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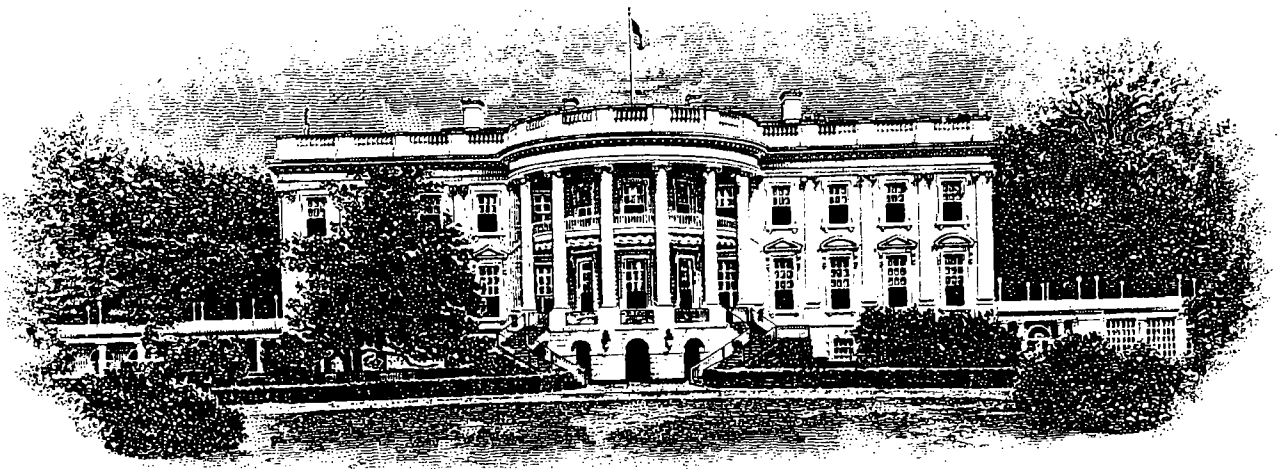
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Fast Track Notes and S 1269 [2]

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The White House



Calendar No. 198

105TH CONGRESS
1ST SESSION**S. 1269**

[Report No. 105-102]

To establish objectives for negotiating and procedures for implementing
certain trade agreements.

IN THE SENATE OF THE UNITED STATES

OCTOBER 8, 1997

Mr. ROTH, from the Committee on Finance, reported the following original
bill; which was read twice and placed on the calendar

A BILL

To establish objectives for negotiating and procedures for
implementing certain trade agreements.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. SHORT TITLE.**
4 This Act may be cited as the "Reciprocal Trade
5 Agreements Act of 1997".

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1 (B) how and to what extent the agreement
 2 will achieve the applicable purposes, policies,
 3 and objectives of this Act;

re-

4 (C) where applicable, the implementation
 5 of the agreement under section 5, including
 6 whether the agreement includes subject matter
 7 for which supplemental implementing legislation
 8 may be required which is not subject to trade
 9 agreement approval procedures; and

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10 (D) any other agreement the President has
 11 entered into or intends to enter into with the
 12 country or countries in question.

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13 (c) ADVISORY COMMITTEE REPORTS.—The report
 14 required under section 135(e)(1) of the Trade Act of 1974
 15 regarding any trade agreement entered into under section
 16 3(b) of this Act shall be provided to the President, Con-
 17 gress, and the United States Trade Representative not
 18 later than 30 calendar days after the date on which the
 19 President notifies Congress under section 5(a)(1)(A) of
 20 the President's intention to enter into the agreement.

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21 (d) CONSULTATION BEFORE AGREEMENT INI-
 22 TIALED.—In the course of negotiations conducted under
 23 this Act, the United States Trade Representative shall
 24 consult closely and on a timely basis (including imme-
 25 diately before initialing an agreement) with, and keep fully

1 apprised of the negotiations, the congressional advisers for
2 trade policy and negotiations appointed under section 161
3 of the Trade Act of 1974 (19 U.S.C. 2211), the Commit-
4 tee on Finance of the Senate, and the Committee on Ways
5 and Means of the House of Representatives.

6 **SEC. 5. IMPLEMENTATION OF TRADE AGREEMENTS.**

7 (a) IN GENERAL.—

8 (1) NOTIFICATION AND SUBMISSION.—Any
9 agreement entered into under section 3(b) shall
10 enter into force with respect to the United States if
11 (and only if)—

12 (A) the President, at least 90 calendar
13 days before the day on which the President en-
14 ters into the trade agreement, notifies the
15 House of Representatives and the Senate of the
16 President's intention to enter into the agree-
17 ment, and promptly thereafter publishes notice
18 of such intention in the Federal Register;

19 (B) within 60 calendar days after entering
20 into the agreement, the President submits to
21 Congress a description of those changes to ex-
22 isting laws that the President considers would
23 be required in order to bring the United States
24 into compliance with the agreement;

RECIPROCAL TRADE AGREEMENTS ACT OF 1997

OCTOBER 8, 1997.—Ordered to be printed

Mr. ROTH, from the Committee on Finance,
submitted the following

REPORT

together with

ADDITIONAL VIEWS

(To accompany S. 1269)

(Including cost estimate of the Congressional Budget Office)

The Committee on Finance, having considered legislation to renew the President's authority to proclaim changes in tariffs resulting from the negotiation of reciprocal trade agreements and to renew congressional procedures for implementing provisions of such agreements in United States law, reports favorably thereon and refers the bill to the full Senate with a recommendation that the bill do pass.

I. BACKGROUND

Article I, section 8, clause 2 of the Constitution delegates the power to regulate foreign commerce to Congress. Congress has historically exercised that power through legislation regulating imports of goods, services, and investment into the United States.

Beginning with the Reciprocal Trade Agreements Act of 1934, however, Congress introduced a new means of addressing the changing needs of American trade policy. Congress delegated authority to the President to proclaim changes in U.S. tariffs, within prescribed limits, based on the results of mutually beneficial trade agreements concluded with our foreign trading partners. Congress set the overall objectives of the negotiation, but offered the Presi-

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President intends to negotiate a new agreement or modify an existing agreement. Failure to provide such notice may trigger the introduction and consideration of a "procedural disapproval resolution" under the provisions of subsection 5(b) of this bill, which, if approved, would deny the use of the trade agreement approval procedures (i.e., the fast track) for legislation implementing such an agreement.

Subsection 4(a) also requires the President to consult with the Senate Finance and House Ways and Means Committees, as well with other committees the President deems appropriate, before and promptly after providing notice of his intention to begin negotiations. The Committee believes that the broadest possible consultation is desirable and that other committees that have an interest in the subject matter of a negotiation are entitled to be heard. As a consequence, the Committee's bill also requires the President to consult with any other committees that request such consultations in writing. The bill includes as well the requirement that the President must consult with appropriate private sector advisory committees established under section 135 of the Trade Act of 1974 before beginning negotiations. In the view of the Committee, a mandate for broad consultations will help ensure that all interested parties are kept fully apprised of proposed negotiations.

Under subsection 4(b), before entering into a trade agreement, the President is required to consult with the Senate Finance and House Ways and Means Committees, as well as with other committees that have jurisdiction over legislation involving subject matters that would be affected by the trade agreement under negotiation. In addition to the requirements stemming from the 1988 Act—that the consultations must include discussions as to the nature of the agreement and a detailed assessment of how and to what extent the agreement meets the purposes, policies and objectives set forth in section 2 of this bill—the consultations must include a discussion of all matters related to the implementation of the agreement. These include an assessment as to whether the agreement includes subject matters that will require implementing legislation that does not qualify for the fast track procedures authorized by this bill.

To provide an adequate understanding of the context in which the negotiations will take place, the Committee expects that, with respect to free trade agreement negotiations, the consultations required in section 4 will include an overview of the macroeconomic situations of the countries with which the United States is proposing to negotiate and any implications for relevant exchange rates. The Committee expects the President to keep it apprised of developments in this area as negotiations progress.

In addition, because the Committee is aware that a number of separate agreements on specific topics were concluded in conjunction with the implementing legislation for the three agreements most recently considered under the fast track procedures—the U.S.-Canada Free Trade Agreement, the NAFTA, and the Uruguay Round Agreements—the Committee has added a new consultation requirement. The President must consult with respect to any other agreement he has entered into or intends to enter into with the country or countries in question.

The Committee believes that the Congress and the American public are entitled to know the full range of understandings and agreements that accompany the formal text of a trade agreement. The Committee intends that the term "agreement," as used in this context, be broadly construed to encompass all kinds of agreements, ranging from formal side agreements entered into pursuant to the President's executive power, to exchanges of letters (with the country or countries in question and with Members of Congress and other interested parties), to any agreed interpretations of the provisions of a trade agreement or any other agreement entered into in conjunction with a trade agreement.

Section 135(e) of the Trade Act of 1974 is amended in sections 4 and 7 of this bill to require the Advisory Committee for Trade Policy and Negotiations, appropriate policy advisory committees, and each sectoral or functional advisory committee affected by such negotiations to submit a report to the President, the Congress and the United States Trade Representative on any trade agreement entered into under the authority provided in subsections 3(a) or (b) of this bill. Such reports are to include an advisory opinion on whether and the extent to which an agreement promotes the economic interests of the United States and achieves the applicable purposes and principal negotiating objectives set forth in section 2 of this bill. The sectoral and functional advisory committees are to provide advisory opinions as to whether the agreement provides for equity and reciprocity within the sector or within the functional area.

Under the 1988 Act, the advisory committee reports were required to be submitted no later than the date on which the President notified the Congress of his intention to enter into an agreement. In recognition of the fact that important terms of trade agreements often are not determined before the final hours of the negotiations, the Committee's six-month extension of the trade agreement approval procedures for purposes of concluding the Uruguay Round negotiations allowed the private sector advisory committees to file their reports 30 days after the President transmitted his notification. In the view of the Committee, the 30-day delay was helpful in that it allowed the advisory committees to factor in the final terms of the trade agreements in their analysis of the results. The Committee has adopted that approach in this bill. Advisory committees will be required to submit their reports not more than 30 days after the President notifies Congress of his intention to enter into a trade agreement.

Subsection 4(d) requires the USTR to consult regularly, promptly, and closely with the congressional advisers for trade policy and negotiations appointed pursuant to section 161 of the Trade Act of 1974, as well as with the Senate Finance and House Ways and Means Committees as a whole, and keep the advisers and committees fully apprised of the negotiations. As noted above, consultations should afford Congress a meaningful opportunity to evaluate the negotiations at their final stages—the point at which key, and often controversial, matters are resolved. It is the Committee's view that comprehensive, detailed consultations are required particularly at that point.

In that connection, the Committee expects that the USTR will enter into a formal arrangement, in the form of procedures similar to that agreed to by the Executive Branch in 1975, that will implement this section and section 161 of the Trade Act of 1974 in a manner that will ensure that the advice of the trade advisers and Committee members will be taken fully into account so that they may play a meaningful role once negotiations begin, and, in particular, as they reach a conclusion. In addition, the Committee expects that the trade advisers, as required by section 161, will be fully accredited advisers to United States delegations to international conferences, meetings, and negotiating sessions relating to all trade agreements.

The Committee expects that the USTR will, consistent with past practice, commit to a set of procedures for supplying Members and properly cleared staff with the following documents, whether classified or unclassified: relevant incoming and outgoing cables, statements of Executive Branch position, and formal submissions from the other countries engaged in the negotiations.

In addition, the Committee believes strongly that consultations must be improved in particular as trade negotiations enter their final stages. The Committee is aware that, in many cases, important and controversial issues often are not settled until the final hour of negotiations. Although the Committee recognizes that this is the nature of negotiations, the Committee nonetheless believes that there should be a mechanism in place for more formalized consultation with Committee Members at this critical stage.

Accordingly, it is the Committee's expectation that the USTR will work with Committee Members to develop a set of procedures whereby the USTR or appropriate staff will brief Committee Members and staff on the state of negotiations as they enter their final days. Committee Members will then have the opportunity to provide the USTR with their views as to any potential concerns regarding the status of the negotiations at that time and possible trade-offs that are likely to occur in the waning hours.

The Committee recognizes that both the Executive Branch and the Congress bear the responsibility for ensuring that these consultations are meaningful. Executive Branch negotiators must offer detailed information in a timely manner; Congressional trade advisers and Committee Members must make themselves available when the negotiations enter their final stage, and the requirement to consult is contingent upon such availability.

E. Section 5: Implementation of Trade Agreements

Subsection 5(a) establishes the basic requirements regarding notification and submission of the agreement and implementing legislation that must be met before a trade agreement subject to the trade agreement approval procedures of this bill (i.e., the fast track procedures) enters into force for the United States. As was the case in the 1988 Act, the President is required to notify the House of Representatives and the Senate of his intention to enter into a trade agreement at least 90 days before doing so, and to publish promptly in the Federal Register notice of his intention. The purpose of this advance notification is to give the Congress an opportunity to review the outcome of the negotiations and assess, before

the agreement becomes final, whether the objectives set forth in this Act have been met. The 90-day advance notification is intended to allow sufficient time for the Congress to make its view known and, if necessary, for the Executive Branch to seek modifications to the agreement before the negotiations are formally concluded.

As in the past, the fast track procedures established in this bill do not require the President to submit the agreement and implementing legislation to the Congress within a time certain. The Committee is of the view, however, that the Congress ought to be apprised soon after the agreement is entered into of the changes to U.S. law that will be required in order to implement it. Accordingly, the Committee has added a new provision: within 60 days after entering into an agreement, the President must submit to the Congress a description of the changes to U.S. laws that he considers necessary for the United States to comply with the agreement.

Once the President is ready to send the agreement and propose implementing legislation to the Congress, subsection 5(a) requires, as did the 1988 Act, that the President submit the final legal text of the agreement, together with a draft of the implementing bill, a statement of the administrative actions that will be proposed to implement the agreement, and additional supporting information. The supporting information must include: (1) an explanation as to how the implementing bill and proposed administrative action will modify U.S. law; and (2) an assertion that the agreement makes progress in achieving the objectives of this Act, setting forth specific reasons as to how and the extent to which such objectives are met and why and to what extent other objectives are not, how the agreement serves the interests of U.S. commerce, why the implementing bill qualifies for fast track procedures, and the reasons for any proposed administrative action. In addition, the Committee has added a requirement that the President identify whether and how the agreement changes provisions of a previously-negotiated agreement.

It is the Committee's expectation that the supporting information as to how the agreement serves the interests of U.S. commerce will include a report prepared by the ITC, to be requested by the President pursuant to the authority provided under section 332 of the Tariff Act of 1930 or section 191 of the Trade Act of 1974, that will assess the probable economic impact of the concluded agreement on United States' interests relating to specific industries and sectors. The Committee believes that such a report, completed after the negotiations have concluded, should allow for an objective assessment of the final results of the negotiations. It is the Committee's expectation that adequate time will be provided after conclusion of the negotiations for the ITC to complete its report. The Committee further expects that the President will provide, at the time he transmits the ITC's report to the Congress, recommendations with respect to the operation and effects of the agreement.

Subsection 5(a) carries over a provision from the 1988 Act a requirement that the President recommend that the benefits and obligations of any trade agreement eligible for the procedures authorized by this bill be applied solely to the parties to the agreement, in order to minimize the "free rider" problem that arises when the

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ADMINISTRATION SUPPORT FOR U.S. AGRICULTURE

The Administration is well aware that no other sector in the U.S. economy has benefited as much from trade as agriculture, and that no other sector's future is so closely tied to exports and free and fair access to foreign markets. Agricultural exports were a record \$60 billion in FY 1996, and with a trade surplus of \$27 billion, agriculture is now the largest positive contributor to the U.S. balance of trade.

We share the concerns of Senator Daschle and other leaders in the agricultural community about the very real restrictions in foreign countries facing exporters of U.S. agricultural products. The Administration will continue to be aggressive in the international arena, building on our past trade policy successes, and opening up new opportunities for U.S. agriculture.

Support for Agricultural Exports

The export of agricultural products is an important component of U.S. agriculture's success in foreign markets. These exports contribute directly to farm income and to the health of the overall economy, and value-added farm sales overseas are an important factor in improving the United States merchandise trade balance. Unfortunately, U.S. farmers and ranchers cannot realize their full export potential because some foreign countries deny fair and equitable market access to U.S. agricultural products.

In order to identify unfair market restrictions on U.S. value-added agricultural exports, and to focus our resources on removing these barriers, the Administration supports S. 219, the Value-added Agricultural Products Market Access Act of 1997.

The Administration agrees that it would be beneficial for the U.S. Trade Representative to identify, on an annual basis, countries that deny market access for value-added U.S. agricultural products, or that apply standards for the import of value-added agricultural products from the United States, that are not related to protecting human, animal, or plant life or health, and are not based on scientific principles.

The Need for More Timely Data on Trade in Livestock and Livestock Products

America's livestock sector contributes greatly to our agricultural trade surplus. The export value of red meats, for example, have risen steadily during this Administration, and is at a record level. U.S. agriculture now boasts a \$2.4 billion surplus in red meat trade.

Significant cross-border trade in live animals and meat has accompanied the rise in exports. Timely and reliable trade data are critical to our producers, especially those who live in border areas and experience first-hand trade with our geographical neighbors. Imports can have an important impact on the conditions of competition facing U.S. livestock producers. The Department of Agriculture's Task Force on Concentration in the Livestock Industry called for

more timely reporting of price and quantity data for livestock and livestock product trade. More timely data can help improve competition in the market place.

For this reason, I direct the following administrative action that will improve the availability of livestock import data:

The Secretary of Agriculture, in close cooperation with the U.S. Customs Service and the agricultural community, will identify and make available to the public timely and appropriate quantity and value data on U.S. imports of live cattle and beef.

Improved Availability of Basic Data on Canada's Cattle Sector

Increased cross border trade between the United States and Canada in cattle and beef has raised the interest of U.S. livestock producers about economic conditions in Canada's cattle sector. Up-to-date information on cattle inventory, cattle slaughter, and cattle and beef trade will answer U.S. producer needs for information about a significant competitor in the U.S. market. To obtain this information on Canada's cattle sector:

The Secretary of Agriculture will engage in consultations with his counterpart in Canada for the reciprocal exchange, on a monthly basis, of data on cattle inventory; cattle slaughter; and cattle and beef trade between the United States and Canada. This data shall be made available to the public upon receipt.

Voluntary Labeling of Meat of U.S. Origin

The rise in cross-border trade between the United States and Canada in cattle and beef has raised interest in developing a voluntary labeling system for meat of U.S. origin. The Administration stands ready to assist the livestock industry in its ongoing efforts to examine and develop voluntary labeling of meat of U.S. origin. To this end:

The Secretary of Agriculture will, in cooperation with the U.S. livestock industry, develop guidelines for the voluntary labeling of meat and meat food products produced in the United States from livestock raised in the United States to indicate the U.S. origin of the meat and meat food products, and will provide technical assistance to the U.S. industry to facilitate the use of such labeling.

Congress of the United States

Washington, DC 20515

REMARKS BY SENATE DEMOCRATIC LEADER TOM DASCHLE ANNOUNCING HIS SUPPORT FOR "FAST TRACK" TRADE AUTHORITY MONDAY, NOVEMBER 3, 1997

Today is an historic day in American trade policy. Never before has an American President submitted, with his request for fast track negotiating authority, a formal statement of his broader foreign economic policy agenda.

Never before has a President spelled out in such detail what his administration will do to ensure that trade expansion raises living standards for the greatest number of Americans.

This "statement of executive initiatives" addresses concerns that I, and other Democratic Senators, have raised -- particularly concerns about worker rights and environmental protection.

On the basis of these initiatives, as well as separate assurances I've received on agricultural trade, I am announcing today that I will support the President's request for fast track trade negotiating authority.

I want to congratulate the Administration for the tremendous amount of work they have put into this unprecedented document.

The days when negotiating trade agreements meant simply coordinating tariffs and quotas are gone. Today, we're stitching together the fabric of entire economies. This broader scope of negotiations demands a broader strategy for negotiations. That's what this document sets out.

The statement contains a concrete strategy to improve workers' rights, and protect the environment, in developing countries at the same time we negotiate trade agreements with them.

Raising these standards to our level and avoiding a race to the bottom will be an explicit objective of this Administration, particularly when we're negotiating free trade agreements.

First, the Administration has pledged to take specific steps to shine a brighter public spotlight on the labor rights and environmental conditions and practices in these countries. I believe that sunshine can be a powerful disinfectant in this regard.

The Administration will conduct a benchmark assessment of our future FTA partners in the areas of labor, the environment, the legal system, and exchange rate policy. And the Labor Department will issue annual reports on the labor rights conditions in our existing FTA partners.

Congress and the American people will be able to judge for themselves whether our trading partners are living up to their end of the bargain on workers' rights and the environment.

Second, the Administration has pledged to try to reform world trade and financial institutions to take better account of labor and environmental concerns.

The Treasury Department will press the World Bank to create a labor rights department in order to increase the emphasis on worker rights in developing nations.

On the environment, the U.S. will push to open up the World Trade Organization's "dispute settlement" process to input from environmental groups.

And we will seek to have the WTO convene an Eminent Persons Group on the environment to consider whether some of the GATT's rules need to be changed to better accomodate national environmental policies.

Also, we will undertake a set of border clean-up initiatives to protect the health and safety of Americans living near our nation's borders, and to protect our natural environment along the borders. These will be announced later this week, and Senate Democrats consider them very important.

In closing, this statement proves -- in black and white -- that this administration understands trade agreements must raise living standards. Expanded trade is the future. America cannot turn its back on that future. Neither can we turn our back on our history, and our deep commitment to workers rights and environmental protection.

Once again, I want to congratulate the Administration on taking this historic step.

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THE WHITE HOUSE

WASHINGTON

November 3, 1997

Dear Mr. Leader:

As I know we both agree, the future of America's farmers and America's farming communities is integrally related to our ability to compete in global markets. In 1996, U.S. agricultural exports climbed to \$60 billion, an historic high for such exports. In fact, American agriculture is more than twice as reliant on foreign trade as the U.S. economy as a whole, with exports currently accounting for an estimated 30 percent of agriculture's cash receipts.

But as you have correctly pointed out, more can be done to increase the ability of American farmers to sell their products overseas. You have been a leader in promoting the ability of U.S. farmers to export their products and I am glad to continue our joint efforts to achieve this goal. In that regard, I am glad to convey my support for the attached list of initiatives that can further strengthen the ability of America's farmers to compete in today's global economy.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill", written in a cursive style.

The Honorable Thomas A. Daschle
Minority Leader
United States Senate
Washington, D.C. 20510

Congress of the United States
Washington, DC 20515

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MONDAY, NOVEMBER 3, 1997**

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The Treasury Department will press the World Bank to create a labor rights department in order to increase the emphasis on worker rights in developing nations.

On the environment, the U.S. will push to open up the World Trade Organization's "dispute settlement" process to input from environmental groups.

And we will seek to have the WTO convene an Eminent Persons Group on the environment to consider whether some of the GATT's rules need to be changed to better accomodate national environmental policies.

Also, we will undertake a set of border clean-up initiatives to protect the health and safety of Americans living near our nation's borders, and to protect our natural environment along the borders. These will be announced later this week, and Senate Democrats consider them very important.

In closing, this statement proves -- in black and white -- that this administration understands trade agreements must raise living standards. Expanded trade is the future. America cannot turn its back on that future. Neither can we turn our back on our history, and our deep commitment to workers rights and environmental protection.

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STATEMENT OF EXECUTIVE INITIATIVES

The renewal of traditional trade negotiating authority will enable the United States to continue to assume the leadership role in breaking down trade barriers and opening markets -- creating new opportunities for our workers and our companies. By fostering a close partnership between the President and the Congress, this authority also ensures that the United States speaks with a united, bipartisan voice in pursuing our international trade agenda.

Even as we use this authority to negotiate strong new trade agreements, we need to ensure that our trade agenda complements and reinforces other important policy objectives -- as it always has done. These goals include helping promote greater attention by other countries to the protection of the environment and worker rights. Because of American leadership, we already have witnessed significant progress in both areas. Maintaining and extending this progress depends on our continued economic leadership role, which in turn is dependent on the renewal of our traditional trade negotiating authority. Failing to do so not only will deny us the ability to attack foreign trade barriers and create new jobs at home, but also will ensure that we are not positioned to help advance environmental protection and promotion of worker rights in other countries.

