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- Review of Tb dumping

- MSA

- John Kitchen

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

June 24, 1993

MEMORANDUM FOR ROBERT RUBIN
ASSISTANT TO THE PRESIDENT FOR ECONOMIC POLICY

FROM: JOSEPH STIGLITZ, MEMBER-DESIGNATE JS

SUBJECT: Trade Policy and the Steel Sector

The recent determination of substantial anti-dumping and countervailing duties on steel imports by the Commerce Department highlights concerns by many observers that U.S. trade policy is not being implemented in a manner that maximizes the economy's potential for efficiency and growth. This note focuses on two related issues: (1) the appropriateness of the Commerce Department's methodology for determining anti-dumping and countervailing duties, and (2) the U.S. government's broad trade strategy vis-a-vis the steel industry. The note argues that anti-dumping and countervailing duty laws may be being used more as a means of protecting the domestic steel industry than as a means of promoting fairness in international trade. The use of the trade laws in this manner, by raising steel prices for domestic consumers, may compromise more fundamental objectives of competitiveness and growth for American industry.

Anti-dumping and countervailing duty determination

o The Commerce Department recently determined anti-dumping duties on steel imports from 19 nations, ranging as high as 100 percent or more. The process of determining these duties is extremely involved, and we do not have concrete evidence that these duties are excessive. However, there are various aspects of the methodology that suggest the duties are indeed likely to be too high.

  - One means used to calculate these duties is to calculate the industry's cost of production, including 8 percent in profits and 10 percent in administrative costs. In a recessionary environment, and especially given the excess capacity in the global steel market, few steel firms, including our own, are likely to be able to sell their steel at or above such cost estimates.

  - The economic definition of "dumping" includes the practice of predatory pricing. However, there is little support for the view that predatory motives underlie the pricing practices of foreign firms selling steel to the United States.

- o The high countervailing duties imposed on steel imports from 12 countries -- ranging up to 70 percent or more -- also are likely to be too high. The steel subsidies extended by many countries in the past undoubtedly has helped to promote the current level of excess supply in the global market, thereby lowering prices. However, it is not clear that removal of subsidies at present would raise steel prices much, and moreover, the Commerce Department's treatment of past subsidies may unfairly penalize some foreign firms.

  - In the short run, the market will bring steel prices down to their marginal cost. To the extent that foreign steel subsidies are mainly covering the difference between price and average cost, thereby keeping foreign steel firms afloat, they do not directly alter marginal costs and therefore depress steel prices. Removing steel subsidies would force some firms into bankruptcy, leading them to be sold at low prices, but would not necessarily take their production off the market.

  - Commerce Department assumes that subsidies granted even 15 years before continue to benefit foreign firms through the plant and equipment purchased with those funds. Aside from the excessive length of the depreciation period, this penalizes privatized firms, especially in former communist countries, since these firms are sold at their market value, thereby returning the subsidy to the government.

  - It is extremely difficult to calculate production costs in non-market economies, and recent Commerce Department efforts, such as assuming that Poland shares the same cost structure as Thailand or Malaysia, are likely to be highly misleading.

- o As far as the recent steel cases are concerned, the Commerce Department's role is complete for the time being, unless the ITC remands some portion of the case back to it. Moreover, there is little leeway for the inter-agency process to affect specific duty determination decisions. However, there may be more scope for an inter-agency process to initiate a broad review of the process for determining anti-dumping and countervailing duties. Additionally, the Commerce Department may have occasion to revisit its duty determinations on steel in the future.

Our long-run strategy for the U.S. steel sector

- o Anti-dumping and countervailing duty laws potentially play two key roles for the steel industry:

- They could act to discourage foreign subsidies and dumping, although they do not appear to have been successful in this role.

