customer, canceled its contract, though none of its own hamburgers was found to be contaminated.

PAUL CLAYTON, President, Burger King, North America: I also want to

remind everyone that no Hudson beef was being sold anywhere in the Burger King system.

CHRIS BURY (voice-over): The problems at Hudson reflect a change in the way much food, including meat, is processed. One plant can process meat from many sources, even from different countries, and then ship it all over the world.

Dr. MITCHELL COHEN: But when something goes wrong, it can really go wrong because you can expose more people to illness.

CHRIS BURY (voice-over): Dr. Mitchell Cohen at the Centers for Disease Control uses the same technology that tracks the AIDS virus to trace the origins of E. coli in food. But this virulent strain of bacteria, which causes bloody diarrhea and kidney failure, is hard to find and difficult to contain.

Dr. MITCHELL COHEN: The idea here is to be able to detect these outbreaks when just a few cases are occurring, perhaps the sentinel cases, and then we can go ahead and try to identify what's causing the disease and then have appropriate prevention and control strategies to prevent more cases from occurring.

CHRIS BURY (voice-over): No company knows better than Jack in the Box (ph) how devastating E. coli contamination can be. The chain is just now recovering from the 1993 crisis that led to four deaths and hundreds of illnesses. To restore consumer confidence, Jack in the Box adopted a food handling protocol developed by David Theno, a food safety specialist.

DAVID THENO, Jack in the Box Restaurants: We aggressively sample all

ground beef as it's being made. We profile the suppliers. We take samples every 15 minutes as products are coming down the line. It's enabled us to find suppliers that do a superior job and basically eliminate people from our supply chain that aren't doing as good a job.

CHRIS BURY: (on camera) For wary consumers avoiding meat is not any guarantee of protection. In fact, vegetarians are just as vulnerable. Last October, one death and dozens of illnesses were blamed on freshly squeezed but contaminated apple juice. E. coli contamination has also recently been found in alfalfa sprouts, basil and lettuce.

CAROLINE SMITH DUWALL: Where we think that part of the problem with fruits and vegetables is the fact that manure, cattle manure or even deer manure might get into the production practice and that's how the bacteria is probably getting on the food.

CHRIS BURY (voice-over): Last week, Agriculture Secretary Glickman demanded more government power over food processors, the authority to order product recalls and impose civil fines.

DAN GLICKMAN, Secretary of Agriculture: We asked for these authorities in 1994 and in 1996. That is, the administration asked for these authorities. I'm hopeful that the third time is the charm.

CHRIS BURY (voice-over): Now the Agriculture Department relies mainly on the poking and sniffing by inspectors to find tainted food. But in January, the largest meat and poultry plants will be required to test their products every step of the process, from the slaughterhouse to the packing line.

CAROLINE SMITH DUWALL: This is called HACCP (ph) for Hazard Analysis and Critical Control Points. It's really a system of preventive controls that each company will design and implement to prevent their meat from becoming contaminated and if it is contaminated, to minimize that contamination to levels that shouldn't make consumers sick.

CHRIS BURY (voice-over): Executives at Jack in the Box now believe even that is not enough.

DAVID THENO: The government's programs seem to be a little scanty. Our position would be that it's a great first step. We would support not only what they're doing, but further work along the same lines.

CHRIS BURY: (on camera) The Agriculture Department likes to boast that the American food supply is the safest in the world. Even last week's hamburger scare, in which fewer than 20 people actually got sick, is cited as evidence the system works pretty well. But the latest recall also reinforces the idea that the government can somehow protect us from microscopic bacteria and that impression, of course, is dead wrong.

This is Chris Bury for Nightline in Washington.

AARON BROWN: And among our guests when we return, the secretary of agriculture, Dan Glickman.

(Commercial Break)

AARON BROWN: Joining us here in Washington, U.S. Secretary of Agriculture Dan Glickman. David Theno joins us from San Diego. He's a vice president of quality control for Foodmaker, Incorporated, the parent company of Jack in the Box Restaurants. In 1993, four children, as you'll

recall, died after eating hamburgers from Jack in the Box, hamburgers that were tainted with the E. coli bacteria. And joining us from Bangor, Maine, Nichols Fox, a journalist and author, the author of a book published last month called *Spoiled: The Dangerous Truth About A Food Chain Gone Haywire*.

Secretary Glickman, let me start with you. In this case that we've been dealing with, the Hudson Food case, would this system, which I must say sounds pretty primitive, have caught the problem? Should it have caught the problem?

DAN GLICKMAN: *(Washington)* Well, the new system would probably make it more likely to have caught the problem. There is no foolproof system. But a system of where you look at each stage of production and can stop it and determine whether there are problems that are occurring would have probably led to catching this problem earlier than we've done it before. But the important thing is that we've made quantum improvements of detecting the problem at early stages before a lot of folks get very sick. And that's what we did here and that's a great improvement over what happened in the original Jack in the Box case over three years ago.

AARON BROWN: But just to understand where we are today, the system that is in place today would not have caught the problem, even if it had been done perfectly, which it may have been.

DAN GLICKMAN: Well, there's no perfect system. But I would say that if you would have had more adequate and frequent testing, which we will have, coupled with a more careful record keeping requirements, which we didn't have, it would have been more likely to have caught it and when you combine that with all of the other administration, food safety initiatives, monitoring and testing and

tracking, I think we would have been in a far better position to have caught the problem.

AARON BROWN: David, I gather then that if the government system now and even in the future, and you have some concerns about that, is not going to catch these problems, then it's incumbent on someone else to. Who is the someone else? The restaurant?

DAVID THENO: *(San Diego, KGTV-TV)* Well, certainly the contract between a customer and a supplier is one that you have the opportunity to do aggressive partner and food safety programs and I would agree with Mr. Secretary wholeheartedly that where they're going with a more aggressive microbial profiling and the ability to identify people that are doing a better job from people that are not doing as good a job is an important step. It'll allow the agency to focus their resources and help correct or eliminate plants that are not doing well and it will also help spotlight practices and technologies that can have significant improvements in where we're going and help with the micro loads on these things.

AARON BROWN: Ms. Fox, help me understand something here. When I see that stamp on a piece of meat that says USDA inspected, what does that really mean, then?

NICHOLS FOX, Author: *(Bangor, Maine, WVII-TV)* Well, it doesn't mean a whole heck of a lot. I don't have a lot of confidence in the meat inspection process now and I'm afraid I'm not going to have a lot of confidence in the future. The microbial testing they are going to do is going to look for generic E. coli bacteria. It's not going to take that meat out. That's merely an indication that it's been contaminated by fecal waste.

AARON BROWN: Secretary Glickman, is it that we're expecting perfection in a business where perfection simply is impossible?

DAN GLICKMAN: Well, I think we need to strive for as close to perfection as possible

because we're talking about people's lives here and the public safety, particularly as it relates to food safety, frankly is the number one priority of the Department of Agriculture. We are learning a lot from this experience. What we are learning is that the new HASUP plan will increase the internal review by companies of their production procedure and will reduce the amount of illnesses. But we -- this is a multi-stage process, from farm to table. It starts on the farm or the ranch. It moves to the slaughter facility. It moves to the processing facility. It moves to the restaurant and finally it moves to the home, the consumer. And what we're...

NICHOLS FOX: But Mr. Glickman...

DAN GLICKMAN: If I may just finish. And what we are trying to do is to create barriers at each one of these stages by which we are able to detect the offending bacteria so it doesn't then move on to the next stage, where then it becomes a continued threat. And learning through this process, we're finding that we need to have adequate amount of testing, adequate amount of sanitation plans, adequate amount of inspectors and in doing so, we can make quantum leaps from the seeing, smelling, touching, feeling system of meat inspection that we've had since the 1920s and now we're in this transition phase moving to a modern science-based system which hopefully will continue to reduce the amount of offending product which consumers have to face. At least that's our goal.

AARON BROWN: But in the meantime, we have to live with the system as it is. So when we come back, we'll talk a little bit about steps that consumers can and should be taking to protect themselves. We'll be back in a moment.

(Commercial Break)

AARON BROWN: We're back again with Secretary of Agriculture Dan Glickman, David Theno and Nichols Fox. Ms. Fox, I have this feeling that we are seeing more of these because something fundamental has changed in not just the way food is processed, though that may be part of it, but where food comes from in general these days.

NICHOLS FOX: All of those things. I was really confounded by the complexity of this tale. You can't point the finger in any one direction. We consumers play a role in the increasing number of cases of food borne disease. We want convenience. We want novelty. We want fresh fruits and vegetables all year round and perhaps most of all, we want cheapness. Industry plays a role, too. It's focused its attention on efficiency, shelf life, increased profits and I think the regulatory agencies are part of the problem, as well, although I hope there's a new consciousness there.

AARON BROWN: Let's talk a little bit then about what we as consumers can do. David, this is really your business, this whole food safety issue. Do you walk around with an instant read thermometer at home to make sure every hamburger is cooked to a certain temperature?

DAVID THENO: Well, we eat at Jack in the Box so I don't need to. But, just kidding. Certainly consumers have a role to play and while we have some very extensive programs in the restaurants, they're really based on things that people can do at home. It's really simple things. It's make sure that you keep, you know, meat refrigerated or frozen. Don't defrost things on the counter. Don't let meat juices get on things that won't be cooked like lettuce or cut on the same cutting board. When you cook hamburgers, make sure that they're thoroughly cooked and that there's no pink. There's some controversy about whether

to brown in the middle, but I will tell you that if it's pink or rare in the middle, do not eat it. It's not done being cooked yet.

AARON BROWN: And this is just a, I don't want to get obsessive about this, this is just hamburger that can't be pink in the middle, right? A steak could be pink?

DAVID THENO: Yes. That's right. Whole muscle meats like steaks and roasts basically should be physiologically sterile inside. I know that's a techhie term but there shouldn't be bacteria there so if you cook the outside surfaces well, you should kill all the bacteria, the products will be perfectly safe and you can have rare steaks and roasts.

AARON BROWN: And Ms. Fox, you want to add to that list?

NICHOLS FOX: Well, just if you haven't poked them with a fork, they will be all right. But if you've poked them while you're marinating them, that would be a problem. So if you're going to have that steak rare, don't poke it.

DAVID THENO: That's true. Don't -- go ahead.

NICHOLS FOX: I have a lot of other concerns, though. You know, it worries me that the consumer has become the final critical control point, as it were, and we say just cook it. The fact is many of these animal products are much more contaminated than they used to be because of problems in the way we're producing them and consumers in Sweden and Denmark have the option of buying a chicken labeled salmonella-free. I think we need to encourage our food producers and this would be a consumer movement here to try to ask them to make available to us foods that use safety as a making strategy. And I have just recently seen eggs that come with a little circular inside that says these, our chickens have been tested for salmonella and arridis (ph), for instance, and have not been proven

positive. This is the sort of step we need to take so that the marketplace can operate. In order for it to operate, we need to have these options available.

AARON BROWN: Mr. Secretary, would farmers be supportive of that kind of notion or would they oppose that kind of notion as somehow unfair?

DAN GLICKMAN: Well, the first place is we do need to do a lot more research as to the pre-harvest and post-harvest effects, which means on farm effects of raising animals and we've asked for additional money to do that kind of research because frankly the data is not in yet to give you a definitive answer. But as I said before, there are many pieces of this issue -- the farm piece, the slaughter piece, the processor piece, the restaurant piece and the consumer piece and you can't take any one of these pieces out and hope that you're solving the problem entirely. We in the government have an extraordinarily critical function of being the regulator. This is one area where the government, where people want the government to be involved protecting their food safety. But we also need private companies like Jack in the Box who are willing and able to step up to the plate and even do more than they have to do under the law in order to make sure the public has safe meat and poultry.

And one final thing, if I might. You know, in the 1920s we started this program. There were an awful lot of people dying because of unsanitary food, hunger and malnutrition. So I don't want people to think that the last 60 years has been all downhill. Food is cleaner than it used to be. People are starving less than they used to. Food is more nutritious. But that doesn't mean that people are still not getting sick. They are. And we have to have this as our focus to try to

eliminate this kind of contamination in food wherever it occurs.

AARON BROWN: We have about a minute left. Mr. Secretary, you said at one point there that you think this is an area where people expect government to regulate, to take the lead, to be assertive and yet in listening to our conversation, and let me ask each of you this, I'm not sure that I'm very confident at this point that government in fact can guarantee that the food I eat is safe.

NICHOLS FOX: Well it can't guarantee it, no.

AARON BROWN: Yeah, and David, can the government guarantee this or is this something I and consumers generally have to work towards?

DAVID THENO: Well, today the government cannot guarantee it. However, the direction the government's going will help things greatly. But I do believe that an absolute preventive system will probably be driven by private industry and Ms. Fox, one of the things you mentioned about a free market approach to this, this micro sampling program that we've been running, that whole program, as extensive as it is, costs less than one cent a pound of ground beef. Now, that's...

NICHOLS FOX: But the market won't work unless there's information out there. I expect to see more of these outbreaks. The idea that we have the safest food in the world is really a joke. We have the world's food. We import fruits and vegetables from 25 different countries. I go into my local grocery store thinking I'm buying Maine shrimp and they're from Pakistan. It's only as safe as the country from which it comes. We're in this vast worldwide trade of food and trade is a passport for pathogens and the GATT and NAFTA are really their visas. So I don't have a lot of optimism about this.

AARON BROWN: Mr. Secretary, let me give you the last word here.

DAN GLICKMAN: Well, without debating trade policy, I would say I do believe we have the safest food in the world, but it is not a perfect system. We can do a lot better and we will and we are.

AARON BROWN: And government can do better and consumers I gather, then, must do better as well.

DAN GLICKMAN: As well as the private sector. They have a very key responsibility to step up to the plate and do the kinds of things that Dr. Theno talked about.

AARON BROWN: And on that note, Mr. Secretary, we'll have to stop. Thank you all for joining us, Dr. Theno, Secretary Glickman, and Ms. Fox, thank you for joining us this evening. And I'll be back in just a moment.
(Commercial Break)

AARON BROWN: Tomorrow on Good Morning America, what is the national tobacco settlement missing? Charlie Gibson will ask former U.S. Surgeon General C. Everett Koop. That and more on GMA tomorrow on this ABC station.

And that's our report for tonight. I'm Aaron Brown in Washington. For all of us here at ABC News, good night.

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The North American Free Trade Agreement: Fulfilling Its Promise

Statement by

Edith R. Wilson

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**Subcommittee on Trade
House Committee on Ways and Means**

**September 11, 1997
Washington, DC**

Introduction

Mr. Chairman, support for trade liberalization, like other aspects of American foreign affairs, has usually been handled on a bipartisan basis, as it should be. We hope this tradition continues as Congress considers fast track negotiating legislation this fall, and that the new 'vital center' of American politics will hold. I am here on behalf of the Democratic Leadership Council, which endorsed NAFTA three years ago, to explain why we did so and why Americans should be proud of President Clinton's historic achievement in expanding ties to our neighbors in North America.

By explaining why we believe, based on the evidence to date, that NAFTA has been good for ordinary Americans and serves the national interest, we hope also to demonstrate why we support further trade expansion. We believe a successful trade policy recognizes three core components: the significance of international trade to domestic growth; the importance of leadership in trade to America's international leadership overall; and the need to help American workers adjust and compete to changing economic conditions. Trade currently represents one third of America's economic growth.¹ Maintaining growth in trade is critical to sustaining our robust growth overall, and particularly important to maintaining a resurgence in manufacturing jobs.² That, in a nutshell, is why Americans cannot be pro-growth without being pro-trade. Trade is critical to the new economy.

Our goal in expanding trade should be a more dynamic and compassionate economy in which companies, workers, and government share responsibility for helping working Americans adapt to the changing economy. The burdens of change must not fall solely on the shoulders of working Americans. Government, business, and other institutions share responsibility for the security of

¹Trade, as a percentage of Gross Domestic Product, is approximately 14 percent when counting only exports.

²Bergsten, C. Fred, Director of the Institute For International Economics. Testimony before the Senate Finance Committee (June 1997).

those few who might be left behind. We will be looking to new models, such as business and jobs consortia, to help workers and companies to succeed and share in the benefits of expanded trade, and thus “expand the winner’s circle.”

Assessing NAFTA Three Years Out

Today the Progressive Policy Institute is releasing a study, *The NAFTA Success Story: More than Just Trade*, by Rebecca Reynolds Bannister, a former trade official. I draw substantially on that research in making my own analysis.

One point must be clarified at the beginning. Contrary to popular impression, NAFTA has not yet been fully implemented. While many NAFTA provisions went into effect immediately in 1993, others phase in over five, ten, and even fifteen years for the most sensitive sectors. This was intended to permit the workers and industries of all three countries ample time to adjust. At this point, no NAFTA study can adequately measure the agreement’s full results because much of NAFTA’s impact still lies ahead. The benefits to the United States will improve as implementation continues, and as NAFTA provides the conditions for increased economic growth in Mexico and Canada.

Nonetheless, the 1997 congressionally-mandated assessment of NAFTA by the Administration released this July is useful and timely. It provides Congress with a snapshot of this work in progress and allows it to determine if anything is dramatically wrong. Most importantly, the Clinton Administration report and hearings such as this provide an excellent opportunity to examine the facts.

NAFTA Lessons and Results

There are three main lessons to be learned from the NAFTA experience to date. *First*, the United States can liberalize trade with developing countries, if the agreements go beyond reducing tariffs on merchandise trade and cover other essential aspects of a sound and fair trading relationship. Longer phase-in periods are also necessary in such cases. This is critical information for the future, since the fastest growing markets lie in developing countries. *Second*, trade does follow trade agreements, and dramatic increases in trade are possible from agreements committed to lowering barriers on both sides. *Third*, lowering trade barriers between neighboring countries—those who can through proximity and familiarity easily, quickly, and at lower cost become better customers and partners—is one of the most effective ways to increase trade rapidly.

We have learned from the Clinton Administration report and the Progressive Policy Institute examination that NAFTA is fulfilling its promise. Our trade relations, the benefits to our consumers, the competitiveness of our workers, and the security of our investments are stronger for having concluded NAFTA. It helped increase trade and investment in North America. It put in place rigorous rules for governing trade, setting a higher standard than previous agreements. Institutions, working groups, and mechanisms that NAFTA created have smoothed the path to allow North

American businesses to trade, invest, and position themselves for better productivity and comparative advantage, making our economies stronger against shocks such as Mexico's 1994-95 crisis.

This summer, North America was ranked as one of the world's fastest growing regions, with growth projected at 3.5 percent, compared to the average 2.7 percent growth rate for the rest of the industrialized nations. Not only is there strong economic growth in all three countries, but Mexico's economic growth has been particularly impressive this year, with 8.8 percent GDP growth in the third quarter of 1997 and a projected aggregate rate of between 5 and 6 percent GDP growth.³ Canadian GDP growth for this year is projected at 3.3 percent. In 1996, nearly one-third of U.S. trade in goods was with Canada and Mexico (\$421 billion). When our two top customers grow, we grow, and vice versa: our NAFTA partners accounted for 53 percent of the growth in total U.S. exports in the first four months of 1997. Trade is not a zero-sum proposition, as some would suggest.

Despite dire predictions, NAFTA to date has not produced a flight of U.S. investment or jobs. The U. S. economy now creates in approximately *one month* the total number of jobs lost due to NAFTA in *three years*. Today we find that despite NAFTA's reduced tariff barriers and an economic crisis in Mexico in 1995 that lowered the value of the peso and made Mexican labor comparatively even cheaper, the United States has not lost even a small fraction (1/40th) of the 6 million jobs that Ross Perot predicted. In fact, under President Clinton's leadership, the U.S. economy has created 8.6 million jobs since NAFTA's inception. NAFTA's impact on jobs in the U.S. economy has been negligible in most sectors with positive job growth in others. Quite simply, neither NAFTA nor GATT nor any of our other lesser trade agreement has hurt the U.S. economy. Instead, they have been a vital component in our economic growth by opening new markets and eliminating barriers.

But when we look at the agreement's results, we are continually reminded that NAFTA was about more than trade. It was a pathbreaking, comprehensive trade and investment accord that "locked in" not only a steadily decreasing tariff rate on almost all products but also significant market reforms, as well as dispute settlement and investment guarantee procedures. It has increased certainty and stability in our commercial relations with our two top customers. No less than fifteen non-tariff accomplishments of the agreement are truly significant, covering areas such as inputs, transparency, services, investment, conflict resolution/protections, and environment⁴. These features of NAFTA don't just safeguard U.S. businesses; they protect the technology, processes, and markets that provide employment for our workers, too.

So, what do we find when we look at this section of the agreement four years later? Trade and investment disputes are now being handled with relative transparency and according to the established procedures agreed to in NAFTA. The agreement was, in particular, a step forward in

³"Mexican Growth Is Fastest in 16 Years As GDP in Second Quarter Soared to 8.8 percent," *The New York Times* (August 19, 1997).

⁴Bannister, Rebecca Reynolds, *The NAFTA Success Story: More Than Just Trade*, (Washington, DC: The Progressive Policy Institute, DC, September 1997).

enhancing the ability of small businesses to participate in international trade. Under NAFTA, small businesses as well as large firms have been given secure market access as well as methods for resolving commercial disputes in a developing country market. No other agreements do this. When the scope of the agreement is considered as well as the vast amounts of trade and investment flows covered under NAFTA's legal boundaries, the number of disputes since 1993 has been surprisingly low. Congress should consider this lack of conflict as a particular endorsement of how well the agreement is working.

States and Sectors: Michigan and South Carolina

Nearly all states have posted gains in exports with Mexico since NAFTA. Key industries such as autos, electronics, and the service sector have benefitted from NAFTA's provisions -- despite Mexico's economic crisis of 1994-95. Let us examine for a moment two states that were particularly concerned about negative impacts when NAFTA was signed: Michigan and South Carolina. Both are excellent examples of how states and sectors have benefitted generally from increased trade and specifically from the terms of NAFTA.

As overall unemployment and inflation have fallen to their lowest levels since the 1960s, Michigan's economy has prospered. Michigan's unemployment is at its lowest level in nearly 30 years. Michigan's unemployment rate has fallen from 6.8 percent in November 1993, to 4.4 percent in April 1997, since the passage of NAFTA. Michigan's export growth has increased 68 percent between 1992 and 1996, making it the fourth largest state exporter of goods. Michigan's export-related jobs—which pay, on average, 13 to 16 percent more than non-export related jobs—increased by an estimated 40 percent, or 147, 883 jobs, since 1992.

Michigan's exports to NAFTA countries increased by 40 percent between 1993 and 1996. During 1996, Canada was Michigan's largest export market and Mexico was its second largest. Between 1993 and 1996, Michigan's exports to Canada rose by 56 percent. During this same period, Michigan's exports to Mexico declined by 2 percent, due to the deepest but shortest lived recession in Mexico in 50 years. Transportation equipment accounted for 63 percent of Michigan's total exports.

Some U.S. sectors—such as the automotive industry—have experienced large net import and export growth as well as job growth. U.S. employment in the automotive industry grew by 14 percent between 1993 and 1996, including a 10.6 percent increase in employment in automotive assembly. This job growth was accompanied by a 5.6 percent increase in hourly earnings for automotive production workers. While U.S. imports of Mexican automotive vehicles and parts nearly doubled, thanks to NAFTA provisions, those imported vehicles now include a high percentage of components made in the United States. In fact, U.S. exports to Mexico of automotive vehicles and parts increased 11 percent, from \$7.5 billion in 1993 to \$8.4 billion in 1996. These positive developments in the automotive sector have certainly helped the state of Michigan, which is the leading manufacturer of

automobiles in the United States.⁵

In South Carolina, unemployment in 1993 stood at 7.6 percent. In April, 1997, it was 4.6 percent, a decline of 2.9 percent. In this state, we find that record levels of foreign investment have supported 21,000 additional high-paying, high-skilled jobs since 1992. During 1995, Canada was South Carolina's largest export market, while Mexico was South Carolina's second largest export market. Since 1993, exports to Canada have increased by 23 percent, from \$1.3 billion in 1993 to \$1.7 billion in 1997. South Carolina's exports to Mexico have increased by 58 percent, from \$300.3 million in 1993 to \$719.0 million in 1995.

Moreover, South Carolina's textile industry illustrates the benefits of integration under NAFTA. Textile and apparel goods production have shifted from the Far East to North America. South Carolina's textile exports to Mexico increased 143 percent, 1993 to 1995, and textile imports to Canada have increased 40.2 percent between 1993 and 1996. Due to NAFTA requirements, Mexican-made apparel and footwear exported to the United States have higher U.S. content, on average, than imports of these products from Asia and other countries. With Mexican plants now purchasing large amounts of U.S. components, U.S. firms are increasing profits and efficiencies. After years of decline, the textile and apparel industries are thriving on the challenges presented by the global economy. Now highly automated and requiring skilled workers, South Carolina's textile industry accounts for 10 percent of the state's total exports (\$388.9 million) and employs 22 percent of its workforce.⁶

Similar success stories are found in every state and in sectors such as in computers and electronic machinery and related software, government procurement, and agriculture. In all these critical areas, NAFTA has not only expanded markets for U.S. goods, but has helped position U.S. industries for future competitiveness by strengthening our productive capacity on the North American continent, and allowing the three NAFTA partners to benefit from their comparative advantages

Economic Reform and Political Reform

NAFTA has been accompanied by other positive trends. This summer, Mexican democracy took a large, peaceful step forward as voters in state and local elections redistributed power among the three political parties. The PRI, after having been in power for over 60 years, no longer has a majority in the Mexican Congress. Mexican labor unions have moved toward independence from government

⁵All data on the state of Michigan is from the following sources: BLS, USTR (based on data from the Massachusetts Institute of Social and Economic Research), ITC, and U.S. Department of Commerce.

⁶All data on the state of South Carolina is from the following sources: USTR (based on data from the Mass. Institute of Social and Economic Research), U.S. Department of Commerce, U.S. Department of Agriculture, South Carolina Department of Commerce, and *Study on the Operation and Effects of the NAFTA*, Executive Office of the President, July 1997.

control, and are becoming more vocal on behalf of their members.⁷ These changes make the obvious point: economic reforms symbolized by NAFTA have been accompanied by a process of significant political reform in Mexico.

There is much discussion about how and whether free trade encourages the growth of democracy. In NAFTA, we find a very specific example of how this process works. Through the vehicle of trade liberalization and for sound commercial reasons, NAFTA has introduced to Mexico principles of transparency, the right to appeal government decisions, public access to information, and other processes that are the foundations of open, pluralistic and democratic societies. Two examples: The Mexican government must now publish every federal regulation for review and comment, and an open bidding process is required for government procurement. These are dramatic changes from prior practices. As a result, Mexicans expect increased openness in other areas as well. Finally, to demonstrate how NAFTA has already served as a template for other trade agreements, many of these same provisions have been incorporated by Mexico into recent free trade agreements with Central and South American countries.