Greater international attention to labor and environmental issues is integral to our efforts to see that all workers have the opportunity to compete and win in the global marketplace. It also helps serve as an important reminder that the ultimate rationale for freer, expanded trade is to create additional wealth and, by so doing, to improve the living conditions of workers both in the United States and abroad. U.S. leadership in this regard also affords a clear example to the rest of the world that protecting the environment and worker rights helps contribute to increased economic growth and prosperity.

The initiatives described below complement the provisions on labor and the environment in the "fast track" legislation now under consideration in the Senate and House of Representatives. They demonstrate that we should work to promote stronger protection of the environment and worker rights in a variety of ways in a variety of fora; indeed, they reveal that trade negotiations may not always afford the best venue for achieving these important objectives.

These initiatives are fully consistent with our goal of expanding international trade. By remaining active here, the United States can help ensure that protection of the environment and promotion of worker rights are in step with trade liberalization. Our leadership position grants us both an opportunity and a challenge: to ensure that trade expansion and improved protection of the environment and worker rights are mutually supportive, and together contribute to economic growth, higher standards of living, and a higher quality of life both in the United States and abroad.

I. Environmental Issues

A. World Trade Organization (WTO): Transparency and Openness

This Administration has long been committed to improving the transparency of WTO activities and the openness of WTO proceedings, and we will be continuing our active pursuit of these goals in the coming year. First, to demonstrate the significance we attach to this issue, the Administration's fast track bill included a principal negotiating objective of achieving the observance of open and equitable procedures by U.S. trading partners and WTO members. Second, we will present our transparency objectives with respect to WTO activities and proceedings at a meeting of the WTO General Council (the WTO's governing body) before the end of the year. Third, 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.

The specific objectives that we will pursue in support of greater openness and transparency in dispute settlement include:

- Advocating consideration by WTO panels and the Appellate Body of *amicus curiae* submissions from non-governmental interested parties in dispute settlement proceedings that involve environmental and conservation issues.
- Seeking to open WTO dispute settlement panel and Appellate Body proceedings to observance by the public.
- Providing for more timely public access to dispute settlement documents, including through electronic means, to enhance the ability of non-governmental representatives to provide their input and expertise.

In addition, we will work to ensure that similar transparency and openness provisions are included in future trade agreements -- whether multilateral, regional, or bilateral -- that contain dispute settlement provisions.

B. WTO: Eminent Persons Group

We strongly support efforts to improve the understanding of how environmental considerations relate to WTO rules and principles. We believe that establishment of an "eminent persons group" can advance that process significantly and help establish the groundwork for further initiatives in this area. To that end:

- We will propose that the WTO Director General convene a group of eminent persons, to include independent experts in the fields of trade, the environment, and development, to examine issues and formulate options for the WTO to consider.

- We will propose that the group examine the interaction of national and international environmental policies with WTO rules and principles. Among the issues it should address are: the relationship of GATT Articles III and XX to environmental measures that affect trade; the relationship between trade measures in international environmental agreements and WTO rules; and the relationship between trade disciplines and ecolabeling.

C. International Financial Institutions (IFIs)

We intend to build upon and expand our efforts to promote incorporation by the IFIs of the full range of environmental issues into their operations and promote a greater flow of resources to environmental projects. In an effort to achieve these goals, the following specific steps will be taken:

- Secretary Rubin will propose that the Inter-American Development Bank (IDB) create an independent advisory committee comprised of senior IDB officials, representatives of non-governmental organizations, and others to examine environmental issues arising from prospective operations and to make specific recommendations to the IDB.
- We will press for significant increases in direct lending for environment and natural resources management projects (in the IDB such funding rose to \$815 million in 1996 due in large part to our advocacy) and for a higher share of lending to be dedicated to these projects.
- We will continue to scrutinize closely the effectiveness of public information disclosure for environmentally sensitive projects to ensure compliance with the existing law, focusing on the required advance consultation with affected and interested persons.
- We will examine closely the practices of the independent inspection panels established to examine alleged non-compliance with established policies and propose improvements to this process and its expansion to the IFIs that currently do not make use of independent inspection panels.
- We will pursue vigorously international support for our proposal to create a \$250 million fund that would provide below market rate loans to finance environmental initiatives.
- We will continue to urge the IMF, as appropriate, in its program design and annual consultations with members to consider the link between the environment and economic policy choices.

Please note also the environmental dimensions of the review of future free trade agreement partners, described below at II(A).

II. Labor Issues

In the labor area, the Administration supports a range of initiatives designed to strengthen the respect for core labor standards. We already have taken a number of important steps to broaden international respect for freedom of association; the right to organize and bargain collectively; prohibitions on forced labor and exploitative child labor; and discrimination in employment. The list of measures that follows illustrates our commitment to address worker rights issues aggressively in a variety of ways.

A. Review of Future Free Trade Agreement (FTA) Partners

The Administration is committed to ensuring that Congress and the American public have an opportunity to thoroughly evaluate future free trade agreements. One important element of this plan is our commitment to make certain that Members of Congress and the public are informed of the broader relevant conditions in prospective FTA partner countries, including each country's labor laws and practices, environmental laws and practices, legal system, macroeconomic policies and conditions, trade laws and practices, and other relevant conditions. To advance this effort:

- We will submit to the Congress, and make available to the American public, a review evaluating these conditions in each prospective FTA partner country when an agreement is brought back for congressional approval. This review will be prepared with the participation of relevant Executive Branch agencies, including the Department of Labor, the Environmental Protection Agency, the Department of Justice, the Department of Treasury, the Office of the United States Trade Representative, and the Department of Commerce.
- Among the matters this review will address are: (1) the FTA partner country's relevant labor and environmental laws, including the enforcement of those laws; (2) the integrity and effectiveness of the country's legal system; (3) the country's macroeconomic policies and practices, including the operation of its exchange rate system; and (4) a description of the country's institutional structures and general policies and practices for addressing each of these areas.

B. Labor Department Annual Report on Labor Conditions under the North American Agreement on Labor Cooperation

We believe that a greater understanding of the labor conditions in our NAFTA partners will allow us to build on the work already being done under the North American Agreement on Labor Cooperation (NAALC) and, at the same time, strengthen the NAALC's own effectiveness in addressing relevant labor issues. To aid in this objective:

- The Department of Labor will produce an annual report reviewing for each NAFTA partner the labor laws, practices, and conditions covered by the NAALC, as well as the relevant proceedings, actions and cases under the NAALC, and the steps being taken by our NAFTA partners to conform to the findings in any such cases.

C. International Financial Institutions (IFIs)

The Administration will undertake a series of measures designed to enhance the U.S. leadership role in pressing for incorporation of issues related to core labor standards into the planning and programs of the IFIs. The following measures will help enhance attention to these issues within the U.S. Government, secure a greater international focus on worker rights issues, and heighten the priority given to worker rights issues by the IFIs:

Ensuring International Focus on Worker Rights Issues

- The Administration believes the United States should continue to heighten attention to this issue. To that end, Secretary Rubin highlighted the need to place greater emphasis on labor standards in his speech at the World Bank/IMF Annual Meeting in September. He will continue to do so in appropriate fora.
- We will propose a summit meeting of the presidents of the IFIs and the Director General of the ILO to reinforce the commitment of the institutions to working closely together.

Enhanced Focus Within the Administration

- In consultation with Secretary of Labor Herman, Secretary of the Treasury Rubin will propose formation of an interagency team -- including the Departments of Labor, State, and Commerce -- to explore issues related to core labor standards more broadly and examine ways to incorporate these issues more systematically into the work of the IFIs. As part of this, the State Department will undertake a variety of diplomatic efforts to promote observance of core labor standards.

Heightening the Priority given by the IFIs to Worker Rights Issues

- We will call for the World Bank to establish an office that is dedicated to analysis of labor issues and has direct input into the Bank's program and lending activities, and will encourage regular direct contacts between ILO staff and this office. We will seek over time to pattern this effort on the institutional reforms undertaken by the Bank in recent years to strengthen its capacity to incorporate environmental considerations in lending and policy advisory activities.
- We will continue to promote vigorously our proposal to develop a screening mechanism -- now under discussion with the multilateral development banks -- to ensure that worker rights issues are taken systematically into account in the institutions' operational planning and programming. We also will explore the best means for ensuring that IFI budgets contain resources sufficient to conduct screening operations and similar analytical functions.
- We will actively promote the Administration's proposed joint World Bank-IMF conference on issues related to core labor standards in an effort to pursue explicit commitments to make tangible progress in the IFIs on these issues. The conference could bring together senior IFI and ILO officials, as well as academics and representatives of non-governmental organizations.
- We will urge the multilateral development banks to increase both technical assistance and direct lending to promote greater adherence to core labor standards.
- We will urge the IMF to further emphasize the importance of 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 (for possible inclusion in its new governance policies).
- We will follow up vigorously on the paper completed, at our urging, by the World Bank on child labor issues, including its specific proposals for more active Bank engagement on these issues.
- We will continue to implement the statutory requirement directing the Secretary of the Treasury to urge the IFIs to adopt policies encouraging borrowing countries to protect worker rights and requiring an annual report to Congress on how the IFIs are performing.

D. Export Processing Zones

The U.S. Government has been concerned over the past several years with programs through which certain countries apply lower labor standards and permit less adequate worker protections in special tariff-free export processing zones (EPZs). We are committed to developing a clearer understanding of such programs and, in so doing, exploring the best means for addressing the concerns that already have been identified and any others that may be highlighted through additional study of EPZs. To accomplish this:

- The Department of Labor will update its 1990 study finding that some countries applied different rules in such zones with the intent of restricting certain important labor standards, including the freedom of association and the right to bargain collectively.
- We will continue to encourage work within the ILO to analyze the extent to which differential standards exist in such zones, and will urge the ILO to work with member states to address these practices. We also will review whether to recommend increased coordination on this issue between the ILO and the WTO.

E. Child Labor

The Administration has focused particular attention on addressing concerns about the exploitation of child labor. Since 1993, we have responded to congressional concerns by preparing three major reports on child labor practices, and have used these reports to aid the private sector in developing voluntary codes of conduct, labeling efforts, and production changes in overseas facilities. Innovative approaches in this area also include technical assistance to help developing countries eliminate exploitative child labor; pressing successfully for a greater ILO focus on exploitative child labor; using U.S. laws to suspend trade benefits in response to persistent exploitative child labor practices; and holding two workshops in 1997 with our NAFTA partners to discuss child labor concerns in North America. To build on these efforts:

- The Labor Department will soon release a fourth report on actions being taken internationally to combat child labor and other exploitative working conditions. The Department also expects to begin a fifth report evaluating strategies that have been undertaken in other countries to reduce exploitative child labor.
- The Administration supported the recent enactment of a change in the Tariff Act of 1930 to clarify that products of forced or bonded child labor can be excluded from entry into the United States. The Department of the Treasury is establishing a task force to assure that the Administration can effectively respond to any allegations raised under the new law.

THE WHITE HOUSE

WASHINGTON

November 3, 1997

Dear Mr. Leader:

As I know we both agree, the future of America's farmers and America's farming communities is integrally related to our ability to compete in global markets. In 1996, U.S. agricultural exports climbed to \$60 billion, an historic high for such exports. In fact, American agriculture is more than twice as reliant on foreign trade as the U.S. economy as a whole, with exports currently accounting for an estimated 30 percent of agriculture's cash receipts.

But as you have correctly pointed out, more can be done to increase the ability of American farmers to sell their products overseas. You have been a leader in promoting the ability of U.S. farmers to export their products and I am glad to continue our joint efforts to achieve this goal. In that regard, I am glad to convey my support for the attached list of initiatives that can further strengthen the ability of America's farmers to compete in today's global economy.

Sincerely,

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

The Honorable Thomas A. Daschle
Minority Leader
United States Senate
Washington, D.C. 20510

ADMINISTRATION SUPPORT FOR U.S. AGRICULTURE

The Administration is well aware that no other sector in the U.S. economy has benefited as much from trade as agriculture, and that no other sector's future is so closely tied to exports and free and fair access to foreign markets. Agricultural exports were a record \$60 billion in FY 1996, and with a trade surplus of \$27 billion, agriculture is now the largest positive contributor to the U.S. balance of trade.

We share the concerns of Senator Daschle and other leaders in the agricultural community about the very real restrictions in foreign countries facing exporters of U.S. agricultural products. The Administration will continue to be aggressive in the international arena, building on our past trade policy successes, and opening up new opportunities for U.S. agriculture.

Support for Agricultural Exports

The export of agricultural products is an important component of U.S. agriculture's success in foreign markets. These exports contribute directly to farm income and to the health of the overall economy, and value-added farm sales overseas are an important factor in improving the United States merchandise trade balance. Unfortunately, U.S. farmers and ranchers cannot realize their full export potential because some foreign countries deny fair and equitable market access to U.S. agricultural products.

In order to identify unfair market restrictions on U.S. value-added agricultural exports, and to focus our resources on removing these barriers, the Administration supports S. 219, the Value-added Agricultural Products Market Access Act of 1997.

The Administration agrees that it would be beneficial for the U.S. Trade Representative to identify, on an annual basis, countries that deny market access for value-added U.S. agricultural products, or that apply standards for the import of value-added agricultural products from the United States, that are not related to protecting human, animal, or plant life or health, and are not based on scientific principles.

The Need for More Timely Data on Trade in Livestock and Livestock Products

America's livestock sector contributes greatly to our agricultural trade surplus. The export value of red meats, for example, have risen steadily during this Administration, and is at a record level. U.S. agriculture now boasts a \$2.4 billion surplus in red meat trade.

Significant cross-border trade in live animals and meat has accompanied the rise in exports. Timely and reliable trade data are critical to our producers, especially those who live in border areas and experience first-hand trade with our geographical neighbors. Imports can have an important impact on the conditions of competition facing U.S. livestock producers. The Department of Agriculture's Task Force on Concentration in the Livestock Industry called for

more timely reporting of price and quantity data for livestock and livestock product trade. More timely data can help improve competition in the market place.

For this reason, I direct the following administrative action that will improve the availability of livestock import data:

The Secretary of Agriculture, in close cooperation with the U.S. Customs Service and the agricultural community, will identify and make available to the public timely and appropriate quantity and value data on U.S. imports of live cattle and beef.

Improved Availability of Basic Data on Canada's Cattle Sector

Increased cross border trade between the United States and Canada in cattle and beef has raised the interest of U.S. livestock producers about economic conditions in Canada's cattle sector. Up-to-date information on cattle inventory, cattle slaughter, and cattle and beef trade will answer U.S. producer needs for information about a significant competitor in the U.S. market. To obtain this information on Canada's cattle sector:

The Secretary of Agriculture will engage in consultations with his counterpart in Canada for the reciprocal exchange, on a monthly basis, of data on cattle inventory; cattle slaughter; and cattle and beef trade between the United States and Canada. This data shall be made available to the public upon receipt.

Voluntary Labeling of Meat of U.S. Origin

The rise in cross-border trade between the United States and Canada in cattle and beef has raised interest in developing a voluntary labeling system for meat of U.S. origin. The Administration stands ready to assist the livestock industry in its ongoing efforts to examine and develop voluntary labeling of meat of U.S. origin. To this end:

The Secretary of Agriculture will, in cooperation with the U.S. livestock industry, develop guidelines for the voluntary labeling of meat and meat food products produced in the United States from livestock raised in the United States to indicate the U.S. origin of the meat and meat food products, and will provide technical assistance to the U.S. industry to facilitate the use of such labeling.

Congress of the United States

Washington, DC 20515

REMARKS BY SENATE DEMOCRATIC LEADER TOM DASCHLE ANNOUNCING HIS SUPPORT FOR "FAST TRACK" TRADE AUTHORITY MONDAY, NOVEMBER 3, 1997

Today is an historic day in American trade policy. Never before has an American President submitted, with his request for fast track negotiating authority, a formal statement of his broader foreign economic policy agenda.

Never before has a President spelled out in such detail what his administration will do to ensure that trade expansion raises living standards for the greatest number of Americans.

This "statement of executive initiatives" addresses concerns that I, and other Democratic Senators, have raised -- particularly concerns about worker rights and environmental protection.

On the basis of these initiatives, as well as separate assurances I've received on agricultural trade, I am announcing today that I will support the President's request for fast track trade negotiating authority.

I want to congratulate the Administration for the tremendous amount of work they have put into this unprecedented document.

The days when negotiating trade agreements meant simply coordinating tariffs and quotas are gone. Today, we're stitching together the fabric of entire economies. This broader scope of negotiations demands a broader strategy for negotiations. That's what this document sets out.

The statement contains a concrete strategy to improve workers' rights, and protect the environment, in developing countries at the same time we negotiate trade agreements with them.

Raising these standards to our level and avoiding a race to the bottom will be an explicit objective of this Administration, particularly when we're negotiating free trade agreements.

~~First, the Administration has pledged to take specific steps to shine a brighter public spotlight on the labor rights and environmental conditions and practices in these countries. I believe that sunshine can be a powerful disinfectant in this regard.~~

The Administration will conduct a benchmark assessment of our future FTA partners in the areas of labor, the environment, the legal system, and exchange rate policy. And the Labor Department will issue annual reports on the labor rights conditions in our existing FTA partners.

Congress and the American people will be able to judge for themselves whether our trading partners are living up to their end of the bargain on workers' rights and the environment.

Second, the Administration has pledged to try to reform world trade and financial institutions to take better account of labor and environmental concerns.

The Treasury Department will press the World Bank to create a labor rights department in order to increase the emphasis on worker rights in developing nations.

On the environment, the U.S. will push to open up the World Trade Organization's "dispute settlement" process to input from environmental groups.

And we will seek to have the WTO convene an Eminent Persons Group on the environment to consider whether some of the GATT's rules need to be changed to better accomodate national environmental policies.

Also, we will undertake a set of border clean-up initiatives to protect the health and safety of Americans living near our nation's borders, and to protect our natural environment along the borders. These will be announced later this week, and Senate Democrats consider them very important.

In closing, this statement proves -- in black and white -- that this administration understands trade agreements must raise living standards. Expanded trade is the future. America cannot turn its back on that future. Neither can we turn our back on our history, and our deep commitment to workers rights and environmental protection.

Once again, I want to congratulate the Administration on taking this historic step.

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TALKING POINTS ON FAST TRACK AND FOREIGN POLICY

Fast Track and American Leadership -- Overview

- **The fast track debate is about much more than trade. It is about American leadership in the world.** Other governments, particularly those in Latin America, view fast track as a test of whether the United States intends to maintain our half century of leadership -- or retreat and turn inward.
- **A failure of U.S. leadership would be a huge mistake.** For over 50 years, we have led the world toward freer markets -- reducing average tariffs from 40% at the end of World War II to about 5% today. That has led to a 90-fold increase in trade, which has enormously benefitted the U.S. We must not turn our back on that progress.
- **American leadership is not divisible. If we fail to lead on trade, our influence will suffer in other areas.** The patterns of trade developed in the coming decades will create patterns affecting our national security, foreign relations and political interests. If Latin America is permitted -- by default in our leadership -- to turn increasingly to Europe and Asia in its trade relations, it will weaken our relationship with Latin America. Rejecting fast track would also send a terrible signal to emerging markets, undermining the developing world trend toward free market policies and democracy.

Exports and U.S. Growth

- **For the U.S., the case for fast track is clear: if we are to sustain our economic growth, we must export.** Since 1993, one-third of our growth has come from exports. Over the next decade, the economies of Latin America and Asia are expected to grow at three times the rate of the U.S. economy. In a world where 96% of the world's consumers live outside our borders, we must export to grow. It's that simple.
- **We are in a perfect position to compete. Our economy is the envy of the world.** We are once again the world's most competitive economy, the world's largest exporter, the leading producer in key industries like automobiles, semiconductors and pharmaceuticals. It makes no sense to sideline ourselves now.
- **But we cannot afford to take our economic leadership for granted.** Throughout the world, other countries are moving to reach trade deals opening their markets. We can either lead this process -- or watch it proceed without us:
 - In Latin America and Asia alone, other countries have reached more than 20 preferential trade agreements without us. Today every major economy in the hemisphere has a preferential trade deal with Chile, except the U.S.
 - The EU is seeking a preferential trade agreement with MERCOSUR, a market of over 200 million people and a GDP exceeding \$1 trillion. President Chirac has declared "the future of the region rests with Europe, not the United States."

Fast track and American Foreign Policy

- **Fast track is a test of our foreign policy.** As the sole remaining superpower, the United States has a fundamental interest in aiding both security and prosperity around the world -- particularly in our own hemisphere. Stable trading relationships are critical to that end. In the post Cold-War world, trade agreements serve some of the same purposes security pacts played during the Cold War: They bind nations together through a set of shared interests and common objectives.
- **If the U.S. fails to lead, we risk losing influence by default. The trade patterns set in coming decades will have enormous strategic importance too.** That is part of the strategy behind FTAA and APEC processes. They are not just economic: they are also intended to reinforce broader U.S. engagement in Latin America and Asia, two regions where U.S. foreign policy strategic and security interests are deeply implicated. Rejecting fast track would signal retreat from these initiatives.
- **That would clearly undermine broader U.S. interests.** Latin America sees trade as the linchpin of a stronger hemispheric relations -- our failure to engage would undermine cooperation on a range of issues including drug interdiction, immigration, environmental protection and corruption. In Asia, the industrialization of 3.5 billion people in the arc from Korea to Pakistan will be perhaps the greatest development of the 21st Century. It is critical to America's economic and security interests that we be deeply engaged in the transformation. Without fast track, we are crippled in that effort.
- **The cause of democracy and free markets would also suffer.** After decades of failed experiments and anti-Americanism, many of the world's emerging markets today are embracing free markets, democracy and other American values. Today -- for the first time in history -- one half of the world's population lives under elected rulers. But this fragile progress will continue only if we continue to press countries to embrace free trade policies, build stronger middle classes and strengthen the building blocks of democracy. Rejecting fast track would send a terrible signal that we are not serious about trade liberalization and reform.

Conclusion

- **The United States faces a critical choice.** We can continue to make our economy the model for the rest of the world, open foreign markets, and reaffirm our global leadership. Or we can convince ourselves that we cannot compete, turn inward, and cede that leadership to others eager to take our place. The choice is that stark -- and that important.

GENERAL TALKING POINTS ON THE IMPORTANCE OF FAST TRACK

Introduction

- I think you know the arguments for fast track authority. One-third of our growth since 1993 has come from exports. About 96% of the world's consumers live outside our borders. If we are to continue to grow, we must export. It's that simple. And that's all we are seeking under fast track: the opportunity to negotiate new agreements that break down foreign trade barriers, level the playing field, and increase our ability to export our world-class goods and services.
- We are in a perfect position to compete. Our economy is the envy of the world. We are once again the world's most competitive economy, the world's largest exporter, the leading producer of automobiles, semiconductors, and pharmaceuticals. It makes no sense to sideline ourselves now.

Fast Track and American Leadership

- We also must understand that the importance of fast track extends beyond trade alone; it is about American leadership in the world today. This debate is being viewed in Latin America and other world capitals as nothing less than a test of whether we intend to maintain our leadership role -- or to retreat and turn inward.
- Defaulting on our leadership role would be a terrible mistake. Under our lead, average tariffs have fallen from 40% at the end of World War II to about 5% today. This has led to a 90-fold increase in trade, which has benefited us enormously. One-third of our strong economic growth over the past five years has come from exports. We must not turn our back on those achievements.
- We cannot afford to take our leadership for granted. Throughout the world, especially in Latin America, others are moving to reach trade deals opening their markets. And they are not waiting for us -- with some 20 preferential trade deals already that exclude the United States. The EU is seeking such an agreement with MERCOSUR -- a market of over 200 million people with a GDP exceeding \$1 trillion. And President Chirac has stated that "the future of the region rests with Europe, not the United States."
- Let's face it: American leadership is not divisible. If we do not lead on trade, our influence is bound to suffer in other areas as well. The patterns of trade affect our national security and strategic interests as well -- particularly in this hemisphere. Trade agreements can bind us together through shared interests and institutions. If by default in our leadership we permit Latin America to turn increasingly to Europe and Asia in its trade relations, it will weaken our relationship with them in other areas as well -- from drug interdiction to immigration to environmental protection to fighting corruption.

- Rejecting fast track would send the wrong signal to developing countries in particular. After decades of failed experiments and anti-Americanism, many today are embracing free markets, democracy, and other American values. But this progress is still fragile -- and it will continue only if we continue to press countries to embrace free trade policies, build stronger middle classes, and strengthen the building blocks of democracy. Having preached the benefits of open trade to these countries for so long, the United States must not turn in precisely the opposite direction at this critical time.