- They constitute de facto protection of the steel industry from (both fair and unfair) foreign competition. This is the more practical role of our trade laws.

o At the end of the 1970s, the U.S. steel industry was highly uncompetitive, suffering from obsolete technology, poor management, high wages, and restrictive labor practices. The industry asserts that import protection afforded by Voluntary Restraint Agreements (VRAs) with other steel producing countries gave it the breathing room to substantially restructure. Depreciation of the dollar in the later 1980s and the slow growth of real wages contributed to this favorable climate.

o Today, the U.S. steel industry is competitive with its foreign rivals.

  - Production costs at U.S. integrated mills are 12% lower than in Japan, and 8% lower than in Germany for comparable products; note that production costs are sensitive to exchange rate fluctuations.

  - Rationalization and restructuring during the 1980s severely cut costs in the integrated sector.

  - U.S. minimills, which have specialized in lower-end products, are the world's most competitive, and have been very profitable.

o Notwithstanding improvements in efficiency, the U.S. integrated steel mill sector is only marginally profitable (in the sense of operating profits) based on various factors.

  - As a result of the prior subsidy policies of many foreign nations, there is an excess supply of steel on global markets, depressing prices below average costs. Foreign firms also have experienced declines in profitability, which has led to continued subsidies in many countries.

  - In the U.S., the highly efficient minimill sector is expanding out of its niche markets to compete head to head with the integrated mills in their major area of flat-rolled products.

- The lingering recession has weakened steel demand worldwide; prices for some important products dropped 25% between 1989 and 1993.

o The most important priority for our trade policy vis-a-vis the steel sector should be to reduce global excess capacity in steel by completing the Multilateral Steel Agreement (MSA). The MSA would lead member countries to reduce or eliminate their steel subsidies. Negotiations on the MSA are in progress.

- Talks on the MSA had broken down at the EC's insistence on retaining certain subsidies, as well as the U.S. government's reluctance to restrain its use of certain trade laws in exchange for a subsidies agreement.

- In recent weeks, Kantor has tried to push the MSA talks forward again.

o Even if the MSA is agreed to, considerable excess capacity will remain in the world steel market as the legacy of past foreign subsidies. This means that the U.S. integrated mill sector probably will continue to be marginally profitable for some time to come. Based on this view, some observers (and particularly the U.S. steel producers) argue that the anti-dumping and countervailing duty laws should continue to be rigorously enforced, thereby protecting U.S. steelmakers.

- On the other hand, with the end of the recession, producers can expect a partial recovery of prices.

o From a policy standpoint, however, there are a number of important objections to using our trade laws to continue protecting the steel industry.

- First, some observers argue that the main threat to U.S. integrated steel firms comes from U.S. minimills, not from foreign producers. To the extent that this is true, U.S. integrated steel mills will require higher and higher protective barriers to maintain their profitability.

- Second, in the face of prolonged excess capacity in the world steel market, the U.S. government faces a tradeoff between prolonged implicit subsidization of the U.S. steel industry through protective barriers and allowing domestic steel consumers to enjoy the benefits of low steel prices. The more prolonged the excess capacity, the lower the probability of predatory behavior by other nations, and the dimmer the future of the integrated mill sector in the face of minimill competition, the greater is the case for removing protection for the U.S. steel sector altogether.

- o In formulating our trade policy, we should keep in mind that increases in the domestic price of steel caused by our trade laws create competitive disadvantages to users of steel at least to the same extent that they create advantages for steel producers.

  - If there is dumping, so that foreign steel prices exceed domestic prices, anti-dumping and countervailing duties remove the competitive advantage that domestic consumers of steel would otherwise enjoy.

  - However, if there does not exist dumping, then U.S. producers of products using steel are put at a disadvantage relative to foreign producers, because they will face higher steel costs than their foreign competitors.

- o As noted above, the Europeans may require that we relax our implementation of anti-dumping and countervailing duty laws in exchange for their agreement to MSA. Domestic steel producers oppose this compromise strenuously. For the reasons outlined in this note, we should give such a bargain serious consideration, although we probably should not commit to complete abstention from anti-dumping and countervailing duties in the face of truly egregious and unfair trade acts.