Should NAFTA Be Expanded?

The fundamental conclusion we should draw from NAFTA is clear: The prospect of increased trade *without* the kinds of guidelines, safeguards, and predictability epitomized in NAFTA should be far more alarming to the American people than the proposal to initiate new trade negotiations. If we can negotiate similar comprehensive agreements with other countries, it is in our interest as the world's leading exporter to pursue them expeditiously.

- We need to extend the *principles* embodied in NAFTA to the rest of the hemisphere soon because we have much to gain from increased trade and investment with Latin America, one of the fastest growing regions in the world. How is this to be accomplished? NAFTA contains a "docking" or accession clause that would allow other countries to sign on to its provisions. Since NAFTA went into effect, however, a number of other developments have occurred in our hemispheric trading environment. It behooves the United States to ensure that any future trade agreements meet the standards included in NAFTA. They should also cover current conditions with the proposed trading partner(s) and anticipate future needs. The founding principles and comprehensive approach epitomized by NAFTA should be used in the basic hemispheric agreements. But it is increasingly clear that future agreements—with Chile and Latin America, among others—may be able to raise the bar even higher than NAFTA. Fresh negotiations may be in order and expanding NAFTA in the literal sense may not be the most productive or appropriate approach at this point.

Expanding the Winner's Circle at Home

The American public is right to feel that there is some unfinished business from NAFTA, GATT, and other developments that have changed our economy. Trade, of course, is not the only factor

⁷"Mexico's Unions Form New Coalition," *Journal of Commerce* (August 26, 1997), p.5A.

responsible for these changes; actually, technology accounts for more of the economic restructuring we are experiencing.

As our stake in the new global economy increases, so does our responsibility to ensure that all Americans have the opportunity to compete effectively. Our efforts to accommodate technological progress and trade expansion for the sake of economic growth must go hand-in-hand with a new social compact that offers all U.S. workers lifelong access to career training; provides more effective public support for workers in transition; equips them with the tools to manage their career security by controlling their own health and pension resources; and redefines corporate responsibility in a world of borderless markets.⁸ We must expand the winner's circle through shared responsibility by government, business, and workers for those Americans who may be left behind in the New Economy.

In the same session of Congress that passed the NAFTA implementing legislation, Congress and the Administration were unable to agree on any major proposals to modernize our nation's job placement and worker training systems. A NAFTA trade adjustment assistance program was established but with limited scope and effectiveness. As a consequence, many Americans feel that their needs have been ignored. The United States needs to do better. We must substantially improve our efforts to equip all Americans with the education and skills they need to be as competitive as individual citizens as we now are as a nation, and we must extend a helping hand at key moments. Congress has recently made progress in areas such as health care and pension portability. Now that the budget is balanced, we must turn our attention to the rest of this domestic agenda. In particular, we hope Congress will consider the G.I. Bill for Workers and consider replacing outdated adjustment assistance with comprehensive training programs available through individual vouchers.

Maintaining U.S. Momentum and Leadership in Trade

In closing, I would like to add one word about the debate over fast track authority. It can be hard to distinguish between the genuine and the disingenuous in concerns raised first about NAFTA and now about fast track authority. This is because protectionism mutates in every generation and finds new, socially acceptable ways to hinder trade. Special interests work to protect their gains even if at cost to the national interest. Again, many concerns about issues such as labor rights and environmental protection are utterly sincere. Indeed, we share them.

But it is simply unfair to use such concerns or other means to elevate the interests of industries or groups that seek protection from international competition above the interests of workers in exporting industries, of consumers, of communities that benefit from foreign investment, and of every American who benefits from steady growth, low unemployment, and low inflation.

⁸Rodrik, Dani, *Has Globalization Gone Too Far?*, Institute For International Economics (Washington, DC, March 1997); I.M. Destler, *Renewing Fast-Track Legislation*, Institute For International Economics (Washington, DC, September 1997), p.47; and "Expanding the Winner's Circle," *Fact Sheet*, (Democratic Leadership Council, Washington, DC), July 1997.

There are many approaches to industrial relations, labor rights, pollution prevention, and conservation that can be pursued productively, particularly through international cooperation. There are connections between trade liberalization and these same issues, but they must be explored cautiously.

Further delay in fast track renewal, with all that is ahead on the trade calendar, will be protectionism in a new and virulent form and could cost Americans dearly. In fact, legislative rejection of President Clinton's request for fast track authority this fall would send a message around the world that America has abdicated international economic leadership—and damage our political leadership as well.

The United States must move forward to lead the world in a new era of open and fair trade. At the global, sectoral, and regional level, many of our key trading partners are about to move ahead without us in critical new trade negotiations. Congress should give President Clinton the same broad authority to negotiate new trade agreements under fast track procedures that every U.S. President since Gerald Ford has received.

Renewed negotiating authority is as vital to U.S. leadership in world affairs as it is to sustaining our economic growth. The message about fast track is clear: If America can't negotiate, Americans lose.

Thank you.

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PPI RELEASES NEW REPORT ON THE SUCCESS OF NAFTA

WASHINGTON, D.C. – The success of the North American Free Trade Agreement, now three years into its 15 year implementation schedule, can be seen not only in the positive economic returns, but also in the important precedent it has established for advancing U.S. interests in trade agreements, according a new report from the Progressive Policy Institute.

The report, entitled *The NAFTA Success Story: More than Just Trade*, comes as Congress turns its attention to trade issues by taking up President Clinton's request for fast-track trade negotiating authority. The report's author, Rebecca Reynolds Bannister, a fellow at the Progressive Policy Institute and director of the Latin America Data Base at the University of New Mexico, demonstrates how NAFTA, while a modest economic success, has met or exceeded its other wide-ranging goals.

"NAFTA is an important and solid agreement [that] protects the interests of U.S. employers and investors and those of our trading partners," Bannister writes. Pointing specifically to the boundaries it establishes for behavior in the global market and the rigorous rules it sets for governing trade -- standards higher than in any previous agreements -- she says, NAFTA should serve as a template for extending these principles to other key markets. "These features of NAFTA don't just safeguard U.S. businesses; they protect the innovation of American workers, processes and markets that provide employment for our workers."

As an added benefit, she writes, "NAFTA has introduced to Mexico important principles of transparency, the right to appeal government decisions, public access to information (about trade, labor, the environment), and a number of other issues that make up the foundation of an open, pluralistic, and democratic society."

"It is clear to objective observers that NAFTA is working," Bannister writes. As evidence, she points to these facts:

- * Trade and investment throughout North America have increased.
- * North America's economic growth as a region is projected at 3.5 percent in 1997, compared to the average 2.7 percent growth rate for the rest of industrialized nations.
- * U.S. exports to Mexico and Canada are at record levels (\$191 billion in 1996).
- * Canada and Mexico are the top export markets for the United States.

—more—

The NAFTA Success Story ***More than Just Trade***

Trade in the New Economy Project
Policy Report No. 1

Rebecca Reynolds Bannister

September 1997

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1. Introduction

When the North American Free Trade Agreement (NAFTA) was negotiated, progressives endorsed it as one tool among many for taking control of America's economic future.¹ Three years later, NAFTA is fulfilling its promise. Our trade relations, the benefits to our consumers, the competitiveness of our workers, and the security of our investments are stronger for having completed NAFTA. The agreement was also a defining moment in U.S.-Mexico-Canada relations, securing and advancing cooperation with our neighbors in North America.

This paper focuses primarily on what has happened to U.S. trade with Mexico under NAFTA and its impact in the United States. Trade between the United States and Canada was already well on its way to full liberalization after the 1989 U.S.-Canada Free Trade Agreement (CFTA), so there is not much new to say about that relationship. Criticism of NAFTA has almost exclusively been directed at United States liberalizing trade with Mexico, a developing country. Before NAFTA, Mexico's tariff and non-tariff barriers were much higher than the U.S. barriers and NAFTA's reductions have resulted in more dramatic changes in U.S. market share in that country. And finally, an economic crisis in Mexico in 1995 altered the trade balance between the United States and

Mexico, which has been used as an argument to disparage NAFTA.

Measuring NAFTA's impact after just three years is important, but it is also an exercise of limited meaning. The Clinton Administration released a NAFTA report in July 1997 because such a report was mandated in the agreement's 1993 implementing legislation. The three-year time frame (instead, for instance, of the more normal five) was settled upon so that neither presidential nor mid-term elections would be affected by the report. Certainly, trade economists would not have chosen this reporting period. The lag time in reporting economic data means that barely three years of data were available.

More importantly, the agreement has not yet been fully implemented. While many provisions went into effect immediately in 1993, many others (particularly tariff reductions) phase in over five to ten years. Some are not complete for a full fifteen years. This was done to permit the workers and industries of all three countries ample time to adjust to change, particularly in sectors with political sensitivity or economic vulnerability. In other words, NAFTA was carefully designed to have a gradual impact on the North American economy. Much of NAFTA's impact still lies ahead.

While no NAFTA assessment at this point can

measure the agreement's full benefits or results, the 1997 congressionally mandated assessment of NAFTA is useful and timely. It allows Congress to determine if anything is dramatically wrong with the agreement. Similar reports should be required down the line. Most importantly, the Clinton Administration report provides an excellent opportunity to replace the innuendo and false charges aimed at the agreement with facts.

The positive findings in the Clinton Administration report have made some inroads in refuting the notion that trade with developing countries such as Mexico is damaging to U.S. interests. But the report primarily serves as a snapshot of a work in progress. It focuses on the quantitative impact of tariff reductions under NAFTA, but does little to examine how the important underlying architecture of principles of free trade included in NAFTA are fundamentally improving our trade and foreign relations with a developing country partner. Principles such as transparency and protection of intellectual property are worth looking at because they set the standard for better trade deals for the United States in the rest of the world.

A Landmark Agreement

NAFTA was pathbreaking. It raised the floor for trade rules beyond previous free trade agreements. NAFTA was the first agreement with a less-developed country to comprehensively cover trade in services (such as insurance, transportation, banking), investment, government procurement, transparency issues (making the business opportunities and the rules of the game clear), dispute settlement, and intellectual property protection as well as merchandise trade. The agreement also includes unprecedented mechanisms for addressing environmental and labor concerns. These safeguards are vital to American firms and workers.

NAFTA should be a model for future U.S. trade agreements in the Americas. Already, Mexico and Canada have patterned their free trade agreements with Chile and other countries on NAFTA's architecture, although other less-open trade arrangements such as the Mercosur customs union now threaten this progress.² Not only is NAFTA pro-

viding boundaries for behavior in the global market, but the prospect of free trade without any such guidelines, safeguards, and predictability is much more alarming. This is the situation facing the United States in other emerging markets today.

NAFTA Works

It is clear to objective observers that NAFTA is working:

- Trade and investment throughout North America have increased.
- North America's economic growth is projected at 3.5 percent in 1997, compared to the average 2.7 percent growth rate for the rest of industrialized nations.³
- U.S. exports to Mexico and Canada are at record levels (\$191 billion in 1996).⁴
- Canada and Mexico are the top export markets for the United States (despite Japan's economy being 12 times larger than Mexico's).
- Trade and investment disputes are handled with relative transparency and according to established procedures agreed to in NAFTA.
- Small businesses as well as large firms have been given secure market access as well as methods for resolving commercial disputes under NAFTA.
- Despite predictions of "giant sucking sounds" from south of the border, NAFTA to date has not produced a flight of investment or jobs.

Beyond NAFTA's impact on trade relations in North America, NAFTA has been accompanied by other positive trends. Just as the Clinton Administration released its report, Mexican democracy took a large, peaceful step forward as voters in state and local elections redistributed power among the three leading political parties. The PRI, the political party with a monopoly on power for over 60 years, no longer controls a majority in

the Mexican Congress. An opposition leader was elected mayor of Mexico City. In another development little noted by outsiders, Mexican labor unions reached a watershed as their leader (since the early days of PRI control in Mexico) died, and union leadership moved toward a new independence from government control. These changes make the obvious point: economic reforms symbolized by NAFTA have indeed been accompanied by a process of significant political reform in Mexico. It is fair to argue that the transparency and openness to outside scrutiny and influence that came with NAFTA contributed to the political opening.⁵

Also too late to be included in the Clinton Administration's report to Congress came news that many have been waiting for: Mexico's economy has come bounding back this year. In the third quarter of 1997 gross domestic product (GDP) grew 8.8 percent, its largest increase in 16 years. Growth for the year is now estimated to reach somewhere between 5 and 6 percent, far above the Zedillo Administration's 4 percent projection at the start of the year.⁶ Throughout 1997, U.S. trade growth with Mexico and Latin America has been outpacing growth in other regions. The U.S. trade deficit with Mexico is shrinking, reflecting increased Mexican buying power. The 1995 peso crisis and its aftershock have passed, thanks in part to NAFTA; political transformation has happened peacefully; and confidence is returning to Mexico. Finally, the Canadian Conference Board released an August report showing that North America is now the world's fastest growing region. The news about NAFTA is better than the Clinton Administration report was able to show.

Overall Economic Impact

Based on the first three years, the macroeconomic impact of NAFTA on the United States is modest. Trade patterns and investment patterns that began to improve in the 1980s after Mexico joined the General Agreement on Tariffs and Trade (GATT) and began to lower trade barriers have continued. Free trade with Canada was already underway since 1989 under the Canadian Free Trade Agreement. Furthermore, Mexico's economy is so much smaller than that of the

United States that its impact is dwarfed by the U.S. economic impact on Mexico.

The employment effects of NAFTA, as best can be determined by various studies, are negligible within the scope of the enormous job creation numbers in the U.S. economy. The total number of displaced jobs attributed to NAFTA over three years equals the number of jobs created in the U.S. economy in one month.⁷

It is now four years after NAFTA and three years after the even more far-reaching Uruguay Round. The U.S. economy is a dynamic and highly successful competitor in the global arena with the lowest unemployment rates in 23 years, low inflation (due in part to trade offering better choices and prices), impressive GDP growth, and excellent global competitiveness of U.S. products and services (as demonstrated by the United States maintaining global leadership in exports). NAFTA has not hurt the U.S. economy.

If we look at the provisions of NAFTA and at the sectors of the U.S. economy targeted by NAFTA's negotiators, we find an important and positive story that should be told. Key industries, such as autos, electronics, and the service sector (a misunderstood but vital component of U.S. GDP growth and a sector with a persistent trade surplus with the world) have benefitted from NAFTA's provisions. This has occurred despite Mexico's peso devaluation and balance of payments crisis that originated virtually the day NAFTA started and continued for 19 months through 1995.

What Did the United States Seek to Gain with NAFTA?

NAFTA was meant to lock in and increase U.S. market access to Mexico's newly open and growing economy. It was designed to push for new opportunities in services and sales contracts with government projects (which were significant in a largely state-controlled economy) in both Mexico and Canada. It was designed to make sure that our companies got a fair deal, the rules of the game were transparent, and our companies were treated just as well as national firms in Mexico and Canada. NAFTA was also clearly designed to make North America an even stronger economic

powerhouse *vis a vis* competing regional economies in Asia and Europe. The fact that the North American economy is growing faster than any other region—with strong growth in all three countries—indicates that this is happening.⁸

There was another important motive for the United States to negotiate with Mexico. NAFTA was a vote of confidence in Mexico and its possibilities. It was an expression of optimism about U.S. relations with the country after a long history of troubled interaction. Mexico's interest in committing to the broad cooperation covered

by NAFTA concerning trade (characterized for years by a series of ongoing disputes), the environment, and labor issues achieved important foreign policy objectives for the United States. Through NAFTA, democratic principles such as transparency (open records, public notice, recourse for disputes) were introduced throughout Mexico. While corruption, narcotics, and immigration difficulties remain, there are important signs of change in Mexico since NAFTA in the areas of openness and increased pluralism and democratization.

2. Trade and Investment within North America have Increased

The United States exports more to its North American trading partners than to any other region of the world including the entire Pacific Rim or all of Europe.

Exports and Imports. Trade between the United States, Canada, and Mexico has increased by 43 percent since NAFTA took effect, with total trade (imports and exports between the United States and Mexico and the United States and Canada) of \$421 billion in 1996. Trade with Mexico and Canada comprises nearly one third of U.S. trade in goods with the world, growing 44 percent since NAFTA was signed. Exports to our NAFTA partners accounted for 53 percent in the total growth of U.S. exports in the first three months of 1997.⁹ Trade both ways increased; together, Mexico and Canada supplied 30 percent of our imports and Canada and Mexico purchased 30 percent of our exports in 1996.¹⁰

U.S. exports to Mexico under NAFTA now surpass our exports to Japan, an economy 12 times larger than Mexico's. In 1996, they reached a record \$57 billion, growing 37 percent since NAFTA began. U.S. exports to Canada, our most important trading partner, reached \$134.2 billion in 1996, up 34 percent since the start of NAFTA, despite that country's low growth (1.5 percent)

and high unemployment rate (10 percent) in 1996, as well as a falling Canadian dollar.¹¹

Imports also increased from Mexico and Canada, at a faster rate than our exports to those countries. This is an indication that NAFTA, a vehicle to expand trade, is working. Falling currency rates in these countries made their products cheaper in the U.S. economy where demand was booming due to strong growth. For a sense of proportion, imports from the whole world to the United States grew six percent in 1996, down from 11 percent in 1995 and 12 percent in 1994. Import growth was led by purchases of industrial supplies and materials, thanks to the ongoing expansion of the U.S. economy. Capital goods and industrial supplies and materials account for more than half of U.S. imports from the whole world. These same goods account for 60 percent of the dollar increase in U.S. goods imports between 1992 and 1996.¹² Rather than being a sign of U.S. economic weakness, imports indicate that our economy is robust. We import and export more when our economy is thriving.

NAFTA critics sound the alarm that the United States has a trade deficit with Mexico and Canada since NAFTA. There is nothing wrong with a short term increase in the U.S. trade deficit with these important partners. U.S. imports from Mexico

and Canada feed the engine of U.S. economic growth, by providing key inputs to production and satisfying consumer demand, without inflating prices. Furthermore, the International Trade Commission finds that American imports from Mexico have much higher U.S. content than imports from other markets.¹³

Imports from Mexico have more than doubled since 1992. In 1996, Mexico was our fastest growing source of goods imports (up 18 percent), due to industry integration and the continuing effects of the peso devaluation. U.S.-made components comprise half the value of imports from assembly plants in Mexico, compared to less than one-quarter the value of such imports from Asian countries.¹⁴ Furthermore, imports from Mexico appear to have displaced imports from Asia. For example, the share of U.S. imports of apparel from Mexico rose from 4.4 to 9.6 percent between 1993 and 1996, while the share of U.S. apparel imports from China, Hong Kong, Taiwan, and Korea fell from 39 percent to 30 percent.¹⁵

The largest percentage post-NAFTA import surges were found in textiles and paper products, but these account for less than one percent of all U.S. manufacturing imports. The next highest were in those sectors that also saw the highest percentage export increases from the United States to Mexico: transportation (the automotive sector) and machinery (encompassing computers).¹⁶

In fact, the top twenty imports and exports between the United States and Mexico were in virtually the same industries, implying complementary products. This phenomenon indicates intra-industry trade and is evidence that NAFTA is allowing North American industries to specialize and develop economies of scale for increased productivity and competitiveness (one of the agreement's objectives).¹⁷

A good way to see if NAFTA has made a difference in the U.S. presence in our neighbor's market (as differentiated from other trading partners) is to look at market share and our tariff advantage *vis a vis* Mexico's other trading partners. As Mexico's tariffs on U.S. goods have come down (from an average of 10 percent before NAFTA to less than 6 percent today, after four rounds of tariff cuts) U.S. market share in Mexico has grown from 69.3 percent to 75.5 percent. The United States has a ten percent average tariff advantage over

other foreign suppliers to Mexico. At the same time, as U.S. tariffs on Mexican products declined from 4 percent to about 2.5 percent, Mexico's share of American imports has risen from 6.9 to 9.3 percent.¹⁸

Investment. Since NAFTA patterns of cross-border investment have continued, U.S. and Canadian investment in Mexico has increased, but averages less than \$4 billion annually since NAFTA began. That amount is less than one percent of plant and investment equipment expenditures at home.¹⁹ The United States attracts more foreign investment than any other country (\$60 billion in 1995 compared to \$7 billion from all countries investing in Mexico).²⁰ The vast majority of U.S. foreign direct investment (FDI) stock remains in developed countries.²¹

It is true that U.S. foreign direct investment (FDI) is increasing in developing countries as a strategy to gain market share and to facilitate global production and trade. FDI opens toe-holds in other markets that allow American companies to further expand sales.²² NAFTA made it possible for businesses to remain in the United States and be able to sell into Mexico and Canada without tariffs that make our products and services less competitive than goods produced in those countries. Domestic and foreign investment in automobile plants in the United States of \$39 billion from 1993-96 versus \$3 billion in Mexico shows how removing tariff barriers to U.S. products helps to keep investment at home. However, by delaying the extension of NAFTA's free trade principles to U.S. trade with the rest of Latin America, U.S.-based products face disadvantages in those other markets. Products produced in Canada, for example, have an 11 percent price advantage in Chile over products placed in the United States because of their free trade agreement.

Effect of NAFTA on the States. Every state in the United States saw its exports to Mexico and Canada grow during the 1993-1996 period. Louisiana, Mississippi, and Kentucky enjoyed cumulative export growth of more than 75 percent and 19 other states enjoyed 25 percent growth. Unemployment is at its lowest in what were once termed "rust-belt" states such as Michigan and Ohio.

The U.S. Department of Commerce now offers state export data in its Export Locator Series illustrating more than the previous trade-flow data and showing the location of an export's origin. With this new data it is possible to truly see for the first time a more balanced view of state exports to our NAFTA partners, instead of emphasizing the states which serve as transportation and distribution centers. A recent series of reports by the Council of the Americas on 21 U.S. states clearly indicates that the agreement has produced significant benefits since its implementation in the areas of export growth, job creation, FDI in the states, and environmental improvements.²³

Automobile Trade. Securing market access for U.S. vehicles and components was a key objective for U.S. negotiators of NAFTA. The U.S.-Canada FTA was already liberalizing trade with our principal trading partner when NAFTA discussions first began, but Mexico had not only higher tariff barriers but a variety of non-tariff barriers that discriminated against U.S. goods and services. The automotive sector confronted an array of restrictions in Mexico that distorted efficient production and distribution. NAFTA dismantled these barriers, and the results have been more positive than predicted three years ago.

Prior to NAFTA, Mexico's Auto Decrees required foreign auto makers to produce in that country in order to sell there. Mexico's trade balancing rules required automotive manufacturers to export more than they imported. Local content requirements forced manufacturers to purchase components from Mexican-owned suppliers (which effectively forced U.S. parts manufacturers to invest in Mexico). Tariffs were set at 20 percent for cars and trucks.

NAFTA immediately cut these tariffs on cars and light trucks to 10 percent. It reduces, and eliminates in seven more years, local content requirements. It gave U.S. medium and heavy truck and bus exports immediate access to the market and eliminates all restrictions on these imports less than two years from now.

In 1993, the American Association of Automobile Manufacturers (AAMA) predicted that NAFTA would increase vehicle exports to Mexico from less than \$200 million to over \$1 billion. By 1996, vehicle exports to Mexico were nearly \$1.3 bil-

lion—87,000 vehicles in 1996 alone—as compared to only 4,000 cars and 2,000 trucks per year prior to NAFTA. This increase is even more noteworthy when we recall that it occurred during the worst economic crisis in Mexico in decades.²⁴

Imports by AAMA members from Mexico have doubled since 1993, largely to meet U.S. demand spurred by the economic growth. But exports have risen by 800 percent over that same time period, even while demand in Mexico stagnated as the economy shrank 7 percent and the demand for new vehicles dropped nearly 70 percent. In fact, in 1996, one in four cars or trucks bought by Mexican consumers was produced in U.S. and Canadian plants.²⁵

The rationalization of automotive production between the United States and Mexico, which had already begun with Canada, allowed Mexican subsidiaries of U.S. automotive companies to supplement U.S. production of vehicles in high demand in the United States. This not only contributed to Mexico's economic recovery, but kept U.S. auto prices lower and made it possible for consumers to purchase North American-made automobiles rather than imports from Asia or elsewhere. Furthermore, these same U.S. subsidiaries were able to reap the benefits of trade agreements Mexico has with other Central and South American countries by exporting vehicles to these growing markets.²⁶ And, lest these same subsidiaries be labeled investments that are diversions from the United States, the Big Three U.S. automobile manufacturers invested only \$3 billion in Mexico between 1993 and 1996 while investing \$39.1 billion in new manufacturing plants and equipment in the U.S.²⁷

Furthermore, according to the AAMA, NAFTA has defused the potential for Mexico to become an "export platform" to the United States for Japanese and other non-North American auto producers with its strong rule of origin (requiring North American components for eligibility for the reduced tariffs under NAFTA). In fact, BMW, Mercedes, and Toyota have all established new plants in the United States since NAFTA's passage.²⁸

The development of Mexico's automotive sector has not diverted investment from U.S. industry. Foreign and U.S. investments continue to be made, with plants re-opened and re-tooled and

capacity increased.²⁹ Automotive employment in the United States has risen by 100,000 net jobs since NAFTA took effect (14.1 percent overall), productivity in the industry grew 7 percent, and hourly earnings grew 5.6 percent since NAFTA.³⁰ Obviously these jobs are not due to only to NAFTA; they are representative of the strong demand for U.S. automotive products both at home and abroad. But the figures indicate that NAFTA is not hurting the automotive industry in this country, and the industry leaders themselves say that the specialization allowed by NAFTA has actually helped.³¹

Computers and Electronic Machinery and Related Software. Intellectual property protection secured under NAFTA and the dismantling of import-substituting requirements in Mexico has allowed U.S. firms to expand sales and to integrate production in Mexico for better global competitiveness.

Electronics exports account for one quarter of U.S. exports to Mexico, followed by machinery (including computers). U.S. exports of computer hardware rose 58 percent from 1993 to 1996, rising at an average rate of nearly 17 percent per year. The United States maintained a 65 percent market share in Mexico in these products, while Mexico's imports from Japan, South Korea, and Taiwan lost market share between 1993 and 1996.³²

Computers and electronics accounted for the top five U.S. imports from Mexico.³³ This evidence of complementarity of trade in computers and electronics indicates industry integration across the borders, once again for economies of scale, productivity increases, and enhanced competitiveness.

NAFTA has already provided for duty-free treatment for U.S. exports of semiconductors, computer parts, and modems. Within seven years, import licenses for used equipment will be eliminated in Mexico for NAFTA partners (providing an important market for the still viable, but older technology discarded in the United States). Strict rules of origin for printers and monitors as well as motherboards encourage North American sourcing, with a process to establish a common external tariff for NAFTA partners within seven years. NAFTA also establishes copyright protection for computer programs produced in North

America, as well as stronger intellectual property protection for the vital semiconductor industry.