Efforts to Address Members' Concerns

- I believe that as we expand trade, we should ensure that everyone shares in the benefits. That not only is the right thing to do -- it is also essential if we want to keep public support for a policy of expanded trade. That begins with extending the Trade Adjustment Assistance program -- as the Finance Committee has done with bipartisan support. The Administration has been working on a series of other initiatives to help both workers and communities, which we will be announcing in the next few days.
- Let me also tell you why our critics have it wrong on labor and the environment. I am convinced we can break down foreign trade barriers and advance worker rights and environmental protection at the same time. The Finance Committee bill strikes a sensible, balanced approach to allow us to do just that. And look at it this way: If we have fast track, Chile will conclude labor and environmental side agreements with us -- in fact, they already have agreed to do so. If we don't, they won't. Rejecting fast track is the best way to ensure that labor and environmental concerns simply are ignored in the years ahead.

Conclusion

- This is a very important vote. We face a critical choice. We can continue to make our economy the model for the rest of the world, open foreign markets, and exert global leadership. Or we can convince ourselves that we cannot compete, turn inward, and cede that leadership to others eager to take our place. The choice is that stark -- and that important. That's why I feel so strongly about fast track, and why I ask for your support.

Draft - What Is Fast Track Trade Negotiating Authority and Why Is It Necessary?

The short answer is that it is a special grant of trade negotiating authority and an expedited procedure for Congressional consideration of trade agreements that require changes to U.S. law--including tariff and non-tariff measures. These changes are embodied in implementing legislation and it is the implementing legislation that is actually before Congress for its consideration under fast track--meaning Congress cannot amend the implementing bill; it can only vote yes or no on the package. As part of fast track consideration, Congress also binds itself to vote on the bill at a set time. In effect, consideration of the implementing legislation is the device for both approving the trade agreement itself and the changes it requires in U.S. law.

In exchange for this broad grant of authority, Congress has established a number of procedural safeguards from the beginning of the process to the end, and a number of informal safeguards as well have developed over the years since it was first introduced in 1974 to accomodate the Tokyo Round. Congress has granted fast track trade negotiating authority to every President since the initial grant in 1974. It was renewed in 1979, 1984, 1988, 1991 and the last, limited grant was in 1994 in order to consider the Uruguay Round Agreements Act. As a result, fast track has existed continuously from January 1975 until April 1994 with a brief hiatus for just over six months in 1988.

There are two distinct aspects to the granting of fast track trade negotiating authority: tariff reduction and the broader, often more difficult market access and non-tariff barrier issues. It is important to remember that fast track is not a grant of trade negotiating authority, since the Constitution already empowers the President to negotiate treaties and he also has executive authority. Fast track is a grant of very special authority, a self-imposed restriction on Congress in its consideration of legislation implementing trade agreements negotiated by the President under this authority.

As was noted earlier, in exchange for this broad grant of authority, Congress has traditionally enacted a number of consultative requirements into each grant of fast track, and beginning with the implementing bill for the 1974 Tokyo Round a set of informal procedures has also emerged. These are known as the "non-markups" and have produced extended discussions between the

relevant Congressional committees and the Administration in the process of actually drafting an implementing bill. Two interesting developments that have marked the more recent “non-markups” is that the number of Congressional committees and participants has increased markedly and so has the role of private interests.

There are five basic procedural requirements that, with some modifications, have existed in each bill since 1974. They are:

(1) Before entering into any trade agreement, the President is required to consult with the Ways and Means and Finance Committees, and with all other committees of jurisdiction over matters affected by the Agreement and the implementing bill. The consultation should include the nature of the agreement(bilateral or multilateral or sectoral); to what extent the agreement is designed to meet the agreed upon negotiating objectives; and what changes in U.S. law are likely to be required to implement the agreement.

(2) The President is required to notify Congress in advance of his intention of entering into a trade agreement. For agreements other than the Uruguay Round this was a 90 day notice; for the Uruguay Round it was set at 120 days--mostly because this was such a massive undertaking. The notice period is designed to give Congressional committees a reasonable amount of time to review the proposed agreement before it is actually signed, to determine the proposed changes required in U.S. law, and to consult with the Administration in the drafting of an implementing bill(this is what has come to be known as the “non-markup” markup) that can be enacted on a single up or down vote.

(3) After signing the trade agreement, the President is required to submit the final text to Congress together with the draft implementing bill, a statement of any administrative action necessary for implementation and a supporting statement that deals with: how the bill or administrative action changes current law; reasons why the agreement achieved the negotiating objectives and why it may not have achieved other applicable policy objectives; how it served the commercial interests of the United States; why the implementing bill and any administrative actions are necessary or appropriate to carry out the agreement(we will deal with necessary and appropriate later); and host of other issues relating to state trading companies.

There has never been a statutory requirement in any grant of fast track for submission of the agreement and the implementing bill within a specified period of time. There has always been an informal accommodation between the Administration's desire to move expeditiously and Congress' need to participate in the drafting of an implementing agreement and then for its full consideration. Again, more Congressional committees and members are increasingly involved in what once was the sole province of Ways and Means and Finance. Both Committees, however, have come to recognize that this is necessitated by the growing complexity of trade agreements and the subject matter covered in such agreements.

(4) The implementing bill is introduced by the leadership of both Houses on the day the President submits it and it is referred to the Committees of jurisdiction; if not reported out within 45 days, the committees are discharged and it is placed on the calendar.

(5) Each House is required to vote within 15 legislative days after the bill has been reported or discharged. The motion to proceed to consideration of the implementing bill is privileged and not debatable. Motions to reconsider are not in order; nor are amendments.

The total maximum number of days for Congressional consideration, from date of introduction, is 60 days; for revenue implementing bills, it is 90 days. For the first time, the 1988 Act included a "reverse" fast track provision--based on a disapproval procedure within 60 days. The specific basis for disapproval is the failure or refusal of USTR to consult with Congress as spelled out in the grant of authority. There were also provisions in the 1974 original grant and in the 1988 Act providing for a Congressional advisory role and consultations with committees of jurisdiction throughout the period of actual trade negotiations and for private advisory committee reports on the negotiations and the agreement itself.

A recent problem area in regard to fast track is the "paygo" requirement. There is a legitimate debate over whether or not the revenue provisions required for implementation should be governed by fast track. Senator Lugar does not believe they should be unamendable since they are not

part of the commitment made in the context of a trade negotiation.

The most important procedural issue that needs to be resolved before the introduction of a bill is the status of the so-called "necessary or appropriate" clause. To the extent one wants to narrow the focus of implementing legislation to the specifics of a trade agreement or to the negotiating objectives agreed upon, then the test for implementing legislation is met by confining it to only what is necessary or required. To the extent that implementing legislation is the surrogate for passing judgment on a trade agreement and both politics and the legislative process demand greater flexibility, then it is important to have the flexibility offered by "necessary and appropriate." The problem, for Republicans, is that they believe Democrats view this as a wide enough hole to drive a train through--and in the past such trains have included pension reform provisions, for example.

The obvious compromise is to draft a provision that is broader than only what is required or necessary--meaning that it includes "appropriate" but eventually let the legislative process determine how to narrow "appropriate" if that becomes necessary. For example, "appropriate" could be defined as "trade measures appropriate for the implementation of the agreement"--which really means what it takes to get it passed. The argument to be made to Republicans is that they are in the majority and will have ample opportunity during the consultations for drafting the implementing bill to ensure that it is not abused. In addition, for Republicans this is still very much about labor and the environment. Republicans see this as a backdoor opportunity for Democrats to do an end run. That is a policy-political issue--not a procedural-political issue.

If one looks at NAFTA as a procedural process under fast track, it becomes very clear that any subsequent grant of fast track would include greater procedural safeguards for Congress across a broad spectrum of issues, including what agreements fast track is applicable to. In the case of NAFTA, one can make a compelling case that the existing authority was really Uruguay Round authority and that once the NAFTA negotiations got underway, it was really a question of Congress being backed into a corner.

Another issue that needs to be resolved, if only temporarily, is the question of fast track for how long? Since the final version of the bill, as noted above, will have a greater degree of Congressional input into what negotiations

can be undertaken and for what reasons, it makes sense to ask for authority that extends beyond the year 2000 and include a short extension period subject to disapproval.

Why is it that fast track is so critical to trade negotiations. The most obvious answer is that Presidents have had it since 1974 as part of their authority to negotiate agreements. In short, its absence is a compelling reason for other nations not to negotiate seriously. More importantly, trade agreements are the product of a negotiation. Why would a trading partner negotiate a good faith, final offer if that was subject to amendment by the House and Senate? One only has to look at the OECD shipbuilding agreement, which was not subject to fast track, and died as a result.

In fact, despite the need to increase the institutional prerogatives of the Congress and provide it with a greater role, there is a more compelling case today for fast track than ever before--divided government.

Draft

Prepared by Jason Berman

August 26, 1997

Response to Gephardt Letter

Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer: To the contrary, the House bill includes the most detailed and concrete labor and environmental objectives ever included in fast track legislation. In fact, no previous version of fast track even mentioned environmental issues.

The House bill says that a principal negotiating objective for the United States is to ensure through fast-track agreements that foreign governments do not derogate from or waive their labor, health, safety, or environmental laws to give their products or firms an unfair competitive advantage.

-- Thus, the bill's labor and environment negotiating objective directly addresses the kinds of issues that Rep. Gephardt and other opponents have been raising.

-- The bill tells the President to try to negotiate deals that will prevent foreign governments from manipulating their environmental and labor laws to gain an advantage in international trade. The inclusion of this language is very important in both trade and labor/environment terms and is precisely the kind of issue that should be addressed through fast track agreements.

Moreover, the bill calls on the President to negotiate broader environmental and labor understandings through non-fast-track agreements. This is a first as well, putting Congress' imprimatur on negotiations specifically designed for these purposes.

In sum, the House bill provides an opportunity to make meaningful progress on trade, labor, and the environment.

Assertion: A country would be free to lower its labor and environment protections to assist its

"macroeconomic development".

Answer: That is a misreading. The bill clearly states that a principal negotiating objective for the United States is to ensure that foreign governments do not manipulate their labor and environmental laws to gain an unfair trade advantage.

The language on "sound macroeconomic development" does not change the instructions to the President in these areas. Rather, it recognizes that the United States has long urged governments to put in place economic policies that make good development sense over the long term, and that in pursuing environmental and labor issues the United States is not departing from this important message.

-- In fact, the two concepts are complementary. It is unlikely that a government's attempt to distort competitive conditions in favor of local goods or firms by departing from the country's own environmental or core labor standards would be consistent with the country's long-term development interests.

Moreover, the concept of "sound macroeconomic development" embodies the notion that countries will gradually raise their environmental and labor standards over time as they develop, just as we have done.

Assertion: Efforts to promote labor and environment would have to be addressed outside fast track -- at the ILO.

Response: Untrue. As noted, the bill specifically targets those foreign environmental and labor policies and practices that governments can use to give their products and companies an unfair trade advantage.

These are precisely the kinds of issues that it makes sense to address in our trade agreements.

The bill does not limit the President's authority to address broader labor, environmental, or other issues that have a less specific trade nexus through all other means at his disposal.

-- In fact the bill encourages the President to

ensure that trade, environment, and labor policies complement and reinforce each other.

- The President can use his constitutional authority to implement broader agreements along these lines, and if necessary can bring them back to Congress under normal approval procedures.

Assertion: In future trade negotiations, the Administration will consult about labor issues only with industry advisory groups, not with the official Labor Advisory Committee.

Response: The bill calls for consultations with all of the trade advisory committees, including the official labor and environmental advisory groups (LAC and TEPAC).

That was the intent behind the bill when it was first introduced and any doubt on that score was eliminated through a clarifying amendment prior to committee action on the bill. The bill thus places all of the advisory committees -- industry, labor, and environment -- on an equal footing.

Assertion: The bill calls for criminal penalties on the infringement of intellectual property rights, but could allow child labor to continue.

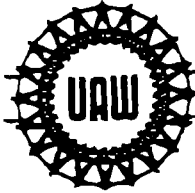
Response: For the first time in fast track legislation, the bill specifically singles out child labor as a subject for future trade negotiations.

In particular, the bill specifies that the President should negotiate, through fast track, agreements that ensure that foreign governments do not derogate from or waive their laws against exploitative child labor to gain a competitive trade advantage.

- Most governments have laws against child labor that would be effective if they were fully enforced. Some governments, however, do not apply those laws, knowing that their manufacturers profit from that failure.
- The bill directs the President to go after that kind of behavior.

As for the protection of intellectual property rights, the bill calls for the President to ensure that foreign governments have strong enforcement procedures on the books (many still do not). These can be a combination of administrative, civil, or criminal remedies.

776 9441



INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW

STEPHEN P. YOKICH, President

ROY O. WYSE, Secretary-Treasurer

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October 21, 1997

• 21

Dear Representative:

Proponents of the fast track trade legislation have tried to argue that the Clinton Administration is only asking for the same negotiating authority that previous presidents have enjoyed. This is simply not true. **THE ARCHER FAST TRACK BILL (H.R. 2621) IS SIGNIFICANTLY MORE RESTRICTIVE ON THE ISSUE OF WORKER RIGHTS COMPARED TO THE FAST TRACK AUTHORITY GRANTED TO PRIOR ADMINISTRATIONS.**

First, the Archer bill drastically limits the extent to which worker rights are addressed in the principal negotiating objectives. It is these objectives that describe the subject matter of trade agreements which are covered by fast track procedures. Specifically, the Archer bill states that the principal negotiating objectives with respect to labor issues only include foreign government policies and practices that are **directly related to trade**. Fast track trade negotiations may examine these policies and practices only to ensure that they do not discriminate or serve as disguised trade barriers, or to ensure that foreign governments do not derogate from or waive existing measures to gain competitive advantage in international trade or investment. But the Archer bill creates an enormous loophole by adding that provisions addressing changes in a country's laws cannot be considered in fast track trade negotiations if those changes are "consistent with sound macro-economic development". Even more importantly, it is apparent that the Archer bill would **not** allow for fast track consideration of proposals to improve national labor standards or to ensure that countries adequately enforce their existing standards.

In contrast, the last grant of fast track authority to President Bush, which was set forth in the Omnibus Trade and Competitiveness Act (OTCA) of 1988, did not contain any of these limitations on workers rights in its negotiating objectives. Instead, OTCA clearly stated that one of the principle negotiating objectives was "to promote respect for worker rights". There was no requirement that these issues be "directly related to trade". And discussion of these issues was not limited to policies and practices that discriminate, serve as trade barriers, or constitute a derogation or waiver of existing standards. In short, under the 1988 fast track authority it was perfectly permissible for our negotiators to seek measures to improve worker rights and labor standards and their enforcement in other countries.

Second, the Archer fast track bill also severely limits what provisions can be included in implementing legislation that is subject to fast track procedures. In particular, the Archer bill gives fast track treatment only to provisions that are **directly related** to the very narrow negotiating objectives and **necessary** for the operation or implementation of the agreement. This clearly leaves no room for provisions that are outside the scope of the narrow negotiating objectives and not strictly needed to implement the trade agreement.

In contrast, the 1988 grant of fast track authority stated that the provisions in the implementing legislation merely had to achieve progress in meeting the negotiating objectives, serve the interests of U.S. commerce, and be **necessary or appropriate** to carry out the agreement. There was no definition of "appropriate", thereby leaving room for the implementing legislation to address a variety of important trade issues, including labor and environmental measures.

Thus, it is abundantly clear that, in both substance and procedure, the Archer fast track bill is substantially more restrictive than the 1988 grant of fast track authority in the way it deals with worker rights. Instead of making it easier to address these critically important issues in fast track trade negotiations, the Archer bill slams the door and precludes these issues from being effectively included in trade agreements that are considered under fast track procedures.

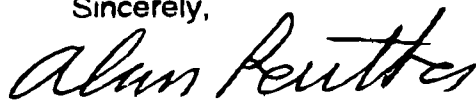
Despite the repeated protestations that the Clinton Administration is simply seeking the same negotiating authority that previous presidents have enjoyed, it is apparent that this is just not true. The Archer fast track legislation represents a huge step **backwards** on labor issues. It is significantly more restrictive in its treatment of worker rights than past fast track authority granted to President Bush.

Attached for your information is a comparison of the relevant provisions of the Archer fast track bill (H.R. 2621) and the Omnibus Trade and Competitiveness Act of 1988 (OTCA) dealing with the inclusion of labor issues in the principal negotiating objectives and specifying what can be included in implementing legislation that is subject to the fast track procedures.

The UAW submits that Congress should reject this reactionary effort to slam the door on efforts to improve worker rights and labor standards in other countries. The Archer fast track bill would tie the hands of President Clinton and future presidents, and make it impossible for them to address labor issues in fast track trade deals. This would take us in precisely the wrong direction, and should be decisively rejected by Congress.

Thank you for considering our views on this vital issue.

Sincerely,



Alan Reuther
Legislative Director

I. Legislative language on worker rights negotiating objectives:

Omnibus Trade and Competitiveness Act of 1988:

WORKER RIGHTS. -- The principal negotiating objectives of the United States regarding worker rights are --

- (A) to promote respect for worker rights;
- (B) to secure a review of the relationship of worker rights to GATT available to all workers; and articles, objectives, and related instruments with a view to ensuring that the benefits of the trading system are
- (C) to adopt, as a principle of the GATT, that the denial of worker rights should not be a means for a country or its industries to gain competitive advantage in international trade.

Archer Fast Track Bill (H.R. 2621)

LABOR, THE ENVIRONMENT, AND OTHER MATTERS. -- The principal negotiating objective of the United States regarding labor, the environment, and other matters is to address the following aspects of foreign government policies and practices regarding labor, the environment, and other matters that are directly related to trade:

- (A) To ensure that foreign labor, environmental, health, or safety policies and practices do not arbitrarily or unjustifiably discriminate or serve as disguised barriers to trade.
- (B) To ensure 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. Nothing in this subparagraph is intended to address changes to a country's laws that are consistent with sound macroeconomic development.

II. Provisions regarding coverage under fast track procedures:

Omnibus Trade and Competitiveness Act of 1988

Included by reference, Section 151(b)(1)(C) of the Trade Act of 1974, describing what is to be included in implementing legislation that qualifies for fast track:

"(C) if changes in existing laws or new statutory authority is required to implement such trade agreement or agreements or such extension, provisions, necessary or appropriate to implement such trade agreement or agreements or such extension, either repealing or amending existing laws or providing new statutory authority."

Also, Section 1103(a)(2)(B)(ii)(III), describing the statement accompanying implementing legislation and the statement of administrative action:

"(III) why the implementing bill and proposed administrative action is required or appropriate to carry out the agreement;"

Archer Fast Track Bill (H.R. 2621)

Section 103(b)(3)(B)-(C) describing what can be included in implementing legislation that qualifies for fast track consideration:

"(B) provisions directly related to the principal trade negotiating objectives set forth in section 102(b) achieved in such trade agreement, if those provisions are necessary for the operation or implementation of United States rights or obligations under such trade agreement; (C) provisions that define and clarify, or provisions that are related to, the operation or effect of the provisions of the trade agreement; (D) provisions to provide adjustment assistance to workers and firms adversely affected by trade"

ANALYSIS OF ARCHER FAST TRACK BILL

The fast-track bill marked up by the House Ways and Means Committee on October 8 severely restricts the President's ability to negotiate and implement meaningful and enforceable protections for worker rights and environmental standards. The AFL-CIO will oppose this bill.

Current trade agreements give too little protection to workers and the environment, not too much. Our experience over the last twenty years has been that we need to strengthen drastically the provisions relating to worker rights and environmental standards in fast-track authority, not weaken, limit, and restrict them.

The Ways and Means bill lists two principal negotiating objectives with respect to labor and the environment. First, the bill directs U.S. negotiators to ensure that foreign labor, environmental, health, or safety policies and practices "do not arbitrarily or unjustifiably discriminate or serve as disguised barriers to trade." As Chairman Archer has made clear, the purpose of such a clause is to provide an opportunity to negotiate away other countries' labor or environmental standards. Rather than addressing the concern that weak labor and environmental standards abroad undermine jobs, wages, and standards at home, this language will be used to weaken labor and environmental standards here and abroad. This will accelerate the race to the bottom in wages, working conditions, and environmental protection.

The second principal negotiating objective in the bill is "to ensure that foreign governments do not derogate from or waive existing domestic environmental, health, safety, or labor measures . . . as an encouragement to gain competitive advantage in international trade or investment." While it is a good idea to prevent governments from weakening their own environmental or labor laws, there are several serious problems with the language in this section.

First, it sets an inadequate criterion -- of not lowering existing standards. This does not address the problem, for example, in export-processing zones, where labor or environmental standards are already unacceptably low.

Second, it does not address the problem of countries failing to *enforce* their own laws; it simply prevents them from weakening their laws.

Third, and most critical, the provision is undermined by a broad, subjective, and ill-defined exception. Countries can undercut their own laws, so long as these changes

are "consistent with sound macroeconomic development." Developing countries could conceivably argue that virtually any change to their labor or environmental laws met this criterion.

There is no consensus in the policy world as to what constitutes "sound macroeconomic development." Certainly, the prevailing wisdom in the elite international financial community (IMF or World Bank, for example) is that weakening labor institutions and regulations constitutes sound macro policy. Including this vague language in law opens a truck-sized loophole.

It is also worth noting that macroeconomic policy covers only economy-wide aggregates, like overall growth rates and inflation. It does not directly include considerations of inequality or income distribution, let alone labor market institutions.

The Ways and Means bill, like the Senate Finance version, also creates a special and downgraded category of negotiating objectives called "international economic policy objectives." This category includes some broad and desirable objectives with respect to promoting worker rights and protecting and preserving the environment. The problem is that this entire subsection is explicitly excluded from receiving fast-track treatment. This means that anything negotiated under these objectives would not be in the core of any fast-tracked trade agreement and would thus be vulnerable to amendment, unlike the issues of concern to corporations.

There is a dramatic contrast between the labor and environment negotiating objectives and those regarding intellectual property rights. This bill sets a clear, concrete, and high standard for intellectual property rights. Our negotiators are instructed to ensure that any multilateral or bilateral trade agreements entered into by the United States "provide protection at least as strong as the protection afforded by chapter 17 of the NAFTA." An additional objective is to provide strong enforcement of intellectual property rights, including through criminal enforcement mechanisms. These negotiating objectives are unprecedented and contain remarkable guarantees--the kind we are assured would be deal-breakers or "non-starters" with respect to labor and the environment.

This bill narrows the implementing legislation to provisions that are "necessary for the operation or implementation of U.S. rights or obligations under" trade agreements.

This restrictive language means that the inadequacies of the negotiating objectives on worker rights and environmental provisions will positively prevent President Clinton from taking the initiative to negotiate strong and enforceable provisions on labor and the environment, even if he wanted to. He would be precluded from negotiating an agreement under fast track that would harmonize standards upward or protect internationally recognized labor rights.

This bill further creates a new consultation requirement that applies only to the labor and environmental provisions listed in the principal negotiating objectives. The bill requires the President to consult with the House Ways and Means and Senate Finance Committees before beginning negotiations on any labor or environmental provisions.

In sum, this bill offers only lip service, not progress, on labor and environmental protections. It includes only severely limited provisions under the principal negotiating objectives. One of these (on getting rid of "arbitrary" and "unjustifiable" measures) will be used to tear down other countries' labor and environmental laws. The other (on preventing other countries from weakening their own laws) is rendered ineffective by a subjective and vague qualifying clause.

The broader labor and environmental negotiating objectives are explicitly excluded from fast-tracked trade bills. Enforceable labor and environmental protections are integral to the success of any new trade agreements. By barring such protections from the core of fast-tracked trade agreements, this proposal guarantees that these provisions will continue to be sidetracked, downplayed, and ignored.

Unfortunately, the three versions of fast-track legislation put out in the last month--President Clinton's, Senate Finance, and Ways and Means--all take us in precisely the wrong direction.



Congressman

Tom Sawyer

14TH DISTRICT • OHIO

FAX COVER SHEET

TO: Jay Berman

FROM: Congressman Tom Sawyer

DATE: 10/24 (Heather Stephens) PHONE: 225-5231

NUMBER OF PAGES (INCLUDING COVER) 10

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UAW WASHINGTON OFC

P.02/03

Pinochet's Legacy

Chile's Labor Law Hobbles Its Workers And Troubles the U.S.