  - Lower domestic steel prices would considerably enhance the competitiveness of key U.S. manufacturing industries, such as autos.

  - U.S. integrated steel mills may face a greater threat from domestic minimills than from foreign producers. Continued high protective barriers would only lead to excess profits in the minimill sector while delaying inevitable adjustments in the integrated mill sector.

  - Our highest priority should be to take steps to create an orderly, non-subsidized global steel market that is not characterized by excess capacity. Toward that end, some curtailment of our trade laws may be an acceptable price for completing MSA.

  - Anti-dumping and countervailing duty laws should be used, as much as possible, for their stated purposes of countering foreign subsidies and dumping, not to protect domestic industry. Replacing the excessive application of these laws with the MSA would be a step in the appropriate direction.

- In sum, what is required is a careful balancing act, weighing the long run interests of users of steel against those of the producers. Assuming that in the long run, an international agreement can eventually be arrived at that would establish a level playing field in steel, and that the more efficient U.S. integrated steel producers are competitive with integrated steel producers in other countries, then our policy should be to look for the <u>minimum</u> level of protection which will sustain the more efficient integrated steel producers through the current recessionary period and until such an international agreement is reached. It seems likely that the duties currently being proposed may be, from this perspective, excessive.

A note providing further background on the steel industry and the recent anti-dumping and countervailing duty investigations is attached.

DRAFT

BACKGROUND ON TRADE AND THE STEEL INDUSTRY

Summary

- On June 30, 1992, U.S. producers, no longer protected by bilateral arrangements or VRA's, filed 84 countervailing duty (CVD) and anti-dumping cases investigations against imports of 4 types of steel products--plate, hot-rolled, cold-rolled, and corrosion resistant--from 21 countries.

- The final Commerce Department report, based on the investigations initiated in mid-1992, was announced to the public on June 22.

  - The Commerce Department found that companies from 19 countries dumped steel in the United States. 12 countries (11 of the above 19 countries plus one) subsidized their steel industries, and thus will face countervailing duties. This decision was expected by most parties involved.

- The reaction of foreign governments to the imposition of antidumping and countervailing duties is likely to be small because many expected a ruling in favor of the domestic industry.

- After the Commerce Department finds either dumping or subsidies, the cases return to the ITC for a final decision on material injury on July 27, 1993.

- Either steel producers or steel consumers will be unhappy with the results of the investigation.

  - If anti-dumping and countervailing duties are imposed steel prices will continue to increase, which will hurt the consumers of steel. Because of the recent economic recovery, steel prices have risen since the beginning of the year.

  - If no duties are imposed, the steel industry will claim that it is being hurt by "unfair" competition from abroad.

- Under the VRA's, imports of steel were limited to 20.3 percent of apparent supply, which has not occurred since 1989. The implication is that the domestic industry is competitive with foreign producers.

- The steel industry is no longer as important as it once was.

- Most of the problems in the industry have been concentrated in the large integrated mills. The integrated mills have had financial problems because:

  - Demand for steel has declined steadily since the mid-1970's.

  - Integrated mills were slow to adopt new technology, which kept their operating costs high.

  - Growth in labor compensation outstripped growth in labor productivity.

  - The appreciation of the dollar in the early 1980's made it difficult for American steel to compete internationally.

- Minimills account for 25 percent of the steel market. New technology will permit them to compete with the large integrated mills for the whole range of steel products.

- The late 1980's marked a period of recovery for the industry due to restructuring, a domestic economic boom, and the depreciation of the dollar.

- Other industrialized countries continue to face problems with their steel industries, especially chronic overcapacity. The government policies that have supported ailing firms have impeded the restructuring of the steel industries in Europe and Japan. As a result, U.S. integrated steel mills are about as efficient as producers abroad, on average, while U.S. minimills are the world's most efficient.