There has been virtually no increase in U.S. investment in Mexico's computer sector since NAFTA. Meanwhile, from 1994-96, employment in the computer equipment industry rose 9 percent, with the number of production workers also increasing by 8 percent.³⁴

Textiles and Apparel. U.S. exports of textiles and apparel to Mexico increased 79 percent between 1993 and 1996, despite Mexico's recession. The U.S. share of Mexico's textile and apparel imports rose to 86 percent, from 68 percent in 1993. Mexico's export of these goods to the United States also increased dramatically over that period (from \$1.4 billion in 1993 to \$4.2 billion in 1996). Canada's exports to the United States of these goods doubled between 1993 and 1996 from \$1 to \$2 billion while U.S. exports to Canada rose 39 percent to \$2.7 billion.

These data are emblematic of the shift from the Far East to NAFTA countries that NAFTA prompted in the growing textile and apparel trade. Between 1993 and 1996, total U.S. imports of textile and apparel from China, Taiwan, Hong Kong, and Korea declined 13 percent. Imports from Canada and Mexico more than doubled, but because of NAFTA's strict rules limiting benefits to products made in North America from North American yarn, these imports contain increasing amounts of U.S. components.³⁵

In 1993, 39 percent of U.S. textile and apparel imports were from China, Taiwan, Hong Kong, and Korea. Canada and Mexico accounted for only 7 percent. By 1996, Canada and Mexico accounted for 14 percent, and the value of U.S. imports from these Asian countries was three percent lower than in 1993. In 1996, Mexico became the world's largest clothing exporter by volume, displacing Asian countries.³⁶

The prominent characteristic of U.S. apparel imports from Mexico is shared production, where apparel is cut and sewn in Mexico from U.S. fabric and then returned to the United States. While the number of apparel manufacturers in Mexico has increased, apparel manufacturing in the United States has declined.³⁷ Yet the majority of Mexico's new apparel production capacity is due to shifted production from Asia where Asian fab-

ric was typically employed and not from the United States. New production in Mexico has boosted U.S. textile mill exports. To a lesser extent it has also displaced production from the Caribbean Basin and Central America.

Protection of apparel and textile trade is a global reality that continues to be argued at the World Trade Organization. Certainly NAFTA provisions for these industries were not designed to expose them to pure free trade. North American producers were clearly designed to be favored under NAFTA. There was a conscious path taken by negotiators to support high wage and high technology textile production and jobs in the United States and not to stake out a position to protect the highly mobile low-wage apparel manufacturing sector. This was accomplished with tough rules of origin requiring "fiber-forward" North American content in order to qualify for NAFTA apparel and other tariff benefits.³⁸ Thus, North American, if not U.S.-only, apparel manufacture and textile production were carved out as worthy of special treatment.³⁹

Services. During the 1993 NAFTA debate and the 1992 campaign, the U.S. services sector was denigrated as "hamburger flipping" employment. This did a disservice to the public understanding of what is a vital component of U.S. economic strength. The services sector includes insurance, banking, professional services, environmental, communications, advertising, entertainment and the travel business, among other things. The United States is the leading service exporter in the world, with a \$73.8 billion surplus in 1996.⁴⁰ The demand for services in Mexico and other developing countries is for inputs to manufacturing industries as well as for final consumption.

For the first time in 50 years, NAFTA allowed U.S. financial firms to establish a direct presence in Mexico. It also removed limits on United States and Canadian ownership of Mexican insurance companies—an important and underinsured market. NAFTA allows U.S. service firms either to establish a local presence in Mexico and Canada or to provide their services from the United States directly (with the exception of entertainment, which is still a protected industry in Canada). U.S. service providers must receive the better of national treatment or most-favored nation treat-

ment in Canada and Mexico. In 1995, U.S. exports of insurance, business, professional, and technical services to NAFTA partners were approximately \$8.6 billion, 15.8 percent more than in 1993 before NAFTA.⁴¹

U.S. railroad services are other big winners in NAFTA. Mexico nationalized its railroads earlier this century, expropriating U.S. rolling stock and precluding any participation by U.S. railroads in transporting goods into that country. Since NAFTA, Mexico has begun to privatize the most important trunks of its rail system. And, thanks to NAFTA, U.S. railroad companies have been allowed to bid and own shares on these lines. For example, in June, Mexico's government awarded a 50-year operating concession for the Pacific-North railway, the second rail line offered to private operators in a year. The sole bidder, U.S.-Mexico consortium Grupo Ferroviario Mexicano SA that includes U.S. rail company Union Pacific, offered \$527 million for the 3,875-mile line. The Pacific-North railway is the second of Mexico's three main trunk rail lines to be privatized by the Mexican government.⁴²

In December 1996, the concession for the northeast rail route, which connects the US-Mexico border city of Nuevo Laredo with Mexico City, was awarded to Transportes Ferroviarios Mexicanos (TFM), a partnership that includes U.S.-based Kansas City Southern Industries (KCSI). Before NAFTA's requirements for open bidding and allowing U.S. firms the same rights as Mexican firms, U.S. companies were likely never to have had this business opportunity.

Unfortunately, the United States has reneged on its obligations in an important service covered by the agreement: land transportation. In 1995, the long process of consultation and noteworthy cooperation between the transportation departments of the United States and Mexico, border states, inspection agencies, and others was to have concluded with the implementation of NAFTA's agreement to permit trucks to carry cargo to the contiguous states of the other country provided that these trucks met established safety certification requirements. Despite the desire of shippers to reduce the costly inefficiency caused by switching drivers and trailers at the border, implementation of the provision has been delayed unilaterally by the United States, "an egregious

action for a country of laws" according to trade scholar Sidney Weintraub.⁴³

In retaliation, Mexico has prohibited certain trailers produced in the United States from crossing into Mexico, adversely affecting jobs and manufacturers of certain trailers used for this in the United States.⁴⁴ The land transportation provisions of NAFTA's services coverage were designed to enhance the efficient movement of goods throughout North America, reducing costs to producers and consumers. It was one of the more eagerly anticipated features of NAFTA by those familiar with the bottlenecks at the border. Unfortunately, progress in this important service sector is currently stymied.

Government Procurement. The fact that NAFTA opens opportunities to compete for government contracts may not seem very compelling to those unaware of the control maintained by the Mexican government over key economic sectors. Even during NAFTA negotiations, the value of liberalizing government procurement was not well recognized. But this section of the agreement is truly path-breaking.

Government procurement is usually the last refuge for discrimination against foreign products. In developing countries like Mexico (and others in Latin America) where national and sub-national governments continue to assert considerable control over major infrastructure projects and some key industries, it had been nearly impossible for U.S. suppliers of goods and services to learn of market opportunities, much less to secure them. No transparent open bidding process was required in Mexico. In fact, foreign purchases were explicitly precluded from key industries such as oil (PEMEX) and electricity (CFE, the federal electricity commission).

Under NAFTA, Mexico committed to a very high standard of procurement practices and procedures such as transparent tendering and bid protest procedures, some of which were not yet in place in the GATT Government Procurement Code. To be sure, these changes have been hard to implement down through the levels of state and local government where control over projects and bidding is a long-standing tradition. We have seen innovative tactics to avoid the procurement provisions of NAFTA, not only in Mexico but also

in Canada. But the features of NAFTA allowing for challenges and demands for transparency, have allowed NAFTA partners and their companies to fight back effectively for the first time.

U.S. companies have won major government contracts in the past three years, including a \$650 million contract for a power plant and pipelines, a \$22.5 million natural gas turbo compressors contract, and other major contracts in transportation, computer equipment, and semi-conductors. Perhaps most surprising, Mexico recently opened bidding at the state and local level for long distance service to foreign telecommunications firms. MCI, together with its Mexican partners, has started marketing its services to municipal and state governments, and to date, the 13 municipal governments that have opened their competition have assigned 68 percent of their lines to this partnership.⁴⁵ Such open bidding at the subnational level is unprecedented in Mexico. In Canada, U.S. companies have increased their share of the Canadian procurement market from 7 percent to over 9 percent in just one year between 1994 and 1995.⁴⁶

Agriculture. NAFTA was expected to enhance the complementarity and division of labor between the United States and Mexico in agriculture, with the United States exporting more grains and crops that are land and capital intensive, as well as fruits that grow better in the North, and Mexico supplying its fruits and vegetables. This has occurred. Furthermore, long-standing agricultural disputes are finally being resolved cooperatively in the post-NAFTA climate between the two countries.

Trade is vital to U.S. farmers. U.S. producers now depend on exports for 25 percent of gross receipts and this is expected to increase to over one-third in the next six years.⁴⁷ U.S. agricultural trade with Mexico (growing at 15 percent per year on average) compares favorably with our trade with the rest of the world (a 12.4 percent growth rate).⁴⁸

Mexican government statistics indicate that the United States now has a 75 percent market share of Mexican agricultural imports.⁴⁹ U.S. agriculture exports to Mexico reached a record \$5.4 billion last year, an increase of 46 percent since 1994.⁵⁰ Mexico exported \$3.1 billion to the U.S. Market opening from NAFTA has been especially

important for U.S. sales of grains. Corn exports tripled and soybean exports to Mexico nearly doubled due largely to drought that destroyed crops in northern Mexico.⁵¹ The U.S. Department of Agriculture (USDA) expects Mexico to greatly increase imports of major grains over the next few years to meet a rapid growth in demand for food.⁵² The largest farmer-owned cooperative in North America testified that it sold only 300,000 tons of grain in 1993, but in 1996 it sold 1.9 million metric tons and expected to sell more than two million in 1997. Meat exports, animal feed, and pet food sales have also increased as a result of NAFTA.⁵³

Much has been said about the impact of winter vegetable and fruit imports from Mexico. These have increased, offering consumers seasonal foods year-round, with a broader selection and lower prices. Similarly, U.S. cherries, peaches, apples, etc. have been offering Mexican consumers more choices. Sanitary standards and phytosanitary protections under NAFTA protect consumers, though recent strawberry contamination scares have led to calls for more funding for border inspection. In fact, the U.S. Department of Agriculture's Inspector General found recently that the Agricultural Marketing Service is "overwhelmed" by the influx of products since NAFTA and has allowed "serious violations to occur" at the border.⁵⁴ Congress needs to increase funding for border inspection to handle the increased trade volume.

Most complaints about winter vegetable imports, especially by U.S. tomato producers in

Florida, date from decades before NAFTA. Florida growers complained that Mexican tomatoes could be sold in the United States at reduced prices because of lower production costs. Mexican producers argued that the strong consumer demand for their product was due to a higher quality product—since their tomatoes could be picked riper resulting in a tastier product, while Florida tomatoes are picked green and treated with gas to enhance their red color. A recent International Trade Commission ruling on this matter found unanimously that Mexican tomatoes were not causing serious harm to U.S. producers, but the case continued.⁵⁵ Mexico's tomato growers voluntarily agreed last year to sell their tomatoes in the United States at prices comparable to those sold by producers in Florida.

For its part, the United States has provoked its share of aggravation in the agricultural area with prohibitions on Mexican avocado imports since 1914 to protect California and Florida growers from the risk of pests. This long-standing dispute has also moved toward a compromise resolution. In May 1996, the United States agreed to allow Mexico to export avocados to 19 U.S. states in the Northeast between November and February. Other agricultural disputes being resolved in the climate of increased interaction between NAFTA actors concern grapefruits (Mexico is finally allowing Florida, California, and Arizona to export these), hog and pork (the United States has certified Mexico is free of hog cholera and is allowing these imports), and wheat from Mexico (though wheat disputes with Canada continue over subsidies).

3. The Horror Stories Didn't Happen: Strong U.S. Economy and Minimal Employment Impacts

Back in 1993, H. Ross Perot relied on a study by Pat Choate entitled "U.S. Jobs at Risk: Vulnerable Industries and Jobs Under NAFTA." Perot claimed that six million American workers were vulnerable to low wage Mexican competition or to company relocation to Mexico. Today we find that, despite NAFTA's reduced tariff barriers and an economic crisis in Mexico in 1995 that lowered the value of the peso and made Mexican labor comparatively even cheaper, the United States has not even lost one-fortieth of the 6 million jobs that Perot predicted would be lost. In fact, the economy has created 8.6 million U.S. jobs since NAFTA's inception.⁵⁶

We are enjoying the most stable U.S. economy in thirty years. In 1996, real GDP expanded 2.8 percent. Since 1992, unemployment has fallen from 7.5 to 4.8 percent as of June 1997. Inflation as measured by the Consumer Price Index is approximately 3.5 percent. Core inflation (excluding volatile energy and food sectors) was at 2.6 percent in 1996.⁵⁷

Unemployment is so low this year that *U.S. News & World Report* wrote a special report in June advising workers on how to "cash in on a new reality—bosses are desperate for workers." The lowest unemployment levels in 30 years have spurred Michigan and Ohio to launch advertis-

ing campaigns to lure workers to their states.⁵⁸ Yet we continue to see reports by the AFL-CIO equating the U.S. global trade deficit and the recent crisis-induced trade deficit with Mexico with immense job losses.

In the three and a half years since NAFTA began, 132,000 persons were certified as negatively affected under the self-reporting and certification of the Trade Adjustment Assistant program for NAFTA (NAFTA-TAA). NAFTA-TAA does not require that the negative effect be correlated with increased opening of trade between NAFTA countries, just that the trade was with NAFTA countries or that the plant closing was related to investment in our other NAFTA partners. Given that the U.S. jobs have increased by 8.6 million since NAFTA's inception (at a rate of 2.2 to 2.5 million per year) the 132,000 jobs impacted amount to two weeks of U.S. job creation.⁵⁹

Anti-NAFTA organizations like Public Citizen claim that NAFTA "is causing major U.S. job loss," and they base their claim in part on the NAFTA-TAA numbers.⁶⁰ The *Wall Street Journal* looked into the circumstances behind some NAFTA-TAA certifications and revealed cases where neither the firm nor the laid off workers actually could lay the blame on trade or investment with either Mexico or Canada, nor on NAFTA.⁶¹ In the same

report by Public Citizen, U.S. firms are criticized for unfulfilled promises to create more U.S. jobs by trading with Mexico. Yet their survey was taken in the midst of the Mexican crisis and its aftermath. No mention is made of how Mexico's economic decline and subsequent rapid recovery might have affected export-supported jobs in the United States.

Having concluded that NAFTA-TAA certification is not an ideal measure of job impacts of NAFTA, UCLA's North American Integration and Development Center (NAID) is developing a new methodological approach for estimating the sectoral, regional, and aggregate impacts on the U.S. labor market of increased international trade. Researchers at NAID argue that previous studies have far over-estimated job displacements due to imports from Mexico, and to a lesser extent, the number of jobs supported by exports to NAFTA countries.⁶² Using this methodology, NAID's report on *North American Integration Three Years After NAFTA* finds:

- The overall positive or negative employment impacts of U.S.-Mexico trade have not been significantly affected by the liberalization of tariffs due to NAFTA.
- The net employment impacts due to NAFTA tariff liberalization have been slightly positive, representing a very small share of new jobs being supported by exports to Mexico.

- The overall U.S. employment impact of NAFTA has been slightly positive, even taking into account the large impact of the peso crisis of 1995.
- Job losses related to imports have actually declined when comparing pre- and post-NAFTA periods.⁶³

NAID estimates a fifty percent undercount in NAFTA-TAA numbers. Even so, with the dynamism of the U.S. labor market kept in mind, the total at-risk jobs since NAFTA's inception are approximately one month's worth of job creation.⁶⁴ Together with other experts, the researchers at NAID emphasize that it is more important to focus on trade's impacts on productivity growth and welfare gains rather than short-term employment effects.

Proponents and opponents of NAFTA know that "success stories" or "disaster stories" play longer and better in the media and public imagination. A thoughtful audience will remember that in an economy the size of the United States with hundreds of thousands of businesses, anyone can find any number of anecdotes to support his or her own position. The truth must be discovered in the drier realm of employment and trade statistics. The macroeconomic data indicates that NAFTA has locked in the trade liberalization and market opportunities begun by Mexico, unilaterally, in the 1980s while not hurting the U.S. labor market in any way.

4. The Mexican Crisis: NAFTA Helped U.S. Exports and Mexico's Recovery

Much of the criticism of NAFTA is derived from the sudden decline in U.S. exports to Mexico in 1995 and increased imports from that country. It is important to discuss what caused this temporary shift in the trade balance, because it had nothing to do with the reduction of tariffs under NAFTA.

Beginning in the very first year of NAFTA and continuing through 1995, Mexico suffered several political shocks triggering its worst (but shortest) recession in 50 years. NAFTA did not cause the economic crisis in Mexico. A balance of payments crisis resulting from a peso devaluation undertaken shortly after the change in presidential administrations in late 1994 compounded a series of violent events in Mexico that year that denoted political instability. These events resulted in capital flight (not only because of events in Mexico, but also because U.S. interest rates made our market more attractive for investors) and a further decline in the value of the Mexican peso. GDP declined seven percent and private consumption declined 13 percent in the subsequent 19 months. Unemployment doubled, inflation increased six-fold to 45.7 percent, and interest rates went as high as over 100 percent.⁶⁵

As developing countries like Mexico become globalized in their financial systems and invest-

ments, the United States has a stake in their economic stability. Mexico's recovery was most definitely in the U.S. self interest; our exports to that country have a virtually direct correlation with that country's GDP growth.⁶⁶ When our neighboring market needed help in 1995, the United States led a coalition with a number of central banks and the International Monetary Fund (IMF) to provide a short-term swap loan which Mexico could draw down if needed. The U.S. share of the \$50 billion package was \$20 billion provided through the Exchange Stabilization Fund set up in the 1930s. This was repaid, early, by Mexico and brought the United States \$500 million more in interest than it would have under domestic interest rates. By the second quarter of 1996, Mexico's economy was in strong recovery.⁶⁷

Despite Mexico's recession, trade between the United States and Mexico continued to grow over the three years of NAFTA. In fact, U.S. exports did not decline nearly as drastically, nor for as long, as they did in Mexico's previous economic crisis in 1982. Why? Because Mexico was prevented from imposing import barriers to its NAFTA partners (while increasing tariffs on products from other parts of the world). Furthermore, U.S. imports contributed to Mexico's export-led recovery.⁶⁸ U.S. exports to Mexico actually in-

creased by 11 percent over the three years of NAFTA.⁶⁹ In the previous peso crisis of 1982, U.S. exports to Mexico dropped by 50 percent.⁷⁰ Furthermore, full recovery of U.S. exports to the growth rate of pre-crisis 1994 level took only 19 months. By contrast, recovery took seven years after 1982 because of import barriers Mexico

raised to our products (tariff rates raised to 100 percent and import licenses imposed on all products) and Mexico's nationalization of major sectors of the economy, namely banking.

In 1996, Mexico's GDP returned to 5.1 percent growth and U.S. exports surpassed their pre-NAFTA peak by \$15 billion to a record \$57 billion.⁷¹

5. Results of NAFTA Quiet Good News

The positive results of NAFTA are not found only in increased trade between our three countries and increased U.S. exports, but also in the fact that we are seeing trade in sectors where there previously had been no opportunities (such as services and procurement). Until recently, most trade agreements have been tariff reduction agreements. One reason NAFTA is a landmark agreement is because of the wide range of its other trade-enhancing provisions, particularly related to investment. No understanding of NAFTA's importance to the United States is possible if these other elements are not appreciated. In addition to tariff phaseouts on manufactured and agricultural trade, no less than fifteen non-tariff accomplishments of NAFTA are significant [See Box 1].

This cursory list illustrates NAFTA's comprehensive nature. The careful attention to establishing rules and procedures to provide predictability and safeguards for the vast flows of trade and investment already taking place before negotiations started is one of its under-appreciated accomplishments. The principles covered by NAFTA now serve as the terms of reference for other trade agreements to which the United States is not even party.

Perhaps most important, all of this new

and increased trade is occurring tranquilly. It is testimony to the agreement's quality that there have been notably few disputes given the fact that North American trade has increased 44 percent since NAFTA was signed.

Box 1. Non-Tariff Accomplishments

Inputs

1. *Opportunities for integrated production in various sectors* (most notably automobiles) to more efficiently meet demand in the North American market and be more competitive outside of NAFTA, by allowing for barrier-free movement of production inputs and the services that support production.

2. *Rules of origin* to ensure that the agreement would encourage manufacturers to use inputs produced within North America and discourage disguising non-North American products as North American by adding only marginal value before final sale.

Transparency

3. *Norm of transparency for standards* (to discourage non-tariff trade barriers) requiring that standards be clearly based on verifiable criteria (e.g. environmental, scientific, health and safety) and that parties be given adequate notification and opportunity to comply.

4. *Open system for bidding on government contracts in each other's countries (important for market access in Mexico where the public sector still accounts for a large part of the market).*

Services

5. *Access to Mexico's once-closed financial services markets and dramatically increased opportunities in other service sectors such as insurance, construction, and telecommunications.*

6. *Certified professionals allowed to work across borders in NAFTA countries (important for trade services).*

Investment

7. *No trade and investment restrictions impeding U.S. auto exports.*

8. *Permanent rights of investors to control Mexican subsidiaries and protect them against any future reversal of Mexican (or Canadian or U.S.) investment rules.*

Conflict Resolution/Protections

9. *Procedures for dealing with private commercial or agricultural disputes.*

10. *Ongoing working groups to share information, to deal with NAFTA implementation concerns, and manage and diffuse difficulties concerning various sectors and issues addressed in the agreement.*

11. *Dispute resolution panels effectively extending U.S. legal protections to American businesses on Mexican soil.*

12. *Higher level of intellectual-property-rights protection than any other bilateral or multilateral agreement (of great interest to U.S. high technology, entertainment, and consumer goods producers).*

Environment

13. *Prohibition to relax environmental and worker safety standards to attract investment, as well as preservation of each party's ability to maintain strong health, safety and environmental standards.*

14. *Establishment of the Border Environment Cooperation Commission (BECC) and North American Development Bank (NADBank) to address the environmental problems in the U.S.-Mexico border region and the paucity of capital in the region needed to invest and solve these problems.*

15. *Institutions to study cross-border problems and attempt to resolve them and increase mutual understanding of each other's systems, and to receive and manage citizen complaints and disputes.*

- The automobile industry is reaping outstanding benefits from NAFTA, as are computer and electronics, services, textiles industries, and agriculture, among other sectors.
- Disputes have been proportionally few, and several of these are the culmination of disputes that have been ongoing for decades.
- The level of interchange, not only between businesses in North America, but also between policymakers (especially at the functionary levels where the wheels of trade and policy truly turn and affect outcomes on a daily basis) is at unprecedented levels. This means that many disputes are resolved before they become crises.
- The atmosphere generated by the ongoing interaction between NAFTA partners is such that there is an expectation of cooperation and resolution even in areas where there are real differences between the parties.
- The interaction, stability, and procedures NAFTA established are important indicators of the agreement's positive effect.

Dispute Mechanisms

Only a decade ago our companies had limited recourse if they felt they had been treated unfairly in Mexico. NAFTA has provided clear and transparent procedures to expedite the resolution of disputes. NAFTA established panels for resolving disputes in the areas of antidumping and countervailing duties (AD/CVD) in Chapter 19, and violations of provisions of the agreement or acting to nullify expected benefits in Chapter 20. Two cases have been brought forward under Chapter 20 and some 29 under Chapter 19. Thirty cases may sound like a lot in three years, but when the scope of the agreement is considered, as well as the vast amounts of trade and investment flows covered under NAFTA's legal boundaries, the number is surprisingly low.

Before NAFTA there was no standard way for small businesses and those engaged in regular commercial activities in Mexico to safeguard against

and resolve the inevitable periodic disputes and commercial frictions. NAFTA created an international dispute resolution center. In December 1995, the creation of the Commercial Arbitration and Mediation Center for the Americas (CAMCA), the first international dispute resolution center founded to resolve private, cross-border commercial disputes relating to NAFTA, was announced. Formed by the American Arbitration Association, the British Columbia International Commercial Arbitration Centre, the Mexico City National Chamber of Commerce, and the Quebec National and International Commercial Arbitration Center, the CAMCA has a multi-national roster of neutral arbitrators and mediators; publishes guidelines and sample text for parties to insert into their contracts in advance of doing business that will provide for mediation in case of disputes; and studies, promotes, and administers procedures to resolve disputes through arbitration, mediation, and conflict resolution.⁷²

Institutions and Ongoing Consultations Lubricate the Relationship. The array of institutions and working groups established by NAFTA has also made an important contribution to the success of the agreement. Regular interaction by the players and policy experts in the numerous issue areas covered by NAFTA has been valuable in quietly helping the businesses and citizens affected by North American trade and investment.

There are twenty-four committees and working groups dealing with every area of NAFTA, staffed by officials from the relevant agencies for these issues from all three countries. Rather than waiting for a crisis to bring these officials together, the committees and working groups offer a regular opportunity to exchange information, learn more about each other's activities, and defuse problems before they erupt.

The more visible institutions established under NAFTA are:

- *Commission for Environmental Cooperation* (CEC): environment secretaries of the three countries with a secretariat and council located in Montreal.
- *North American Agreement on Labor Cooperation* (NAALC): labor secretaries of each country with a secretariat and executive director in Dallas, Texas.
- *Border Environment Cooperation Commission* (BECC): a bilateral commission of presidentially appointed members from the United States and Mexico with an office and general manager in Juarez, Mexico.
- *North American Development Bank* (NADBank): U.S. Secretary of the Treasury, the U.S. Secretary of State, the U.S. Administrator of the Environmental Protection Agency, Mexico's treasury minister, social development minister and trade ministers, as board of directors located in San Antonio, Texas.

The labor and environment institutions under NAFTA were unprecedented, and consequently took a while to get off the ground. It is really too early to definitively claim success or failure. The Labor and Environment commissions must grapple with their dual nature of models for cooperation contrasted with their role as official finger-pointers and potential enforcers with trade sanctions. The punitive flavor of the institutions detracts from the atmosphere required for productive collaboration. The NADBank and BECC are slow to certify and fund projects, though they have made significant strides in bringing the border communities into the process of their own infrastructure development by raising their understanding of how to structure and manage such projects. The border institutions have not attracted the confidence nor significant amounts of partnered lending, however, of the private infrastructure finance community.

The scope of NAFTA's supporting structure is nowhere near as large as that of other regional trading agreements, and certainly nothing like the enormous bureaucracy of the European Community.

Nonetheless, it provides an important opportunity for regular interaction by the key policy

players in the relationship and opportunities to resolve problems.

Labor, environment, and border institutions are important experiments for learning how to create multilateral mechanisms to address these difficult issue areas. Their scope is complex, and

their activities have been controversial and warrant more discussion and analysis than can be covered in this paper. A forthcoming Progressive Policy Institute paper will address these issues in greater detail.