Washington's Tough Choice:
Accept Antiunion Rules
Or Lose Valuable Trade
But Some Industries Boom

By MATT MORFETT

Staff Reporter of THE WALL STREET JOURNAL

SANTIAGO, Chile — The strike by the 14-member union at Semillas Tracy Ltda., a tiny corn-seed exporter, kicks off one blustery morning when workers gather outside the front gate and raise a small hut festooned with pro-worker placards. The strikers' first setback comes just 10 minutes later, when the wind blowing off the Andes levels the rickety structure.

"That little union doesn't stand a chance," says Andres Pena y Lillo, Semillas Tracy's manager, keeping warm inside his office.

The odds are stacked heavily against organized labor in a country with some of the Western Hemisphere's lowest levels of unionization and collective bargaining. Chilean law crimps labor's leverage by effectively limiting collective bargaining to unions representing workers at individual companies rather than across entire industries. The law also provides scant protection against blatantly antiunion practices: Mr. Pena acknowledges recently granting raises to two workers on the condition that they quit the union, in another element of its divide-and-conquer strategy. Tracy's management broke the 40-employee company into three subsidiaries, which, by law, must have separate worker-representative groups and separate contract talks.

"The General's Rules"

"It's not fair, but those are the general's rules," says Rigoberto Turra, the union adviser.

"The general" is Augusto Pinochet, the dictator who imposed the labor legislation in the 1970s and 1980s and remains a formidable power even though Chile has returned to civilian rule. His law, tough on unions but tempered with paternalism, is one issue in a debate in Washington about how and with whom the U.S. should make trade treaties and about how to raise U.S. trade partners' workplace standards.

Chile's labor law illustrates that the foreign countries' internal politics and social dynamics count for more in setting workplace standards than any pressure from the U.S. And that confronts the U.S. with an uncomfortable choice: It can accept trading partners with workplace rules that it dislikes, or it can abandon vibrant markets such as Chile's to other countries, including some U.S. allies, that aren't so finicky about such matters.

Most Changes Blocked

In the nearly eight years since Gen. Pinochet stepped down, two democratically elected Chilean presidents have attempted, with gentle nudging from the U.S., to overhaul the labor law. However, all but minor changes have been blocked by the Senate, which is full of Pinochet loyalists. "It would be easier to get the Senate to change the Chilean flag than the labor law," says Manuel Hidalgo, an economist who works with several unions.

The restrictions on unionization are what U.S. labor groups most denounce in trying to deny President Clinton fast-track authority to negotiate Chile's entry into the North American Free Trade Agreement, which now includes Mexico and Canada. Left in the lurch by the U.S. for five years now, Chile, which once proudly called itself the Fourth Amigo, is looking for new friends. It recently signed separate trade deals with Mexico, Canada and Mercosur, the customs union led by Brazil and Argentina, and now is talking to Asian and European trade blocs.

The upshot: Mexican-made heavy trucks, imported duty-free, are taking market share from the Kenworth division of Paccar Inc., of Kirkland, Wash., which faces 11% duties. Canada's Northern Telecom Ltd. recently underbid U.S. rivals to win a big telecommunications contract.

"Chile won't have problems finding other people to do business with if the U.S. unions disapprove of Chilean law," says Eduardo Hartwig, president of Cia. Puerio de Coronel, a big lumber exporter.

Some Favorable Provisions

Moreover, some aspects of Chile's labor law are favorable to workers, requiring safety-net provisions that U.S. laws don't. Among the benefits mandatory for most workers: paid pregnancy leaves, day-care facilities on work sites and severance payments for discharged employees. Some U.S. pension specialists are debating the merits of adopting an innovation by the Pinochet government: privatized social-security accounts that have raised the net worth of tens of thousands of Chileans.

"Labor standards shouldn't enter into trade debates because we wouldn't want the United States to have to strengthen worker protections in its law," mockingly comments Luis Larrain, an economist at the Institute of Liberty and Development, a free-market think tank here.

Chile's employers, of course, also have self-interest at heart in defending the work code. Thanks partly to a law that gives them the upper hand in pay talks, facilitates termination and allows widespread use of temporary workers, Chile's private sector has created the closest thing on the continent to an American-style

work force. The law also...

Chile's Tough Labor Law Troubles J.S.

Continued From First Page

that few unions attempt them. There are about one-third as many strikes here as in Argentina, and the number is declining. "Chilean unions are cats that don't chase mice," says Mr. Hidalgo, the union adviser. Yet despite its clear dominance, the private sector retains a visceral fear of labor. A recent survey found that Chilean executives viewed labor conflict as by far the biggest threat to Chile's economy.

That deep distrust stems largely from the violent history of labor relations here. "Marx's ideas about competition between capital and labor were not simply something theoretical in Chile," says Helin Henriquez, chief of the Labor Ministry's research department, looking out from her office onto Palacio de La Moneda, the imposing presidential office building.

La Moneda was the stage for a drama that began three decades ago when Salvador Allende became the world's only freely elected Marxist president. On the palace lawn, union members gather by the thousands, often as a precursor to *tomos*—seizures of factories or farms. Strikes practically shut down major industries.

La Moneda also was where Gen. Pinochet, cheered on by many in the business community, counterattacked. During his 1973 coup, air-force bombers unleashed a strike on the palace, pounding the Allende government into submission. Some labor leaders were pulled out of factories and summarily executed. Strikes and many union activities were banned outright.

A Kind of Peace Treaty

Then, the labor law of 1979 was a kind of peace treaty between labor and capital, albeit a peace imposed by Gen. Pinochet. It legalized many union functions but still kept labor on a short leash. Strikes were banned except during contract negotiations, usually every two years. The negotiating schedule was staggered to limit the number of companies in one industry engaged in negotiations concurrently.

Under the law, workers at multicompany unions are permitted to engage in collective bargaining only if the company consents—which rarely happens. The same restrictions apply to temporary

workers, who are widely used in booming export industries such as agribusiness, fishing, mining and forestry. The result: Only about 12% of Chile's five million workers are unionized, and just 6% engage in collective bargaining. In the U.S., 14% of the work force is unionized, and 16% is covered by collective bargaining.

Moreover, legal loopholes make it easy for companies to punish workers trying to exercise their negotiating rights. A Chilean labor department study showed that dismissal without cause was twice as likely to occur immediately after a worker had participated in collective bargaining. Fear of retribution contributes to the fragmentation of worker organizations. Under the law, the strongest protection from dismissal is accorded union leaders; but that often makes them reluctant to sacrifice job security by merging their unions. That's one reason the 1,600 unionized workers at the local unit of Banco Santander SA of Spain are dispersed among 10 mostly tiny unions, says Luis Medina, head of the largest Santander worker group.

Frustrated Truck Drivers

Many employers go all out to nip union movements in the bud. "We wanted to be the Teamsters of Chile," says Herman Saez, the leader of some truck drivers who recently tried to start a union and now are fighting just to keep their jobs. Their company is trying to rescind the union charter and threatening to fire the organizers, and it may succeed. The company had signed the truckers to contracts with several shell companies, thus preventing them from mustering the quorum required to legally constitute a union.

Chilean legal institutions are often little inclined to deter such transparent efforts to evade the law. The judiciary includes a number of Pinochet appointees, especially at high levels. "It's very common for businesses dealing with a labor grievance to immediately appeal to a higher court, where they can expect a lot of sympathy," says Ms. Henriquez, the labor-ministry researcher. The police are sometimes used to intimidate unions and have even helped companies pass out pink slips.

Constrained by the law and those who

enforce it, unions must search for ways to pressure management. Coal miners recently launched a hunger strike to win a better deal. Copper miners at a Canadian-owned mine persuaded their union colleagues in Canada to threaten a sympathy strike. Professional soccer players resorted to a semantical dodge: Prohibited from launching a legal strike, the players walked off their teams in what they termed a "paralyzation"—and got away with it.

With collective bargaining a weak tool, real wages of workers participating in it have risen an annual average of only 1% during the 1990s, according to labor economist Rafael Agacion, compared with the 4% annual real-wage increase of the work force as a whole. And although Chile's economy produces lots of jobs, and unemployment, hovering between 4% and 6%, is the lowest in South America, a 1994 survey found 28.5% of Chile's population living in poverty, unchanged from 1970.

Lorenzo Quintanilla, the front-desk man at a Santiago hotel, embodies many of Chile's paradoxes. He has worked steadily for seven years and enjoys many benefits, such as mandatory health insurance, but Chilean law makes it all but impossible for him to fulfill his wish to join a union that could represent him. He has about \$25,000 in his privatized pension account, but his wages are only \$300 a month—though he can afford to buy extras, including some imported clothes.

The Senate is currently discussing labor-reform proposals, and it is always possible a compromise will be reached. But a shift in the balance of power between labor and capital seems unlikely as long as Gen. Pinochet, who is about to turn 82, remains an inescapable presence. His multivolume biography is widely available; a photo of him in full dress uniform is on a magazine cover. Although his term as head of the military expires next year, he won't fade away. The military will still

have a say in filling several slots in the antiunion Senate, and the general recently said he plans to occupy a Senate seat reserved for former presidents.

The status quo greatly hampers Mr. Turra, the union adviser, who specializes in Chile's agribusiness and forestry sectors, where many workers face harsh conditions. A recent study found that Chilean lumber workers have accident rates several times as high as those in Canada and New Zealand.

At Semillas Tracy, which exports much of its production to the U.S., the union's ranks have been halved in the past few years by dismissal and resignations. When the contract came up two years ago, the union struck for 17 days before accepting management's offer of a 2% raise, adjusted for inflation. Since the workers weren't paid during the strike, they ended up worse off than they would have been had they accepted management's original offer of just a raise matching inflation.

Management also holds the upper hand in this round. Most of the work force is staying on the job. The union is so small that it hasn't any strike fund, and the strikers solicit contributions from passing motorists. In three days, they collect the equivalent of about \$70. But the police intervene, and they order the strikers to stop seeking contributions until they obtain a permit. At that point, one striker defects, leaving 13 on the picket line.

"I think I can wait the strikers out," says Mr. Pena y Lillo, the manager.

**U.S. Department of Agriculture****Office of the Secretary**Date: 10/27Please Deliver To: Jason BermanOrganization: WHITE HOUSE

FAX Number: () _____

Telephone Number: () _____

Pages Attached: 2**From: Paul Drazek****Special Assistant to the Secretary****FAX: 202-690-0080 Tel: 202-720-6919****Comments:**

Attached is a draft letter being developed by various ag groups on the Bonior arguments. I'm having another piece faxed to you separately.

DRAFT LETTER FROM AG GROUPS
TO MEMBERS ON FOOD SAFETY

Draft

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On September 24, 1997, you co-signed a letter to President Clinton expressing the view that the safety of the United States food supply has been jeopardized by the North American Free Trade Agreement (NAFTA) and urged the President to include food safety protection in future requests for fast-track negotiating authority. The purpose of this letter is to set the record straight.

There is general consensus among government, industry, and consumers that the United States food supply is the safest in the world. However, as we know from recent outbreaks, foodborne illness is not a result of trade and in fact, knows no boundaries. There is no link between fast-track negotiating authority and food safety.

Fast-track negotiating authority will empower the President to enter into negotiations with our trading partners. It will not enable the Administration to modify U.S. law without the approval of the United States Congress. Fast-track implementing legislation should not be hindered by the addition of extraneous provisions which are not directly related to trade. Any specific concerns with the practices of U.S. trading partners may be addressed during the negotiations for trade agreements with those partners.

Contrary to assertions that "provisions in NAFTA have resulted in imports of fruits and vegetables contaminated with diseases and unhealthy pesticides," all imported foods must meet U.S. health and safety standards. ~~Nothing that already has been negotiated or will be negotiated in the future will change that. In fact, NAFTA provides a framework for greater cooperation on food safety issues between the NAFTA partners and increased likelihood that food produced in Mexico and Canada meet U.S. standards.~~

Your reference to "the 179 Michigan school children who contracted hepatitis from eating tainted Mexican strawberries," is most disturbing. We are troubled by the implication that this unfortunate incident is the result of NAFTA and therefore is a reason to include food safety measures when granting fast track authority in the future.

The source of the contamination of the strawberries remains unknown. Neither the Centers for Disease Control and Prevention, the U.S. Department of Health and Human Services nor the U.S. Department of Agriculture have been able to determine whether the contamination took place in Mexico, the United States processing plant, or food distribution channels in the United States. In fact, in a letter to Senator Richard Lugar, Health and Human Services Secretary Shalala stated,

"The source of the contamination is not known and may never be known...The investigation did not identify a single event, food handler or contaminated water source to explain the source of the contamination of the strawberries."

The U.S. Department of Agriculture (USDA) and the Food and Drug Administration (FDA) have the authority to inspect imported food products to ensure they comply with U.S. health and safety standards. Each agency has broad power to carry out its respective

responsibilities. Since legitimate food safety standards are not the subject of trade agreements, it is inconceivable that the powers of USDA or FDA could be constrained by any future trade agreement. Moreover, that could only happen with the specific consent of the U.S. Congress. Further perpetuation of the dangerous misperception that foods of foreign origin are not as safe or wholesome as domestically produced foods ultimately will result in decreased consumer confidence in the safety of the entire food supply. That would be unfair to foreign and domestic food producers and processors.

Implementation of a clean, unencumbered fast-track bill will enable the United States to forge new trade agreements to improve access to foreign markets and maintain our nation's status as the leader in world agricultural trade. Furthermore, trade agreements can act as an incentive for developing countries to improve their standards so as to enjoy the benefits of free trade and reduced trade barriers. Without a clean fast-track bill, the competitiveness of the U.S. agricultural community will be jeopardized.

Food safety remains the highest priority of U.S. farmers, manufacturers and government leaders, regardless of the status of fast-track legislation or free trade agreements. We will continue to work to ensure the United States food supply remains the safest and most economical in the world.

Sincerely,

Agricultural Retailers Association
American Bakers Association
American Feed Industry Association
American Frozen Food Institute
American Meat Institute
Biscuit and Cracker Association
Chocolate Manufacturers Association
Food Distributors International
Food Marketing Institute
Grocery Manufacturers of America, Inc.
Institute of Shortening and Edible Oils
International Mass Retail Association
Meat Importers Council of America, Inc.
National Confectioners Association
National Fisheries Institute
National Grain Sorghum Producers
National Grocers Association
National Oilseed Processors Association
Nestle, U.S.A., Inc.
North American Export Grain Association
Northwest Horticultural Council
Snack Food Association
U.S. Apple Association
U.S. Chamber of Commerce

Response to Gephardt Letter

Assertion: The House bill will limit progress on labor and environment issues because fast track agreements must be "directly related to trade".

Answer: The House bill specifically calls on the President to negotiate, through fast track agreements, provisions that ensure that foreign governments do not derogate from or waive their labor, health, safety, or environmental laws to give their products or firms an unfair competitive advantage.

-- The language included in the bill on labor and the environment is much more detailed and concrete than anything in prior law.

-- Indeed, this is the first time the environment has ever been addressed in fast track legislation.

The bill recognizes that the main trade problem we face in these areas is not the failure of countries to adopt good laws, but their failure to apply them consistently.

-- The bill tells the President to try to negotiate deals that will prevent that. The inclusion of this language is very important in both trade and labor/environment terms.

Assertion: A country would be free to lower its labor and environment protections to assist its "macroeconomic development".

Answer: That is a misreading. The language in question does not mean that countries should be free to lower their standards for economic reasons. Rather, the text means that countries should be free to change the mechanisms they use to protect the environment and promote core labor standards based on rational economic decision-making. For example, ~~here in the United States we are~~ considering whether it makes economic sense to lower pollution levels through a market-based approach rather than through direct government regulation.

The bill language does not say that governments

can lower their labor or environment standards. Rather it says that in achieving a particular level of protection for its workers and the environment governments can look at the overall economic cost and benefits of the various approaches available to them.

[The critics do not mention that the bill says countries should not be prevented from pursuing "sound macroeconomic development". -- *Simply that something we have always supported.* Economic policy is sound (only if) it takes fully into account important environment and labor rights concerns. We expect countries to raise their environmental and labor standards as they progress economically -- as a matter of sound economic development. On the other hand, derogating from or waiving existing levels of labor or environmental protection is not wise economic policy.] *IMF has also embraced.* *DK long. hope*

Assertion:

Efforts to promote labor and environment would have to be addressed outside fast track -- at the ILO.

Response:

Untrue. As noted, the bill specifically targets those foreign environmental and labor policies and practices that governments are most likely to use to give their products and companies an unfair trade advantage.

These are precisely the kinds of issues that it makes sense to address in our trade agreements.

The bill does not limit the President's authority to address broader labor, environmental, or other issues that have a less specific trade nexus through all other means at his disposal.

- In fact the bill encourages the President to ensure that trade, environment, and labor policies complement and reinforce each other.
- The President can use his constitutional authority to implement broader agreements along these lines, and if necessary can bring them back to Congress under normal approval procedures.

Assertion:

In future trade negotiations, the Administration will consult about labor issues only with industry

*naughty
policy
implic
input a
+ sustainable
work that
term?*

** focus on pre-negotiated
advantage
part of
NAFTA
present but*

advisory groups, not with the official Labor Sector Advisory Committee (LAC).

Response: The bill calls for consultations with all of the official advisory committees, including the LAC and the environmental advisory group.

That was the intent behind the bill when it was first introduced and any doubt on that score was eliminated through a clarifying amendment prior to committee action on the bill. *(M. A. A. W. H. S. E.)*

Assertion: The bill calls for criminal penalties on the infringement of intellectual property rights, but could allow child labor to continue.

Response: For the first time in fast track legislation, the bill specifically singles out child labor as a subject for future trade negotiations.

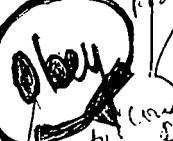
In particular, the bill specifies that the President should negotiate, through fast track, agreements that ensure that foreign governments do not derogate from or waive their laws against exploitative child labor to gain a competitive trade advantage. *Says specifically on this?*

-- Almost all governments have laws against child labor. The problem is that a few governments do not apply those laws, knowing that their manufacturers profit from that failure.

-- The bill directs the President to go after that kind of behavior.

As for the protection of intellectual property rights, the bill calls for the President to ensure that foreign governments have strong enforcement procedures on the books (many still do not). These can be a combination of administrative, civil, or criminal remedies.

We believe American principles and values must be included in American trade agreements, and we ask that you work with Congress to achieve trade agreements that meet this objective.

 *Yissie*
Glad they
the care of
Rebecca
2 months
P.S.

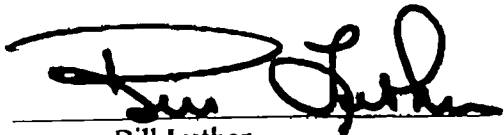
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farm go under

G.W. Hammett met people
on Mrs. S. Paine.
~~We were at 74 the~~
winter of 1900

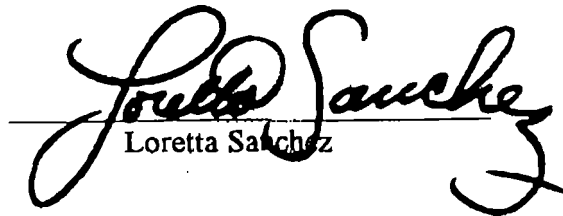
Thank you for your outstanding leadership as the President of our country. We deeply appreciate it, and look forward to continuing to work with you.

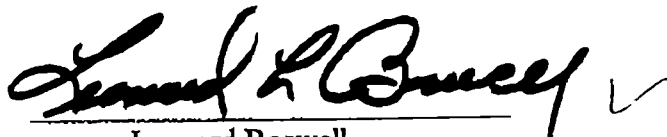
Sincerely,


Bill Luther ✓


Ron Kind


Karen McCarthy ✓


Loretta Sanchez


Leonard Boswell ✓

1988 Fast Track Negotiating Authority

Principal Negotiating Objective #14:

The principal negotiating objectives of the United States regarding worker rights are--

(A)to promote respect for worker rights;

(B)to secure a review of the relationship of worker rights to GATT articles, objectives, and related instruments with a view to ensuring that the benefits of the trading system are available to all workers; and

(C)to adopt, as a principle of the GATT, that the denial of worker rights should not be a means for a country or its industries to gain competitive advantage in international trade.

FAST TRACK: HISTORICAL BACKGROUND

Constitutional Authority

- o The Constitution gives Congress exclusive authority to set tariffs and enact other legislation governing international trade.
- o The President negotiates international agreements under his own Constitutional authority.
- o If the President negotiates a trade agreement that calls for a change in tariffs or in other domestic laws, the President must submit the trade agreement to the Congress -- or have Congress' advance approval of such changes.

Tariff Proclamation Authority

- o Tariffs were the major source of revenue for the federal government for well over 100 years. Congress enacted a number of across-the-board tariff changes -- the last of which was the increases of the 1930 Smoot-Hawley Tariff Act.
- o During the Roosevelt Administration, Congress began moving away from protectionism four years later.
- o Congress gave the President the authority in 1934 to "proclaim" up to 50 percent reductions in U.S. tariffs in return for "reciprocal" commitments from other countries -- without further action by Congress. This was the original "fast track" -- although it was not called that then.
- o Proclamation authority was to last for three years, but was renewed over the following six decades.
 - By 1945, Cordell Hull had negotiated tariff reductions with 27 countries -- lowering U.S. tariffs by an average 44% on covered products.
 - The President used his proclamation authority to carry out U.S. tariff commitments under the first world-wide trade agreement, GATT, in 1947.
 - The President used his 50 percent tariff cutting powers again to implement U.S. tariff commitments under several subsequent GATT negotiating rounds -- including the "Kennedy Round" cuts, completed in 1967.

Non-tariff Barriers

- o Once the early GATT rounds were completed, tariffs had dropped in the United States and other developed countries to the point where other -- non-tariff -- trade barriers became equally or more important. These included product design standards and customs rules designed to exclude foreign goods.
- o Although the President had authority to lower tariffs further, he did not have the power to change federal law in order to put "non-tariff" agreements into effect.

Genesis of Fast Track

- o Congress rejected two important agreements concluded by the Johnson Administration to close the Kennedy Round (a GATT "dumping" code and a change in U.S. tariff appraisal methods) in 1967. The rejection was a major embarrassment for the United States, which had sought the two agreements.
- o The Nixon Administration recognized that the United States could not negotiate and carry out future market-opening deals unless the President and the Congress worked together. President Nixon asked the Congress for proclamation authority to make changes in U.S. law necessary to implement "non-tariff barrier" agreements -- subject to a possible Congressional veto.
- o The House went along, but the Finance Committee objected -- Senator Talmadge, in particular, wanted to retain the power to approve trade agreements, not just veto their implementation.
- o The compromise was a "fast track" procedure, inserted in the 1974 trade act, for obtaining Congressional approval on an "up or down" vote within a limited period. (The idea was drawn from a procedure common to budget resolutions.)
- o The procedures required the Administration to consult closely with the Congress both before and during negotiations. They were crafted with the next GATT negotiating round -- the Tokyo Round -- in mind.

Agreement on Drafting Implementing Bills

- o Towards the close of the Tokyo Round, the Ways and Means and Finance committees -- which had principal jurisdiction over trade bills -- insisted on further guarantees from the Carter Administration. They insisted that the implementing legislation for the Round would be drawn up collaboratively with the Congress, in advance of actually submitting a bill, through pre-hearings and pre-markups.
- o That format was used repeatedly thereafter. The pre-hearing and -markup procedure largely recreates the legislative process in advance of the bill's submission.

- Congress overwhelmingly approved the Tokyo Round legislation, together with a partial extension of fast track through 1988.

Inclusion of FTA Negotiations

- In 1984, Congress wrote a specific three-year fast-track bill for free-trade agreements with individual countries -- which the Reagan Administration used to negotiate and obtain Congressional approval for FTAs with Israel (1985) and Canada (1988).