I. Organization of Paper

- This paper is divided into two sections.

  - The first details the anti-dumping and countervailing duty process.

  - The second summarizes the state of the U.S. steel industry, and briefly mentions international developments.

II. Countervailing and Anti-dumping Cases

- On July 25, 1989, the Bush Administration established the Steel Trade Liberalization Program to gradually phase out government intervention in the international steel market.

  - The first phase of the program consisted of ten bilateral agreements to eliminate trade-distorting practices in the steel sector, as well as extension of the steel Voluntary Restraint Arrangements; the bilateral agreements and the VRA's were terminated as scheduled in March 1992.

  - To replace the bilateral arrangements, the previous and current Administrations have worked to develop a Multilateral Steel Agreement that would prohibit subsidies and non-tariff barriers in the steel industry. The rules would be modeled on the GATT. These negotiations are still in progress.

    -- Other countries are in favor of exemptions to the prohibition of subsidies and the removal of trade barriers. The current dispute centers on what should those exemptions be, whether a nation can impose punitive duties against a country that abuses the exemptions, and how a country could get approval from the other steel producing nations.

- On June 30, 1992, U.S. producers, no longer protected by bilateral arrangements or VRA's, filed 84 countervailing duty (CVD) and anti-dumping cases investigations against imports of 4 types of steel products--plate, hot-rolled, cold-rolled, and corrosion resistant--from 21 countries.[1]

  - In August 1992 the ITC's preliminary investigation found injury to U.S. producers in 72 of the 84 cases.

  - After the injury determination, the Commerce Department (Import Investigation) investigates whether or not countries subsidize their industry (countervailing duty investigation), and whether or not the specific companies are dumping their steel in the U.S. market (anti-dumping investigation).

    -- On November 26, 1992, the Commerce Department concluded their preliminary countervailing duty investigations, and concluded that most countries were subsidizing their steel industries.

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[1] There are new and ongoing cases on the downstream steel products such as rods, wires, pipes and tubes.

-- On January 26, 1993, the Commerce Department made preliminary findings that producers from 19 countries were dumping their steel in the United States.

- The timetables for the two types of investigations have been combined, and the final Commerce Department report was due on June 21, 1993, and was announced to the public on June 22.

  -- The Commerce Department found that companies from 19 countries dumped steel in the United States. 12 countries (11 of the above 19 countries plus one) subsidized their steel industries, and thus will face countervailing duties. This decision was expected by most parties involved.

- After the Commerce Department finds either dumping or subsidies, the cases return to the ITC for a final decision on material injury. If either the dumping or subsidies are found to be a cause of injury, then duties recommended by the Commerce Department will come into effect.[2]

  -- The ITC is scheduled to render its final findings of material injury on July 27, 1993. The new duties, therefore, would begin in August 1993.

o The reaction of foreign governments to the imposition of antidumping and countervailing duties is likely to be small because many expected a ruling in favor of the domestic industry.

- Some countries may choose to protest the U.S. decision before GATT.

- This decision may heighten tensions with Mexico and Canada on the eve of NAFTA negotiations.

o The foreign countries and foreign firms can choose to sign a Suspension Agreement with the United States instead of facing anti-dumping and countervailing duties. The Suspension Agreements differ for the two types of cases.

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[2] A rule of thumb that has evolved for predicting the outcome of ITC cases is if the imports contribute more than 10 percent of the injury of domestic producers, duties will be imposed. If imports account for less than 5 percent of the injury of domestic producers, then the ITC will rule in favor of the foreign producers.

- In the anti-dumping case the Suspension Agreement will stipulate the price that the companies from foreign countries can charge for their products for a specific time period.[3]

- In the countervailing duty case, the Suspension Agreement will impose a quota on all companies from a foreign country for a particular steel product. As a hypothetical example, New Zealand would not be able to account for more than a 0.05 percent of the U.S. market for zinc-plated corrosion resistant steel.