6. What Remains to be Fixed?

On the whole, the parties to the agreement are staying within the boundaries of behavior set by NAFTA. When so many of the rules of the game have been changed, occasional deviations from the intent of the agreement are to be expected (whether from ignorance, or adherence to old ways of doing business, or other reasons). Irritations like the blocking of U.S. and Canadian Christmas trees at the Mexican border, ostensibly for lack of having been sprayed for pests that only live in the trees in the summer, are part of the backsliding that can be characterized as “revenge of the nerds” syndrome. That is why the ongoing consultative working group mechanisms are so important. In the past, resolution of these sorts of commercial problems would have been slow, channeled through formal diplomatic channels, often never to be fixed.

In addition to the U.S. failure to comply with NAFTA's timetable on trucking safety certification and access, the U.S. International Trade Commission (ITC) found the following additional problem areas under NAFTA in its recent review.⁷³

Country-specific

In Mexico (largely related to a lack of transparency and predictability in Mexico's administration of trade rules):

- Unpredictable administration of tariff-rate quotas (TRQ's) on agricultural products (TRQs were set, allowing a set amount—a quota—of goods into the country under reduced or no tariffs, with a tariff rate imposed when the quota is exceeded. TRQs were set based on historical trade levels before NAFTA.)
- Onerous labeling and certification requirements for consumer goods, processed foods, and apparel.
- Difficulties with testing procedures and technical standards for telecommunications terminals.

In the United States:

- Safeguard measures imposed to raise tariffs to protect our production of broom corn brooms (a tiny low-wage industry).
- Slowness in resolving animal and plant health-related restriction (including the threat of legislation requiring country-of-origin labeling for agricultural products).
- Implementation of sugar quotas and the U.S. sugar re-export program.

In **Canada** (largely due to gaps in NAFTA coverage and differences in opinion over rules):

- High post-Uruguay Round agricultural tariffs.
- Subsidies for lumber and wheat.
- Protection of cultural industries.

Remaining Reforms

Progress is needed in several other areas.

Judicial reform in Mexico: While NAFTA provides U.S. investors with national treatment in Mexico, it does not address the continued need for reform of the judicial system for review of government actions in Mexico. There needs to be more transparency and clear adherence to the letter of the law. This problem in Mexico is nowhere near the scope, however, of similar difficulties in Asian markets.⁷⁴

Trade Diversion and Distortions: As we strive to move the world toward full and open trade, it is not a good precedent for the United States to allow its trade agreements to result in trade diversion. Furthermore, U.S. inaction on following through on commitments to extend NAFTA to Chile and other countries in the hemisphere is causing U.S. businesses to lose out to their Canadian and Mexican counterparts who benefit from lower barriers to those markets. For example, Washington state apple growers are losing market share in Chile to Mexico, which already has a free trade deal.⁷⁵ Already 20 other trade agreements in our hemisphere have been signed without U.S. participation.⁷⁶ The European Union has expressed interest in negotiating with Mercosur, and opening its trade with Latin America. Already in June 1997, Mexico and the European Union took concrete steps toward free trade with plans to start negotiations in the spring of 1998.⁷⁷ Without presidential fast track authority, and the assurance that agreements negotiated with the United States will not be reworked by the 435 members of the U.S. Congress *ex post facto*, these other important and growing markets for U.S. products will not be opened to American goods and services and the jobs they provide.⁷⁸

Other Problems in the Bilateral Relationship: Improved relations due to the many mechanisms for cooperation in trade and investment matters under NAFTA are threatened periodically by eruptions in the problem areas of narcotics and migration. Extra-territoriality and perceived violations of sovereignty by the United States as represented by the Helms-Burton Act are also irritants. Critics of NAFTA link these issues to the trade agreement, when it is more noteworthy to point out that our biggest problems lie in those areas that are not governed by the formal arrangements, agreements, and institutions that NAFTA provides.

In the United States, an anti-immigrant sentiment prevails despite the lowest unemployment in decades. In Mexico, the recent U.S. immigration law, coupled with publicized incidents of police abuse of illegal immigrants, are perceived as indications that the United States is anti-Mexican. Nonetheless, progress on migration and narcotics has accelerated since NAFTA's implementation, perhaps due to the growing comfort and familiarity between the policy leaders of both countries that has arisen from not only NAFTA's on-going institutional collaboration, but also from the increasingly meaningful meetings of the Binational Commission of executive agencies on both sides of the border. In fact, a comprehensive study of migration, by a team of binational demographic and migration specialists commissioned by Presidents Clinton and Zedillo, will be released in September 1997.⁷⁹ And cooperative anti-narcotics measures were announced on President Clinton's visit to Mexico in April of this year.

It is true that the U.S.-Mexico relationship reaches far beyond the trade and investment governed by NAFTA. The same political courage and long-view that were necessary to undertake this agreement between a rich and a developing country are necessary to manage the more troublesome issues of migration and narcotics.⁸⁰

Improved Trade Data: Ignorance and fear are fueled by a lack of adequate data and the difficulty of empirically measuring the employment effects of NAFTA. Periodically the State Department, U.S. Trade Representative, and members of Congress clamor for this data, but Congress has been unwilling to fund it on a regular basis. The International Trade Administration is currently trying to

develop employment statistics for traders on a state and sectoral level—essentially restarting the “export origin” series that was stopped for lack of funding in 1992. The Census of Manufacturers (taken every five years) and Survey of Manufacturers (undertaken annually) ask trade and employment questions that would allow profiles of U.S. traders by industrial sector and region. Unfortunately, these statistics are not compiled into reports because of budget constraints. It would cost \$750,000 to start up such a project and \$500,000 per year to continue it.⁸¹ The regular release of this kind of information would go a long way toward removing the reliance on anecdotal success and horror stories that pervade the discussion of trade today.

Modernize Workers’ Tools for Adapting to Change: Beyond providing regular statistics on

trade and employment, we need to address directly the apprehension about employment security that persists in the U.S. public despite record employment levels and low inflation. This means giving individuals the power to control their own employment destinies with voucher-supported training and more meaningful adjustment assistance. The Progressive Policy Institute has advocated increased public investment in human capital and proposed innovative solutions to the education and training needs of American workers. During a period characterized by a shortage of skilled labor and high unemployment for high school drop-outs, we, as a country, are about to experience the by-product of underinvesting in the education of our workforce.

7. Public Opinion: Removing Fear and Loathing from the Trade Discussion

With NAFTA working well for the United States, why do protectionists continue to find an audience for their isolationist sentiments? Perhaps because the benefits of applying rules and standards of behavior to ongoing global trade and investment have not been communicated well to the general public. When the purpose of trade agreements is explained (to expand access for U.S. goods and services in world markets), then the public supports such agreements. But in the absence of that information, the public is apprehensive about the impact of trade agreements on job security in the United States.

A recent survey undertaken by the Democratic Leadership Council found that support for expanding trade is strong among all voters. Two-thirds of voters see global integration as a necessary and positive action. Sixty-seven percent think it is better to be aggressive at opening up markets, while only 22 percent think it is better to limit trade and be protectionist.

While supportive of free trade and rejecting protectionism, voters have concerns about the effect of trade on their jobs and families and believe corporations may benefit more than the average American.⁸²

A poll undertaken by EPIC/MRA of Lansing, Michigan for the Association of Women in International Trade, found that 61 percent of respondents approved of free trade agreements with other countries, and 88 percent agreed that America's economic strength in the future depends on our ability to compete in the global market place. Yet 47 percent thought the United States should either change or pull out of NAFTA, versus 30 percent who thought the United States should continue the agreement as is. Three quarters were unaware that the United States is the world's largest exporter. Sixty percent were unaware that America's exports have doubled over the last seven years. They were skeptical about the value of labor, environment, or human rights linkages to international trade, but still thought the United States should make these links.⁸³

Trade is too important to the U.S. economy to continue being misunderstood. Better information about the impact of trade must be collected on a regular basis and become part of the standard reporting of the federal government. Progressive approaches to dealing with the highly mobile nature of capital and firms, which is a feature of the modern world economy, must be put in place.

8. Conclusion

NAFTA is an important and solid agreement. It protects the interests of U.S. employers and investors and those of our trading partners. It contains important principles that will benefit U.S. employers when they are extended to other regional markets. It provides boundaries for behavior in the global market that protect U.S. interests. NAFTA puts in place rigorous rules for governing trade, setting a higher standard than previous agreements. While these rules have been good for North America, their value lies in serving as a template to expand these principles to other key markets.

Furthermore, through the vehicle of trade liberalization, NAFTA has introduced to Mexico important principles of transparency, the right to appeal government decisions, public access to information (about trade, labor, the environment), and a number of other issues that make up the foundation of an open, pluralistic, and democratic society.

Institutions, working groups, and mechanisms that NAFTA created have smoothed the path to allow North American businesses to trade, invest, and position themselves for better productivity and comparative advantage—thus making our economies stronger against shocks, such as Mexico's 1994 crisis. These features of NAFTA

don't just safeguard U.S. businesses, they protect the technology, processes, and markets that provide employment for our workers, too.

As the world's leading exporter, the U.S. economy will continue to be deeply involved in the global market. The prospect of free trade without the kinds of guidelines, safeguards, and predictability epitomized by NAFTA should be far more alarming than the prospect of further U.S. leadership in global trade negotiations.

We need to extend the principles embodied in NAFTA to the rest of the hemisphere. Having hemispheric trading partners who advocate the same principles at the WTO will give the United States leverage to lead the global marketplace to a new era of open and fair trade.

NAFTA is designed to be expanded. It contains a "docking" or accession clause that would allow other countries to sign on to its provisions. Since NAFTA went into effect, however, a number of other developments have occurred in our hemispheric trading environment. It behooves the United States to ensure that any future trade agreements not only meet the standards included in NAFTA, but also cover current conditions with the proposed trading partner(s) and anticipate future needs. In this regard, the founding principles and approach epitomized in NAFTA should be used as

the basic architecture for future hemispheric agreements, even if such agreements are not "accessions" to NAFTA per se.

Though the next round of fast track is needed for much more than negotiating agreements with the rest of the Americas, no one should forget how important Latin American markets are to our economic future. Latin America is one of the two fastest growing regions in the world (with the developing countries of Asia being the other).⁸⁴ For the first time in 1996, hemispheric exports exceeded \$1 trillion.⁸⁵ The Mercosur countries alone represent a market of 220 million consumers with a combined GDP of more than \$1 trillion.⁸⁶ Twenty trade agreements have been negotiated within the hemisphere without U.S. participation. Talks currently underway between Mercosur and Canada, Mexico, Venezuela, and the Andean Community threaten to make the Mercosur model (of higher tariffs and external barriers to non-participants) the framework for

trade in the Americas.⁸⁷ Any further delay in asserting U.S. leadership in trade negotiations with Latin America may hurt U.S. interests.

The plain fact is, U.S. trade partners will not engage in comprehensive trade negotiations until they are assured that the deals reached will not be watered down or changed in the process of congressional approval. That assurance is provided by fast track authority for the president. While trading partnerships are being cemented throughout the hemisphere, the United States is being left out of the bargaining. Our partners would prefer the status quo with the United States to bad faith negotiations.

Congress must give President Clinton the tool that all previous presidents have wielded to assert U.S. leadership in the world marketplace—fast track trade negotiating authority. Without it, the United States is not welcome at the bargaining table.

Endnotes

- ¹ *The New Democrat* Editors, "NAFTA and the National Interest" *The New Democrat*, Volume Five, Number 4, (November 1993): 5-6.
- ² Mercosur is a trade agreement between Brazil, Argentina, Paraguay, and Uruguay (with Chile signing on as a "plus one") that is classified as a customs union because it establishes a common external tariff barrier to products from outside the region while reducing trade barriers between the members of Mercosur.
- ³ Canadian Conference Board Report on NAFTA Economic Growth (Montreal: Notimex News Service, (August 7, 1997).
- ⁴ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): i and 1.
- ⁵ Mexico expert political commentator and editor of the magazine *Courrier International*, Jean Michel Boissier, is quoted in the Mexican magazine *Siempre*, as saying that "NAFTA has importance in the fall of the PRI...This democratic opening is a direct consequence of the free trade agreement...With NAFTA, Mexico has become a more visible country..." (*Siempre*, August 27, 1997).
- ⁶ "Government reports GDP growth at 8.8 percent in second quarter & 7 percent in January-June" (SourceMex on-line newsletter, <http://ladb.unm.edu/>, September 20, 1997).
- ⁷ Testimony before U.S. International Trade Commission (USITC) hearings on NAFTA (Gary Hufbauer and Jeffrey Schott, May 15, 1997): 3.
- ⁸ Canadian Conference Board, (Montreal: Notimex News Service).
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- ¹⁰ *Ibid.*, i and 1.
- ¹¹ Regina Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House International Relations Committee (March 5, 1997): 5.
- ¹² U.S. Trade Representative (USTR), "1996 Annual Report of the President of the United States on the Trade Agreements Program" (<http://www.ustr.gov/reports/tpa/1997/part3.html>): 2.
- ¹³ "U.S. Trade With Mexico during the Third NAFTA Year" *International Economic Review* (U.S. International Trade Commission, April 1997): 11.
- ¹⁴ *Ibid.*, 11.
- ¹⁵ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 39.
- ¹⁶ "North American Integration Three Years after the NAFTA: A Framework for Tracking, Modeling, and Accessing the National and Regional Labor Market Impacts" (North American Integration and Development center, UCLA, <http://naid.spps.ucla.edu/NAFTA96/Introduction.html>, December 1996): Chapter 3, p. 13.
- ¹⁷ Sidney Weintraub, "NAFTA at Three: A Progress Report." *The Center For Strategic and International Studies*, (1997): 17-18 and 33-34—on the specialization effect.

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- ¹⁹ Testimony before U.S. International Trade Commission (USITC) hearings on NAFTA (Gary Hufbauer and Jeffrey Schott, May 15, 1997): 5 and Table 14.
- ²⁰ "NAFTA: The Right Track for U.S. Trade Policy" (National Foreign Trade Council, 1997): 5.
- ²¹ Economic Report of the President, (Council of Economic Advisors, February 1997): 256, Charts 7-8
- ²² Ibid., 255.
- ²³ State NAFTA Reports Executive Summary, (Council of the Americas, May 1997): 1.
- ²⁴ Andrew H. Card, President & CEO, American Automobile Manufacturers Association, (USITC Hearing, May 16, 1997): 2-3 and Regina Vargo, 2.
- ²⁵ Andrew Card, "Impact of North American Free Trade Agreement on U.S. Automotive Exports to Mexico" (U.S. Department of Commerce, http://www.ustr.gov/reports/nafta/auto_96/index.html): 1, 4.
- ²⁶ Ibid., 1-2.
- ²⁷ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 46.
- ²⁸ Andrew Card, AAMA, "Impact of North American Free Trade Agreement on U.S. Automotive Exports to Mexico" (U.S. Department of Commerce, http://www.ustr.gov/reports/nafta/auto_96/index.html): 3.
- ²⁹ Ibid., .2-3. This gives an extensive list of specific plant re-openings and investments made in the United States.
- ³⁰ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 46.
- ³¹ Andrew Card, AAMA and "Impact of NAFTA on Automotive Exports." Study on the Operation and Effects of NAFTA, p. 56.
- ³² Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 59.
- ³³ North American Integration, Chapter 3, p. 13.
- ³⁴ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 56.
- ³⁵ Ibid., 85-86.
- ³⁶ Executive Summary, p. vi and *International Economic Review*, (April 1997): 5-11.
- ³⁷ Of the total 557 NAFTA-TA certified manufacturing firms, 19.9 percent were apparel firms (an over-representation when compared to the fact that apparel firms account for only 6.3 percent of all U.S. manufacturing firms) according to NAID, North American Integration, Chapter 5, p. 2.
- ³⁸ Fiber or yarn-forward rules of origin require that a fabric must be made from North American materials from the level of the fiber (e.g. cotton or wool) or the yarn made from these fibers on until the final product (clothing, carpet, fabric).
- ³⁹ William A. Orme, Jr., "The NAFTA Debate-Myths Versus Facts—the Whole Truth about the Half-Truths," *Foreign Affairs*, Vol. 72, No. 5 (November/December 1993): 4.
- ⁴⁰ USTR 1996 Annual Report of the President of the United States on the Trade Agreements Program." World Wide Web, <http://www.ustr.gov/reports/tpa/1997/part3.html>): 11-12.
- ⁴¹ Survey of Current Business, USDOC (1996).
- ⁴² "Government Increases Share in Northeast Railroad" (SourceMex on-line newsletter, <http://ladb.unm.edu/> February 12, 1997).

- 43 Sidney Weintraub, "NAFTA at Three: A Progress Report." The Center For Strategic and International Studies, (1997): 50.
- 44 Remarks by Congressman Steve Buyer, U.S. International Trade Commission, Hearings (May 15-16, 1997): 3-8.
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- 46 International Trade Administration, Office of Mexico, U.S. Department of Commerce (May 1997) unpublished summary of procurement effects of NAFTA.
- 47 Stephen P. Dees, Farmland Industries, Inc., "The Impact of the North American Free Trade Agreement" U.S. ITC Hearings (May 12, 1997):1.
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- 50 "U.S. and Mexico Announce Agreement to Open Markets for Some Agricultural Products" (SourceMex on-line newsletter, <http://ladb.unm.edu/>, May 14, 1997).
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- 52 "U.S. and Mexico Announce Agreement to Open Markets for Some Agricultural Products" (SourceMex on-line newsletter, <http://ladb.unm.edu/>, May 14, 1997).
- 53 Stephen P. Dees, Farmland Industries, Inc., "The Impact of the North American Free Trade Agreement" U.S. ITC Hearings (May 12, 1997): 2.
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- 56 Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 11.
- 57 Economic Report of the President 1997, Council of Economic Advisors (1997): 22, 76.
- 58 Amy Saltzman, "Making it in a Sizzling Economy" *U.S. News & World Report* (June 23, 1997): 50.
- 59 Testimony before U.S. International Trade Commission (USITC) hearings on NAFTA (Gary Hufbauer and Jeffrey Schott, May 15, 1997): 3.
- 60 "NAFTA's Broken Promises: Failure to Create U.S. Jobs-NAFTA's Three Year Reality: Spiraling Job Loss and Trade Deficits Instead of Job Creation" *Public Citizen* (February 1997): 1.
- 61 Bill Richards, "Shaky Numbers: Layoffs Not Related to Nafta Can Trigger Special Help Anyway" *The Wall Street Journal* (June 30, 1997): 1.
- 62 "North American Integration Three Years after the NAFTA: A Framework for Tracking, Modeling, and Accessing the National and Regional Labor Market Impacts" (North American Integration and Development center, UCLA, <http://naid.spps.ucla.edu/NAFTA96/Introduction.html>, December 1996): 9.
- 63 Ibid., 5.
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- 65 "NAFTA: Past Experience and Future Prospects, 45th (Manuel Suarez-Mier, Annual Management Conference, Graduate School of Business, The University of Chicago, April 1997): 1.

- ⁶⁶ Regina K. Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House International Relations Committee (March 5, 1997): Chart 2.
- ⁶⁷ For a discussion of the Mexico peso crisis there are numerous references, but the following give an overview: Sidney Weintraub, "NAFTA at Three: A Progress Report." The Center For Strategic and International Studies, (1997): chapter 4; and Geoffrey J. Bannister, "The Economic Context of the Mexican Crisis" Research Paper Series No. 29 (University of New Mexico, Latin American Institute, September 1996).
- ⁶⁸ Sidney Weintraub, "NAFTA at Three: A Progress Report." The Center For Strategic and International Studies, (1997): 31.
- ⁶⁹ Ibid., 28, Figure 1.
- ⁷⁰ Regina K. Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House International Relations Committee (March 5, 1997): 3.
- ⁷¹ Ibid., 4; and Executive Summary, USTR. p. 6.
- ⁷² These guidelines available by calling (212) 484-4000 or on the World Wide Web, <http://www.adr.org/>.
- ⁷³ "NAFTA Commission Meets Amidst Debate Over Accord's Expansion" *International Economic Review*, 14.
- ⁷⁴ Interview with Robert Herzstein, Shearman & Sterling, (Washington, D.C., June 11, 1997).
- ⁷⁵ Regina K. Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House International Relations Committee (March 5, 1997): 7.
- ⁷⁶ Ambassador Charlene Barshevsky, USTR, Testimony before the Trade Subcommittee of the House Ways and Means Committee (March 18, 1997).
- ⁷⁷ "Mexico and Europe Seek Trade Accord" *El Financiero International Edition*, (June 16-22, 1997): 1.
- ⁷⁸ There is ample opportunity for congressional and business input to negotiations before and during free trade negotiations, if NAFTA is any example. By the time NAFTA was signed, over 1,000 consultations (averaging two per working day from the moment negotiations began with Congress and industry groups) had been held. Source: USTR NAFTA Sourcebook 1994.
- ⁷⁹ The report finds that the number of undocumented Mexican workers settling in the U.S. each year is 105,000 as opposed to the 1 million per year estimated by such political figures as Patrick Buchanan and Governor Pete Wilson. Source: "Paper: Illegals Fewer than Thought" *Associated Press*, (September 1, 1997 New York, AOL On-Line News Service).
- ⁸⁰ Clark W. Reynolds, "The Missing Vision" *The San Diego Union-Tribune*, (May, 11 1997): G-6.
- ⁸¹ Interview with International Trade Administration Official (June 24, 1997).
- ⁸² "The New Democratic Electorate" Democratic Leadership Council Survey, Executive Summary (August 6, 1997).
- ⁸³ Results from Epic/MRA survey of 850 adult U.S. residents conducted May 19-22, 1997, margin of error $\pm$ 3.5 percent, commissioned by Women in International Trade.
- ⁸⁴ USTR, 1996 Annual Report on Trade Agreements, p. 2 (WWW version); "Globalization Opportunities and Challenges" International Monetary Fund, *World Economic Outlook* (May 1997): 5, Table 1.
- ⁸⁵ Gary Springer, "Strategic Developments in Hemispheric Free Trade Agreements" (Unpublished September 1997): 1, Chapter 2.
- ⁸⁶ Ibid., 3.
- ⁸⁷ Ibid., 3.

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1/7 - 1:30 pm

**TALKING POINTS ON
NEW WAYS & MEANS COMMITTEE
TRADITIONAL TRADING AUTHORITY LEGISLATION**

The Ways & Means Compromise Meets the Objectives of the President and is a Good Bipartisan Approach. We want to thank Chairman Archer and Mr. Dreier for working with us constructively in fashioning a good bipartisan bill. The compromise recently reached (which is different than the bill Chairman Archer introduced Monday) meets the concerns of both Congressional Democrats and Republicans. It also advances the key objectives of the President.

- Serving Our Overall Objectives. The bill ensures the President is able to pursue his three core objectives: 1) to break down unfair foreign trade barriers and create good American jobs; 2) to promote and advance worker rights; and 3) to promote responsible environmental protections. Our goal throughout this process has been to ensure the President is able to pursue all three objectives effectively.
- Promoting Our Labor and Environmental Goals. The bill contains a fast track negotiating objective specifically addressing protection of the environment and promotion of worker rights abroad. The President also retains the ability to pursue labor and environmental objectives through a variety of means.

The Bill Advances Our Trade Agenda. The Ways & Means bill permits the President to continue attacking foreign trade barriers and opening markets to the products of U.S. workers and companies. Renewal of fast track authority, which every President has had since 1974, is critical to continuing the economic expansion the U.S. is now experiencing.

The Bill Gives Us the Ability to Protect Worker Rights and the Environment. This bill enables us to address worker rights and environmental protection in negotiations with our trading partners. Key provisions include:

- Principal Negotiating Objective. The bill includes the promotion of worker rights (including deterring exploitative child labor), protection of the environment and health and safety as a principal negotiating objective of U.S. negotiators. It establishes the objective of ensuring "that foreign governments do not derogate from or waive existing domestic environmental, health, safety or labor measures, including measures that deter exploitative child labor, as an encouragement to gain competitive advantage in international trade or investment".
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The President Can Use Additional Tools. The Ways & Means Committee approach recognizes that the President retains additional options for pursuing our labor and environmental objectives.

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- Other Agreements. The Clinton Administration has done more than any other to press countries to improve their labor and environmental protections – and we will continue to do so, whether through the WTO, ILO, UN or international financial institutions. We should be concerned about improving labor and environmental conditions in all countries, not just in free trade partners.

The Bill Includes Other Key Provisions. The Ways & Means Committee bill also incorporates a variety of other important provisions sought by Democrats and others.

- Agriculture. The bill contains a specific, detailed negotiating objective on agriculture that is designed to promote fairer and more open conditions of agricultural trade.
- Better Consultations. It includes several provisions to require greater consultations with the Congress than ever before.
- Flexibility in Future Bills. The Ways & Means Committee bill also provides flexibility to include in future trade agreement implementing bills provisions “related to the operation or effect of the provisions of the trade agreement”, thereby permitting the U.S. to include assistance for dislocated workers or other provisions important for adjustment to the effects of the trade agreement’s provisions.
- Duration. The bill extends fast track authority to 2001, extending it until 2005 only after a Congressional vote.

10/7 - 1:30 pm

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- Worker Rights in the ILO/WTO. The bill also promotes worker rights and the environment by stating the President should pursue non-fast track agreements on various labor/environmental subjects in the ILO, WTO and other fora.
- Assistance for Dislocated Workers. The bill contains reauthorization for Trade Adjustment Assistance (TAA) and NAFTA-TAA. It also states that future trade agreement implementing bills could contain adjustment assistance for workers and firms adversely affected by trade.

The President Can Use Additional Tools. The Ways & Means Committee approach recognizes that the President retains additional options for pursuing our labor and environmental objectives.

- Labor and Environmental Agreements. The President retains broad executive authority to reach labor and environmental agreements with other countries. These agreements do not require Congressional approval. We have already committed to such agreements in conjunction with future trade negotiations, where appropriate, and Chile has already agreed to conclude such agreements with us.
- Other Agreements. The Clinton Administration has done more than any other to press countries to improve their labor and environmental protections – and we will continue to do so, whether through the WTO, ILO, UN or international financial institutions. We should be concerned about improving labor and environmental conditions in all countries, not just in free trade partners.

The Bill Includes Other Key Provisions. The Ways & Means Committee bill also incorporates a variety of other important provisions sought by Democrats and others.

- Agriculture. The bill contains a specific, detailed negotiating objective on agriculture that is designed to promote fairer and more open conditions of agricultural trade.
- Better Consultations. It includes several provisions to require greater consultations with the Congress than ever before.
- Flexibility in Future Bills. The Ways & Means Committee bill also provides flexibility to include in future trade agreement implementing bills provisions “related to the operation or effect of the provisions of the trade agreement”, thereby permitting the U.S. to include assistance for dislocated workers or other provisions important for adjustment to the effects of the trade agreement’s provisions.
- Duration. The bill extends fast track authority to 2001, extending it until 2005 only after a Congressional vote.