The Uruguay Round and NAFTA

- In 1988, Congress enacted the first "omnibus" trade act since Smoot-Hawley, which it used to extend fast-track for both FTA's and the GATT "Uruguay Round" until March 1991.
- The Uruguay Round negotiations broke down in Brussels in December 1990, by which time the NAFTA negotiations had gotten under way.
- The 1988 statute allowed the Administration to request a two-year extension of fast track -- unless either House disapproved. The Bush Administration waged a fierce and successful fight to overcome opposition to the extension.
- During the debate, the Bush Administration attempted to address questions that had been raised by spelling out in advance its NAFTA negotiating objectives and implementing proposals. An Administration statement to the Congress also stressed Mexico's labor and environment efforts.
- The House overwhelmingly approved a resolution endorsing the Bush Administration's NAFTA labor and environment objectives.
- The NAFTA was signed by President Bush in December 1992 and approved by the Congress under fast track procedures in the 1993. At the same time, Congress provided for the implementation of supplemental agreements on labor and the environment.
- Congress extended fast track procedures for a final time in 1993 for the Uruguay Round agreement. That agreement, which replaced the GATT with the World Trade Organization, was approved by large Congressional margins in late 1994.

Key Fast Track Components

- Under fast track, Congress maintains substantial control and oversight over our most important trade negotiations. In return, Congress commits to refrain from re-negotiating agreements that the President brings back for consideration.
- Under fast track rules, Congress has exerted authority in a variety of ways, including by:

- requiring the President to meet extensive consultation, reporting and notification requirements in connection with fast track trade negotiations;
 - creating a special, rapid procedure for Congress to retract fast track if the President fails to consult adequately;
 - empowering the Ways and Means and Finance committees to veto particular free-trade negotiations in advance;
 - providing that either House may disapprove the extension of fast-track procedures;
 - insisting on Congressional participation in drafting the implementing bill through the use of pre-hearings and -markups;
 - requiring the President to spell out precisely how he will use his existing regulatory authority to carry out fast track trade agreements; and
 - reserving the right to vote an agreement down if it is unacceptable.
- o Other key components of fast track have been:
- a commitment by the Congress to vote "yes or no" -- with no amendments -- on the implementing bill within several months after it is introduced. As a practical matter, Congress has typically taken only a few weeks because issues involving the agreement are worked out during the lengthy pre-hearing and -markup period that precedes submission of the bill.
 - a provision limiting the types of provisions that can be included in implementing legislation to those "necessary or appropriate" to carry out the agreement. This requirement has helped keep non-trade matters out of fast track legislation, but provides enough flexibility to help ensure passage.
 - a provision in the 1988 version of fast track allowing for an extension of fast track if the President meets certain reporting requirements and if the Congress does not disapprove.

Uses of Fast Track

- o Since 1974, five significant trade agreements have been brought to the Congress under "fast track" procedures.
- o These are the Tokyo and Uruguay Round agreements, our bilateral free-trade

arrangements with Israel and Canada, and the NAFTA.

- o Future uses of fast track are likely to include multilateral agreements, in particular the WTO built-in agenda, which includes global negotiations on lowering barriers to trade in agricultural products or in other sectors where the United States is the world's leader; sectoral agreements, like the recently concluded ITA; and the long-delayed free-trade agreement with Chile.

The United States Trade Agenda: What Is Fast Track For

After consultations with Congress, the President will set out the nation's trade agenda for the next few years. The absence of large-scale negotiations like the Tokyo and Uruguay Rounds has mistakenly led some to conclude that not having fast track is not a problem for the United States. That is just as wrong a view as the idea that this request for fast track is only about extending NAFTA to Chile.

The President has identified three main areas in which negotiations would greatly benefit the United States. First, there is the "built-in" agenda of the WTO, which calls for negotiations on government procurement in 1997; intellectual property in 1998; agriculture in 1999; and trade in services in 2000. In each of these areas, the United States is the most competitive nation in the world and, as a result, we stand to benefit the most from actively participating in writing the rules of trade.

The second part of the President's proposed agenda involves building on the success of the Information Technology Agreement(ITA). This \$5 billion tariff cut on products for which the United States is the world's leading producer was achieved by the use of residual tariff cutting authority from a previous grant of fast track. We have identified eight additional sectors for future negotiations: ITA 2, chemicals, automotive, oilseeds, energy equipment and services, environmental technology and services, medical equipment and services, and wood and paper products. Other APEC members have submitted their "wish lists" and it appears there is sufficient overlapping support for many of the U.S. suggestions. Without fast track, it is very unlikely that this process will go forward.

The third area the President hopes to address is moving forward in both the Asia Pacific Economic Cooperation Forum(APEC) toward the goal of free trade by the year 2010 and with a Free Trade Agreement for the Americas(FTAA)by the year 2005. In both regions, economic growth rates are among the highest in the world and barriers to U.S. exports remain high. As a result, tariff reductions and greater market access will have a very positive effect on our exports. Without the active participation of the United States, both of these processes will slow considerably--and without fast track we

cannot participate actively.

The President and many Members of Congress have indicated that negotiating a trade agreement with Chile is a critical step in continuing the move to trade liberalization in the Hemisphere. The Canadians have already concluded a bilateral treaty with Chile and the result, for our exports, is that we face an across-the-board 11% tariff disadvantage.

It is important to remember that non-participation by the United States in global trade negotiations does not mean that our competitors are going to call a halt to their efforts to gain market access and preferential tariff treatment. On the contrary, they are very active in advancing their own agendas. Since 1992, in Latin America and Asia they have concluded over 20 free trade agreements--agreements that leave us at a disadvantage.

The United States is the most competitive nation in the world. That is why it is so advantageous for us to play a leading role in establishing both the focus of trade negotiations and the rules. We will not have the opportunity to do either in the absence of fast track.

9/97

DOES THE TRADE DEFICIT COST JOBS?

Question: The Administration argues that exports support around 15,000 jobs per billion dollars. If imports cost us jobs in similar proportions, isn't the trade deficit overall costing us a couple of million jobs/

Answer:

- **The Commerce Department does a careful study each year of the total U.S. labor content required to produce U.S. exports. They do not do a study of jobs displaced by imports**, in large part because that is a much more difficult question to answer. We produce exports and can measure the U.S. labor content. We do not produce imports and know that imports vary greatly in their effect on U.S. jobs. Some imports of inputs into U.S. production may complement U.S. production and enhance U.S. jobs. Some may be non-competing with U.S. production -- tea would be an obvious example. Others clearly compete against U.S. production and have a job displacing effect. **However, there is no justification for taking a ratio of jobs-to-exports and applying it to jobs to imports.**
- **Aside from this measurement question, the broader issue remains: would we have more jobs if trade were in balance? Answering this question depends in part on understanding the underlying causes of the U.S. movement to trade deficit beginning in the early 1980s.** In a nut shell, under the impact of large increases in the federal budget deficit and reductions in private sector savings, the overall U.S. saving rates fell in the early 1980s. The underlying attractiveness of our economy, however, put us in a position where foreign savers and investors were quite willing lend to and invest in the United States. **In fact, since 1982, the U.S. has experienced net cumulative inflows of foreign capital totaling roughly \$1.3 trillion. These funds supplemented U.S. saving and financed a healthy investment rate in the U.S. economy. But, net capital inflows necessarily correspond to trade deficit -- actually deficits on the current account, the broadest measure of trade -- of like amount.** This is true for any country. Capital account surpluses correspond to current account deficits of like amount and vice versa.
- **The trade deficit is a problem.** The President and Congress working together over the last 4 years have made substantial progress in reducing the federal budget deficit and strengthening national saving rate. In fact, although the trade deficit has increased in dollar terms during this recovery, **substantial progress has been made in that trade deficit has been brought down substantially relative to the size of the overall economy -- down from 3.3% of GDP in 1987 to approximately 1.5% today.**
- **Has our deficit experience of the last cost U.S. jobs? My first observation is that in light of our saving problem since the 1980s, the interests of U.S. labor have probably been helped by in the inflow of supplementary saving from abroad.** Without the ability to attract foreign capital, investment would have been lower in the United States, on average every worker would have had fewer or less effective tools to work with.

Productivity, average real labor compensation and living standards probably would have been lower.

- **My second observation is that if you look at the pattern of our trade deficits over the last 15 years, they show that jobs have been scarcest when the trade deficit was at its lowest, and growing the most rapidly when the trade deficit was rising.** For example, in the recession of the early 1990, the current account came close to overall balance at a time when the unemployment rate reached close to 8%. Conversely since 1992, net employment in the United States has grown by nearly 13 million -- in stark contrast to the near zero (400,000) growth in jobs in the other high-income countries of the G-7 -- even as the current account deficit expanded from \$56 billion to \$148 billion. The point is that, in fact, the trade deficit has grown when strong growth of the U.S. economy has:

-- 1) caused strong job growth at home as well as imports growing faster than exports; and

-- 2) when the net capital inflows corresponding to the expansion of the trade deficit were needed to support strong growth of investment in the United States.

Also, despite the rise in the trade deficit, the increase in U.S. exports since 1992 has accounted for over one-third of real GDP growth, and the 1.7 million increase in export supported jobs has accounted for one out of seven jobs in U.S. overall employment expansion.

Looking at the facts, therefore -- that large trade deficits have occurred at times of high demand for U.S. labor and reduced trade deficits at times slack in U.S. labor markets -- I find the argument that trade deficits is costing millions of U.S. jobs implausible.

- **You are concerned about the trade deficit, I am concerned and so is the President. Our approach, I believe is right one: first, to focus on the trade policy side in eliminating foreign barriers in priority areas that will expand U.S. exports and support the expansion of higher wage U.S. jobs; second, to continue strengthening national saving through eliminating the federal budget deficit and measures to encourage stronger private sector saving.**

Trade Balance Not the Measure of Our Trade Competitiveness or Economic Success

The President's trade policy has been criticized in some quarters because the trade deficit has increased during the Administration. Some have argued that the increase reflects an underlying lack of competitiveness in the U.S. economy and has been responsible for a loss of jobs overall and of economic growth. Nothing, however, could be further from the truth.

For the past four years the United States has been ranked as the world's most competitive major economy by the World Economic Forum. (For the past five years, the United States has been ranked as the world's most competitive country by the International Institute for Management Development). The United States has the highest per capita income in the world (\$26,781). [World Bank] The U.S. figure is 22% higher than for Japan (\$21,140 at purchasing power parity exchange rates), 33% higher than for Germany (\$19,480), and 267% higher than for Mexico (\$7,040).

In industry after industry -- in agricultural, manufacturing and service sectors -- the U.S. produces some the world's best products and some of the best value for the price. Our exports, as noted earlier, have accordingly grown rapidly. Since the beginning of the Administration the expansion of **exports has accounted for one third of the increase in our GDP.**

Relative to the size of the U.S. economy, however, the goods and services deficit is nearly half (1.5 percent) as large as it was at its peak (3.3 percent) during the last decade (attained in 1987). For goods alone, the deficit accounts for 2.5 percent of the U.S. economy as compared to 3.4 percent during its peak in 1987.

United States has enjoyed a sustained period of healthy growth, rising employment, falling unemployment and moderate inflation. The rise in our trade deficit during the Administration is, in fact, related to the favorable performance of the U.S. economy. **The U.S. economy began to recover earlier than other countries from the global recession of the early 1990s and to grow faster than the markets of many of major trade partners. As a result our demand for imports rose at a time when foreign demand for U.S. exports was dampened by lack of growth in foreign purchasing power.** The U.S. economy has grown almost twice as fast as the major economies of the G-7 (Germany, U.K., France, Italy, Japan, Canada) over the last four years.

No previous Administration has made a greater effort, nor had more success, in reducing barriers to U.S. trade. Foreign trade barriers do have some influence on the trade balance, and we address these barriers vigorously. However, more recent increases in the deficit largely reflect superior performance of the U.S. economy. The figures tell the story. Even as our trade deficit has risen, **U.S. industrial production has grown nearly 20 percent** in real terms over the last four years. In contrast, the level of industrial production in **Japan** -- a country with which we still have a large deficit -- is just 7.4% above where it was in 1992. In Germany, another country with which we run a significant deficit, industrial production is currently 1.7 percent below 1992 levels.

Similarly for **employment**. The nearly 13.0 million job increase since the President took office stands in sharp contrast to near zero job growth in the other high-income, large industrial economies of the G-7 combined. In the United States, the **unemployment** rate is currently below 5.0 percent compared to an average rate over 12 percent for France, 10 percent for Germany, and 11 percent for the European Union. The point is made not to criticize our foreign trade partners, but only to provide some context for the rise in the U.S. trade deficit, a context that is reassuring with regard to the relative U.S. economic performance over the last four years.

It is true that in the last two decades the U.S. trade balance has fluctuated with business cycles between smaller versus larger deficits, whereas a country like Japan has experienced fluctuating trade surpluses. This structural tendency toward trade deficits, in part, reflects the weakening of U.S. saving rates in the early 1980s. Given the inherent -- and growing -- strength of the U.S. economy -- reduced national saving has been offset by greater foreign capital inflows. These in turn have both supported U.S. domestic investment and, of necessity, created corresponding deficits on the U.S. current account. In fact, **the U.S. has experienced net cumulative inflows of foreign capital, and cumulative current account deficits of roughly \$1.3 trillion since 1982** (adjustments made for statistical discrepancies).

In recent years a good deal of progress has been made in lowering the trade deficit relative to the U.S. economy. The goods and services deficit has fallen from a peak of 3.3% of GDP in 1987 to about 1.5% currently. The President and Congress working have set the country on a course to eliminate the federal budget deficit. That together with some expected enhancement of household saving rates, due to the aging of the baby boom generation, should contribute to high national saving and further progress on the trade deficit.

10/1/97

TALKING POINTS ON EXPORT UNDERCOUNT

- The Census Bureau, which is responsible for the compilation and publication of the official U.S. international trade statistics, estimates that reporting errors result in a 3 to 7 percent, but may be as high as 10 percent, understatement of the total value of U.S. goods exports. Total goods exports for 1996 were \$625 billion, under-coverage ranges from \$19 billion to \$62 billion. This export undercount could mean that the trade deficit, in the worst case, is overstated by as much as \$62 billion for 1996 (possibly one-third of the goods deficit or one-half of the goods and services deficit).
- The three major sources of error are:
 - failure of exporters to file the required documentation
 - missing, or incorrect information reported on the documents that are filed, and
 - late receipts of export records sent to Census
- Imports, because of tariffs and other controls, are better measured and not subject to the same measurement problems as exports.
- Several approaches are being taken by the Census Bureau and the Customs Service to reduce these errors. One of the most important steps is the joint development (between the two agencies and the export trade community) of the Automated Export System (AES) for export data collection and processing. AES is designed as an electronic information gateway for the collection and processing of data for all parties involved in export trade.
- The full implementation of AES will directly address all 3 of the problems listed above and therefore will result in the improvement of the quality, coverage and accuracy of export trade statistics. It will substantially reduce government processing costs by eliminating paper documents. It will also provide better export data to be used by businesses in, among other things, market analyses, determining market opportunities, and in the analysis of competition.
- The AES also will remove some impediments for exporters by simplifying the export process and decreasing the costs associated with exporting by eliminating the costly delays associated with paper handling and reducing reporting burdens by eliminating duplicate reporting requirements to multiple government agencies.
- Census reports that the current status of AES is well advanced in the setting up of the project. It is operational for commodity data for all vessel transportation for all ports of U.S. export, but still needs to add air, truck, and rail transportation. Additionally, it will then need to have exporters use the system.
- We have discussed your interest with Census and they would appreciate any words of support for the AES project.

EXPORT PERFORMANCE, 10/21/97

- From **1992 through 1997** (annualized from the first 8 months), **U.S. goods and service exports** are up 51% to a level of \$933 billion.
 - **Goods** alone are up 54% to \$678 billion (annualized 1997).
 - **Services** are up 43% to \$254 billion.
- **In the first 8 months of 1997 alone**, U.S. goods exports are up 10.8%, services up 7.4% and goods and services together are up 9.9%.
- Since 1992, exports have accounted for a little over **one third of U.S. economic growth**.
- **Jobs supported by exports** in 1996 were 11.5 million, up 1.7 million from 1992. (Through **annualized 1997**, such jobs estimated at 12.1 million, 2.2 million higher than 1992.) 1992 to 1996, exports accounted for 1 in 7 new jobs. Also, **1 in 5 manufacturing jobs** are supported by U.S. exports.
- **1992 to 1997 annualized**, exports of **manufactured products** are up 61% to \$591 billion; exports of **high tech products** are up 67% to \$179 billion and **agricultural** exports are up 29% to \$55 billion.
 - In the **first 8 months of 1997** (compared to a year earlier), **manufactured** exports are up 12.7%, **high tech** up 15.7% and **agriculture** down 8.6%.
- Exports to **NAFTA** partners up 70% to \$222 billion (1992 to annualized 1997). They account for 48.6% of total U.S. export growth so far in 1997 (Canada, 27% and Mexico, 21.6%)
 - Exports to **Mexico** are up 75% (1992 to annualized 1997). In the first 8 months of 1997 they are up 25% from a year earlier (up 23% in 1996). **In 1997 Year to Date, Mexico displaced Japan as the U.S.'s 2nd largest export market.** 1997 exports to Mexico: \$71 billion annualized.
 - Exports to **Canada** are up 68% (1992 to annualized 1997). In the first 8 months of 1997 they are up 13% to an annualized level for the year of \$151 billion.
- Exports to **Latin America, excluding Mexico** are up 78% (1992 to annualized 1997). In the first 8 months of 1997 they are up 19% from a year earlier to an annualized level of \$63 billion for the year.
- Exports to **Japan** are up 38% (1992 to annualized 1997). In the first 8 months of 1997 they are down 2.6% to an annualized level of \$66 billion.
- Exports to **China** are up 68% (1992 to annualized 1997). In the first 8 months of 1997 they are up 4.9% to an annualized level of \$12.6 billion. **In April through August 1997, however, export growth accelerated**, averaging a near 18% increase from a year earlier levels in each of the 5 months.
- Exports to **Pacific Rim, excluding Japan and China** are up 69% (1992 to annualized 1997). In the first 8 months of 1997, exports are up 7.6% to a level of \$117 billion.
- Exports to the **E.U.** are up 29% (1992 to annualized 1997). In the first 8 months of 1997 exports are up 9% from a year earlier to a level of \$139 billion.
- **FOR NOTE:** *The goods and services deficit is up 3.2% (\$111.0 billion in 1996 to \$114.5 in 1997 annualized); the goods deficit alone is up 4.9% (\$191.2 billion to \$200.6 billion); the services surplus is up 7.5% (\$80.2 billion to \$86.1 billion).*

PERFORMANCE OF THE U.S. ECONOMY, 10/21/97

GDP: Real GDP up 3.7% in last year (1st half '96 to 1st half '97). Expansion in its 7th year. At 2.8% per year since '92, U.S. growth nearly twice as fast on average as **other G-7 countries** (1.5%).

EMPLOYMENT/JOB GROWTH: Unemployment rate is 4.9% (Sept. '97). Rates are lowest in **24 years**. Rates in **France** 12%, **Germany** 10% and **EU** 11%. U.S. **employment** is up 13.2 million (13,171 million) since 1992. **Manufacturing jobs** are up nearly half a million (437 thousand). Overall job growth in **other G-7**: roughly one half million. According to CEA, two-thirds if job growth occurred in the **higher paying job categories** (Feb '94 to Feb '96).

INFLATION: Consumer prices up by 2.2% over last year (9/96 to 9/97). **Producer price index** declined 0.2% past twelve months. At roughly 7%, **the misery index** (unemployment + inflation) is lowest of any major economy and the lowest index in the U.S. since the 1960's.

INDUSTRIAL PRODUCTION/PRODUCTIVITY: Industrial production 21.3% higher than in '92. Compares to 8% gain in **Japan** and 47% gain in **Germany**. Strong investment has expanded **industrial capacity** at 3.5% a year, fastest rate since '70's. Since '92, **manufacturing productivity** up nearly 3% per year. **Total private sector productivity gains**, modest earlier in recovery (0.2%) have picked up, growing 1.6% annually (last 2 years), fueling recent **wage gains**.

EARNINGS/INCOME: Real weekly earnings up 2.0% over last 12 months (to 8/97). Real hourly earnings up 1.5%. Gains may be understated by possible inflation overstatement. After 14 years, largest percentage income gains since '93 went to **lowest income quintile**. Between '93 and '95 (most recent), **poverty rate** fell from 15.1% to 13.8%. **Long-term unemployment** trended down this year. U.S. **per capita real income** world's highest: 22% above **Japan**, 33% above **Germany**.

DOMESTIC INVESTMENT: Total domestic investment in 1997 is estimated to reach nearly \$1.3 trillion. Real business fixed investment up by 9.9% in '94, 9.5% in '95, and an additional 7.3% in '96 and 10% so far in '97 (and now more than 7.6% of GDP-- highest level since 1950s).

FOREIGN DIRECT INVESTMENT: U.S. is world's largest recipient of FDI in '96 (\$85 billion). Over 4.9 million U.S. jobs supported by foreign affiliates in the U.S. in 1995 (44% of this in manufacturing). U.S. MNCs accounted for 66 % of total U.S. exports in 1994 and 38% of U.S. imports. Two thirds of the \$797 billion stock of U.S. FDI abroad is in industrialized countries.

BUDGET DEFICIT: Projected -\$34.0 billion for FY97 or 0.4% of GDP. 1996 deficit (\$107 billion) was lowest dollar level since 1981 and lower than in any other major world economy.

CONSUMER CONFIDENCE: index as high in Sept. (128.6), as in only 5 times in last 30 years.

TRADE DEFICIT: Goods and services deficit (1.5% of GDP in '96; 3.3% in '87). Goods alone (2.5% in '96; 3.4% in '87). U.S. ranked **world's most competitive economy** for past 4 years by the World Economic Forum and **world's most competitive country** for past five years by Int'l Institute for Management Development. *With U.S. economy at/near full employment, its recent growth record unmatched by other major countries; with domestic investment and employment booming, recent increases in trade deficit are more a sign of strength than source of weakness.*

U.S. TRADE DATA --- THROUGH AUGUST 1997

(In Billions of Dollars)

Date of September Release: Thursday - November 20, 1997

GOODS & SERVICES (BOP)

WORLD	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	(\$38.3)	(\$111.0)	(\$114.5)	(\$3.5)	(\$76.3)
Exports	\$617.7	\$848.8	\$932.6	9.9%	51.0%
Imports	\$655.9	\$959.9	\$1,047.1	9.1%	59.6%

GOODS ALONE (BOP) WORLD

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	(\$96.1)	(\$191.2)	(\$200.6)	(\$9.5)	(\$104.5)
Exports	\$440.2	\$612.1	\$678.3	10.8%	54.1%
Imports	\$536.3	\$803.2	\$879.0	9.4%	63.9%

SERVICES ALONE WORLD

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	\$57.8	\$80.1	\$86.1	\$5.9	\$28.3
Exports	\$177.3	\$236.8	\$254.2	7.4%	43.4%
Imports	\$119.5	\$156.6	\$168.2	7.4%	40.7%

MANUFACTURING

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	(\$66.1)	(\$134.1)	(\$129.7)	\$4.4	(\$63.6)
Exports	\$368.2	\$524.7	\$591.2	12.7%	60.6%
Imports	\$434.3	\$658.8	\$720.9	9.4%	66.0%

HIGH TECH

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	\$35.2	\$24.5	\$35.1	\$10.5	(\$0.1)
Exports	\$107.1	\$154.9	\$179.2	15.7%	67.3%
Imports	\$71.9	\$130.4	\$144.1	10.5%	100.5%

AGRICULTURE

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	\$19.7	\$28.1	\$20.1	(\$8.0)	\$0.4
Exports	\$43.1	\$60.6	\$55.4	-8.6%	28.5%
Imports	\$23.4	\$32.6	\$35.3	8.5%	50.7%

JAPAN

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	(\$49.4)	(\$47.6)	(\$55.2)	(\$7.7)	(\$5.8)
Exports	\$47.8	\$67.6	\$65.8	-2.6%	37.9%
Imports	\$97.2	\$115.2	\$121.1	5.1%	24.6%

CHINA

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	(\$18.2)	(\$39.5)	(\$50.6)	(\$11.0)	(\$32.4)
Exports	\$7.5	\$12.0	\$12.6	4.9%	68.3%
Imports	\$25.7	\$51.5	\$63.1	22.6%	145.9%

PACIFIC RIM

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	(\$15.8)	(\$14.7)	(\$12.2)	\$2.5	\$3.6
Exports	\$69.2	\$108.6	\$116.9	7.6%	68.8%
Imports	\$85.1	\$123.3	\$129.1	4.7%	51.8%

CANADA

	1992	1996	1997*	Change vs 1996	Change vs 1992	Change vs 1993
Balance	(\$8.3)	(\$21.7)	(\$16.4)	\$5.3	(\$8.1)	(\$5.6)
Exports	\$90.2	\$134.2	\$151.1	12.6%	67.6%	50.4%
Imports	\$98.5	\$155.9	\$167.5	7.5%	70.1%	50.6%

APEC

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	(\$88.4)	(\$142.4)	(\$150.2)	(\$7.7)	(\$61.8)
Exports	\$262.1	\$390.6	\$414.4	6.1%	58.1%
Imports	\$350.5	\$533.0	\$564.5	5.9%	61.1%

MEXICO

	1992	1996	1997*	Change vs 1996	Change vs 1992	Change vs 1993
Balance	\$5.4	(\$17.5)	(\$14.6)	\$2.9	(\$20.0)	(\$16.2)
Exports	\$40.6	\$56.8	\$70.8	24.7%	74.5%	70.3%
Imports	\$35.2	\$74.3	\$85.4	15.0%	142.7%	114.0%

EU15

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	\$6.5	(\$15.2)	(\$16.6)	(\$1.4)	(\$23.1)
Exports	\$107.7	\$127.7	\$139.4	9.2%	29.4%
Imports	\$101.3	\$142.9	\$156.1	9.2%	54.1%

NAFTA

	1992	1996	1997*	Change vs 1996	Change vs 1992	Change vs 1993
Balance	(\$2.9)	(\$39.2)	(\$31.0)	\$8.2	(\$28.1)	(\$21.9)
Exports	\$130.8	\$191.0	\$221.9	16.2%	69.7%	56.3%
Imports	\$133.7	\$230.2	\$252.9	9.9%	89.2%	67.4%

LATIN AMERICA

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	\$1.6	\$3.1	\$7.1	\$4.1	\$5.5
Exports	\$35.1	\$52.6	\$62.6	19.0%	78.2%
Imports	\$33.5	\$49.5	\$55.5	12.0%	65.5%

Note: Latin America does not include Mexico; Pacific Rim does not include Japan or China

* 1997 is annualized based on the first eight months of data

PETROLEUM/GAS ACCOUNT FOR MOST OF RECENT DEFICIT INCREASE

- As shown below, from 1995 to 1997 (annualized), petroleum/gas accounted for \$23.3 billion, or 93%, of the \$25 billion increase in the merchandise trade deficit. Higher petroleum prices of 15% between 1995 and 1997 was responsible, in part, for the increased petroleum/gas bill.
 - Within the non-petroleum merchandise trade, the sensitive manufacturing trade deficit actually declined over this period: from \$144.7 billion in 1995 to an annualized \$129.1 billion in 1997 (down 10.8%).
 - Offsetting the \$16 billion reduction in the manufactures trade deficit between 1995 and 1997 (annualized), within the overall non-petroleum goods area, is a roughly \$8 billion reduction in the agricultural surplus -- effect of lower prices -- and a \$10 billion swing on other products (mainly raw materials) due undoubtedly to stronger U.S. growth -- from a surplus of \$12 billion to a surplus of \$2 billion.
- The improvement in the manufactures balance was led by the strong growth in the U.S. capital goods sector, increasing the existing trade surplus in this category by nearly four-fold, from a surplus of \$12 billion in 1995 to \$46 billion in 1997 (annualized). U.S. exports in this category rose by \$60 billion (26%) while imports rose by \$26 billion (12%) during this period.
- Also, looking more broadly at goods and services, the \$13 billion increase in the overall deficit, despite the \$23 billion increase in the petroleum/gas deficit, suggests that, all other things equal, the non-petroleum goods and services deficit would have been lower in 1997 than in 1995.

(In Billions of Dollars)

	1992	1993	1994	1995	1996	1997*	1995-1997 \$ Change
Goods (Census)	(84.5)	(115.6)	(150.6)	(158.7)	(170.2)	(183.7)	-25.0
Petroleum/Gas**	(48.4)	(49.1)	(49.8)	(53.2)	(69.5)	(76.5)	-23.3
Non-Petroleum	(36.1)	(66.5)	(100.9)	(105.5)	(100.7)	(107.2)	-1.7
Manufacturing	(66.1)	(91.5)	(127.0)	(144.7)	(137.2)	(129.1)	+15.6
Agriculture	19.7	19.3	20.4	27.1	28.0	19.6	-7.5
Other	10.3	5.7	5.8	12.1	8.5	2.3	-9.8

FOR NOTE:

Goods & Services	(39.2)	(72.3)	(104.4)	(101.9)	(111.0)	(115.1)	-13.2
(BOP Basis)							
Goods (BOP)	(96.1)	(132.6)	(166.2)	(173.6)	(191.2)	(201.5)	-27.9
Services (BOP)	56.9	60.3	61.8	71.7	80.1	86.3	+14.6

* 1997 data annualized based on January-July.

** Petroleum/Gas defined as HS 2709 Crude Oil, HS 2710 Oil (not crude), and HS 2711 Petroleum and Other Gasses

Note: BOP (Balance of Payments) basis is the preferred and commonly reported definition for the aggregate trade balance. It conforms Census data to the Balance of Payments accounts concepts and methodology. However, due to limited commodity data on a BOP basis, most detailed data are presented on a Census basis.

STATE EXPORTS OF GOODS TO WORLD, 1992, 1996, and 1997*
(In Billions of Dollars)

State	1992(est)	1996	1997*	Growth 1992-97*	%92-97*	1996 RANK	1997* RANK
1 Alabama	\$3.0	\$4.2	\$5.0	\$2.0	68.5%	29	28
2 Alaska	1.2	0.9	1.0	(0.2)	-17.8%	44	44
3 Arizona	5.4	10.5	16.2	10.7	197.4%	18	12
4 Arkansas	1.2	2.2	2.4	1.2	96.1%	36	37
5 California	73.0	105.6	106.7	33.6	46.0%	1	1
6 Colorado	6.6	10.7	11.8	5.2	78.6%	17	18
7 Connecticut	11.5	14.2	14.0	2.4	21.1%	13	16
8 Delaware	4.1	4.8	5.3	1.2	28.7%	28	26
9 Florida	16.6	21.8	25.1	8.5	50.9%	8	8
10 Georgia	6.7	9.3	10.3	3.6	54.0%	20	20
11 Hawaii	0.1	0.3	0.4	0.3	177.7%	49	49
12 Idaho	1.2	1.7	1.7	0.5	40.3%	38	39
13 Illinois	21.1	34.7	36.7	15.6	74.3%	5	5
14 Indiana	8.4	13.0	15.0	6.6	78.7%	14	13
15 Iowa	1.7	3.0	3.5	1.8	103.3%	32	32
16 Kansas	3.4	5.3	5.1	1.7	51.2%	25	27
17 Kentucky	4.3	6.4	8.0	3.7	88.0%	24	23
18 Louisiana	3.7	5.0	4.5	0.8	20.5%	27	29
19 Maine	1.1	1.4	1.5	0.4	36.8%	39	41
20 Maryland	3.0	3.8	4.1	1.1	37.4%	30	30
21 Massachusetts	12.8	16.5	18.7	5.9	46.5%	11	11
22 Michigan	25.1	42.0	42.6	17.5	70.0%	4	4
23 Minnesota	9.9	14.6	14.4	4.5	45.6%	12	15
24 Mississippi	1.0	1.3	1.6	0.6	68.0%	40	40
25 Missouri	4.8	7.5	7.7	3.0	61.6%	23	24
26 Montana	0.2	0.4	0.5	0.3	144.6%	48	47
27 Nebraska	1.7	2.6	2.4	0.8	45.4%	35	36
28 Nevada	0.5	0.8	1.0	0.5	110.9%	45	45
29 New Hampshire	1.1	1.9	2.2	1.1	100.5%	37	38
30 New Jersey	15.5	20.0	23.1	7.6	49.1%	9	9
31 New Mexico	0.3	0.9	3.5	3.2	1202.6%	43	33
32 New York	41.8	49.3	54.7	12.9	30.9%	3	3
33 North Carolina	8.2	12.6	14.7	6.5	79.8%	15	14
34 North Dakota	0.4	0.6	0.8	0.5	135.2%	46	46
35 Ohio	17.2	24.6	28.0	10.7	62.2%	7	7
36 Oklahoma	2.9	2.8	3.2	0.3	9.9%	33	34
37 Oregon	6.2	9.1	9.1	2.8	45.5%	22	22
38 Pennsylvania	14.8	18.9	20.6	5.8	39.5%	10	10
39 Rhode Island	0.8	1.0	1.2	0.4	56.5%	42	43
40 South Carolina	3.0	5.3	6.4	3.3	109.8%	26	25
41 South Dakota	0.2	0.4	0.5	0.3	148.0%	47	48
42 Tennessee	6.3	10.1	9.9	3.5	55.8%	19	21
43 Texas	38.3	53.7	60.1	21.8	56.9%	2	2
44 Utah	2.5	3.1	3.8	1.3	53.5%	31	31
45 Vermont	2.1	2.7	3.1	0.9	44.2%	34	35
46 Virginia	9.2	11.5	12.0	2.8	30.3%	16	17
47 Washington	30.8	27.1	35.8	5.1	16.4%	6	6
48 West Virginia	1.0	1.3	1.4	0.4	46.3%	41	42
49 Wisconsin	6.5	9.2	11.4	4.9	75.7%	21	19
50 Wyoming	0.1	0.1	0.2	0.1	83.3%	50	50
TOTAL**	447.5	622.8	682.9	235.4	52.6%		

* All figures for 1997 are annualized based on the first 6 months.

** TOTAL includes exports from U.S. territories and the District of Columbia

Note: For 1992 distribution of total exports by state are based on USTR extrapolation of MISER and Department of Commerce data

Source: Massachusetts Institute of Social and Economic Research (MISER) and USTR

**FASTEST GROWING MANUFACTURING EXPORT SECTORS,
BY STATE (EXCLUDING SMALL VALUE SECTORS)
(1993-1997 annualized)**

United States:	Electronic & Electric Equipment, Industrial Machinery & Computers, and Primary Metal Products
Alabama:	Transportation Equipment, Electronic & Electric Equipment, and Chemical Products
Alaska:	Electronic and Electric Equipment, Industrial Machinery & Computers, Food Products
Arizona:	Industrial Machinery & Computers, Fabricated Metal Products, and Electronic & Electric Equipment
Arkansas:	Primary Metal Products, Food Products, and Electronic & Electric Equipment
California:	Scientific & Measuring Instruments, Electronic & Electric Equipment, and Industrial Machinery & Computers
Colorado:	Fabricated Metal Products, Food Products, and Electronic & Electric Equipment
Connecticut:	Food Products, Transportation Equipment, and Chemical Products
Delaware:	Stone, Clay, & Glass Products, Paper Products, and Chemical Products
Florida:	Industrial Machinery & Computers, Chemical Products, and Electronic & Electric Equipment
Georgia:	Chemical Products, Industrial Machinery & Computers, and Electronic & Electric Equipment
Hawaii:	Scientific & Measuring Instruments, Chemical Products, and Industrial Machinery & Computers
Idaho:	Food Products, Chemical Products, and Lumber & Wood Products
Illinois:	Primary Metal Products, Electronic & Electric Equipment, and Industrial Machinery & Computers
Indiana:	Primary Metal Industries, Electronic & Electric Equipment, and Chemical Products
Iowa:	Industrial Machinery & Computers, Chemical Products, and Transportation Equipment
Kansas:	Apparel Products, Transportation Equipment, and Chemical Products
Kentucky:	Apparel Products, Transportation Equipment, and Industrial Machinery & Computers

Louisiana: Petroleum and Coal Products, Electronic & Electric Equipment, and Scientific & Measuring Instruments

Maine: Transportation Equipment, Scientific and Measuring Instruments, and Industrial Machinery & Computers

Maryland: Printing and Publishing Products, Food Products, and Electronic & Electric Equipment

Massachusetts: Chemical Products, Transportation Equipment, and Electronic & Electric Equipment

Michigan: Chemical Products, Scientific & Measuring Instruments, and Industrial Machinery & Computers

Minnesota: Transportation Equipment, Industrial Machinery & Computers, and Scientific & Measuring Instruments

Mississippi: Food Products, Apparel Products, and Industrial Machinery & Computers

Missouri: Primary Metal Products, Fabricated Metals, and Scientific & Measuring Equipment

Montana: Primary Metals, Electronic & Electric Equipment, and Miscellaneous Manufactures

Nebraska: Chemical Products, Industrial Machinery & Computers, Scientific & Measuring Instruments

Nevada: Transportation Equipment, Electronic & Electric Equipment, and Industrial Machinery & Computers

New Hampshire: Transportation Equipment, Electronic & Electric Equipment, and Leather Products

New Jersey: Chemical Products, Fabricated Metal Products, and Transportation Equipment

New Mexico: Textile Products, Electronic & Electric Equipment and Transportation Equipment

New York: Industrial Machinery and Computers, Transportation Equipment, and Electronic & Electric Equipment

North Carolina: Apparel Products, Transportation Equipment, and Chemical Products

North Dakota: Food Products, Transportation Equipment, and Chemical Products

Ohio: Primary Metals, Industrial Machinery & Computers, and Chemical Products

Oklahoma: Chemical Products, Scientific & Measuring Instruments, and Fabricated Metal Products

Oregon: Paper Products, Electronic & Electric Equipment, and Primary Metal Products

Pennsylvania: Primary Metal Industries, Chemical Products, and Electronic & Electric Equipment

Rhode Island: Electronic & Electric Equipment, Textile Products, and Fabricated Metal Products

South Carolina: Transportation Equipment, Rubber & Plastic Products, and Electronic & Electric Equipment

South Dakota: Transportation Equipment, Electronic & Electric Equipment, and Industrial Machinery & Computers

Tennessee: Transportation Equipment, Electronic & Electric Equipment, and Industrial Machinery & Computer Equipment

Texas: Rubber & Plastic Products, Electronic & Electric Equipment, and Fabricated Metal Products

Utah: Transportation Equipment, Chemical Products, and Scientific & Measuring Instruments

Vermont: Paper Products, Miscellaneous Manufacturing Industries, and Fabricated Metal Products

Virginia: Electronic & Electric Equipment, Industrial Machinery & Computers, and Chemical Products

Washington: Electronic & Electric Equipment, Paper Products, and Industrial Machinery & Computers

West Virginia: Electronic & Electric Equipment, Stone, Clay, & Glass Products, and Primary Metals

Wisconsin: Industrial Machinery & Computers, Food Products, and Chemical Products

Wyoming: Paper Products, Chemical Products, and Food Products

9/97

**Questions and Answers for
Meeting with Congresswoman Hooley**

Q: What do we know about job gains and losses from the NAFTA and trade in general?

Answer:

- We have a good idea of the number of **U.S. jobs supported by exports**. This year they will total an estimated 12.1 million. This represents an increase in 2.2 million since 1992, reflecting the 50 plus percent increase in U.S. exports (to \$930 billion in 1997 annualized).
- Our knowledge of the **effects of imports on jobs** is much less complete. Not all imports displace U.S. production (think of petroleum, coffee and tea, or complementary inputs into U.S. production). It is not always easy to know therefore whether particular imports are displacing U.S. jobs, are neutral with respect to U.S. jobs or are supporting U.S. jobs. You can understand that it is a much more feasible analysis to estimate the number of jobs supported by U.S. production that actually occurs (exports) than to estimate job losses from production that might or might not have taken place in the absence of imports.
 - Some obvious non-competing imports from **Mexico** -- **petroleum** (\$8.1 billion) and **coffee, tea and spices** (\$559 million) -- accounted for about half of the United States \$17.5 billion deficit with Mexico in 1996. Similarly with the **world**, U.S. imports of **petroleum** (\$78.2 billion) alone accounted for 46 percent of the U.S. goods trade deficit in 1996 (\$170.2 billion)
- Perhaps the one solid piece of evidence that we do have is the number of Americans who are covered by **trade adjustment assistance programs** under the NAFTA TAA or the regular Trade Adjustment Assistance. In 1996, new certifications totaled 140,000. (Workers covered by these certifications do not always suffer job loss; the certification is for threat of job loss; actual job loss would be a smaller number). For all reasons, not just trade, there are roughly 3 million involuntary job losses in the U.S. market in any given year.
 - The Department of Labor does not know the number of individuals out of the 140,000 certifications who actually lost jobs. What Labor does know is the number of certified workers who actually received benefits in 1996. These were: **33,000 for income support**; **36,000 for training benefits**, and **62,000 for reemployment services**. These numbers are NOT additive, as individual workers may receive several forms of benefit.
- Some have argued that **trade deficits reduce employment** on the simple logic that, if exports support jobs, then imports must have an equal job displacing effect. Evidence, however, suggest otherwise. Job loss in the U.S. tends to be greatest when the trade deficit is shrinking, as in the 1991 recession. And, trade deficits tend to grow when the

economy and jobs are booming, as in the 1992-97 period. The U.S. trade deficit (goods and services) annualizes to \$115 billion this year. But with unemployment at a 24 year low and the economy arguably at full employment, it is hard to argue that the trade deficit is costing jobs. The recent trade deficits have, in fact, been more a sign of the strength of the U.S. economy, rather than an independent source of weakness in job creation or otherwise.

- I would also note that, with reductions federal budget deficits and the drain it represents on national saving, **we have made a great deal of progress in reducing the size of the trade deficit relative to our economy.** At its peak in the previous business cycle, the U.S. goods and services deficit represented 3.3% of U.S. GDP. Last year it was 1.5%.
- With respect to the **NAFTA**, I would recommend to you the President's recent report to Congress. Trade flows with Mexico in recent years have been shaped more by strong U.S. growth and the Mexico's severe recession in 1995 than by the NAFTA itself. In the report we discuss studies that attempt to isolate the effect of the NAFTA on trade, controlling for other such non-NAFTA influences. We find that NAFTA per se stimulated U.S. exports to Mexico more than imports from Mexico during its first three years (according to DRI, exports to Mexico up \$12 billion a year due to the NAFTA, imports up \$5 billion). This is not illogical, as Mexico made tariff cuts 5 times greater than did the United States (from 7% to 3% for Mexico versus 2% to 0.5% for the U.S.) It is particularly difficult therefore to sustain the notion that the NAFTA has been a job loser for the U.S. I would further note that with Mexico's rapid recovery from its 1995 recession, U.S. exports grew by 23% in 1996 and 24% in the first 7 months of this year. The trade deficit with Mexico has also begun to decline.
- Let me add that **the President is very sensitive to the challenges faced by any American losing a job involuntarily** and having subsequent difficulty in the labor market. Trade, however, is only one, and far from the principal, source of job displacement. Home grown technological change plays a far greater role. No matter what the cause -- trade, technology or other factors such as shifting demand linked to the changing age structure of the U.S. population, the answer has to be education, retraining and temporary income support, not restricting the sources of change that benefit the country as a whole. This is why we have special trade adjustment assistance.

Q: What about the wages of those jobs gained and lost due to trade?

Answer:

- Jobs supported by **goods exports pay wages that are 13% to 16% above the U.S. national average.** These are both good manufacturing jobs and good service jobs (largely in business related services). The higher wage is widely thought to reflect higher levels of productivity in America's competitive export sectors.

- There are, as I mentioned, no credible estimates of jobs actually displaced by imports. Instead, academics have tended to look at the labor characteristics of U.S. jobs in U.S. industries clearly in an import-competing posture. Such studies usually find **below average wages for import competing jobs**. For instance Larry Summers, as an academic, and Lawrence Katz, the President's first chief economist at the Labor Department, published a study estimating that jobs in import competing industries pay wages roughly 16% below the U.S. national average.
- Good trade agreements which reduce or remove foreign trade barriers expand U.S. exports and, gradually over time, shifts the composition of U.S. job creation from lower to higher productivity sectors, from lower to higher paying jobs. **Good trade agreements are part of the solution, not the problem in terms of raising average real wages.**
- I would also note that a CEA study for the period February 1994 to February 1996 showed that over **two-thirds of the U.S. employment increase overall was in areas paying wages above the U.S. median wage**. **Real average hourly earnings, according to official data, have started increasing again**, rising 1.4% in the last twelve months. And, of course, to the extent that official statistics are overstating the rate of consumer price increases -- as many believe -- the rate of real labor compensation increases are being understated.

Question: What about job movement by industry overseas due to the NAFTA and trade generally?

Answer:

- Unfortunately, beyond anecdotal information, **there are no reliable comprehensive data base to our knowledge that tracks job movement by U.S. industries overseas**. This is unfortunate as it probably helps create an environment in which concerns and allegations are rife. But, we do know the following:
 - Since 1992, **U.S. real industrial production is up 20%** compared to much slower growth in our major industrial trade partners.
 - **Investment by U.S. industry in the U.S.** has been so strong that our **industrial capacity** is rising faster than at any time since the early 1970s.
 - **Manufacturing employment** has stopped falling and started rising, up 439,000 since 1992. The limitation on U.S. manufacturing employment has not been trade, but rather tremendous productivity growth resulting from strong U.S. investment in advanced production technologies. Also, a substantial part of the near 13 million net U.S. job increase since 1992 is likely to have been good paying service jobs (in business services) supported by expanding U.S. industrial production.

Question: What about increased U.S. investment overseas or in Mexico due to NAFTA?

Answer:

- There is little evidence of increased **U.S. foreign direct investment in Mexico** since NAFTA implementation. In 1993 such investment totaled \$2.5 billion, in 1994 it rose to \$3.7 billion, but declined to \$3.0 billion in 1995 and \$2.7 billion in 1996. These are very small figures relative a U.S. economy where private business fixed investment exceeds \$800 billion a year.
- To the extent U.S. investment in Mexico is stimulated by the NAFTA, it is often not at the expense of production in the United States. Mexico's economy is very different from our own and it has very different advantages in terms of the types of production it can attract. **U.S. investment in Mexico is more likely to displace U.S. imports from developing countries in Asia and elsewhere with whom Mexico competes more directly than production in the U.S.** This is clearly going on in the apparel area where imports from Mexico are displacing those from China. **The advantage to U.S. workers is that the U.S. produced content in imports from Mexico is much greater than in imports from China or elsewhere in Asia.**
- The **United States is itself the world's largest recipient of foreign direct investment**, with amounts totaling \$45.7 billion in 1994, \$67.5 billion in 1995 and \$77 billion in 1996.
- Looking at total foreign capital flows -- direct plus portfolio -- the United States is the world's greatest magnet for foreign investment. **In the last 15 years capital inflows to the United States have exceeded capital outflows by nearly \$1.5 trillion.** These foreign capital inflows have helped sustain healthy rates of investment in the United States and in recent years have reflected the attractiveness and strength of our economy.

[Of course no country can enjoy capital account surpluses without experiencing current account (broadest measure of trade) deficits. And, in fact the U.S. current account surpluses have totaled the same \$1.5 trillion in the last 15 years (though in recent years they have been substantially reduced relative to the size of our economy)].

KEEPING AMERICA AND ITS WORKERS THE MOST COMPETITIVE IN THE

America Needs Fast Track to Continue to Create Higher-Paying Jobs for More Americans. Without it, America's role as the largest exporter in the world will be put in jeopardy. And with new markets opening around the world, it is more important than ever to give the President traditional trade authority to break down trade barriers that put American products made by American workers at a disadvantage. We will continue to ensure that America's workers will benefit from expanded trade by fighting for increased training and education opportunities.

I. AMERICAN WORKERS STILL FACE A DISADVANTAGE BECAUSE TOO MANY FOREIGN COUNTRIES PLACE RESTRICTIONS ON AMERICAN GOODS. WE NEED FAST TRACK TO LEVEL THE PLAYING FIELD FOR AMERICAN WORKERS.

What We Inherited. In 1993, President Clinton came into office at a time when the U.S. continued its commitment to free and fair trade, but other countries maintained high tariffs and other obstacles to fair trade to the disadvantage of America's workers.

President Clinton Moved to Address this Disadvantage by Completing the Uruguay Round Agreements, Negotiated Under Fast Track Authority. We have repeatedly leveled the playing field by negotiating tough, fair agreements -- securing more concessions from our trading partners than we had to give up. For example, Australia has cut its tariffs five times more than we have had to, Korea six times more than the U.S. and Peru has cut its tariffs ten times more than the U.S. since the Uruguay Round of GATT. Because of the ongoing benefits from the Uruguay Round, it is estimated that trade will continue to grow by an average of 9% per year until 2000.