Traditional Trading Authority

The Senate Finance Bill Addresses Key Democratic Concerns. The Senate Finance Committee bill, passed on October 1 with overwhelming Democratic support, advances the key objectives of the President and Congressional Democrats.

- Serving Our Overall Objectives. The bill ensures that the President is able to pursue his three core objectives: (1) to break down unfair foreign trade barriers and create good American jobs; (2) to promote and advance worker rights; and (3) to promote responsible environmental protections. Our goal throughout this process has been to ensure the President is able to pursue all three objectives effectively.
- Promoting Our Labor and Environmental Goals. The bill contains a fast track negotiating objective specifically relating to protecting the environment and promoting worker rights abroad. The President also retains the ability to pursue labor and environmental objectives through a variety of means.

The Bill Advances Our Trade Agenda. The Finance Committee bill permits the President to continue attacking foreign trade barriers and opening markets to the products of U.S. workers and companies. Renewal of fast track authority, which every President has had since 1974, is critical to continuing the economic expansion the United States is now experiencing.

The Bill Gives Us the Ability to Protect Worker Rights and the Environment. This bill enables us to address worker rights and environmental protection in negotiations with our trading partners. Key provisions include:

- Principal Negotiating Objective. The bill includes the promotion of worker rights (including child labor standards) and protection of the environment as a principal negotiating objective of U.S. negotiators. It directs U.S. negotiators to seek agreements to prevent foreign governments from lowering, or derogating from, the country's labor, environmental, or health and safety standards for the purpose of attracting foreign investment or inhibiting U.S. exports.
- Worker Rights in the ILO. The bill also promotes worker rights by having the U.S. seek to have the International Labor Organization examine how other countries are enforcing core standards such as freedom of association and the right to organize and bargain collectively -- an idea proposed by Senator Moynihan and other Democrats.
- Assistance for Dislocated Workers. The bill also envisions that trade agreement implementing bills could contain assistance for those workers dislocated by trade, such as through the Trade Adjustment Assistance (TAA) program.
- Environmental Protection. The bill affirms the importance of protecting and preserving the environment and calls for enhanced international efforts to accomplish this objective.
- Protecting Our Laws. The bill safeguards U.S. laws that provide world-class protection to our workers and the environment.

The President Can Use Additional Tools. The Finance Committee approach recognizes that the President retains additional options for pursuing our labor and environmental objectives.

- Side Agreements. The President retains extensive executive authority to reach labor and environmental agreements with other countries. These agreements do not require congressional approval. We have already committed to such agreements in conjunction with future trade negotiations, where appropriate, and Chile has already agreed to conclude such agreements with us.
- Other Agreements. The Clinton Administration has done more than any other to press countries to improve their labor and environmental protections -- and we will continue to do so, whether through the WTO, ILO, UN, or international financial institutions. We should be concerned about improving labor and environmental conditions in all countries, not just in free trade partners.

The Bill Includes Other Key Provisions Requested by Democrats. The Finance Committee bill also incorporates a variety of other important provisions sought by Minority Leader Daschle and other Democrats.

- Agriculture. The bill contains a specific, detailed negotiating objective on agriculture, requested by Democrats, that is designed to promote fairer and more open conditions of agricultural trade.
- Better Consultations. It includes several provisions to require greater consultations with the Congress than ever before -- concerning both trade negotiations and any planned agreements on labor and the environment.
- Trade Adjustment Assistance. At the insistence of Senator Moynihan and other Democrats, the Finance Committee bill extends and funds the TAA program for two additional years.
- Flexibility in Future Bills. The Finance Committee bill also preserves the ability to include in future fast track legislation improvements in U.S. fair trade laws or assistance for dislocated workers, important for the U.S. to adjust to the effects of the trade agreement.
- Duration. The bill extends fast track authority to 2001, extending it until 2005 only after a congressional vote.

NEWS

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE

October 6, 1997

Statement of Chairman Bill Archer

Good afternoon.

Today, we sow the seeds for future economic prosperity. Trade has been, and will always be the force that provides the fuel for our economic engine. Trade benefits all, business and workers. And if we are to continue on the strong economic road, we need to expand our trading opportunities because every successful trade agreement places another brick in the foundation of a growing economy.

Over the past few weeks, many questions have arisen over the benefits of trade. To reply, I would say to simply look at the facts.

The United States is the world's largest exporting country, with exports nearing the \$1 trillion mark in 1996. This economic boon has translated into approximately eleven and a half million U.S. jobs which pay, on average, 15 percent more than non-trade-related jobs.

We have been able to achieve these strong numbers because we have been aggressive in expanding overseas markets to our businesses and workers. To sustain our growth and prosperity we must continue to tap into the growing economies around the world, especially those in Asia and Latin America. We must remember that 19 out of every 20 customers live beyond our borders.

Unfortunately, we are at a standstill. World dynamics are shifting and we are being left behind. Where once we were considered the world leaders in trade, we are now playing catch-up to agreements we didn't write. American workers aren't being hired because our trade partners are entering into contracts with other nations. Most recently, a U.S. telecommunications equipment supplier lost out on a golden opportunity to a Canadian competitor in part because of an 11 percent tariff preference favoring Canadian companies.

The legislation I unveil today is a healthy mix of proposals pursued by both the Congress and the White House over the last several years. This measure gives the President the authority he needs to move ahead in negotiating trade agreements without undermining Congress' Constitutional role in this area. Specifically, my bill gives the Administration the flexibility to negotiate and bring back to Congress under fast track all matters that are directly related to trade and assures that implementing bills may not contain matters not directly related to trade. It

WAYS AND MEANS FAST TRACK BILL: SUMMARY OF KEY PROVISIONS

- Gives the Administration the flexibility to negotiate and bring back to Congress under fast track all matters that are directly related to trade
 - Contains authority to reduce or eliminate barriers and policies and practices directly related to trade; reduce services trade barriers; reduce foreign direct investment trade barriers; promote trade-related intellectual property; obtain broader transparency; achieve fairer and more open trade in agriculture; and address those aspects of foreign policies and practices regarding labor, environment, and other matters that are directly related to trade and that decrease market opportunities for United States exports and distort United States trade
- At the same time, assures that implementing bills may not contain matters not directly related to trade, by specifying that each provision of the bill must be linked to one of the primary negotiating objectives laid out in the bill
- Preserves the Administration's authority to negotiate "side agreements" (or matters that are not directly related to trade) under the President's executive authority, requiring that the normal legislative procedures be used to implement such agreements
- Assures that only those provisions that are necessary to implementing the agreement are eligible for fast track procedures; the bill maintains flexibility to assure that Congress may implement the agreement fairly but does not permit the inclusion of extraneous matters
- Extends Trade Adjustment Assistance programs and assures that worker adjustment assistance is an integral part of the implementation of future trade agreements
- Provides that U.S. negotiators are to take into account U.S. domestic objectives, including protection of health and safety, essential security, environmental, consumer and employment opportunity interests, as well as the need for the United States to retain the ability to enforce vigorously its trade laws
- Grants authority to the President to proclaim certain reductions in tariffs, as well as to proclaim certain eliminations in certain tariffs if U.S. trading partners also agree to eliminate tariffs in the same sectors
- Applies to trade agreements entered into by October 1, 2001, with an extension to October 1, 2005 available unless Congress passes a resolution disapproving the extension
- Improves consultations between the Administration and Congress concerning trade negotiations and development of an implementing bill

preserves the Administration's authority to negotiate "side agreements" under the President's executive authority, requiring that the normal legislative procedures be used to implement such agreements. It maintains flexibility to assure that Congress may implement the agreement fairly, but it does not permit the inclusion of extraneous matters. Finally, the bill extends Trade Adjustment Assistance programs and assures that worker adjustment assistance is an integral part of the implementation of future trade agreements.

While today represents a major step toward granting the President fast-track authority, we still have a long ways to go. It has been clear from the beginning, Republicans cannot pass this legislation alone. Mr. President, it is essential that you become involved in this effort. You have taken bold action before and moved your party in new directions. It is time to do that again. Your staff, especially Ambassador Barshefsky, has worked tirelessly to push this issue but they cannot do it alone. We need your help.

Now I would like to introduce a friend of mine who I believe represents millions of factory workers across America. Del Thurston is a machine worker for a textile manufacturer in Massachusetts. Del would like to let you know how important it is to him and to the millions of workers like him that we pass fast track and continue to expand our trading opportunities.

cc Vicki Rasmussen
Benjamin W. Heineman, Jr. hopes you're rested and relaxed. It was great fun playing golf with you, Vernon and Jack. GE is ready to provide support to fast-track legislation and will be working with your people as you continue to build a sterling record on international economic issues.



Spot

9-11-97

Benjamin W. Heineman, Jr.
Senior Vice President—
General Counsel and Secretary

General Electric Company
3135 Easton Turnpike, Fairfield, CT 06431
203 373-2492

September 4, 1997

President Bill Clinton
The White House
Washington, D.C. 20500

Dear Mr. President:

I hope this finds you rested and relaxed after three weeks on the Vineyard. I also hope that your knee rounded into shape, and you were able to get full movement.

It was great fun playing golf with you, Vernon and Jack.

Thanks so much for including us. It was a real treat and a real privilege. My kids actually thought I was something for a few days.

As it has on all the Administration's initiatives in the trade area, GE is ready to provide all our support to fast-track legislation this fall. We will be working with your people as you continue to build a sterling record on international economic issues (among many others).

Please give my very best to Hilary.

With warmest regards,

Sincerely,

Bz

SEP 9 1997



Aetna Inc.
151 Farmington Avenue
Hartford, CT 06156-3125

Vanda B. McMurtry
Senior Vice President
Federal Government Relations
TEL: (860) 273-0721
FAX: (860) 273-4479

September 30, 1997

Victoria L. Radd
Chief of Staff to the Chief of Staff
Executive Office of the President
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Vicki:

I am writing to let you know that Aetna Inc. will be a major corporate player in the effort to renew fast-track negotiating authority for the Clinton Administration. Aetna strongly believes that the President should have this authority and we will work hard to win the fight on Capitol Hill.

I am enclosing an article on fast track that ran last week in the Boston Globe. Written by Dick Huber, Aetna's President and Chief Executive Officer, it lays out the case for fast track from the point of view of an American financial services firm with extensive overseas operations. Please feel free to use the article as you wish.

Please do not hesitate to contact me if I can provide you with further information on Aetna's fast-track initiative.

Sincerely,

A handwritten signature in cursive script, appearing to read "Vau", which is a stylized representation of the name Vanda.

Vanda B. McMurtry

Enclosure

PUBLIC FORUM
Richard L. Huber

Sidetracking US on world trade

EVERYBODY KNOWS THAT IN COMPETITION, the race goes to the fastest, strongest, and most able. So why is it that with global competition intensifying, we want to sidetrack ourselves in international trade negotiations? The answer is obvious: Proposed legislation giving the president fast-track authority on trade issues deserves quick approval from Capitol Hill.

Earlier this month, I was in Argentina, Brazil, Chile, and Paraguay on a visit to Aetna subsidiaries. In these countries, I could see the enormous success of Mercosur, the Latin American common market organization. Mercosur is like a giant locomotive of its four member countries: Argentina, Brazil, Paraguay, and Uruguay. And now the freight cars of Chile and Bolivia are hooking on as associate members, and the European Union is joining as well. The momentum of this economic train is tremendous, and last month its demand for European imports outpaced the demand for US imports. Unless the United States is on board with Mercosur, we will continue to see US imports to Latin America decline, as other nations meet the growing need for imported goods and services. Without fast-track authority, American access to Latin America and other growing markets is truly in jeopardy.

As the world's number one exporter, the United States has more than 12 million Americans supported by industries serving overseas markets. Within two years, 16 million Americans are expected to work in export-related businesses. Fast-track authority is not about American leadership in world trade, it's about sustaining our ability to compete.

To strike successful accords, both sides in a deal

must gain mutual respect and trust. That will never happen if every aspect of a presidential negotiation is subject to congressional approval. And who will suffer? The American people.

Failure to renew negotiating authority only will encourage competitors to cut America out of new accords. Right now, trade negotiations are under way around the world, and we run the risk of being excluded. In recent years, 22 trade agreements have been signed without the United States.

It seems foolish to lose export opportunities because our competitors are more nimble and politically unified on economic policy. Today, the United States exports one-eighth of all goods and services it produces; the dollar value of exports continues to grow at nearly double-digit annual rates. Here in New England, exports topped \$8 billion in the first quarter of 1997 alone.

Moreover, fast-track authority possibly allows reducing trade barriers in some of the world's fastest-growing markets, where economies are expected to grow at almost three times the rate of mature economies in the next two decades. Such growth creates tremendous demand for US goods and services.

My own company is fulfilling the burgeoning demand for insurance, pension, and health care products and services in Latin America and Asia. Through our success in Chile, Taiwan, Mexico, and Brazil, we see very clearly how robust growth in these and other emerging markets causes a rapid increase in per capita income, and with it the formation of an expanding middle class that fosters economic and political stability. We've worked in Chile for more than 15 years, and we've seen a country of only 14 million people transform itself into a regional economic powerhouse. We expect to see the same dynamic growth in Brazil.

Like Aetna, thousands of US companies stand ready to meet the demands of foreign customers. With only 5 percent of the world's population, the United States depends on new markets for continued growth. Access to those markets is good for everybody, spurring economic growth here and abroad. Swift passage of fast-track legislation is essential for keeping US trade on track.

Richard Huber is president and chief executive of Aetna Inc.

THE SAVILE GROUP

October 23, 1997

THE SAVILE GROUP

VICTORIA RADD
Chief of Staff to the Chief of Staff
Executive Office of the President
1600 Pennsylvania Avenue, NW
First Floor, West Wing
Washington, D.C. 20500

CHRISTOPHER J. MAILANDER, ESQ.
MANAGING DIRECTOR

202.546.2558
202.546.1388 FAX
mailander@earthlink.net

602 NORTH CAROLINA AVE., S.E.
WASHINGTON, D.C. 20003

Correspondence Hand-Delivered ~ Two Pages

Dear Ms. Radd:

In light of the increasing intensity of the debate over renewal of the President's fast-track authority, I wanted to provide you with new survey data which should prove very beneficial to presentation of the Administration's case over the weekend.

Chicago's Harris Bank and its parent, Bank of Montreal, are currently in the field surveying 350 business executives from the U.S., Canada and Mexico regarding ongoing trade issues. Because of the importance of the findings to date concerning fast-track, we have pulled these specific results for immediate use in the ongoing debate. We would like to offer these findings to the Clinton Administration for its use this weekend and the early part of next week in making the case for fast-track.

The business community's support for granting the President fast-track authority is overwhelming:

- Overall, 75 percent of North American business executives support granting the President fast-track authority. Only 11 percent are opposed.
- Specifically, 70 percent of U.S. business executives support granting the President fast-track authority. Only 15 percent are opposed.
- When asked whether they agreed or disagreed with the statement that "The U.S. risks falling behind in the increasingly global economy if it can't negotiate new trade agreements," 74 percent of all business executives agreed with the statement. Of U.S. business executives surveyed, 73 percent agreed with this statement.

The complete findings of the survey questions focused on fast-track are detailed in the attached issue brief.

New Survey Findings on Fast-Track
October 23, 1997
page 2 of 2

Please note also that this is the second bi-annual survey by Harris Bank and Bank of Montreal regarding executives' perceptions of ongoing trade-related issues. In early 1996, the survey garnered 10.7 million media impressions upon its announcement. We believe that this installment of the release will also generate significant public interest, and no doubt be helpful to the Administration's efforts in the coming week.

Please call me if you have any questions. I can be reached at 202-546-2558 or on my cell phone at 202-669-2912.

With kindest regards,

A handwritten signature in black ink, appearing to read 'Chris', with a large, stylized initial 'C'.

CHRISTOPHER J. MAILANDER, ESQ.
Managing Director

ISSUE BRIEF

**NORTH AMERICAN BUSINESS EXECUTIVES WORRY
U.S. RISKS FALLING BEHIND IN GLOBAL ECONOMIC RACE**

**Survey Preview Shows Business Leaders
Overwhelmingly Support 'Fast-Track' Authority for President**

October 23, 1997

According to preliminary results of an ongoing survey of business executives in the U.S., Canada and Mexico conducted by Chicago's Harris Bank and its parent, Bank of Montreal, business leaders throughout North America believe the U.S. risks falling behind in the global economy if Congress does not renew the President's 'fast-track' authority to negotiate trade agreements.

The survey finds 75 percent of the 199 business executives interviewed so far support granting the President fast-track authority, while only 11 percent are opposed. In the U.S., 70 percent of those polled support renewing fast-track authority while 15 percent oppose. Among Canadian and Mexican executives, support is 80 and 79 percent, respectively, while opposition is a scant 6 and 5 percent.

Executives from all three countries agree that the U.S. will lose ground in the global economic race if the President does not have fast-track authority. Overall, 26 percent totally agree that "the U.S. risks falling behind in the increasingly global economy if it can't negotiate new trade agreements," while 48 percent agree somewhat, 18 percent disagree somewhat, 7 percent totally disagree and 1 percent do not know.

In the U.S., 19 percent of executives surveyed totally agree and 54 percent agree somewhat that the U.S. risks falling behind, while 18 percent disagree somewhat and 9 percent totally disagree. Among Canadian executives, 34 percent totally agree and 43 percent agree somewhat, while 26 percent of Mexican executives totally agree and 42 percent agree somewhat.

Bank of Montreal and Harris Bank attribute business executives' strong support for granting the President fast-track authority to the ongoing efforts of Latin American countries to forge additional trade ties within the region and with Europe and Asia, coupled with the fact that the U.S. has not been a party to dozens of trade agreements completed since the President's fast-track authority expired in 1993.

Fast-Track Survey
October 23, 1997
page 2 of 2

The response by 199 business executives is part of a larger 1997 NAFTA/Free Trade survey currently being conducted of 350 business executives throughout the U.S., Canada and Mexico regarding a variety of free trade issues in the U.S. and globally. Results of the complete survey will be released in February, 1998.

This international survey on free trade issues is the second such survey conducted by Bank of Montreal and Harris Bank. The survey, first conducted in late 1995 to assess North American executives' views on NAFTA after its second anniversary, is believed to be the only one of its kind.

The Bank of Montreal group of companies includes Chicago-based Harris Bank, a major financial institution in the Midwest, and Nesbitt Burns, one of Canada's largest full-service investment firms rapidly expanding its presence in the United States. Bank of Montreal also holds a 16 percent equity and a 20 percent voting stake in Bancomer, a leading Mexican financial institution. This group of companies makes Bank of Montreal the only bank with retail and commercial presence in all three NAFTA countries. With assets of approximately U.S. \$147 billion, Bank of Montreal is one of the 10 largest financial institutions in North America.

For more information about this survey and its findings, please call Christopher J. Mailander, Esq. @ 202.546.2558 or 202.669.2912 (cellular).



Bank of Montreal

Speech

**“A CAPITAL IDEA:
INVESTMENT DRIVES THE INTEGRATION
OF THE AMERICAS”**

by

**Jeffrey S. Chisholm
Vice-Chairman, Bank of Montreal
Director, Grupo Financiero Bancomer SA**

presented at the

**Council of the Americas
New York City**

October 20, 1997

Check Against Delivery

Good morning. Let me first thank the Council of the Americas for inviting me to participate in this important panel discussion. The ongoing integration of the Americas is something I deal with in a very practical way every day, so I appreciate this opportunity to share with you some of my observations from this experience.

To provide you with a quick overview, we at Bank of Montreal have in many ways pegged our success, and our paychecks, on our ability to integrate the bank's operations without regard to the borders separating Canada, the United States and Mexico. Today, Bank of Montreal is the only bank with both a retail and commercial presence in all three NAFTA countries, which makes us the first truly "North American" bank. It also makes us a tangible example of the type of cross-border economic integration that is taking place today – a perhaps misunderstood phenomenon with which business and political leaders are only now coming to terms with.

* * * * *

Let me begin with the broad context as I see it.

We hear a great deal these days about the "globalization" of our economies and our societies. We sometimes believe it's been a reality for decades. In fact, the rhetoric of the globalization of markets and production significantly preceded the financial commitment that makes global trade in goods and services possible.

Take foreign direct investment. The recently-released World Investment Report from the United Nations shows that FDI was \$349 billion globally last year, a 10 percent increase over the year earlier. But as the Report states, that is perhaps only a quarter of the total financial resources going towards international production. Over and above FDI, multi-national enterprises and their foreign subsidiaries raised additional capital that may have brought total foreign direct investment to \$1.4 trillion last year.

This figure does not include more liquid portfolio investments. U.S. investors alone bought \$850 billion of foreign securities in 1994, a number which is rising almost exponentially and which is a major contributor to efficient domestic capital markets.

Perhaps the most instructive aspect of these new global flows of capital, however, is that they're increasingly dedicated to investments in emerging economies – a trend that's gradually bringing the have-nots into the circle with the haves. Inflows to developing countries rose 34 percent in 1996 to a record \$129 billion. At the same time, investment in developed countries was up only marginally, at \$208 billion.

Capital infusions give these emerging economies access to technology, to know-how, and to a worldwide market for their goods. And I'd submit that this capital and the access it brings are essential for building economic stability at home, bolstering newly-embraced political reforms, and inspiring citizens with hope for a better future.

Yet the fallacy that pervades current trade policy and the rhetoric of globalization – as Peter Drucker points out in the current issue of *Foreign Affairs* – is that a more globalized economy is premised on the free flow of goods. As Drucker rightly says, today's reality is that international movements of capital are the true engines of the world's economy. Or, to put it in the context of our discussion today, the web of economic integration being woven globally is spun first with capital, and only then with goods.

* * * * *

So how are these rising flows of investment influencing the evolution of the financial services industry in the Americas?

Again, some context. According to the World Investment Report, foreign direct investment to Latin America and the Caribbean increased by a phenomenal 52 percent last year – the highest increase of any developing region. This was in spite of the general chill that slowed investment in the region following the Mexican peso devaluation. As I am sure Mr. Menciaer has fully appreciated, Brazil has been the leading investment destination within Latin America, nearly equal, in fact, to the combined investment in the Russian Federation, and Central and Eastern Europe.

Naturally, competition has heated up between the financial services firms that are the primary conduits for increased capital flows in the Americas.

Led by Santander and BBV, the Spanish are building on their cultural and linguistic ties with Latin America to create a formidable presence in Mexico, Chile, Argentina and elsewhere in South America.

U.S. banks have been jockeying for scale advantage in their home market over the last several years, but that may soon be changing. Citibank recently acquired Mexico's troubled Confia in order to strengthen its long-standing retail presence in Mexico. Bank of America is scouting opportunities for an on-the-ground presence in Mexico. And BankBoston has historically had a successful presence in Brazil and Argentina.

Canadian banks have also taken note of the opportunities in Mexico, particularly since the passage of NAFTA. As one player, Bank of Montreal has created a unique position for itself in North American financial services, and I

believe it's worth describing briefly how we have positioned ourselves as a proxy for the idea that trade follows investment.

Back in 1984, we acquired Harris Bank of Chicago, which is a diversified financial services institution with \$22 billion in assets. Last year, we solidified our relationship with Mexico's largest retail bank by taking a 16 percent equity and 20 percent voting interest in Grupo Financiero Bancomer. These two investments totaled more than US\$1 billion.

In September, we announced another cross-border initiative that will involve a commitment on our part of more than \$850 million. Bank of Montreal and Harris Bank have joined with BankBoston and First Annapolis to create a new credit card company that we expect will be among the top 15 in the North America issuers within the next three years.

Our overall strategy is that by structuring our family of companies and alliances so they have resources on par with any global firm, by maximizing the synergies and competitive edge we hold regionally, and by preserving our brand name recognition within local markets, we can turn tri-national investments into a well-integrated whole. And the fact that 50 percent of Bank of Montreal's earnings this year will come from outside Canada suggests our strategy is beginning to pay off.

But perhaps more important to the larger issues raised by this panel, our investment in North America as a region strongly supports my earlier premise – free flows of investment do pave the way to other forms of economic integration, like trade in goods and services. Let me illustrate in practical terms what I mean.

In 1996, the Bank of Montreal family unveiled a new cash management service to bring together seamlessly 1,150 branches in Canada, 140 in the U.S., and 1,100 in Mexico – the strongest retail network in North American banking. That means if you're a small U.S. exporter sending goods to Mexico, for example, you can use our cash management service to require prior payment for a shipment be made by the buyer at their local Bancomer branch, thereby making it much easier for your buyer to pay – and for you to collect payments and track cash flow.

On another front, Harris Bank's corporate trust department has become one of the leading issuing and paying agents for Mexican corporations issuing commercial paper in the U.S. This year alone they have done 20 cross-border deals involving commercial paper and trade finance for Mexican corporations.

So, by managing an alliance between Bank of Montreal, Harris and Bancomer, we're able to create and reap new market opportunities that themselves facilitate other trade throughout the continent. With every success and return on investment facilitated by economic engagement, we're inclined to

make further commitments of resources that, little by little, bring the grass-roots level of our economies closer together. In this sense, Bank of Montreal – and dozens of other major financial institutions like us -- are fueling hemispheric integration at the most fundamental and functional level.

* * * * *

Let me take a moment to talk about a more sobering issue. The increasing speed with which capital is now circling the globe certainly opens doors of opportunity, particularly in emerging markets. And we fully support efforts to further liberalize the financial services sector throughout the world.

With that said, I don't want to dismiss the risks inherent in integration. Some of these have hit pretty close to home, like Mexico's peso devaluation in 1994. As we strive to integrate our economies, we must be vigilant in ensuring that new financial markets have appropriate and prudent safeguards. Along with building new ties by exporting capital, we must also export the principles of sound risk management and transparency of financial markets. We must help adapt these principles to the realities, and hazards, of new business environments – and ensure we can minimize any disruption to the global financial system.

This is both a delicate and difficult challenge, not the least of which relates to differences of culture and business practice. But I'd submit it is an absolutely necessary challenge to take on because of the increasing inter-dependence of financial systems and sovereign nations.

Shortly after Mexico opened its long-protected economy, for example, its NAFTA partners helped stem the shock of the peso devaluation by providing immediate financial assistance. Mexico has responded in kind by maintaining the openness of its market, by adhering to the principals of sound fiscal management, and by not retreating on its path to political reform.

Economic triage of this sort is hardly a desirable state of affairs, but it is perhaps an inherent responsibility of seeking opportunity in new markets. As more countries make efforts to modernize their economies, including those throughout Latin America, we must have the flexibility and foresight to shape a global capital market that is so sound and transparent that it renders bailouts a thing of the past.

In my view, this is one of the most pressing issues facing the world's business community and policymakers today.

* * * * *

I'd like to take a minute on perhaps the most significant issue facing economic integration within the Americas – the extension of free trade throughout the hemisphere.

With the Clinton Administration's three-year assessment of NAFTA this summer, and with the ongoing debate in Congress over granting the President fast-track authority, we've all become familiar with the quantitative assessment of NAFTA's impact. As the Clinton Administration probably correctly characterized, NAFTA has had a "modest positive" impact on trade throughout North America.

But let me address the broader issue of extending investment and free trade throughout the hemisphere from two different angles.

First, from a policy perspective. For the 50 years that preceded the end of the Cold War, nations fought with heart and soul over economics and politics. The political currency of the super powers was measured in terms of arms sales and foreign aid.

Today, the political currency of nations is measured in terms of economic engagement – by that I mean any country's opportunity to expand its economic activity by doing business with its neighbors.

From the former Soviet Union, to China, to the former military dictatorships of Latin America, most countries are now embracing some form of a free market economy and a more democratic form of government. Because money goes where its owners are respected, the flow of investment has naturally followed and shows no signs of ebbing any time soon. We should offer thanks to those countries that liberalized hundreds of investment laws during the 1990s, and ratified more than a thousand bilateral agreements, for creating relatively safe havens for investment.

Yet if we're to keep the well-spring of investment and trade flowing, it seems equally natural to solidify our historical support for developing countries that adopt free market economies and democratic forms of government. In other words, we must acknowledge that economic engagement is not only good business, it is good policy.

In a very pragmatic sense, establishing an environment conducive to economic prosperity throughout all countries in this hemisphere should help mitigate some of the most troubling social and political issues of our day – like drug trafficking, illegal immigration, civil unrest, and the abuse of human rights. But to my amazement, those who want to build walls between nations are often winning the debate. Not just here in the U.S., but elsewhere in the hemisphere, a vocal contingent of naysayers are denigrating the seemingly inevitable – which is a more integrated future.

Fortunately, with or without the United States, nearly every country in the Western Hemisphere is working diligently to forge economic ties with their neighbors. Canada has already established a trade agreement with Chile that automatically gives its products an 11 percent price advantage over the same products from the U.S. Mexico is exploring a role as the economic gateway between North and South America. And Brazil and its partners in MERCOSUR have made no secret of their ambitions to establish a free trade agreement that spans South America, and may even reach Europe or Asia.

I believe the establishment of a Free Trade Area of the Americas is essential to our mutual futures. A zone that extends from the Arctic reaches of Canada to the southern tip of South America will, in my opinion, happen – with or without the United States.

The other helpful perspective on extending the realm of free trade and investment is that it's essential to building a common framework of understanding between neighbors in the Americas. History shows that economic engagement helps build a bond of understanding – a bond that tempers conflicts, whether economic or political.

In the context of North American relations, Mexico and the U.S. have long had tumultuous relations, and Canada and the U.S. are feuding on as many different fronts as they ever have had. But the fact that these three nations are each others' largest trading partner is keeping everyone at the table, hopefully overcoming differences and working towards solutions.

* * * * *

As information, technology and people shuttle ideas, capital and goods from one country to another with ever-increasing ease, those who criticize the inevitable integration of the Americas will be left as spectators on the sidelines. That much is certain in my mind.

But there are also more interesting questions about integration that we will have to resolve. Can we assimilate economically, yet preserve our individual identity and cultures as distinct peoples and nations? Will we march forward together towards peace and prosperity, rather than divide and stagnate? Will the economic opportunities that further integration will present also bolster the political reforms we have long encouraged in developing countries? At some point in the not too distant future, I believe the answer to all of these questions will be "yes."

Thank you very much.

Dear Representative Stupak:

I am writing to follow up on your letter

Thank you for your letter dated September 24, 1997, expressing concern about the effects of increased trade on food safety. I share your concern about the safety of food for all Americans, and I will not permit any trade policy to impair the health and safety of the American people.

I have committed this Administration to ensuring that the food that Americans eat is the safest in the world. We have put in place improved safety standards for meat, poultry, and seafood products, and have begun the process of developing enhanced safety standards for fruit and vegetable juices. Together, we have enacted legislation in this area, including the Safe Drinking Water Act of 1996 and the Food Quality Protection Act of 1996.

This month, I announced an initiative to upgrade domestic food safety standards and to ensure that fruits and vegetables coming from overseas are as safe as those produced in the United States. I asked Congress to enact legislation that will require the Food and Drug Administration to halt imports of fruits, vegetables, and other food products from any foreign country with food safety systems and standards that are not on par with those of the United States. I also directed the Department of Health and Human Services and the Department of Agriculture to work cooperatively with the agricultural community to develop guidance on agricultural and manufacturing practices for fruits and vegetables within one year. Finally, I committed to providing the necessary funds in my Fiscal Year 1999 budget to enable the FDA to dramatically expand its international food inspection force so it can inspect food safety conditions abroad and at points of entry. The added resources will allow the FDA to make effective use of its new legislative authority. I am attaching a fact sheet on my new proposal, as well as the directive I sent to Secretaries Glickman and Shalala.

This new initiative will help guarantee the safety of food in the United States. It provides the improved inspection capacities and increased regulatory powers we need to prevent contaminated imports from reaching American tables. I am committed to continuing to improve the safety of food that Americans eat, and I look forward to working with you on this vital project. ~~Thank you again for your letter.~~

Sincerely,

~~no (mon)~~

Bob Blagovich

Pat T. Munk

Shirley Wexler

Paul Kengrich

John Sanders

Maureen Hunkley

Bob W. Dwyer

John F. Hubert

Mike Dyer

Burt Aschcraft

Paul Dyer

John Dyer

William J. Coyne

Bob Bourke

John Dyer

Errol Haller

Steve Rothman

Lou Evans

Guy J. Costello

Dillon Espino

Ted Strickland

Robert L. Linn

Frank Pallone, Jr.

Eric McKinn

Betty Z. Nash

Robert M. Bellman

Cole E. Gildner

Mark Evans

George E. Brown, Jr.

Martin O. Pabo

Eliot L. Enger

St. John

Marlene Waters

Lisa V. Gutierrez

W. Ann Dinsley

Tom Allen

James Carson

John Smith

Sammy Davis

Mark Foley

Henry R. Lutz

William C. Johnson

James L. Chester

Matthew L. Martinez

William L. Watt

John W. Oliver

Jim McSweeney

Robert F. Kennedy

John F. Tring

Vic Fazio

Gary Miller

John Longuey

Robert Duse

Pat Lerner

Ron Kline

James Masera

Q. COO

Marcy Kaptur

Paul E. Brown

Tim H. Murphy

Bruce E. Vento

Pete A. Papp

William D. Delahunt

Frank J. Blum

Lynn T. Levin

Paul Souter

Jim Davis

John J. Fetter

Pete Starb

Dennis Kucinich

Kenya Wickham

Sam Jeph

Jack Metcalf

Neil Abernethy

Ed Humble

Carolyn M. Carly

Marty Mah

Ann V. Gohoney

Jim Barcia

Tom A. Colman

Sam W. Johnson

Denny K. Dennis

Tom Lantos

Ron Kind

Tom

October 8, 1997

Dear xxx:

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The Honorable xxxx

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Sincerely,

The Honorable xxxxx
House of Representatives
Washington, D.C. 20515

THE WHITE HOUSE

WASHINGTON

**PRESIDENT CLINTON ANNOUNCES INITIATIVE TO ENSURE THE SAFETY OF
IMPORTED AND DOMESTIC FRUITS AND VEGETABLES**

October 2, 1997

Today President Clinton will announce an initiative to upgrade domestic food safety standards and to ensure that fruits and vegetables coming from overseas are as safe as those produced in the United States. The President will ask Congress to enact legislation that will require the Food and Drug Administration (FDA) to halt imports of fruits, vegetables and other food products produced in countries that do not meet U.S. food safety requirements. The President will direct the Department of Health and Human Services (HHS) and the Department of Agriculture (USDA) to work cooperatively with the agricultural community to develop guidance on good agricultural and manufacturing practices for fruits and vegetables.

Enhanced FDA Oversight for Imported Foods. The President will send legislation to Congress that will require the FDA to halt imports of fruits, vegetables, and other food products from any foreign country with food safety systems and standards that are not on par with those of the United States. The legislation also will require the FDA to halt imports from countries or facilities that do not allow FDA inspections to occur. This legislation -- comparable to existing law that requires the USDA to halt the importation of meat and poultry from such countries -- will enable the FDA to prevent the importation of potentially unsafe foreign produce. The President will also commit to providing the necessary funds in his Fiscal Year 1999 budget to enable the FDA to dramatically expand its international food inspection force. With this greatly increased ability to inspect food safety conditions abroad and at points of entry, the FDA will be able to make effective use of its new authority.

Development of Guidance on Good Agricultural and Manufacturing Practices. The President will direct the Secretary of Health and Human Services, in partnership with the Secretary of Agriculture and in cooperation with the agricultural community, to develop guidance on good agricultural and manufacturing practices within one year. This guidance will take into account differences in both crops and regions and will address potential food safety problems throughout the food production and distribution system such as sanitation, worker health, and water quality. The guidance -- the first-ever specific safety standards for fruits and vegetables -- will improve the agricultural and manufacturing practices of all those seeking to sell produce in the U.S. market. To ensure that this guidance has the widest possible effect, the President will also direct the FDA and USDA to develop coordinated outreach and educational activities.

Improvement of Monitoring and Inspection Activities Abroad. In addition to committing substantial resources to expand the FDA's international food inspection force, the President will direct the Secretaries of Health and Human Services and Agriculture to report within 90 days on how to improve the monitoring of agricultural and manufacturing practices abroad, to assist foreign countries to improve these practices where necessary, and to prevent the importation of unsafe produce. The President will urge consideration of ways to target inspection and testing toward those areas where problems are most likely to occur.

Clinton Administration Accomplishments In Improving Food Safety

The President's announcement builds on a strong record of food safety initiatives, ensuring that Americans eat the safest possible food. The Administration has put into place improved safety standards for meat, poultry and seafood products, and has begun the process of developing enhanced standards for fruit and vegetable juices. The Administration also has expanded research, education and surveillance activities throughout the food safety system.

***October, 1997.** President announces new initiative to enhance FDA oversight over imported foods and develop guidance on good agricultural and manufacturing practices for fruits and vegetables.

***May, 1997.** Administration announces comprehensive new initiative to improve the safety of nation's food supply --"Food Safety from Farm to Table" -- detailing a \$43 million food safety program, including measures to improve surveillance, outbreak response, education, and research.

***January, 1997.** President announces new Early-Warning System to gather critical scientific data to help stop food borne disease outbreaks quickly and to improve prevention systems further.

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***1994.** CDC embarks on strategic program to detect, prevent, and control emerging infectious disease threats, some of which are food borne, making significant progress toward this goal in each successive year.

***1993.** Vice-President's National Performance Review issues report recommending government and industry move toward a system of preventive controls.

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release

October 2, 1997

October 2, 1997

MEMORANDUM FOR THE SECRETARY OF HEALTH AND HUMAN SERVICES
THE SECRETARY OF AGRICULTURE

SUBJECT: Initiative to Ensure the Safety of Imported
and Domestic Fruits and Vegetables

American consumers today enjoy the safest food supply in the world, and I am proud of my Administration's record in this area. We have taken significant steps to ensure that we maintain the safest food possible. We have put in place improved safety standards for meat, poultry, and seafood products, and we have begun the process of developing enhanced safety standards for fruit and vegetable juices. We have also expanded research, education, and surveillance activities through coordinated efforts of all agencies involved in food safety issues. Together, these measures will greatly improve the safety of the Nation's food supply.

We need to build on these efforts, and today I ask you to do so by focusing on the safety of fruits and vegetables. Although the produce Americans eat is very safe, we can and must do even better, especially at a time when Americans are eating more fruits and vegetables from all over the world. Last year, 38 percent of the fruit and 12 percent of the vegetables consumed by Americans came from overseas. We must ensure that fruits and vegetables coming from abroad are as safe as those produced in the United States, especially as we upgrade our own domestic standards.

To help accomplish this task, I plan to send to the Congress proposed legislation that will require the Food and Drug Administration (FDA) to halt imports of fruits, vegetables, or other food from any foreign country whose food safety systems and standards are not on par with those of the United States. This legislation, which will be similar to existing law requiring the USDA to halt the importation of meat and poultry from such countries, will enable the FDA to prevent the importation of potentially unsafe foreign produce. My Fiscal Year 1999 budget will provide the necessary funds to enable the FDA to expand dramatically its international food inspection force. With this greatly increased ability to inspect food safety conditions abroad and at points of entry, the FDA will be able to determine when to halt the importation of fruits and vegetables from foreign countries.

Today, I hereby direct two administrative actions that will better ensure the safety of fruits and vegetables coming from abroad, while continuing to improve the safety of domestic produce.

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First, I direct the Secretary of Health and Human Services, in partnership with the Secretary of Agriculture and in close cooperation with the agricultural community, to issue within 1 year from the date of this memorandum, guidance on good agricultural practices and good manufacturing practices for fruits and vegetables. This guidance should address ways to prevent potential sources of contamination, should take into account differences in both crops and regions, and should address food safety issues throughout the food production and distribution system. By providing the first-ever specific safety standards for fruits and vegetables, the guidance will improve the agricultural and manufacturing practices of all those seeking to sell produce in the U.S. market. To ensure that this guidance has the widest possible effect, I also direct the development of coordinated outreach and educational activities.

Second, I direct the Secretary of Health and Human Services and the Secretary of Agriculture, to report back to me within 90 days from the date of this memorandum with a status report and complete schedule for the good agricultural and manufacturing practices, and a plan on how to improve the monitoring of agricultural and manufacturing practices abroad, to assist foreign countries to improve those practices where necessary, and to prevent the importation of unsafe produce, including by detecting unsafe food at the dock or border. I especially urge you to consider the best ways to target inspection and testing toward those areas where problems are most likely to occur.

In addition to taking these actions, you should accelerate whatever food safety research is necessary to support them. You should also call upon the Environmental Protection Agency, the Department of Labor, and other agencies as necessary to provide you with assistance in achieving this goal. These steps, taken together and in coordination with the proposed legislation I will send to the Congress, will improve the safety of fruits and vegetables for all Americans.

WILLIAM J. CLINTON

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THE WHITE HOUSE

OFFICE OF LEGISLATIVE AFFAIRS

FAX COVER SHEET

NOTE: THE INFORMATION CONTAINED IN THIS FACSIMILE MESSAGE IS
CONFIDENTIAL AND INTENDED FOR THE RECIPIENT ONLY.

DATE: 10/8

TO: Vicky RADD

FAX: 67929

FROM: X CHRISTOPHER WALKER

JANELLE BRICKSON

456-7500 (TEL)456-6221 (FAX)

RE:

If there are any problems with this transmission, please
call (202) 456-7500.

THE WHITE HOUSE

WASHINGTON

October 8, 1997

Dear Henry:

Thank you for your letter dated September 24, 1997, expressing concern about the effects of increased trade on food safety. I share your concern about the safety of food for all Americans, and I will not permit any trade policy to impair the health and safety of the American people.

I have committed this Administration to ensuring that the food that Americans eat is the safest in the world. We have put in place improved safety standards for meat, poultry, and seafood products, and have begun the process of developing enhanced safety standards for fruit and vegetable juices. Together, we have enacted legislation in this area, including the Safe Drinking Water Act of 1996 and the Food Quality Protection Act of 1996.

This month, I announced an initiative to upgrade domestic food safety standards and to ensure that fruits and vegetables coming from overseas are as safe as those produced in the United States. I asked Congress to enact legislation that will require the Food and Drug Administration to halt imports of fruits, vegetables, and other food products from any foreign country with food safety systems and standards that are not on par with those of the United States. I also directed the Department of Health and Human Services and the Department of Agriculture to work cooperatively with the agricultural community to develop guidance on agricultural and manufacturing practices for fruits and vegetables within one year. Finally, I committed to providing the necessary funds in my

The Honorable Henry A. Waxman
Page Two

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This new initiative will help guarantee the safety of food in the United States. It provides the improved inspection capacities and increased regulatory powers we need to prevent contaminated imports from reaching American tables. I am committed to continuing to improve the safety of food that Americans eat, and I look forward to working with you on this vital project. Thank you again for your letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill", is centered below the word "Sincerely,".

The Honorable Henry A. Waxman
House of Representatives
Washington, D.C. 20515

**THE WHITE HOUSE
WASHINGTON**

**PRESIDENT CLINTON ANNOUNCES INITIATIVE TO ENSURE THE SAFETY OF
IMPORTED AND DOMESTIC FRUITS AND VEGETABLES**

October 2, 1997

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

October 2, 1997

October 2, 1997

MEMORANDUM FOR THE SECRETARY OF HEALTH AND HUMAN SERVICES
THE SECRETARY OF AGRICULTURESUBJECT: Initiative to Ensure the Safety of Imported
and Domestic Fruits and Vegetables

American consumers today enjoy the safest food supply in the world, and I am proud of my Administration's record in this area. We have taken significant steps to ensure that we maintain the safest food possible. We have put in place improved safety standards for meat, poultry, and seafood products, and we have begun the process of developing enhanced safety standards for fruit and vegetable juices. We have also expanded research, education, and surveillance activities through coordinated efforts of all agencies involved in food safety issues. Together, these measures will greatly improve the safety of the Nation's food supply.

We need to build on these efforts, and today I ask you to do so by focusing on the safety of fruits and vegetables. Although the produce Americans eat is very safe, we can and must do even better, especially at a time when Americans are eating more fruits and vegetables from all over the world. Last year, 38 percent of the fruit and 12 percent of the vegetables consumed by Americans came from overseas. We must ensure that fruits and vegetables coming from abroad are as safe as those produced in the United States, especially as we upgrade our own domestic standards.

To help accomplish this task, I plan to send to the Congress proposed legislation that will require the Food and Drug Administration (FDA) to halt imports of fruits, vegetables, or other food from any foreign country whose food safety systems and standards are not on par with those of the United States. This legislation, which will be similar to existing law requiring the USDA to halt the importation of meat and poultry from such countries, will enable the FDA to prevent the importation of potentially unsafe foreign produce. My Fiscal Year 1999 budget will provide the necessary funds to enable the FDA to expand dramatically its international food inspection force. With this greatly increased ability to inspect food safety conditions abroad and at points of entry, the FDA will be able to determine when to halt the importation of fruits and vegetables from foreign countries.

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more

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In addition to taking these actions, you should accelerate whatever food safety research is necessary to support them. You should also call upon the Environmental Protection Agency, the Department of Labor, and other agencies as necessary to provide you with assistance in achieving this goal. These steps, taken together and in coordination with the proposed legislation I will send to the Congress, will improve the safety of fruits and vegetables for all Americans.

WILLIAM J. CLINTON

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***1993.** Vice-President's National Performance Review issues report recommending government and industry move toward a system of preventive controls.



jziegler @ ustr.gov
09/30/97 10:52:00 AM

Record Type: Record

To: victoria radd

cc:

Subject: Q&A on NAFTA & UR Impact on Imported Food -Forwarded

The attached paper is interesting in underscoring two points: The increase in U.S. food imports is not related to recent trade agreements (UR or Nafta) but is driven by consumer demand; and while that growth has been substantial since 1993 (53%) this is a systems and resources issue as to inspections (exactly how the Administration is handling it), not a trade issue.

Is Sec. Glickman responding to the Gerth article? If so information in the attached should be included in the response letter. I'll be on the Hill for the next couple of hours, please reach Chris in my office if you need immediate information. Please advise. jz

From: rcummings@ustr.gov@INET@EOPMRX@LNGTWY
*To: jziegler@ustr.gov@INET@EOPMRX@LNGTWY
*cc: aerickson@ustr.gov@INET@EOPMRX@LNGTWY
*cc: eennis@ustr.gov@INET@EOPMRX@LNGTWY
*cc: jmurphy@ustr.gov@INET@EOPMRX@LNGTWY
*cc: N@ustr.gov@INET@EOPMRX@LNGTWY
*cc: pscher@ustr.gov@INET@EOPMRX@LNGTWY
*cc: sdarragh@ustr.gov@INET@EOPMRX@LNGTWY
Date: 9/29/97 6:27pm
Subject: Q&A on NAFTA & UR Impact on Imported Food
Jay:

Attached is a Q&A that addresses the extent to which NAFTA and the UR are responsible for the growth in fresh fruit and veg imports. I would advise strongly against making specific statements about individual imports such as strawberries and raspberries unless we have reliable crop-specific info such as USDA's statements on tomatoes.

Trade Liberalization and U.S. Imports of Fresh Fruits and Vegetables

Question: What impact have the NAFTA and Uruguay Round had on U.S. imports of fresh fruits and vegetables?

Answer: The NAFTA and Uruguay Round have had a negligible impact on U.S. imports of fresh fruits and vegetables. Prior to these agreements, U.S. import tariffs on fresh fruits and vegetables were relatively low. The United States market was open to imports, and the tariff reductions called for in NAFTA and the Uruguay Round were very small. Other factors such as currency fluctuations, weather conditions, and consumer demand in the United States account for nearly all of the rise in fresh fruit and vegetable imports.

For those few commodities where U.S. protection was high--imports of cantaloupe from Mexico were 25% prior to the NAFTA for example--long phase in periods for tariff reductions and the fact that we are just four years into NAFTA have meant that today's import protection remains relatively high.

In Secretary Glickman's report to the Congress on the *Effects of the NAFTA on Agriculture and the Rural Economy*, USDA concluded that:

- Although U.S. agricultural imports from the NAFTA partners grew from \$7.3 billion in 1993 to \$10.5 billion in 1996, U.S. agricultural imports from Mexico and Canada were only about 3 to 5 percent higher, respectively, in 1996 than they would have been without the agreement.
- For U.S. imports of winter vegetables, only a small increase in imports can be attributed directly to the NAFTA tariff changes. NAFTA tariff reductions on U.S. imports of winter tomatoes from Mexico have been very small, less than 1.5 percent on an ad valorem basis. The peso crisis in Mexico, technological shifts in tomato production, and unusual weather in Florida were far more important than the NAFTA tariff reductions.
- Because Mexico's tariffs on agricultural imports from the United States were much higher than U.S. tariffs on agricultural imports from Mexico, Mexican tariffs have been reduced substantially more than U.S. tariffs.

Background

U.S. total imports of fresh fruits and vegetables (excluding bananas) were \$2.95 billion in 1996, up 53 percent from the \$1.93 billion imported in 1993 (the year before NAFTA began).

U.S. imports of fresh fruits and vegetables (excluding bananas from Mexico) were \$1.61 billion in 1996, up 52 percent from the \$1.06 billion imported in 1993.

R. Cummings 9/29/97, 395-9564

TALKING POINTS ON WSJ FAST-TRACK ARTICLE:

1. First, as a threshold matter, no “deal” has been reached with the Senate Finance Committee. We are consulting with them and working with them on legislative language that could come to a vote in Committee as early as tomorrow.
2. Second, the current Committee draft preserves everything we want to achieve in our fast-track legislation -- it maintains the complete range of options that the President put forward in his bill:
a) The draft bill explicitly recognizes that certain labor, environmental and health and safety practices are the proper subject of a trade agreement negotiation subject to fast track; b) The draft in no way limits the Executive Authority of the President to reach separate agreements on a range of issues, including labor and the environment; and c) The draft recognizes that the President will also pursue labor and environmental issues in the multilateral fora.
3. Third, and more specifically, the article is clearly wrong in stating that “labor and environmental issues won’t be main objectives of trade deals in a compromise. . . .” The draft language for negotiating objective 15 (attached) deals expressly and directly with foreign governments’ “lowering of, or failing to enforce, existing labor (including child labor), health and safety, or environmental standards, as a means of attracting investment or otherwise diminishing or distorting market access opportunities available to United States goods, services, or investment.” (This is a direct quote from the legislative language.)
4. These labor and environmental issues addressed in negotiating objective 15 as drafted are plainly eligible for fast track consideration.

(NOTE: One word of caution from Charlene [who reviewed these talking points] -- You can safely quote the current draft language of negotiating objective 15; but we expect a fight over keeping in the phrase “failing to enforce”)

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DISCUSSION DRAFT

S.L.C.

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which may be necessary for national security purposes to control the export of critical military technology); and

(iv) otherwise denying equitable access by United States persons to foreign-developed technology or contributing to the inequitable flow of technology between the United States and its trading partners.

(B) In pursuing the negotiating objective described in subparagraph (A), the United States negotiators shall take into account United States Government policies in licensing or otherwise making available to foreign persons technology and other information developed by United States laboratories.

(14) BORDER TAXES.—The principal negotiating objective of the United States regarding border taxes is, within the WTO, to obtain a revision of the treatment of border adjustments for internal taxes in order to redress the disadvantage to countries that rely primarily on direct taxes rather than indirect taxes for revenue.

(15) REGULATORY COMPETITION.—The principal trade negotiating objectives of the United States regarding the use of government regulation or

Vicki Redd

Principal
Negotiating
Objective



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1 other practices by foreign governments to provide a
2 competitive advantage to their domestic producers
3 and thereby reduce market access of United States
4 goods, services, and investment are—

5 (A) to ensure that government regulation
6 and other government practices do not unfairly
7 discriminate against United States goods, serv-
8 ices, or investment; and

9 (B) to prevent the use of government regu-
10 lation and other government practices, includ-
11 ing the lowering of, or failing to enforce, exist-
12 ing labor (including child labor), health and
13 safety, or environmental standards, as a means
14 of attracting investment or otherwise diminish-
15 ing or distorting market access opportunities
16 available to United States goods, services, or in-
17 vestment.



18 (c) INTERNATIONAL ECONOMIC POLICY OBJECTIVES
19 DESIGNED TO REINFORCE THE TRADE AGREEMENTS
20 PROCESS.—

21 (1) IN GENERAL.—It is the policy of the United
22 States to reinforce the trade agreements process
23 by—

24 (A) fostering stability in international cur-
25 rency markets and developing mechanisms to

1 assure greater coordination, consistency, and
2 cooperation between international trade and
3 monetary systems and institutions;

4 (B) supplementing and strengthening
5 standards for protection of intellectual property
6 under conventions administered by international
7 organizations other than the WTO, expanding
8 the conventions to cover new and emerging
9 technologies, and eliminating discrimination and
10 unreasonable exceptions or preconditions to
11 such protection;

12 (C) promoting respect for workers' rights,
13 by—

14 (i) reviewing the relationship between
15 workers' rights and the operation of inter-
16 national trading systems and specific trade
17 arrangements; and

18 (ii) seeking to establish in the Inter-
19 national Labor Organization (referred to in
20 this Act as the "ILO") a mechanism for
21 the systematic examination of and report-
22 ing on the extent to which ILO members
23 promote and enforce the freedom of asso-
24 ciation, the right to organize and bargain
25 collectively, a prohibition on the use of

mark out

1 forced labor, a prohibition on exploitative
2 child labor, and a prohibition on discrimi-
3 nation in employment; and

4 (D) expanding the production of goods and
5 trade in goods in services to ensure the optimal
6 use of the world's resources, while seeking to
7 protect and preserve the environment and to en-
8 hance the international means for doing so.