American Workers Still Face a Disadvantage. Even with the recent progress in GATT, American exports still face higher tariff rates than our own. For instance, U.S. agricultural exports average 38%, while our own rates average 11%. U.S. electric machinery exports average 5%, while our rates average under 2%. Without Fast track authority, these conditions will only persist when more and more countries negotiate their own preferential trade deals to the detriment of America's workers. American workers deserve better.

Open and Fair Trade is in the Best Interest of American Workers and their Families. As the American people prepare for the challenges of the 21st century, we face a critical choice: We can meet the challenges of the future, write the trade rules and continue America's remarkable economic growth -- or we can turn our back on the world and fail to compete for new markets, new contracts, new business and new jobs. All over America, jobs have been created in small, medium and large companies that would not be here today if we did not have the ability to negotiate fair trade agreements.

- Over the last four years, American manufacturing exports rose 42%, high technology exports jumped 46%, service exports climbed 33% and farm exports rose 41%.
- From 1990-1996, U.S. auto exports to the biggest emerging markets (excluding Mexico) rose \$500 million and are estimated to reach \$6.1 billion by 2010. U.S. parts exports to these emerging markets are expected to more than triple from the current

COMPETING AGAINST COUNTRIES WITH LOW WAGES

Question: **How can U.S. workers compete in trade against workers in developing countries earning of small fraction of U.S. wages?**

Answer:

- **Because American workers are highly productive, trading with low wage countries does not, as a general matter, depress wages in the U.S.** The labor cost of producing a product is a function of both wages and worker time spent producing the product. U.S. workers total compensation is \$17 to \$18 an hour, while wages are \$7 or \$5 or even \$2 an hour in foreign competitors. American workers, however, are highly productive spending far less time to produce most anything than is required of workers in low wage countries. As a result, in many areas the United States has both higher wages and lower unit labor costs than our low wage trade partners.
 - A recent **study published by the Federal Reserve Bank of San Francisco** examining several Asian developing countries illustrates this point. According to its estimates, workers in the Philippines and Malaysia earned less than 20% of the compensation of their U.S. counterparts in 1990, yet unit labor costs in those countries were much higher than in the United States because of productivity differentials. In Korea and Thailand, the study showed that productivity differentials significantly, though not completely, offset wage differentials in 1990. Perhaps even more significantly, the study showed that unit labor cost differentials favoring the four Asian countries examined had shrunk significantly, or turned into disadvantages between 1970 and 1990.
 - The authors concluded, **"Contrary to the sweatshop labor argument, low wages are a symptom of low productivity, not an independent source of international competitiveness ... This analysis indicates that fears about unfair competition from low-wage NICs are greatly exaggerated and should not stand in the way of free international trade, which benefits both the U.S. and developing countries."**
 - **The fact is that workers can and do compete successfully with low wage countries.** In the last 10 years U.S. exports to low-wage countries have rise 240%, while exports to high wage countries are up just 140%. Exports to low wage countries now account for 42% of total U.S. exports.
- **U.S. companies compete successfully with state of the art manufacturing facilities in low wage countries.**
 - The competitiveness of output from such facilities is influenced significantly by the quality, cost and availability of inputs into its production -- everything ranging from telecommunication, transportation, financial services to purchased parts and components. Thus even state of the art facilities in developing countries are in fact far from operating as efficiently as in countries like the United States because of low productivity and frequent

quality and availability problems in the domestic goods and service supplying sectors upon which the manufacturing facility depends. The role of these purchased inputs can be large. For example, only one quarter of the factory price of a new U.S. auto actually pays for work done by U.S. auto companies.

-- **The U.S. has competed successfully in the industrial sector.** U.S. industrial output is up 20% in real terms since 1992 (compared to an 7% rise for Japan and a 2% decline for Germany). Manufacturing employment since 1992 has turned around and is up 439,000. If manufacturing employment has not expanded more, it is not because production has not grown strong -- it has -- rather, it is due largely to strong U.S. productivity growth in the manufacturing sector (3% year) as a result of technological advance.

- **Imports from low wage countries are relatively modest.** Imports from non-oil developing countries account for only 4% of U.S. spending, and spending of such imports has grown only 1.5% during the past decade.
- **Real U.S. wages have started to increase again: up nearly 1.5% in the last 12 months.** To the extent inflation is overstated, as many believe, real earnings growth may be understated.
- **Reducing barriers and expanding trade with low wage countries is more of an opportunity than a threat for most U.S. workers and the chance to help achieve basic domestic economic aspirations.** Trade expansion with such countries increases the production of what we do best and the higher wage jobs supported by such exports. Average U.S. labor productivity and real labor compensation rise as result. And when we workers enjoy the fruits of our labor in the market place, we find that imports further raise the real purchasing power of our wages and salaries.
- **Expanded education opportunities and worker training.** Competitive pressure from low wage countries is greatest in industries where labor skills and productivity are relatively low. The answer for U.S. workers, however, is not to cut off imports, but rather to improve the quality and availability of educational and worker retraining opportunities.

Question: What is the Administration doing about U.S. trade deficits that have totaled \$1.5 trillion in the last 15 years and seem to be growing relentlessly higher.

Answer:

- The **U.S. trade deficit** has grown in the last several years in large part because we are doing so well. In the last 4 years, the 3% real growth rate of the U.S. economy has been almost double that of the other economies of the G-7. While the U.S. has added nearly 1.3 million net new jobs since 1992, the other G-7 countries have added barely a half million. Despite such poor growth conditions abroad, our exports have grown by 50% since 1992 (to an annualized \$932 billion for 1997). Given the relative strength of the U.S. economy, imports have grown somewhat faster, 59% (to an annualized \$1,047 billion in 1997).
- With the U.S. economy at or near full employment, its recent growth record unmatched by other major countries, and domestic investment, as well as employment booming, recent increases in the trade deficit have been more a sign of strength than a source of weakness. Trade deficits have as their counterparts U.S. surpluses in international capital transactions (the two, trade or current account balances on the one hand and capital account balance on the other, summing, as they must to zero, representing overall balance in U.S. international payments. As a result, during this recovery, net inflows of foreign capital have helped fuel the current investment boom, while import increases have helped restrain inflation, thus lengthening the U.S. expansion.
- By definition, the U.S. trade gap cannot be closed without bringing domestic saving and investment back into alignment, preferably achieving balance through increased domestic saving rather than reduced investment. There is simply no substitute for addressing the issue of low national saving, to which the federal budget deficit has been a major contributing factor. In this regard, the federal deficit was cut more than half between 1992 and 1996.
- In fact, we have substantial progress since the 1980s in reducing the size of the trade deficit relative to the size of our economy. **The goods and services balance as share of GDP is expected to be 1.5 percent during 1997 (annualized from first 6 months). This compares with the goods and services share of GDP of 3.3 percent in 1987 at the peak of the previous business cycle.** Federal deficit reduction helps strengthen the overall saving rate of the U.S., thus shrinking relative size of our trade deficit. With the recent agreement between the President and Congress, there is a good chance that long term structural progress on reducing the trade deficit will continue.
- The principal downside of the U.S. position (current account deficits and capital account surpluses) is that part of the benefit of new investment directly or indirectly from abroad will go to foreign investors in the forms of interest or dividend earned in the United States. However, roughly 70 percent of the value from new investment is paid out in wages to American workers. It would certainly have been better had large budget deficits,

reduced national saving not developed in the early 1980s. Trade policy however has little influence over U.S. saving rates. If one accepts those developments of the early 1980s as a given, then U.S. workers and the rest of the country has most certainly been better with by being able to sustain investment through capital inflows. This Administration has focused on both sustaining investment and raising saving through budget deficit reduction. And as mentioned earlier, the results are event in the trade deficit having been cut in more than half as a share of GDP from its previous cyclical peak in 1987.

Choate Rebuttal

Charge: Our trade policy is hollowing-out the U.S. economy. 95% of the jobs lost in the last decade are in sectors impacted by imports -- manufactured products. As a result, we have seen a 50% decline in U.S. manufacturing jobs as a share of economic activity in our economy.

Answer: To the contrary, the U.S. manufacturing base has expanded in recent years, both in terms of production capacity, efficiency, employment, and the United States remains the most competitive country. Look at the facts:

- **Overall U.S. employment has increased by 13 million since 1992 and recent U.S. unemployment rates--below 5%--are the lowest in 24 years.** This compares quite favorably with near zero job growth (400,000) in the other high-income, large industrial economies of the G-7 combined. The average rate of unemployment in France is more than 12 percent, that of Germany is 10 percent and is 11 percent for the European Union as a whole.
- **Even U.S. manufacturing jobs have increased 439,000 since 1992.** If manufacturing jobs have not grown more, it is not because of imports or lack of growth in U.S. production in manufactured products. Rather, it is because of fast productivity growth -- induced by technology -- in the manufacturing sector.
- **U.S. industrial production is 20 percent higher than in 1992.** This stands in sharp contrast to other industrialized countries like Japan (up 7.4%) and Germany (declined 1.7%)
- This excellent record has been made possible by strong investment that has resulted in **industrial capacity growing at 3.5 percent a year, its fastest rate since the 1970's.**
- Strong investment has also made possible rapid growth of productivity in the manufacturing sector. In the first 4 and 1/2 years of the Administration, manufacturing productivity has been rising at a rate of nearly 3% per year.
- **Though not manufacturing jobs, most of the new jobs are good jobs--**a CEA-Department of Labor study found that 68 percent of the net job growth in full time employment during the period of February 1994 to February 1996 occurred in job categories paying above median wages.
- As overall productivity growth has improved in the last 2 years (from an annual 0.2% in first 4 years of the recovery to 1.6% a year in the last two years), **real wages**, as reported in official government statistics have started to pick up: **real weekly earnings** are up 1.7% in the last 12 months and **real hourly earnings** are up 1.5%. To the extent that consumer price inflation is overstated -- as many believe -- real wage gains have been understated. Comparatively speaking, U.S. real per capita income remains the highest among all major countries, 22% above Japan's and 33% above Germany's.

- For the past four years, the U.S. has been ranked as the world's most competitive economy by the World Economic Forum. Also, for the past five years, the International Institute for Management Development has ranked the U.S. as the most competitive country.
- One in five manufacturing jobs is supported by U.S. exports. Export supported jobs tend to have higher than average output per hour worked. Job shifts from expanded trade thus raise our average labor productivity, the basis for real compensation increases.

Charge: Trade is not driving our growth, the deficit is killing our growth. Real wages, benefits, and living standards are at 1972 levels because trade is suppressing our growth, not sustaining it. Over the last decade the United States has a trillion dollar trade deficit – that's why Congress is up in arms over trade. Trade is not a goal in itself but a tool to protect jobs and living standards. The Administration fails to understand this point.

Answer: The Administration is concerned about the trade deficit. However, recent increases in the trade deficit are more the sign of strength of the U.S. economy, rather than an independent source of economic weakness. Increased trade, through market-opening agreements is an engine for economic growth and prosperity for American workers. In fact, increased exports helped generate over 2 million new jobs, and presently support 1 out of 7 new jobs. And exports have accounted for one third of U.S. economic growth since 1992.

- It is absurd to believe that living standards haven't risen in the last 25 years. Even with government statistics that may be overstating inflation and thus understate growth, **real per capita GDP** has risen by more than 50% from \$17,579 in 1972 to \$26,781 in 1997's second quarter. Between 1993 and 1996, real disposable per capita personal income increased by 8 percent. **Annual disposable income is now more than \$1,207 (constant 1992 dollars) higher on average for every man, woman and child in the United States** (between 1993 and 2nd quarter 1997). The World Bank reports that U.S. has the world's highest per capita income.
- **Real compensation per hour worked is up 11% since 1972.** This modest growth may reflect: (1) modest rates of investment relative to job growth in the U.S., restraining economy wide productivity growth and thus compensation; and/or (2) the growing problem of government statistics in measuring price inflation, productivity in the service sector resulting in an understatement of compensation growth.)
- **Part of the reason we have the world's highest per capita income is that we have the most open markets of any major country in the world.** U.S. workers are the world's most productive, thus fully earning our high living standard. Competition and exports from our most competitive industries help keep U.S. productivity, real incomes and wages high and growing.
- One in seven new U.S. and 1 in 5 manufacturing jobs are supported by exports. **Jobs supported by goods exports are good paying, with wages 13-16% above the national average.** The wage advantage associated with exports holds true for both manufacturing jobs

supported by exports and service jobs (especially business services) supported by these exports.

- As overall productivity growth has improved in the last 2 years (from an annual 0.2% in first 4 years of the recovery to 1.6% a year in the last two years), **real wages**, as reported in official government statistics have started to pick up: **real weekly earnings** are up 1.7% in the last 12 months and **real hourly earnings** are up 1.5%. To the extent that consumer price inflation is overstated -- as many believe -- real wage gains have been understated. Comparatively speaking, U.S. real per capita income remains the highest among all major countries, 22% above Japan's and 33% above Germany's.
- After a fourteen-year period in which income gains were concentrated in the top half of the income distribution, the real incomes of every quintile of the income distribution have increased since 1993, and the largest percentage increase has been seen by those in the poorest quintile. Between 1993 and 1995, (latest available) the poverty rate fell from 15.1 percent to 13.8 percent. Furthermore, those who have had the hardest time finding work, the long-term unemployed, have also seen their numbers trend downward this year.
- The **U.S. trade deficit** has grown in large part because we are doing so well. In the last 4 years, the 3% real growth rate of the U.S. economy has been almost double that of the other economies of the G-7. While the U.S. has added nearly 13 million net new jobs since 1992, the other G-7 countries have added barely a half million. Despite such poor growth conditions abroad, our exports have grown by 50% since 1992 (to an annualized \$932 billion for 1997). Given the relative strength of the U.S. economy, imports have grown somewhat faster, at 59% (to an annualized \$1,047 billion in 1997).
- **With the U.S. economy at or near full employment, its recent growth record unmatched by other major countries, and domestic investment, as well as employment booming, recent increases in the trade deficit have been more a sign of strength than a source of weakness.** Capital inflows have helped fuel the investment boom, while import increases have helped restrain inflation, thus lengthening the U.S. expansion.
- Longer term we have made substantial progress toward raising national saving and lower the trade deficit relative to the size of our economy. **The goods and services balance as share of GDP is expected to be 1.5 percent during 1997 (annualized from first 6 months). This compares with the goods and services share of GDP of 3.3 percent in 1987 at the peak of the previous business cycle.** Progress on the federal budget deficits, along with education and efforts to open foreign markets are hallmarks of the President's efforts to restore U.S. economic health. Federal deficit reduction helps strengthen saving rates in the U.S. thus shrinking relative size of our trade deficit.

Charge: The Administration's trade policy is as weak as its predecessors. Look at the exploding trade deficit with Japan: it will go to \$70 billion this year. On China it is even

worse. We don't sell them anything and the trade gap was \$40 billion on its way to \$50 billion. The trade deficit this year is approaching \$200 billion.

Answer: The deficits with Japan and China are of great concern to the Administration and efforts to reduce barriers to U.S. goods and services in these markets are a critical priority in the Administration's trade policy.

- The increase in the size of the trade deficit with **Japan** so far this year is a source of concern. We will continue to press Japan for more open markets. But, one has to recognize that the Japanese economy has been performing very poorly, particularly in contrast to our own. In the second quarter of 1997, Japanese output fell at an annual rate of 11.2%. Japan needs to restore growth to its own economy. And, it is in fact its own history of excessive regulation and restrictive markets that are now widely recognized as a fundamental part of Japan's economic problems. The policy failures reflected in this story are not those of U.S. trade policy, but rather those Japan's and its economic management. We must simply press ahead with what we know is right.
- In the last 5 years, U.S. exports to **China** have risen 90%, almost twice the rate of U.S. exports to the world. Though they only totaled \$12 billion last year, but they will grow. China is already a larger economy than Japan and needs only reach productivity and income levels one quarter our own to surpass the U.S. economy in total size. Our best option with China is to keep pressing in its WTO accession and our other trade relations to insure that China is ultimately fully absorbed into the global economy as an increasingly open and rule respecting economy. This is what we are doing. I see few other options.

Charge on fast track: U.S. trade policy is broken, and Congress is not going to give the President special authority to make it worse. Fast track is a short-cut.

Answer: Fast track is critical to increase access to foreign market and shift trade condition in our favor. Fast track was put in place under the Ford Administration and was granted by Democratic and Republican Congresses to every President, before lapsing three years ago. Under fast track the President and Congress work together, ensuring that the United States can effectively negotiate away foreign tariff barriers as well as non-tariff barriers--such as quotas, subsidies, and protectionist product standards. Fast track will provide the President and Congress the authority to extend the recent success of market-opening agreements, increasing exports and higher paying U.S. jobs. Walking away from fast track will not create a single job and only leaves our workers, products, and services disadvantaged in restrictive markets.

Fast Track Comments

Let me put this request for fast track in historical perspective. We have often heard that every President since 1974 has had fast track negotiating authority. In fact, every President since Franklin Roosevelt in 1934 has trade negotiating authority that looked exactly like fast track—it was tariff cutting authority, as you would expect, since that was what trade negotiations were all about.

It was in 1974 in the context of the Tokyo Round that fast track was extended to non-tariff barriers as well and except for a brief period in 1988 it has been the means by which major trade agreements have been negotiated.

Keep in mind that this is a procedural question. And both of the bills reported out of committee have actually revised some of the ground rules so that there is an even greater congressional role at every stage of the process.

So rather than go through the charade of using fast track as a surrogate for the real underlying issues that this debate should be about, let me talk briefly about the trade agenda that fast track would be applied to.

There are three aspects to the trade agenda over the course of the next few years:

1. First is the need to complete the unfinished agenda of the Uruguay Round. And here there are four major areas: government procurement; intellectual property; agriculture; and trade in services. If there was greater transparency in government procurement practices around the world, American companies would be winning billions of dollars in contracts based on competitive bidding. In intellectual property, agriculture, and trade in services, the United States is the most competitive nation in the world. The opportunity to write the rules governing trade in these areas is in the interest of the United States.

2. Second is the sectoral negotiations that led, for example, to the Information Technology Agreement earlier this year and resulted in tariff reductions on a wide range of hi-tech products that amounted to a \$5 billion tax cut for American companies. We already have agreement to open negotiations on ITA II, which would expand product coverage and extend to non-tariff barriers. We have submitted a list of seven other sectors--including chemicals, environmental equipment and services, medical equipment, energy equipment and services--to name a few. This is a process that begins with our APEC trading partners and it is the United States that drives the process of trade liberalization and fast track is the engine.

3. The third part of the agenda is to move forward beginning next spring toward a Free Trade Agreement in the Americas by the year 2005. And the first step in that process is to negotiate an agreement with Chile. In fact, we are the only nation in the hemisphere that does not have an agreement with Chile. As of July, the Canadian-Chile agreement went in to effect. As a result, every Canadian exporter in competition with the United States has an 11% percent advantage at the start because that is the across-the-board cut that they start with.

Let me point out, in addition, that this is symptomatic of what is happening and will continue to happen if we are sidelined. Our major trading competitors--particularly the Europeans, the Brazilians and the Japanese will be out and about making deals. No one will wait for us to join in.

WHITE HOUSE STAFFING MEMORANDUM

DATE: 11/4/97ACTION/CONCURRENCE/COMMENT DUE BY: 11/4/97 6:00 PMSUBJECT: Fast Track Remarks Rm 169

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	McCURRY	☐	☒
BOWLES	☒	☐	McGINTY	☐	☐
McLARTY	☒	☐	NASH	☐	☐
PODESTA	☒	☐	RADD	☒	☐
MATHEWS	☒	☐	REED	☐	☐
RAINES	☒	☐	RUFF	☐	☐
BLUMENTHAL	☒	☐	SMITH	☐	☐
BERGER	☒	☐	SOSNIK	☒	☐
ECHAVESTE	☐	☐	SPERLING	☒	☐
EMANUEL	☒	☐	STREETT	☐	☐
GIBBONS	☐	☐	TARULLO	☒	☐
HILLEY	☒	☐	VERVEER	☐	☐
IBARRA	☐	☐	WALDMAN	☒	☐
KLAIN	☐	☐	YELLEN	☐	☐
LEWIS	☒	☐	BEGALA	☒	☐
LINDSEY	☐	☐	<u>Jay Byrnes</u>	☒	☐
MARSHALL	☐	☐	<u>Susan Brophy</u>	☒	☐
				☐	☐

REMARKS:

Comments to Lowell Weiss (62734)

RESPONSE:

PRESIDENT WILLIAM J. CLINTON
REMARKS ON FAST TRACK TRADING AUTHORITY
THE WHITE HOUSE
November 5, 1997

This week, Congress confronts a choice that will profoundly affect America's growth, prosperity, and leadership into the new century -- whether to extend the President's fast track authority to negotiate agreements that tear down unfair trade barriers to American exports and create high-wage for American workers. Yesterday, a bipartisan majority in the Senate voted resoundingly to extend fast trade authority. Tomorrow the House of Representatives will vote on a similar bill, and I strongly encourage the House to take the same bold stand for America's national interest.

The only way to continue to increase American incomes and create American jobs is to expand American exports. Our markets are open to the world. The core of our national economic strategy has been to open the world's markets to us. If we now turn our backs on trade and fail to seize these opportunities, our competitors will eagerly take our place. That's an "America last" strategy -- and it's unacceptable.

But it would be equally unacceptable to press for open markets without doing everything possible to help all Americans benefit from the new economic opportunities. The social compact on which this nation was founded requires that when our nation moves forward, we leave no one behind. And that is why we have worked hard with members of Congress to create a package of initiatives, which I will include in my next budget, to equip all of our people to reap the rewards of change.

First, we must greatly expand our efforts to help workers who lose their jobs because of trade, technology, or any other economic change. Over the next five years, we should increase funding for retraining dislocated workers by more than a half a billion dollars, eventually tripling the resources that were devoted to this initiative the year before I took office. We should create a special fund that triggers automatically in times of need to guarantee that there will always be adequate funding to help workers who are hurt by trade. And for the first time we should target funds to help so-called secondary workers; that is, if a textile plant closes down, we should help not only those textile workers but also the ones in the nearby button factory who depended on the textile plant.

Second, we must step up our efforts to help any community or region that might be hurt by trade. Building on our successful efforts to help communities cope with military-base conversions, we should create a new Office of Community and Trade Adjustment to provide planning grants and expertise, and to coordinate rapid assistance from a host of federal agencies. We should double funds to help areas that have experienced major plant closings. And we must improve and expand the development bank that serves communities affected by trade, by helping that bank secure \$150 Million in private funding.

Third, we must develop the untapped potential of our inner cities and rural areas.

For example, we should greatly increase investment credit for people who live in distressed rural and urban communities, make \$100 Million in flexible grants available every year in new inner city empowerment zones, and provide much more job skills training to young men and women in high-poverty areas.

By giving a helping hand to workers at home and a strengthened hand to our negotiators as they open markets abroad, we will bring more Americans into the winner's circle of the new economy. There is no reason why our nation cannot see to it that every American has the tools and conditions to succeed in the new economy. Our prosperity enables it. Our social compact demands it.

The House faces a crucial vote tomorrow, and for me the options are clear: We can rise to the challenges of the future, write the trade rules, and continue America's remarkable economic growth -- or we can turn our back on the world and fail to compete for new markets, new contracts, and new jobs. I believe America cannot afford to return to a mindset rooted in the past. We must seize the opportunities of the future. If we expand trade the right way -- making sure all can benefit -- we will enter the new century stronger than ever before. Thank you.

1 to the provisions of already existing trade
2 agreements with the United States or by the
3 circumvention by that country of its obligations
4 under those agreements; and

5 (G) otherwise ensuring that countries that
6 accede to the World Trade Organization have
7 made meaningful market liberalization commit-
8 ments in agriculture.

9 (7) LABOR, THE ENVIRONMENT, AND OTHER
10 MATTERS:—The principal negotiating objective of
11 the United States regarding labor, the environment,
12 and other matters is to address the following aspects
13 of foreign government policies and practices regard-
14 ing labor, the environment, and other matters that
15 are directly related to trade:

16 (A) To ensure that foreign labor, environ-
17 mental, health, or safety policies and practices
18 do not arbitrarily or unjustifiably discriminate
19 or serve as disguised barriers to trade.