9 (2) APPLICATION OF PROCEDURES.—Nothing
10 in this subsection shall be construed to authorize the
11 use of the trade authorities procedures described in
12 section 3 to modify United States law.

13 **SEC. 3. TRADE AGREEMENT NEGOTIATING AUTHORITY.**

14 (a) AGREEMENTS REGARDING TARIFF BARRIERS.—

15 (1) IN GENERAL.—Whenever the President de-
16 termines that 1 or more existing duties or other im-
17 port restrictions of any foreign country or the Unit-
18 ed States are unduly burdening and restricting the
19 foreign trade of the United States and that the pur-
20 poses, policies, and objectives of this Act will be pro-
21 moted thereby, the President—

22 (A) before October 1, 2001 (or, if the au-
23 thority provided by this Act is extended under
24 subsection (c) before October 1, 2005), may

*Too broad
idea to be
all to
modify US
law.*

20 POLICY IDEAS FOR TRADE-ADJUSTMENT ASSISTANCE ACTION PLAN

*****DRAFT***** September 26, 1997 *****DRAFT*****

The goal of this action plan is to provide a comprehensive approach to dealing with the economic adjustment from trade that communities and workers face. The following action plan outlines 20 trade-adjustment assistance policies under three categories (worked-based adjustment, coordination, and community-based adjustment). In general, this approach draws on our experience with the successful defense-conversion program.

I. Worked-Based Adjustment Assistance Policies:

A TEN-POINT PLAN TO EXPAND TAA AND COVER SECONDARY WORKERS.

1. **MAKE WORKERS IN SERVICES COVERED BY FREE TRADE AGREEMENTS ELIGIBLE FOR TRADE ADJUSTMENT SERVICES.** Neither TAA nor NAFTA-TAA provide assistance to workers in the service-producing firms that are directly affected by service imports. This proposal would expand eligibility to include workers in covered services. For NAFTA, this would include ground transportation and financial services.
ANNUAL COST: : <\$61M

NOTE: OMB & DOL were not able to cost this out. It should cost significantly less than \$61 million cost for serving workers in all service industries.
2. **GIVE WORKERS IN FIRMS WHICH SHIFT PRODUCTION TO ANOTHER COUNTRY TRADE ADJUSTMENT ASSISTANCE.** Under TAA, workers may only be certified for assistance if their firm is adversely affected by imports. Under NAFTA-TAA, workers may be certified if either their firm is adversely affected or their firm shifts production to Mexico or Canada. This proposal would give workers in firms which shift production to another country trade adjustment assistance.
ANNUAL COST: \$68.7M
3. **INCREASE TAKE-UP RATE OF SECONDARY WORKERS FOR NAFTA-TAA THROUGH ADMINISTRATIVE CHANGE.** As part of NAFTA-TAA, the Secretary of Labor can administratively change the investigative process to certify trade-affected secondary workers directly. The Labor Secretary could then develop a targeted approach to identify, locate, and advise potentially eligible secondarily affected workers of their right to petition for benefits. This change should result in an increased take-up rate of the secondary workers for NAFTA-TAA.
4. **ISSUE A STATEMENT OF ADMINISTRATIVE ACTION TO DETERMINE THAT SECONDARY FIRMS CAN BE CERTIFIED FOR TAA/NAFTA-TAA EVEN IF PRIMARY FIRM IS NOT CERTIFIED.** The Secretary of Labor could issue a Statement of Administrative Action determining that secondary firms -- that is, direct supplier firms -- can be certified for TAA or NAFTA-TAA, even if the primary firm is not certified. There are cases when the primary firm does not go through the certification process, but the secondary firm is adversely impacted from trade. In these cases, the supplier firm can not be certified. This would fix that rule.

5. **ISSUE A STATEMENT OF ADMINISTRATIVE ACTION TO EXTEND SECRETARY'S DISCRETIONARY AUTHORITY TO ASSIST SECONDARY WORKERS.** The Secretary of Labor could issue a Statement of Administrative Action extending her discretionary authority under JTPA Title III to assist secondary workers in direct supplier firms to companies certified under either TAA or NAFTA-TAA. This administrative action would only cover workers in goods-producing industries, or service industries covered by previous trade agreements (this only makes sense in conjunction with action item #6). Currently, the Secretary can only offer TAA-like benefits through the JTPA program for NAFTA-TAA certified workers. Besides covering secondary workers, this would also allow the Secretary to use discretionary funds for TAA-certified workers.
6. **EXPAND DISLOCATED WORKER FUNDING TO ALL WORKERS AFFECTED BY TRADE.** Under the first three approaches, the waitress or bartender at the local restaurant/bar would not be eligible for trade-adjustment assistance, if the town's factory closed because of trade related reasons. Either within TAA reauthorization or independently, we could propose legislation that expanded the definition of secondary worker to include, not only firms that were directly dependent on the primary firm, but businesses that were directly dependent upon workers in the primary firm.
- ANNUAL COST (?): \$0**
- NOTE: This assumes that you give more secondary workers access to TAA-like benefits under JTPA Title III, w/o actually giving them a formal entitlement to NAFTA TAA benefits. Therefore, all we are doing is moving them to the front of the JTPA queue.*
7. **AS PART OF TAA REAUTHORIZATION, EXPAND TAA AND/OR NAFTA-TAA TO INCLUDE SECONDARY WORKERS.** The Administration, subsequent to our administrative action above, could propose legislation to expand coverage under TAA and/or NAFTA-TAA to secondary workers who produce an article or provide a service in an industry covered by previous trade agreements.
- ANNUAL COST: : ?, BUT EXPECTED TO BE VERY, VERY HIGH**
8. **PUBLIC SERVICE ANNOUNCEMENTS TO INCREASE AWARENESS OF NAFTA-TAA BY PRESIDENT OR SECRETARY OF LABOR.** In order to increase awareness of secondary worker provisions in NAFTA-TAA, the President or the Secretary of Labor would do public service announcements. The Labor Department would also provide wider dissemination of specialized information materials regarding the provisions.
- ANNUAL COST: \$400,000**
9. **CUT CERTIFICATION TIME FOR TAA CASES.** Under TAA, the Secretary of Labor is required to make a certification within 60 days of receipt of the petition. The Labor Department would institute procedures to reduce the certification time to 40 days -- a reduction in time of one-third.
- ANNUAL COST: \$500,000**

10. **PERFORMANCE MEASURES FOR TAA/NAFTA-TAA PROGRAMS.** The Labor Department does not receive information on how workers do after they participate in either TAA or NAFTA-TAA programs. To ensure that the programs work effectively, the Labor Department could develop and implement performance measures, and begin to collect outcome-based performance data for workers who receive adjustment assistance.

ANNUAL COST: \$0

Other Worker-Based Adjustment Assistance:

11. **INCREASE DISLOCATED WORKER FUNDING BY \$130 MILLION OR 10%.** To further enhance our capacity to meet the readjustment needs of secondary workers.

ANNUAL COST: \$130M

12. **GIVE TRADE IMPACTED WORKERS MORE ACCESS TO PELL GRANTS.** Use prospective income accounting to assure certified trade impacted workers access to the Pell program.

ANNUAL COST: \$90M

II. Coordination:

13. **ESTABLISH THE PRESIDENT'S INTERAGENCY COMMITTEE ON TRADE & ECONOMIC ADJUSTMENT.** The Committee would include the Secretaries of the relevant Cabinet agencies and be co-chaired by the Secretaries of Labor and Commerce. Like the interagency committee established on defense conversion, its mandate would be to improve outreach and coordinate response to trade-impacted regions and workers. The Committee's first task would be to oversee a comprehensive administration-wide response effort to help El Paso successfully revitalize their economy.

ANNUAL COST: \$0

14. **DETAIL STAFF FROM DOD'S OFFICE OF ECONOMIC ADJUSTMENT TO DEAL WITH TRADE ADJUSTMENT.** DOD's Office of Economic Adjustment (OEA) was the Administration's day-to-day coordinating body for defense conversion. We could use the expert staff at OEA to help trade-impacted regions and workers. OEA provides planning grants and expertise to help communities develop credible economic adjustment strategies. They also bring the appropriate state, local and federal groups to the table to provide adequate resources for implementing plans. This would need to be paid for out of non-DOD funds.

ANNUAL COST: <\$10M

III. Community-Based Assistance Approach:

15. **EXPAND EDA BUDGET SO THEY CAN EFFECTIVELY DEAL WITH TRADE ADJUSTMENT.** Expand EDA's budget by \$10 to \$50 million per year, so that they could provide comprehensive economic development assistance to trade-impacted regions. These funds could be earmarked.

ANNUAL COST: \$10M-\$50M

16. **DIRECT SBA TO LINK 1,000 SMALL BUSINESS DEVELOPMENT CENTERS TO AMERICA'S JOB BANK AND AMERICA'S TALENT BANK.** Issue a Presidential directive to SBA to connect all 1,000 Small Business Development Centers to America's Job Bank and America's Talent Bank. The Development Centers provide training and technical assistance to small business owners and prospective owners. America's Job Bank lists job openings on the Internet from employers; America's Talent Bank posts jobseekers' resumes to an Internet-accessible, employer-searchable database. There are plans to link the two databases as soon as the Talent Bank is up and running. Linking Development Centers to the Job and Talent Banks would help find jobs more quickly for dislocated workers.

ANNUAL COST: VERY LOW

17. **SIGNIFICANT NEW LANDING FROM SBA.** SBA estimates that the new CAIP/SBA program could increase SBA's loan volume by about \$146 million over the duration of the program. With this increased funding capacity, SBA could guarantee loans to over 1,000 small firms.

18. **MAKE ENVIRONMENTAL INFRASTRUCTURE AFFORDABLE THROUGH NADBANK.** To help smaller U.S. communities to access the tax-exempt bond market, NADBank would work with the State Revolving Funds in border states to establish reserves for debt financing.

19. **COORDINATION BETWEEN CAIP PROGRAM AND OTHER TRADE ASSISTANCE.** The Departments of Labor and Treasury will establish formal links in the administration of NAFTA-TAA and CAIP, including on marketing and outreach, in order to magnify the effectiveness of both programs in assisting individual workers and communities affected by trade. Both the Department of Agriculture and SBA will dedicate more full-time staff to administering CAIP.

20. **EXPAND NUMBER OF EXPORT ASSISTANCE CENTERS.** Currently there are 15 Export Assistance Centers located in cities throughout the United States. These centers -- run by the Department of Commerce -- assist businesses in expanding overseas. We could expand the number, so businesses could more easily expand their exports to foreign markets.

Fast Track Status Document
NGO/Private Sector/Congressional Proposals/Concepts/Suggestions

Florida Citrus Mutual

This group would like an amendment to the FT bill that would prohibit POTUS from making tariff cuts for products like citrus. They are particularly concerned with Brazilian citrus imports and that current safeguards legislation does not provide adequate protection to their industry. This group has the support of Sen. Graham and Rep Thurman and other Floridians

Cons: If we agreed to this proposal, it would prompt other import sensitive commodity groups to ask for special deals too, e.g. sugar, peanuts, wine, etc... Also, as we prepare for the 1999 round of agricultural negotiations, it doesn't make sense to limit our tariff cutting options before we get into the negotiation.

Possible Compromise: We could agree to language in the final bill that would call for us to consult closely with Congress on import sensitive products throughout the negotiation process.

American Farm Bureau/Florida Tomato and Pepper Growers

These groups would like the administration to agree to support legislation that would allow special consideration for seasonal industries. In 1996, USTR supported the Graham bill in the Senate (S. 1463) and the Shaw bill in the House (H. 2795). These bills would enable safeguard mechanisms available under existing US law to address the unique circumstances of producers of perishable agricultural products. The bills would permit the ITC to consider whether it is appropriate to define the domestic industry in a manner that takes into account the seasonal nature of perishable agricultural goods. These groups have support from Senators Graham and Mack, and Reps Thurman and Shaw.

Shortly after the Administration's endorsement, Mexico, Chile, Australia, New Zealand, Guatemala, EU, Argentina, Peru, Columbia and Malaysia told us that this legislation would violate our commitments under the WTO safeguards agreement.

Three cons are: 1) strong opposition from Midwest members who represent pork, corn, soybeans, etc.; 2) highly likely to result in WTO challenges by multiple countries; 3) may prompt other countries (e.g., Mexico) to adopt comparable measures designed to stop U.S. exports.

Possible Solution: Continue to assert that this legislation should not be tied to fast track because we want to keep the bill clean and as uncontroversial as possible. This legislation has little chance of success surviving on its own as Senators Grassley, Lugar and others vehemently oppose. Adding language to the FT bill stipulating that the administration needs to consult closely with Congress on import sensitive products throughout the negotiation process should help on the margins with this group.

US Wheat Associates

US Wheat Associates (can't lobby Congress) have written in about their concerns on State Trading Enterprises, Chile's price band, SPS concerns, and subsidies. We have already addressed most of their concerns in the current Fast Track language. Their President, Alan Tracy, and the board supports the current Fast Track bill.

Solution: None needed.

American Frozen Food Institute

The AFFI opposes any legislation to apply front panel country of origin labeling.

Solution: None needed if we do not support labeling, or voluntary labeling.

Con Agra

Con Agra wants USTR to change its current program of peanut imports from Argentina, administering the program by specific contracts. This would be accomplished through end-use certificates. US peanut growers and shellers would oppose changing the current system. Although this issue is important to Con Agra, it is unlikely to affect their support for Fast Track. There has been little Congressional interest in this issue.

Option: We could choose to do this. However, this issue is a chit we should/could use to get something from Argentina on some issue of concern to us.

Dairy Industry

Many dairy industry folks and the members associated with this industry are still stinging from the loss the US had in the dairy, eggs, and poultry case with Canada. Many need to see the administration taking action against Canada to support additional free trade legislation. The industry has petitioned USTR to take a case against Canada on price pooling in the dairy industry.

Solution: Accept the case. We are scheduled to announce that we are accepting the case soon.

Senator Daschle

Senator Daschle has four legislative proposals that would require the administration to : 1) provide real-time price and quantity information to the public on imported meat and livestock products. Beef industry supports this proposal and the packing industry opposes. USDA/USTR are working closely with Daschle's staff on compromise; 2) develop a system for labeling carcasses, meat and meat food products produced in the US. USDA/USTR are working closely with Daschle's staff to find compromise; 3) seek consultations with Canada to provide for monthly exchange of data on cattle production, cattle slaughtered, and cattle and beef shipped to the US. This shouldn't be a big problem. 4) convene a meeting of the Working Group on

Agricultural Subsidies to establish a regime for wheat price reporting for NAFTA parties and for parties to all subsequent agreements forged in North America. Convening such a meeting is not hard, but getting Canada to cooperate would be next to impossible.

Solution to proposal 1&2: Compromises in the works.

Solution to proposal 3: If all the legislation calls for is seeking consultations, I don't see why we would oppose such a bill. However, we should be clear that we do not know if Canada would cooperate.

Solution to proposal 4: If all the legislation called for was convening a meeting, I don't see why we would oppose it. However, we should be clear to Daschle's staff that Canada would not agree to such a regime

Canadian Wheat

Senator Conrad and Congressman Pomeroy would like USTR to curb wheat imports from Canada. USTR told their respective staffs that no authority exists to take such action. Both Conrad and Pomeroy's staff say that they would like to support fast track but need to see the administration take some action to demonstrate to their wheat growers that progress could be made on some of these issues if the administration were granted FT authority. USTR agreed to explore with Conrad/Pomeroy's staffs a framework with two elements: 1) specific language in the bill to regulate price transparency in state trading enterprises; 2) a letter from Ambassador Barshefsky to these Congressmen explaining how she would use this authority to deal with the Canadian Wheat Board.

Possible Solution: USTR can work with staff members to craft language that would direct the administration to ensure price transparency in state trading enterprises as part of any new free trade agreement. Ambassador Barshefsky could send the aforementioned letter if it will enable them to support Fast Track.

NAFTA-RELATED ISSUES

Strengthening NAFTA Environmental Institutions (BECC and NADBank)

Description of Issue: Several Members of Congress, particularly Congressional Hispanic Caucus (CHC) members, and border officials have expressed concerns about the quality/pace of North American Development Bank (NADBank) and Border Environmental Cooperation Commission (BECC) activities and the perceived lack of responsiveness of these institutions to the needs of local communities.

Background: The 1993 US-Mexico Border Cooperation Agreement created the NADBank and BECC to develop and finance environmental infrastructure projects, in particular wastewater treatment, drinking water, and municipal solid waste projects.

Administration Response

Proposed new commitments

- Expand the technical assistance programs of the BECC and NADBank to enable communities to access NADBank funding more quickly and efficiently;
- Secure BECC commitments to disburse funds under its \$10 million project development assistance program by the end of the year and, once existing resources are committed, work to ensure that the BECC and EPA infuse additional funding into this program;
- Pursue with the NADBank a further increase in funding for its institutional development program (recently increased from \$2 to \$4 million), which helps border communities operate water, sewage, and solid waste management services more efficiently; and
- Seek additional appropriations for the EPA border grant program in FY 1998-2001, with these resources to be combined with NADBank loans to provide affordable financing packages for border environment infrastructure projects (building on the recent agreement between the NADBank and EPA for a Border Environment Infrastructure Fund providing access to up to \$170 million in EPA grants).

Steps Already Underway

- The BECC has certified sixteen projects and the NADBank has approved financial packages for four projects on both sides of the border.
- The two institutions have also worked closely with federal and state officials to identify additional projects, provide technical assistance to border communities, and coordinate with EPA grant programs. They have identified over thirty projects, with a total cost of more than \$500 million, as the core of their 1997-99 work plan.

Strengthening Programs to Assist Local Communities

Description of Issue: CHC members in particular have also expressed concern about the effectiveness of the Community Adjustment and Investment Program (CAIP).

Background: The CAIP is a program administered through the NADBank, in which the Treasury Department, the Small Business Administration and the Department of Agriculture designate areas challenged by trade and/or production shifts as eligible for assistance; 35 areas have already been designated under the CAIP and three loans have been approved.

Administration Response: The Administration is prepared to take several steps to ensure that the CAIP more effectively addresses the needs of border communities that face challenges from import competition or shifts in production/plant relocations. For example:

- The CAIP will hold a public meeting in El Paso, Texas of its Presidential Advisory Committee to hear from those in a community affected by trade and production shifts.
- The CAIP's Finance Committee expects to announce this month approximately twelve more communities eligible for assistance.
- The Small Business Administration has committed to increase its CAIP lending significantly, estimating this will increase its loan volume by roughly \$146 million, enabling the SBA to guarantee loans to more than 1000 small firms.
- The CAIP will review how existing credit (loan and loan guarantee) programs could be strengthened -- such as through revised eligibility requirements, higher credit levels, and expanded marketing and outreach efforts -- to make them better suited to the needs of trade-impacted communities.

Additional Comments:

Secretary Rubin, Secretary Herman, Administrator Alvarez, and Gene Sperling met with members of the CHC regarding their NAFTA-related concerns. Since that meeting, the NEC has been working on a document specifically detailing the efforts the Administration is committed to taking to strengthen the implementation of NAFTA. The steps outlined on pages one and two reflect the proposed response to the concerns raised at this meeting.

Note: Plans for improvements to the NAFTA-TAA program and other programs that assist trade-impacted workers are addressed separately.

Report on NAFTA Labor Issues

Description of Issue: Some members of Congress have advocated a more regular process for analyzing and reporting on the labor practices of our NAFTA partners, including the record of the North American Agreement on Labor Cooperation (NAALC).

Background: The NAFTA labor side agreement, NAALC, has resulted in a significant work program among the United States, Canada, and Mexico on a range of important labor issues, as well as a more open and transparent process of examining the NAFTA governments' labor laws, practices, and enforcement efforts. The Administration's July 1997 NAFTA report reviewed the operations of the NAALC to date.

Administration Response: To improve the understanding of the labor conditions in our NAFTA partners, and building on the work being done under the NAALC, the Labor Department will produce an annual report reviewing the operation of the NAALC, including

- a survey of major issues arising under the Agreement;
- the steps being taken to ensure adherence to and enforcement of labor laws by NAFTA partners;
- the proceedings and actions brought by the parties; and
- the steps being taken by our NAFTA partners to conform to the findings in any cases brought under the Agreement .

Additional Comments: This proposal has been part of the discussions with Senator Daschle's office.

FAST TRACK RELATED INITIATIVES

(1) Worker Initiatives

- Outreach to Secondary Workers
- Program Improvement -- TAA & NAFTA TAA
- Reduce Training Waivers
- Early Intervention of Dislocation or when workers have been preliminary certified under NAFTA TAA
- Modification of WARN Act
- Reauthorization of TAA and NAFTA-TAA
- Merge TAA and NAFTA-TAA
- ~ ⊕ • Add Shifts in Production to TAA (*make comparable to NAFTA*)
- Add Service Producing Workers for Both NAFTA-TAA and TAA
- Cover Secondary Workers

(2) Education/Training Initiatives

- ~ ⊕ • Enhance Pell Eligibility for Trade Affected Workers
- School Construction
- Hispanic Drop Out Action Plan

(3) Trade-Impacted Areas

- Community Wide Response: Create President's Interagency Coordinating Committee, Give Planning Grants and Provide Targeted Implementation Support With Existing Funds
- Community Wide Response: Give Trade Impacted Communities Priority Access to EDA Readjustment Funds
- Community Wide Response Plus: Dedicated EDA Funds for Trade Impacted Communities

(3) Rangel-Related Ideas

- Rangel's Education Empowerment Zone Initiative — *no R support.*
 - Promise to Work Together to Make Program Work.
 - Include School-to-Work, Technology Literacy Challenge, etc.
 - Add Jobs Component of some undetermined form.
- Urban School Issue
 - Create Urban Model Schools
- ISTEA
 - Fight for Welfare-to-Work money. House appropriated \$42 m; we want \$100 m.
- Loan Programs
 - Urban Infrastructure Bank???
- Export Assistance Centers
 - Put them in high-poverty areas.
- Empowerment Contracting
- Out of School Youth

POLICY OPTIONS
DRAFT SEPTEMBER 22, 1997

OPTION & CURRENT LAW	ADMINISTRATIVE OR STATUTORY CHANGES	DISCUSSION	COST
*Outreach to Secondary Workers: Secretary of Labor has used discretionary authority to make secondary workers who certified under NAFTA TAA secondary workers eligible for training and income support under JTPA Title III. These benefits are identical to TAA benefits, but are not administered under a formal entitlement. Only 32 workers have been served. The NAFTA-TAA Stmt of Admin Action defines secondary workers as all suppliers to and upstream producers for certified firms.	Identify, locate and advise potentially eligible secondarily affected workers. Widely disseminate information. No legislation necessary.	Outreach efforts can successfully serve some workers who are not, but should be, receiving job training and income support.	\$400,000 for 4-5 FTE to handle increased case load.
*Program Improvement	Better outreach and public awareness for both TAA & NAFTA TAA. Create and implement performance measures. Shorten determination period for TAA certification by one third.¹ No legislation necessary.	Especially important to shorten NAFTA certification if the programs are merged.	\$800,000 for 8-10 FTEs to handle increased case load and more rapid certification.

¹ Current TAA certification period is 60 days. NAFTA TAA certification takes only 30 days with a preliminary determination made after 10 days.

POLICY OPTIONS
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OPTION & CURRENT LAW	ADMINISTRATIVE OR STATUTORY CHANGES	DISCUSSION	COST
Reduce Training Waivers: Under TAA, workers may receive income support w/o taking training. Under NAFTA TAA, workers are required both to take training and to enroll early.	Legislation would be required to eliminate waivers. Further reductions can be accomplished with tighter guidelines and closer review.	Some evidence indicates that enrollment in training enhances the prospect of reemployment, however no data specific to either TAA or NAFTA TAA exist to confirm this conclusion. Merging the programs would be the question of completely eliminating waivers. Many workers certified under NAFTA TAA also seek certification under TAA to avoid the training requirement. In some cases, such as older workers close to retirement, it makes no sense to require training.	\$8-\$10 million for training additional workers. However, these added training costs may be offset by reductions in enrollment in income support, making this option revenue neutral.
*Early Intervention: State dislocated workers units are responsible for rapid response in the case of substantial dislocation and when workers have been preliminarily certified under NAFTA TAA.	Encourage the provision of rapid response for all substantial layoffs prior to any trade determination. Encourage more coordination between JTPA III responses and TAA responses. No legislation necessary.	More effective service for all workers, including those affected by trade. Aligns TAA and NAFTA-TAA programs.	None.
Modification of WARN Act: The WARN Act which requires 60 days advance notice of mass layoff or plant closings has not been very effective.	Amend WARN to give Secretary enforcement authority similar to FLSA. Amend WARN to lower trigger from 500 to 250 or less than 1/3 affected.	If employers respond by giving early warning, workers would receive the benefits attributable to early intervention -- e.g. faster reemployment. Likely to be very controversial on the Hill.	\$2-\$2.5 million for 20-25 FTE to enforce the law.
Reauthorization of TAA & NAFTA-TAA: Administration has sent legislation to Congress for simple 4 year extensions of both programs.			

* Included in Hispanic Caucus letter.

POLICY OPTIONS
DRAFT SEPTEMBER 22, 1997

OPTION & CURRENT LAW	ADMINISTRATIVE OR STATUTORY CHANGES	DISCUSSION	COST
Merge TAA & NAFTA-TAA²: NAFTA-TAA was originally intended to be a temporary program which along with TAA was to be folded into a revamped comprehensive Reemployment System. The legislation to create this reform died, leaving us with two separate programs.	The two programs could be merged in the Reauthorization.	Although there would be some complex issues and political pitfalls, the Administration has consistently called for fewer categorical training programs. Issues raised by the merger would be: timing of certification, waiver of the training and early enrollment requirements, coverage of shifts in production, treatment of secondary and service workers.	
Add Shifts in Production to TAA: Although NAFTA-TAA covers workers who have been adversely affected by shifts in production, TAA does not.	Add shift in production of any article to any country to the TAA criteria.	22,000 additional workers would be served.	\$68.7 million
Add Service Producing Workers for Both NAFTA-TAA and TAA.	Make workers who produce services eligible for TAA benefits if their firm is adversely affected by imports and/or if their firm shifts production to another country.	Adding services to trade coverage is consistent with the direction of trade agreements, which are increasingly likely to include selected services. E.g. NAFTA covers ground transportation (trains, trucks etc) and financial services. This estimate assumes all workers in all services would be eligible if they meet the trade related criteria. Alternatively, we could make workers in <i>covered services</i> eligible. Using the broad definition: 16,000 additional TAA 10,500 additional NAFTA-TAA certification. 20,000 merged certifications.	TAA:\$50.1 million NAFTA-TAA \$33 million Merged: \$61.6 million

²From this point forward, I include caseload and cost estimates assuming a merged program, as well as assuming the change applies only to one program or the other.