20 (B) To ensure that foreign governments do
21 not derogate from or waive existing domestic
22 environmental, health, safety, or labor meas-
23 ures, including measures that deter exploitative
24 child labor, as an encouragement to gain com-
25 petitive advantage in international trade or in-

~~vestment. Nothing in this subparagraph is in-~~
~~tended to address changes to a country's laws~~
~~that are nondiscriminatory and consistent with~~
~~sound macroeconomic development.~~

Georgetown
Letter

(8) WTO EXTENDED NEGOTIATIONS.—The principal negotiating objectives of the United States regarding trade in financial services are those set forth in section 135(a) of the Uruguay Round Agreements Act (19 U.S.C. 3555(a)), regarding trade in civil aircraft are those set forth in section 135(c) of that Act, and regarding rules of origin are the conclusion of an agreement described in section 132 of that Act (19 U.S.C. 3552).

(c) ~~INTERNATIONAL ECONOMIC POLICY OBJECTIVES.~~

(1) IN GENERAL.—The President should take into account the relationship between trade agreements and other important priorities of the United States and seek to ensure that the trade agreements entered into by the United States complement and reinforce other policy goals. The United States priorities in this area include—

(A) seeking to ensure that trade and environmental policies are mutually supportive;

1988 Fast Track Negotiating Authority

Principal Negotiating Objective #14:

The principal negotiating objectives of the United States regarding worker rights are--

(A)to promote respect for worker rights;

(B)to secure a review of the relationship of worker rights to GATT articles, objectives, and related instruments with a view to ensuring that the benefits of the trading system are available to all workers; and

(C)to adopt, as a principle of the GATT, that the denial of worker rights should not be a means for a country or its industries to gain competitive advantage in international trade.

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9/15/97

U.S. TRADE DEFICIT - GENERAL

Question: Why is the U.S. trade deficit skyrocketing?

Answer:

The U.S. trade deficit is not skyrocketing. It has increased since the recession of 1990/91, this increase being closely related to much faster job and output growth in the United States than in many of our major trade partners over the last 4 years. Relative to the size of the U.S. economy, however, the deficit is less than half as large as it was at its peak during the last decade (attained in 1987). Even the dollar value of trade deficit last year would have declined, but for a sharp rise in petroleum prices. Let me explain some of the details.

- Last year, **U.S. goods exports** rose by 6.3% to a record \$612.1 billion in 1996. **Advanced technology products** were up 11.9% to \$154.9 billion. After a 22% surge in 1995, U.S. **agricultural exports** were up another 7.6% to \$60.6 billion in 1996. In the 4 years of the President's first administration, U.S. goods exports were up by 39.0% or \$171.9 billion.
- ~~The growth of U.S. goods imports, at 7.2%, reflected both strong U.S. economic growth and a~~ **nearly 20% increase in the per-barrel price of imported petroleum.** The goods trade deficit overall rose by \$17.6 billion to \$191.2 billion in 1996. **The non-petroleum goods trade deficit however declined by \$3.6 billion to \$107.1 billion.**
- ~~At 2.5% of GDP, last year's goods trade deficit was significantly below the 1987 peak of~~ **3.4%.**
- Looking at goods trade alone, however, does not do justice to U.S. strength in international trade. We have, in fact, increasing large U.S. surpluses in **services trade.** The goods and services deficit in 1996, at \$111.0 billion, reflected a U.S. surplus in services trade of \$80.1 billion, up from 1995's surplus of \$71.7 billion. ~~The deficit for goods and services combined rose by \$9.2 billion in 1996, but would have shown no growth except for the sharp rise in petroleum import prices.~~
- ~~The goods and services deficit in 1996 represented 1.4% of GDP, less than one-half the~~ **1987 peak deficit of 3.3% of GDP.** The goods and services trade deficit, even with petroleum included, has been stable as a share of U.S. GDP for 3 years -- 1994, 1995, 1996.
- ~~For 1997, the goods and services balance as a share of GDP is expected to be 1.5%~~ **(annualized from first 6 months).** ~~The goods only balance is projected to be 2.6%.~~
- Nevertheless, the trade deficit, annualized from the first 6 months is slightly larger in dollar terms in 1997 than in 1996: for goods and services, \$118 billion for 1997 versus \$111 billion in 1996 (deficit up 6.2%; exports up 9.4%; imports up 9.0%); for goods alone, \$204 billion for 1997 versus \$191 billion for 1996 (deficit up 7.0%; exports up 10.1 percent; imports up 9.3 percent).

- **Why has the goods and services trade deficit been so sharply reduced as a share of GDP since its previous cyclical peak in the late 1980s?** Good market-opening agreements have certainly helped contain and/or reduce the deficit in certain bilateral markets, such as Japan. And, strong export growth has helped achieve this progress on the trade deficit front in the context of sustained U.S. economic growth. However, the outsized trade deficits of the 1980s fundamentally reflected reduced U.S. saving rates, in part resulting from outsized federal budget deficits. **The progress made on the budget deficit through cooperation of the President and Congress has 1) helped strengthen national saving relative to investment, 2) reduced the need for large net capital inflows to the United States to sustain a healthy investment rate, and 3) contributed directly to the reduction in the goods and services trade deficit from 3.3% in the near business cycle peak of 1987 and to 1.4% last year.**
- The differential growth rates that helped bring the goods and services trade deficit from \$31 billion in the recession year of 1991 to \$111 billion last year are clearly visible in the data:
 - o ~~Since 1992, U.S. industrial production (manufacturing -- by far the largest component -- utilities and mining) has increased by nearly 20% in real terms, compared to 10% increase for Japan and a 3% decline for Germany.~~
 - o ~~Employment in the United States has risen nearly 13 million since 1992, compared to an increase of under 1 million (400,000) for the all the other economies of the G-7.~~

Additional Background

- **U.S. jobs supported by goods and services exports** rose by an estimated nearly 355,000 in 1996 to a total level of 11.5 million, up 1.7 million since 1992.
- Vis a vis **Japan** in 1996 U.S. goods exports rose 5.1% to \$67.6 billion. Imports from Japan actually declined by 6.7%. As a result the deficit with Japan fell by 19.5% or by \$11.6 billion to a level of \$47.6 billion in 1996.
- Also on the positive side, the U.S. trade deficit with the **Pacific Rim, excluding Japan and China** fell slightly in 1996, from \$15.2 billion in 1995 to \$14.7 billion. With other regions either the U.S. surplus was smaller or the deficit larger. With **Latin America, excluding Mexico**, the U.S. trade surplus fell from \$7.7 billion to \$3.1 billion. With the **EU-15**, the deficit rose from \$8.2 billion to \$15.2 billion in 1996 and with **Canada** the deficit rose from \$18.1 billion to \$21.7 billion.
- With **China**, the deficit reached \$39.5 billion in 1996, up from \$33.8 billion in 1995. Exports to China increased quite dramatically in November and December, helping to offset earlier declines and to bring the overall export performance to China into positive territory for the year as a whole (up 1.9%)
- ~~Exports to Mexico recovered sharply in 1996, 22.7% to \$56.8 billion. Relative to 1995, the year before NAFTA, exports to Mexico are up 36.6%. The recovery of U.S. exports to~~

Mexico reflect its success in dealing with its balance-of-payments difficulties, its rapid return to economic growth and the NAFTA-supported decisions of the Mexican government to continue opening its markets to U.S. exports, even during a period of great economic difficult. The deficit rose somewhat (from \$15.4 billion to \$17.5 billion), but, U.S. export growth (22.7%) was faster than import growth (20.4%) in 1996. Jobs supported by exports to Mexico totaled an estimated 749,000 in 1996, an increase of an estimated 122,000 since 1993.

09/15/97

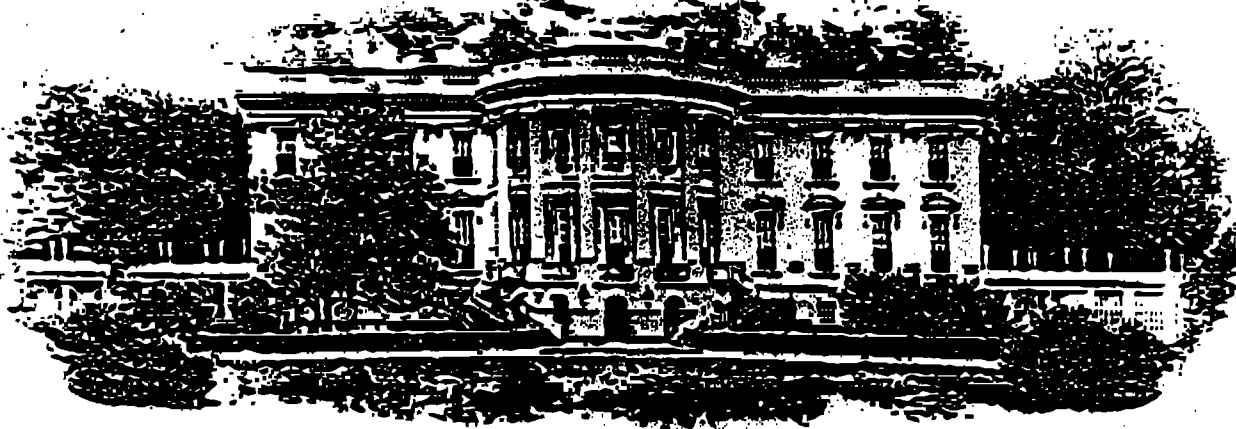
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THE WHITE HOUSE

EXECUTIVE OFFICE OF THE PRESIDENT



OFFICE OF JASON BERMAN
SPECIAL COUNSELOR TO THE PRESIDENT
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TO:

Rep ZOE LOFGREN

FROM:

Jane von Kaenel at (202)456-1998

DATE:

11/5/97

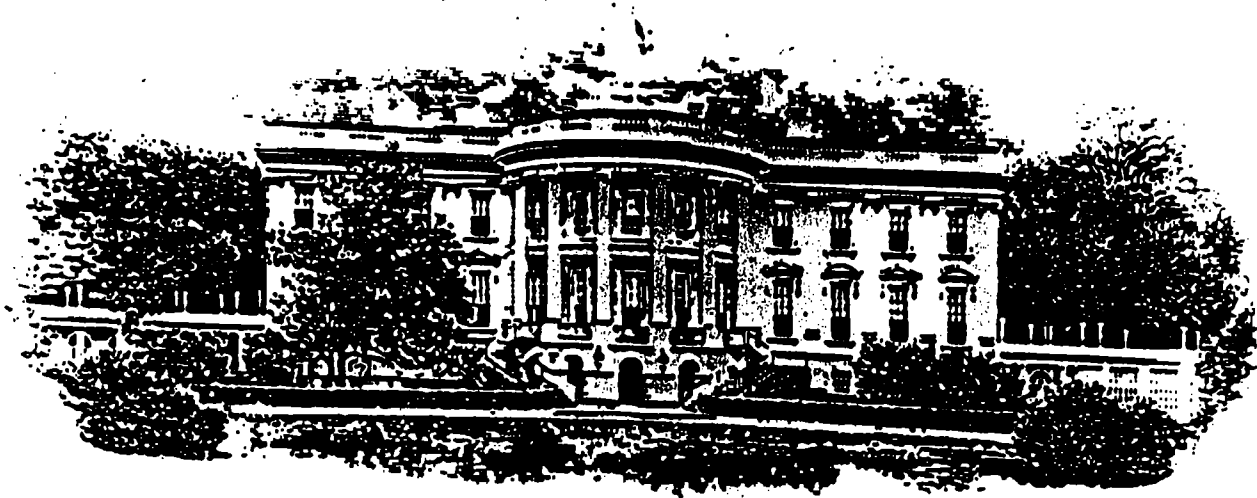
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THE WHITE HOUSE
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TO: Rep. ZOE LOFGREN

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Jay

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Question: If the President loses this vote, what happens in the area of trade negotiations?

Answer:

There will be serious and immediate consequences if we do not renew fast track. Key initiatives to open markets globally, regionally and bilaterally will be undermined in important respects. We outline below the breadth of the trade agenda that will require fast track. As you will see, some very immediate opportunities include the Information Technology--II negotiations, which are described more fully in response to question 4; the initiation of additional sectoral negotiations to be commenced as part of the upcoming APEC meetings later in November; and the FTAA negotiations, which are to commence in April 1998 at the Summit in Santiago.

The broader trade agenda that will be affected if the President's authority is not renewed is as follows: The U.S. has significant interests in the WTO's upcoming negotiations in sectors such as agriculture - global market of almost \$600 billion, services - a global market of more than \$1.2 trillion, intellectual property rights - a key ingredient to manufacturing and agricultural exporters, and government procurement - the procurement market in Asia will exceed \$1 trillion in coming years, to name some; within APEC to strike sectoral arrangements in sectors where the U.S. is competitive, or conclude strategically valuable comprehensive agreements that eliminate barriers; within the Free Trade Area of the Americas (FTAA) initiative where negotiations are to start in April 1998, including our effort to conclude a comprehensive free trade agreement with Chile and fulfil the longstanding commitments of two Presidents; as well as other efforts.

Furthermore, our competitors around the world are seizing trade opportunities as they arise, cementing commercial relationships and forming new trade alliances that leave our workers and firms at a disadvantage. In Latin America and Asia, for example, the two fastest growing regions of the world, governments are pursuing strategic trade policies and concluding preferential trade arrangements with each other and countries outside their regions. Our competitors are not waiting for us to pass a bill. In Latin America and Asia, over 20 such agreements have been negotiated since 1992. The United States is party to only one. The absence of fast track essentially precludes our ability to create the international trading rules in these fast growing regions that are vital to ensure we maximize our opportunities for growth.

Argentina, Brazil, Paraguay, and Uruguay, for example, have formed a common market, MERCOSUR, which has a gross domestic product of approximately \$1 trillion and ambitions to expand to all of South America. The combined economy of the MERCOSUR countries is the largest in Latin America and encompasses a population of 200 million. MERCOSUR has recently put in place preferential trade agreements in place with Chile and Bolivia, and is discussing agreements with Colombia and Venezuela, as well as countries in the Caribbean Basin. There are recent reports that Canada is also in discussions with MERCOSUR. Mexico has concluded agreements with virtually all of the Andean countries, much of Central America, Chile and is negotiating an agreement with MERCOSUR.

Chile, with one of South America's leading economies, has signed trade agreements with

Bolivia, Colombia, Ecuador, Mexico, Venezuela, Canada and MERCOSUR. Indeed, Chile has preferential trading relationships with every major trading country in our hemisphere but one -- the United States.

Our failure to enact fast track disadvantages us in comparison with our industrialized competitors as well. Canada's new trade agreement with Chile, gives Canadian exporters substantial advantages over our companies. The European Union, already the world's largest trading bloc, has secured for its exporters significant advantages in the transition economies of Central and Eastern Europe. The EU is also determined to expand its trade relationships in Latin America, having agreed with MERCOSUR, Chile and Mexico to negotiate reciprocal trade agreements. Japan has undertaken high level efforts throughout Asia and Latin America to enhance commercial ties through investment and financial initiatives. China has identified Mexico, Chile, Brazil, Argentina and Venezuela as strategic priorities for closer commercial and political ties, not to mention its increasing influence in Asia.

Access to the world's fastest-growing markets -- particularly those in Asia and Latin America, which are projected to grow at rates as much as three times the U.S. growth rate -- is especially important to America's economic future. More than 96 percent of the world's consumers reside outside the United States. Of the more than 30 million people who join the world's middle class annually, an estimated three-quarters are in emerging markets and other low and middle-income countries. These are the markets of the future. Our competitors understand that.

The consequences of agreements being reached without us are not just theoretical. Many U.S. firms already are encountering significant competitive disadvantages created by preferential agreements that exclude the United States. That means our companies and workers are losing export opportunities. Examples abound:

- The U.S. Chamber of Commerce in Chile estimates that U.S. exports of \$500 million will be lost in 1997 due to the combined effect of Chile's trade agreements with others and the lack of a free trade agreement with the United States.
- U.S. apple producers are at risk in the key Latin American market because their Chilean competitors face no duties, or very low duties, for their apple exports to those markets due to preferential tariff deals that Chile has negotiated with these countries. By contrast, U.S. producers often confront significant tariff walls when they sell into Latin American markets.
- U.S. corn producers are facing competition in Chile from Argentine producers who today enjoy a 3.3 percentage point tariff preference -- which will grow to 11 percentage points over time. U.S. corn producers could lose half their market share in Venezuela to Argentina because of Venezuela's relationship with MERCOSUR.

The United States can only redress these growing trade inequalities by concluding similar

bilateral and regional agreements, as well as through negotiating new multilateral agreements that level the global trade playing field.

The President needs fast track for all of the negotiations described above.

Fast track is about more than simple economics, however. It is about American leadership. As the President has said, fast track "is about whether other countries will continue to look to the United States to lead to a future of peace and freedom and prosperity." American leadership has helped bring about an unprecedented movement towards democracy, stability, and economic security in our hemisphere and around the world. Our sustained efforts to bring about fair and open trade worldwide have been a major reason for our success. Fast track is a vital if we want to continue to shape the global economy in the years to come.

Question: If Congress approves fast track what will the President try to negotiate in the areas of labor or environment that will include enforcement mechanisms?

Answer:

The House fast track bill explicitly ensures that the President can use agreements negotiated under fast track to address foreign governments' manipulation of their environmental and labor laws to gain a competitive advantage. This has been a key demand of those opposing fast track.

Specifically, section 102(a)(7)(B) of H.R. 2621 makes it a principal negotiating objective of the United States:

"[t]o ensure 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."

This ground-breaking objective means that the President can negotiate and bring back to the Congress fully enforceable trade agreements that ensure that other countries do not relax or manipulate their environmental regulations in an effort to attract manufacturers to locate their facilities there or to gain any other trade advantage. It will enable the Administration to address concrete issues of concern, such as:

Export Processing Zones Situations where a government exempts businesses in export processing zones (EPZs) from the country's labor and/or environmental laws, thereby encouraging investment in those zones and giving the goods produced there a competitive advantage.

- Selective application of laws to sensitive sectors Situations where a government selectively applies or enforces its existing labor or environmental laws with respect to a

sector it is attempting to protect from outside competition; for example, by inhibiting union development in a particular technology sector, or by waiving pollution control requirements for a certain manufacturing sector.

- Child labor Situations where a government chooses not to enforce its prohibitions against exploitative child labor, giving its manufacturers a competitive advantage.
- Encouragement of investment Situations where a government waives its environmental or labor laws for a particular company or facility as an encouragement for the company to establish, acquire, expand, or retain an investment in its territory.

The fast track legislation before Congress also retains the President's full authority to utilize additional means to promote greater respect for environmental protection and worker rights in other countries, such as direct negotiations with these countries, whenever appropriate, and in a variety of international fora. The President retains his ability to negotiate labor and environmental cooperation agreements with our trading partners that are binding and enforceable upon the parties. Chile, in fact, has already committed to negotiate agreements on labor and the environment as part of a comprehensive trade agreement with the United States.

Exactly which provisions that the Administration will seek to negotiate will, of course, vary depending on the country or countries concerned. With enactment of the House fast track bill, however, the President will have the tools he needs to address critical labor and environmental concerns directly through our fast track trade agreements -- and use the enforcement mechanisms of those agreements to back them up.

Question: Will the President consult with labor and environmental groups during the negotiations process?

Answer:

Definitely. The Administration is committed to consulting with interested organizations on their concerns with U.S. trade policy, and to keeping Congress and the American public informed on these issues. Throughout this Administration USTR has met frequently with labor and environmental organizations during the course of trade agreement negotiations and on numerous other matters.

Moreover, the fast track legislation currently pending before the House (and Senate) contains extensive notice and consultation requirements that enshrine these practices into law for future Presidents. From the time the President decides to enter into negotiations to when a completed agreement is implemented, the bills make clear that the President must inform the general public, industry, environmental and labor organizations, and Congress of what a proposed agreement will look like and what it will accomplish. Some of these consultation and notification provisions have been drawn directly from previous laws; others have been strengthened or added.

Together, they ensure that interested parties are apprised of critical developments in trade negotiations and that they have a meaningful opportunity to comment before trade negotiations even begin and before an agreement is final. A more detailed description of these obligations follows.

- The bill makes clear that the President must provide notice to the public of his intention to enter into negotiations, and he must hold public hearings to solicit comments prior to doing so. All interested parties would have the right under both bills to comment on the anticipated effects of the modification of any tariff and any other matter relevant to a proposed agreement.
- In formulating his negotiating objectives and bargaining positions for a particular agreement, the President would be required to seek information and advice from representative elements of the private sector. To the extent feasible, the President would be obligated to obtain such information and advice before negotiations commence. "Private sector" is an inclusive term, encompassing business, labor, environmental, consumer, and other nongovernmental organizations and the Advisory Committee System established by Congress.
- The House bill would require the President to take into account recommendations provided by pertinent advisory committees in determining whether to make an offer as part of negotiations for a trade agreement. In addition, the bills call for the President to consult with the advisory committees throughout the course of negotiations and during the implementation of an agreement once entered into. Given the comprehensive nature of their role in advising the President on an agreement, these committees provide an efficient and reliable way for the President and the public to exchange views on trade negotiations and to develop strategy together.
- The advisory committee system includes labor and environmental representatives. The President's Advisory Committee on Trade Policy and Negotiation (the ACTPN), includes labor and environmental CEOs among its members. Notably, our advisory committees also include the Labor Advisory Committee (LAC) and the Trade and Environment Policy Advisory Committee (TEPAC), whose members include the CEOs of several major national and local labor and environmental organizations, and related groups. They advise the President with respect to how environmental and labor issues affect U.S. trade in general and, more particularly, how a proposed trade agreement may affect environmental and labor conditions, both at home in the United States and abroad.
- Finally, as negotiations near completion, the bill would allow the President to seek further information from any source and to rely upon such information in determining whether the United States should take part in a completed agreement. The bill also provides that the President must publish notice in the *Federal Register* of his intention to enter into an agreement at least 90 days before doing so. The relevant advisory committees are to provide a report to the President and Congress regarding an anticipated agreement at least 60 days before the United States enters into it.

Question: What steps is the President taking to remove barriers to U.S. competitiveness in global software markets?

Answer:

We have summarized below the steps the Administration has taken so far, as well as what is currently on our agenda. As you will see, fast track is critical to the President's continued ability to expand U.S. software exports.

Intellectual Property Rights Protection

- First, the President has vigorously pressed other countries to prevent the piracy of American intellectual property products, including software. Significant gains have been achieved in many countries, including China, Mexico, Italy, Japan, Korea, Taiwan, Thailand, India, Saudi Arabia, and Indonesia.
- We took a major step forward by including in the "TRIPs Agreement" (administered by the World Trade Organization) a provision ensuring that computer programs, or software, must be treated as "literary works." This means that software must be protected under copyright in the same manner as more traditional works like books. As a direct result of this new TRIPs obligation, many countries have now changed their national laws specifically to protect software under copyright. The Administration has moved aggressively to enforce this new obligation, initiating formal dispute settlement proceedings in the World Trade Organization against Denmark and Sweden with regard to their failure to provide adequate remedies against "end-user" software pirates, like big corporate users.
- The WTO negotiating agenda, mentioned in response to your first question, provides us the opportunity to pursue further improvements to the TRIPs agreement to the benefit of our software producers. We will need fast track to pursue those negotiations with credibility.
- Principal negotiating objective number 4 of the House bill explicitly addresses intellectual property protection.

Information Technology and Other WTO Agreements

- As a result of the Information Technology Agreement (ITA) concluded last year, our software producers will be profiting from our success in convincing 43 major importing countries around the world to eliminate entirely their duties on information technology software. We are now working closely with the U.S. software industry in an effort to expand the range of software products covered under the agreement. Negotiations are already underway to that end, but we will need fast track if the expanded agreement is to be truly ambitious in scope and be implemented.

Other WTO Agreements (Customs Valuation, Pre-Shipment Inspection)

- We are working in close cooperation with our software industry to press our trading partners to adopt our practice of applying duties only to the media rather than the value of the information content of the imported software product. Valuing software imports in that way dramatically lowers the duties countries impose on them. Fast track ensures that we will have the leadership necessary to continue waging this fight.

Global Economic Commerce Initiative

- The Administration has been pushing hard around the world and through the WTO to ensure a free and open market for global electronic commerce. U.S.-produced software stands to gain in important ways if we are successful in this initiative. For example, we have argued vigorously that digitized content transmitted via the Internet should continue to be free of duty, and we want to codify this practice in the WTO. Fast track will enable us to build on this important beginning and provide continued leadership toward a global environment in which electronic commerce can flourish.