* Included in Hispanic Caucus letter.

POLICY OPTIONS
DRAFT SEPTEMBER 22, 1997

OPTION & CURRENT LAW	ADMINISTRATIVE OR STATUTORY CHANGES	DISCUSSION	COST
Cover Secondary Workers³: Although NAFTA-TAA allows secondary workers to receive income support and training under JPTA Title III, this benefit is not a formal entitlement and has been used by only 32 workers. Moreover, TAA has no comparable provision. The NAFTA-TAA Stmt of Admin Action defines secondary workers as all suppliers to and upstream producers for certified firms.	DOL believes it may be able to give suppliers and producers of certified firms access to training and income support under Title III without legislative action. If we want to create an actually entitlement identical to that for primary firms, we would need legislation.	Using the NAFTA-TAA definition, 151,000 additional workers would be certified if the programs were merged. TAA only: 121,000 additional certs. NAFTA-TAA only: 86,000 additional certs. More work needs to be done on definition. The NAFTA-TAA definition is both too broad -- b/c it includes all suppliers and producers and too narrow because it is limited to certified firms does not include tertiary services like the neighborhood bar.	(High estimate) \$471.1 million for merged program. \$268.2 for NAFTA-TAA only. \$377.2 for TAA only.

³ We need to develop other options with different definitions of secondary workers.

* Included in Hispanic Caucus letter.

POLICY OPTIONS
DRAFT SEPTEMBER 22, 1997

OPTION & CURRENT LAW	ADMINISTRATIVE OR STATUTORY CHANGES	DISCUSSION	COST
Enhance Pell Eligibility for Trade Affected Workers: Although financial aid officers currently have discretion to use prospective income accounting, we do not believe they use it often. This option would require that they use prospective income accounting to determine eligibility for all trade certified (e.g. NAFTA-TAA and TAA) workers.	Probably would require legislation.	OMB estimates about 40,000 workers would take Pell grants. I think this estimate is probably high.	\$90 million
School Construction: Old school buildings and increasing enrollment have led to a dramatic backlog in school renovation and construction needs.	Our proposal was \$5 billion; Daschle-Gephardt now have a \$1.9 billion proposal. Establishes a new program of subsidies to cover interest and other financing costs.	The Black Caucus and the Democratic leadership have asked the Administration to continue to push on this issue.	\$1.9 billion of budget authority in the first year; outlays over four years or more.
Hispanic Drop Out Action Plan: Hispanics have a higher dropout rate than any other group.	Working with Education, Labor and HHS, we have developed a number of administrative and legislative actions that we could take (such as an outreach plan in Head Start; technical assistance for schools to get technology grants, etc.). Also, there is interest in a White House Conference on the issue.	A dropout report from Education is ready to go; an action plan should be a part of that release, preferably soon.	Much could be done with no new appropriations or with a small investment (such as \$2 million for an 800 number in Spanish).
Community Wide Response: Create President's Interagency Coordinating Committee, Give Planning Grants and Provide Targeted Implementation Support With Existing Funds:	No legislation necessary to create Coordinating Committee. Need authorization & appropriation for planning grants.	Initiative would be modeled after Administration's defense adjustment effort, including civilian version of DOD's Office of Economic Adjustment and would give us capacity to respond on a community-wide level. Minimal new funds & FTE.	Low (very rough estimate: \$20 million for OEA-like entity)

* Included in Hispanic Caucus letter.

POLICY OPTIONS
DRAFT SEPTEMBER 22, 1997

OPTION & CURRENT LAW	ADMINISTRATIVE OR STATUTORY CHANGES	DISCUSSION	COST
Community Wide Response Plus: Give Trade Impacted Communities Priority Access to EDA Readjustment Funds: Save as above but would give trade impacted communities priority for EDA funds.	EDA can give trade impacted communities priority access to limited EDA dollars w/o new legislation.	While this would enhance our trade response, it would be poorly received by EDA's constituency and appropriators as robbing Peter to pay Paul.	Low
Community-Wide Response Plus: Dedicated EDA Funds for Trade Impacted Communities: Same as earlier option, but with separate dedicated EDA funds for trade impacted communities.	Would require legislation to create a dedicated appropriation for trade impacted communities. Funds could be contingent.	Eligibility would be tied to trade either through relying on CAIP certification or creating a modification of the Sudden & Severe Economic Dislocation eligibility which determines that trade contributed significantly to the downturn. Funding request could be contingent or based on retrospective need assessment (e.g. what would it take to serve communities already demonstrating trade-related need.)	\$50-\$80 million/year. EDA would like \$400 million over five years.

* Included in Hispanic Caucus letter.

FAST TRACK PAPER

Welfare-to-Work Transportation/Reverse Commuting Initiatives. The Administration's initiatives to link inner-city residents to jobs are not doing particularly well in the appropriations and ISTEA reauthorization processes. We could pledge to step up Administration efforts, including Presidential and/or Vice Presidential involvement, while encouraging Rep. Rangel to also increase his activity in this area (he has not been involved to date).

- 1) *WtW transportation funds in NEXTEA/ISTEA reauthorization.* The Administration requested \$100 million for an unspecified number of projects. The House bill provides \$42 million for 10 projects. Both the dollar figure and the number of projects are too low. The Administration and Rangel could work to increase both figures (more projects would allow more areas to benefit; \$4.2 million per project is far more than we anticipated or prefer). Rep. Levin is quite supportive of this proposal.
- 2) *Bridges to Work.* The Administration requested \$10 million to expand the Bridges to Work demonstration program; the program provides the transportation and supportive services needed for central city residents to obtain and keep suburban jobs. Neither the House nor Senate bill funds this request; Rep. Rangel could get involved here as well.
- 3) *Permit States to set aside jobs for welfare recipients and EZ/EC residents on Federally-funded highway projects.* This NEXTEA provision is not included in either the House or Senate transportation bills; Rangel might be quite interested.

Empowerment Contracting. Upon further discussion, this might not be an appropriate vehicle in this context. If Senator Bond's HUBZone proposal, which is part of the SBA reauthorization bill, becomes law, the Administration will likely abandon its Empowerment Contracting Executive Order. It may be difficult to engage Rep. Rangel in the HUBZones/Empowerment Contracting battle, since he likely supports aspects of the Bond proposal that the Administration opposes--i.e., creation of a new set-aside and sole-source contracting authority. The Administration views the new set-aside for HUBZone businesses and the sole-source authority as inconsistent with our overall goals of an open and competitive bidding and streamlining the procurement process. The Empowerment Contracting EO, by contrast, provides only a 10 percent price preference in unrestricted competitions.

The HUBZone proposal includes goals; the Empowerment Contracting EO does not. *One possibility is a Presidential directive/memorandum to agencies to set nonbinding goals for contracting with firms eligible for the Empowerment Contracting preference.* This would be predicated on implementation of Empowerment Contracting rather than HUBZones. It is not clear if nonbinding goals would do much for Rangel.

Urban Transit Infrastructure. The House transportation bill may actually provide more funding for urban transit infrastructure than the Administration's proposal (confirming with OMB); we could embrace an increase in the context of the balanced budget transportation funding levels (this could be tricky; where to cut?).

ACCOMPLISHMENTS AND COMMITMENTS

I. ENVIRONMENTAL ISSUES

A. Multilateral Organizations

1. WTO

Accomplishments

The Administration fought for and won important environmental advances in the Uruguay Round of trade negotiations including:

- recognition in the preamble of the WTO Agreement of sustainable development as a key objective of the WTO;
- strengthened agreements on Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade to protect legitimate environmental measures from challenge under the Agreement;
- improvements to the Dispute Settlement Understanding to provide for the use of environmental experts in disputes and to make the process more transparent by allowing disputing parties to make their submissions public and requiring that a public version be provided of all panel submissions; and
- securing the creation of the Committee on Trade and the Environment in the WTO, for the first time creating a permanent forum for addressing the linkage between trade and the environment.

Commitments

Transparency

This Administration has long been committed to the concept of improving the transparency of WTO activities and openness of WTO proceedings and will continue our zealous pursuit of these goals. To that end:

- We will adopt increased transparency, openness and public participation as priority objectives for the mandated review of the WTO dispute settlement rules and procedures that must be completed by WTO members by the end of 1998.

Specific objectives will include:

- seeking to open WTO dispute settlement panel and Appellate Body proceedings to the public and to provide for more timely public access to dispute settlement documents, including through electronic means;
- advocating consideration by panels and the Appellate Body of amicus curiae submissions from non-governmental interested parties in dispute settlement proceeding dealing with environmental and conservation issues; and

- USTR will seek to ensure similar transparency and openness in dispute settlement proceedings in negotiating trade agreements that contain dispute settlement provisions.

Eminent Persons Group

We will propose that the WTO Director General convene a group of eminent persons, such as independent experts in the fields of trade and environment, to formulate options for the WTO Committee on Trade and Environment to consider with respect to the issues on its agenda.

2. IFIs

Accomplishments

- Highly effective US policy advocacy throughout the Clinton Administration has succeeded in systematic incorporation by the Multilateral Development Banks (MDBs) of the full range of environmental issues into their operations, including through advance consultations with the public.
- At the IDB, this includes specific policies on involuntary resettlement and marine resources protection and the placing of environmental staff in regional divisions and a central environment division.

Commitments

We will promote the following additional steps to further incorporate mainstream environmental issues into the operations of the MDBs, with a focus on the IDB, and to promote the flow of resources to environmental projects:

- Secretary Rubin will highlight USG priorities in his speech at the World Bank/IMF Annual Meeting this week.
- Secretary Rubin will propose that the IDB create an independent Advisory Committee comprised of senior IDB officials, NGO representatives and others to examine environmental issues arising from prospective operations and to make specific recommendations to the IDB.
- US will press for significant increases in direct lending for environment and natural resources management projects; in the IDB in 1996 such funding rose to \$815 million due in large part to our advocacy and we will continue to press for a higher share of lending to be dedicated to these projects. High priority projects to include moving domestic energy prices to world price levels, achieving clean air and water, and promoting international cooperation and action when externalities cross borders.
- US will pursue vigorously international support for its proposed \$250 million fund for environmental initiatives as negotiations proceed for continuing the concessional window of the IDB.
- US will continue to scrutinize closely the effectiveness of public information disclosure for environmentally sensitive projects (compliance with the Pelosi Amendment), focusing on the required advance consultation with affected and interested people.
- US will examine closely the practices of the independent Inspection Panels established to examine alleged non-compliance with MDB policies. The Inspection Panel's success at

recommending ameliorative measures, as appropriate, will be assessed and the US will make specific proposals for improvements, as required.

- US will continue to urge the IMF, in program design and annual consultations with members, to consider the link between the environment and the economy and, where possible, to encourage countries to correct related market failures and to adopt appropriate economic policies in support of macroeconomic stability.

3. Other

The Administration is currently pressing for a range of actions on the global level, including:

- negotiation of an agreement on effective and realistic future emissions reductions in the Global Climate Change Convention;
- negotiation of a global agreement to minimize the use of persistent toxic chemicals and pesticides;
- promotion of international efforts to ensure sustainable forest management; and
- implementation of the Convention on International Trade in Endangered Species.

The Administration also led negotiation and ratification of a landmark UN treaty designed to improve the management of shared fish stocks, created and strengthened regional fisheries conservation and management bodies, and worked to protect other living marine resources such as marine mammals, sea turtles, and seabirds.

B. Bilateral/Regional:

1. Generally

Administration efforts have improved environmental practices worldwide. For example, the Administration has:

- aggressively implemented U.S. environmental laws, using the threat of trade sanctions where appropriate to obtain improvements in other countries' environmental practices (*e.g.*, imposed sanctions on Taiwan for failure to curb illegal trade in rhino horn and tiger bone which were lifted when Taiwan made demonstrable progress in halting this trade);
- worked to improve environmental cooperation among neighboring nations, opening regional environmental hubs in Latin America, Central Asia, Africa, the Middle East and South Asia and the Far East to work on transboundary solutions to regional environmental problems;
- forged, with other hemispheric leaders, a comprehensive plan of action covering health and education (as they related to the environment), sustainable agriculture and forests, sustainable cities and communities, water resources and coastal areas, and energy and minerals; and
- established an environmental forum with the Chinese.

2. FTAA

Accomplishments

- The President met with leaders from the Caribbean and Central America in May. Both the San Jose, Costa Rica and the Bridgetown Barbados Summit produced documents with strong commitments to protecting the environment and ensuring sustainable development.
- For example, the Bridgetown Plan of Action states that by recognizing the importance of a healthy environment, threats to the environment can be attenuated by global, hemispheric, bilateral cooperation and national action.
- The San Jose Summit Declaration makes strong reference to the need for sound environmental policy by renewing the commitment to the promotion of the environmental principles of the Alliance for Sustainable Development, which inspired the signing of the Joint Central American-United States Declaration (CONCAUSA).

3. APEC

Accomplishments

- The Administration is working to advance APEC-wide liberalization of the environmental technologies and services sector in an industry ignored by previous administrations. High tariffs and disguised barriers to trade have limited the ability of developing countries to use the most advanced and useful technologies and services to address environmental problems from basic water and wastewater treatment needs to the need for the most advanced biomediation technologies.
- The U.S. has led the effort to implement various initiatives through APEC working groups. One such initiative, the Clean Production Initiative, has as its goals (1) to reduce pollution in key industrial sectors by promoting appropriate cleaner production technologies, policies and practices while (2) also striving to achieve broader adoption of clean technologies through institutional and professional partnerships.
- Another initiative championed by the US, the Marine Environment Initiative aims to (1) develop integrated approaches to coastal management, (2) prevent, reduce and control marine pollution and (3) manage marine resources in sustainable ways.

C. **NAFTA**

1. Accomplishments/Current Record

In 1993, this Administration negotiated an unprecedented framework for environmental cooperation through the North American Agreement on Environmental Cooperation, which is dedicated to enhancing environmental protection throughout North America and the effective enforcement of our respective laws.

In addition, the US-Mexico Border Cooperation Agreement, created the North American Development Bank (NADBank), and its sister organization, the Border Environmental

Cooperation Commission (BECC). These organizations were designed to develop and finance environmental infrastructure projects, with a priority for wastewater treatment, drinking water, and municipal solid waste projects.

- These organizations are fully operational and already having an impact on the U.S. Mexico border region. Over time, the NADBank will be able to leverage its capital into \$2 to \$3 billion in lending. To date, the BECC has certified 16 projects and the NADBank has already approved financial packages for 4 projects on both sides of the border.
- The NADBank together with the BECC and federal and state officials on both sides of the border have identified more than 30 environmental projects along the border with a total cost of about \$500 million for their 1997-1998 work plan.
- The NADBank and BECC have established technical assistance programs to assist communities in project development and to upgrade the management capacity of local utilities.
- The BECC in cooperation with EPA has established a \$10 million program to provide communities with project development assistance (PDAP).
- The Bank has established a \$2 million Institutional Development Program (IDP) to help communities on both sides of the border achieve effective and efficient operation of their water, sewage, and solid waste management services. The NADBank has already approved \$1.8 million in technical assistance for 12 projects under its IDP.

The NADBank is putting together affordable financing packages for poor border communities by establishing cofinancing arrangements with US and Mexican grant programs, as well as other concessional financing.

- For example, the Bank has recently entered into a Cooperative Agreement with EPA for a Border Environment Infrastructure Fund (BEIF) that will enable the Bank to combine its financing with up to \$170 million in EPA grants.

2. Commitments: Improving performance of NAFTA Environmental Institutions (NADBank/BECC)

Recognizing and sharing the concerns that have been raised with regard to the timeliness of NADBank environmental lending programs, the Administration is committed to the following objectives:

- expanding the technical assistance programs of the BECC and NADBank which will allow communities to better access NADBank funding;
- achieving BECC commitments and disbursement of funds under its \$10 million project development assistance program (PDAP) by the end of the year. Once existing resources are committed, the BECC and EPA are prepared to infuse additional funding into the PDAP program;

- pursuing with the NADBank Board a further increase as needed, of the resources devoted to its institutional development program (that was recently increased from \$2 to \$4 million); and
- seeking additional appropriations for the EPA border grant program in FY 1998-2001. These resources will be combined with NADBank loans to provide affordable financing packages for border environment infrastructure projects.

II. WORKER RIGHTS/LABOR STANDARDS

A. Multilateral Organizations

1. World Trade Organization

Accomplishments

- After raising the issue of recognition of core labor standards at the 1994 GATT/WTO Ministerial meeting in Marrakesh, last December we secured the first ever commitment by WTO trade ministers to observe core labor standards.
- At the WTO Ministerial meeting in Singapore, the trade ministers agreed to language on a “commitment to the observance of internationally recognized core labour standards” and endorsed continued collaboration between the WTO and ILO Secretariats (although no agreement was reached on a working party on trade and labor issues in the WTO).

Commitments

- Our proposed fast track legislation builds on our previous efforts by establishing worker rights as a principal U.S. negotiating objective and committing the U.S. Government to (1) work within the WTO to clarify the relationship between worker rights and GATT articles, objectives, and related instruments, and (2) seek adoption in the WTO of the principle that the denial of worker rights should not be a means for a country or its industries to gain competitive advantage in international trade.
- We will continue to work toward the development of a consensus concerning a work program on trade and core labor standards in the WTO in preparation for the next ministerial meeting in May 1998.
- We also will continue our efforts in the WTO to incorporate a review of countries’ the observance of core labor standards within the WTO’s Trade Policy Review Mechanism (TPRM) that involves periodic reviews of member countries’ laws and procedures.
- We will redouble our efforts to strengthen cooperation between the WTO and the ILO on a range of fronts -- from developing reports in advance of Ministerial meetings to encouraging increased collaborative undertakings designed to reinforce action on core labor standards.

2. International Labor Organization

Accomplishments

- We have worked to broaden international adherence to core labor standards (those not dependent on a country’s level of development): the freedom of association; the right to organize and bargain collectively; a prohibition on forced labor; a prohibition on exploitative child labor; and a prohibition on discrimination in employment..
- With our leadership, at the June 1997 ILO Ministerial Conference the parties agreed to further examine whether to create a new instrument and supervisory machinery to hold all member states accountable for core standards -- regardless of whether the applicable specific ILO conventions have been ratified.

Commitments

- Under the proposed fast track legislation, we will seek to establish in the ILO a mechanism for the systematic examination of, and reporting on, the extent to which member governments protect worker rights and enforce core labor standards.
- We will continue to support the ILO's International Program for the Elimination of Child Labor (IPEC), which has supported programs in Bangladesh, Thailand, the Philippines, and other developing countries to reduce or eliminate child labor practices.
- We support current efforts in the ILO to adopt a new convention that would clarify the forms of child labor that are "intolerable." The Administration will work closely with the Congress and other interested parties as negotiations on this convention proceed; it currently is scheduled to be ready for adoption in 1999.

3. International Financial Institutions

Accomplishments

- The United States has taken the lead among major donors to the international financial institutions (IFIs) to incorporate worker rights issues into their activities and to develop a screening mechanism to evaluate the impact of these issues on their lending programs.

Commitments

- Secretary Rubin will highlight U.S. priorities in this regard in his speech at the World Bank/IMF annual meeting later this month.
- In consultation with Secretary Herman, Secretary Rubin will propose formation of an interagency team (including the Treasury, Labor, State, and Commerce Departments) to examine ways to further incorporate worker rights issues into the work of the IFIs.
- We will continue to press for screening that ensures that worker rights issues are taken systematically into account in IFI operational planning and programming activities.
- We will continue to implement the statutory requirement (Frank Amendment) directing the Secretary of the Treasury to urge the IFIs to adopt policies encouraging borrowing countries to protect worker rights. The annual Treasury report to Congress required by the Amendment will permit a regular updating on how the IFIs are performing.
- We will urge the IFIs to increase technical assistance and direct lending to promote the adoption of fair labor standards.
- We will urge the IMF to expand attention to labor issues in its annual reviews of member countries and by examining the link between promotion of core labor standards and long-term macroeconomic performance.
- We will propose that the World Bank establish an office dedicated to analysis of labor issues and has direct input into the programmatic and lending activities of the Bank.
- We will propose (1) a World Bank-IMF conference on worker rights where senior governmental and non-governmental officials can discuss how to achieve progress on these issues in the IFIs, and (2) a summit meeting of IFI presidents and the ILO Director-General to reinforce ways in which the institutions can work more closely together.

4. Other Institutions

Accomplishments

- We successfully pressed for the explicit endorsement in the 1997 OECD Communique of continuation of work on trade and labor standards; this has included a report on Trade Employment and Labor Standards.

Commitments

- We will continue to work to promote greater attention to core labor standards in other international fora, including the OECD, where we will seek to have the analysis in the above-mentioned report expanded to include examination of additional labor issues.

B. Bilateral/Regional

1. Western Hemisphere/FTAA

Accomplishments

- We have supported the inclusion of labor issues in the FTAA process, including at the Third Trade Ministerial meeting at Belo Horizonte in May, 1997; and at the 1995 OAS Labor Ministerial (where the ministers adopted the Buenos Aires Declaration and Plan of Action to “recommend mechanisms most likely to ensure that economic growth is accompanied by improvements in working conditions, on the basis of unqualified compliance with those basic labor standards that represent fundamental rights”).

Commitments

- In advance of next April’s second Summit of the Americas in Santiago, we will work to build on the 1995 commitment of hemispheric labor ministers.
- We will support creation of an FTAA Labor Forum (equivalent to the existing Business Forum) to precede the periodic meetings of the Ministers responsible for trade.
- We will build on the May 1997 San Jose Declaration, signed by the President and Central American leaders, which affirms the importance of labor standards in the context of international trade and economic integration. This will include a planned meeting of Secretary Herman with her Central American counterparts.

2. Europe

Accomplishments

- The Transatlantic Labor Dialogue was endorsed at the June 1996 U.S.-EU Summit in Washington, and at the May 1997 meeting between President Clinton and the EU President, the leaders endorsed encouraging “enhanced collaboration between the WTO and the ILO Secretariats on core labor standards.”
- The U.S.-EU Transatlantic agenda also includes a joint Working Group on Employment that is examining means of increasing cooperation on core international labor standards.

Commitments

- We will continue to work with our EU colleagues to continue the progress already made

- in the TransAtlantic Labor Dialogue, including in the Working Group on Employment.
- We also support efforts in this forum to analyze private sector approaches “to eliminate exploitative labor conditions,” including the Apparel Industry Partnership. Labor Secretary Herman and her EU counterpart have discussed ways to develop additional voluntary private sector approaches modeled on the AIP.

3. Asia/Pacific

Accomplishments

- Through establishment of the Human Resources Group, we have worked to ensure that there is a mechanism for addressing labor issues within the Asian Pacific Economic Cooperation (APEC) forum.

Commitments

- We will support greater attention to worker rights issues in the Human Resources Group, including the eventual adoption of an APEC program addressing core labor standards.
- We also will work with the Asian Development Bank to advance the protection of core labor standards and additional worker related issues.

C. NAFTA

Accomplishments

- The North American Agreement on Labor Cooperation (NAALC) has promoted greater cooperation on a wide range of fundamental labor issues, as well as a more open and transparent process of examining the NAFTA governments’ labor laws, practices, and enforcement efforts.

Commitments

- The Labor Department will produce an annual report describing the labor laws and practices of our NAFTA partners, including the steps being taken to ensure adherence to and enforcement of those laws.

D. Unilateral/Domestic

1. Review of Country Practices

Commitments

- We will undertake a broad review of the laws and policies of each potential free trade agreement partner when the agreement is brought back for congressional approval. That review would include evaluation of the country’s legal system, trade laws and practices, labor laws and practices, environmental laws and practices, macroeconomic policies and conditions, and other relevant conditions in the country.
- The report will be transmitted to the Congress, and made publicly available, prior to formal congressional consideration of each agreement -- to ensure that Members of

Congress understand the laws, practices, and economic conditions of each prospective free trade agreement partner prior to voting on approval of an agreement.

2. Worker Rights Provisions in U.S. Trade Law

Accomplishments

- We have used the Generalized System of Preferences (GSP) program to investigate child labor and other worker rights matters in numerous countries.
- For example, in March 1996 the United States suspended Pakistan's benefits in three categories of goods under GSP for failing to take adequate steps to conform to internationally-recognized worker rights -- focusing on three industries in which exploitative child labor was particularly widespread.

Commitments

- We will utilize the mechanisms available in existing statutory authority (including GSP, the Caribbean Basin Initiative, and the Andean Trade Preferences program) to encourage the adoption of core labor standards and improved protection of workers.

3. Child Labor

Accomplishments

- Since 1994, the Labor Department has responded to congressional concerns by preparing three major reports on child labor practices. Among the innovative uses of these reports has been to assist companies and others in developing codes of conduct and overseas production changes.
- We have supported innovative approaches, including by providing funds to the ILO's International Program for the Elimination of Child Labor (IPEC).
- As noted above, we have used U.S. laws to suspend trade benefits in response to persistent exploitative child labor practices in Pakistan.

Commitments

- The Labor Department is currently preparing a fourth study on the use of child labor in products exported to the United States, including a review of private sector efforts to eliminate child labor through codes of conduct and/or labeling systems (e.g., with respect to soccer balls, hand-knitted carpets, and leather footwear).
- The Labor Department also will continue to participate actively in international conferences designed to build greater awareness of child labor practices; these include a special one-day ILO ministerial last year convened at U.S. request.

4. Export Processing Zones

Accomplishments

- The Department of Labor conducted a study in 1990 on the issue of differential labor standards in export processing zones, finding that some countries had special laws applicable in such zones with the intent of restricting certain important labor standards, including the freedom of association and right to collective bargaining.
- We have encouraged specific attention to this issue in the ILO.

Commitments

- The Department of Labor plans to update its 1990 study to determine the extent to which different labor standards and conditions continue to exist in these zones.
- We will continue to encourage work within the ILO to analyze the extent to which differential standards exist in such zones, and will review whether to recommend increased coordination with the Secretariat of the WTO.

5. Apparel Industry Partnership (“No Sweat” Initiative)

Accomplishments

- We have spearheaded collaborative action domestically by the private sector, labor unions, and non-governmental organizations regarding codes of conduct that discourage activities that contravene the protection of core labor standards.
- In August 1996, the President brought together a cross-section of interested private sector parties with senior government officials to initiate the Apparel Industry Partnership (AIP). In April 1997, the AIP members announced agreement on a “Workplace Code of Conduct” and monitoring principles.

Commitments

- We will build on this “no sweat” partnership by encouraging additional collaborative initiatives in targeted sectors by businesses, labor unions, and non-governmental organizations to discourage activities that contravene the protection of core labor standards.

6. Education, Training, and Related Assistance Programs

[Separate background paper being prepared by Anne Lewis on activities to date and future plans]