- The Commerce Department initialed Suspension Agreements with 10 countries, mostly smaller producers such as Argentina, Australia, Austria, Brazil, Finland, Mexico, New Zealand, Poland, and Romania. Germany is the only large steel producing country to initial a suspension agreement.

  - These countries account for 20-25 percent of U.S. steel imports.

  - The other large steel producing countries such as Japan, Korea, Canada, and the EC (other than Germany) did not reach an agreement with the Commerce Department.

  - June 11 marked the end of the 20-day public comment period on the Suspension Agreements.

- The U.S. steel industry objected to the Agreements, and opposes any final Suspension Agreements.

  - The industry stated that even if the government signs the Suspension Agreements, they will exercise their rights to demand that the investigation continues. They want the effect of these imports to be included in the ITC's final determination of injury.

  - Even though the Suspension Agreements are in line with industry requests, domestic producers may also oppose them in order to be able to claim, at a later date, that they had not gotten fair treatment from the government and therefore deserve additional protection.

[3] The price will be based on an estimate of the cost of production, transportation to the United States, and an 8 percent profit margin. Further, these prices will be regularly updated to reflect changes in economic environment, such as exchange rate movements. The prices will not reflect market conditions, where prices tend to fall when demand is low due to events such as a recession.

Why Do Some Countries Choose to Sign Suspension Agreements?

- The size of the new duties specified in the Suspension Agreements will differ from the anti-dumping and countervailing duties, because of how the duties are calculated.

  - Anti-dumping and countervailing duties will be calculated on the basis of prices and economic conditions at the time the cases were filed. In this case this would be the spring and summer of 1992.

  - The prices and quotas established in the suspension agreements will be determined by the prices and economic conditions prevalent at the time the Agreements are negotiated, in this case Spring and Summer of 1993.

  - Because the steel market is sensitive to economic conditions, it may be to some countries' advantage to sign a Suspension Agreement. For instance, Germany has entered into a recession. As a result, steel prices in Germany fell during the last year due to reduced demand. Since the margins and quotas established in the Suspension Agreement are based on 1993 prices instead of 1992, these margins may be lower than the anti-dumping and countervailing duties that would be established.

- Because there is a chance that the ITC will not find injury in their final investigation, some countries and companies do not enter into a Suspension Agreement even when it would be to their advantage relative to the anti-dumping and countervailing duties.

- Ending Suspension Agreements may be easier than ending anti-dumping and countervailing duties.

  - At the end of the Suspension Agreement period, the Commerce Department will review the behavior of the companies and countries party to the Agreement. If, during the period of the Suspension Agreement, the foreign companies have been found in compliance with the terms of the agreement, then they would be able to compete freely once again.

  - Alternatively, if duties are applied, there is a yearly administrative review of the firm and government behavior. The duties may be removed only after the governments and companies have been found to not subsidize or dump for at least three years.

III. The U.S. Steel Market

- The steel industry is not as important as it once was.
  - In 1958 the steel industry accounted for 5.8 percent of U.S. manufacturing value added; by 1986, this had dropped to 1.2 percent.
  - Similarly, the steel industry accounted for 1.4 percent of U.S. manufacturing employment in 1988, down from a high of 5.4 percent in 1940.
- Minimills currently account for around 25 percent of shipments. They have specialized mainly in long products such as steel bars and wire rods that are sold principally in the construction industry, as well as specialty alloy products.
  - Recent developments in technology (e.g. thin slab casting) will allow minimills to compete with the integrated mills for the sheet and strip products.
- The old-line integrated steel producers' output consists of flat rolled carbon steel products, and until recently faced little competition from the minimills for these products.
- As Chart 1 shows, steel prices fell steadily between mid-1989 and mid-1992, reflecting the effect of the recession. At the end of last year steel prices began to pick up slightly.
- In the past 10 years the steel industry has had positive returns on sales and capital only in 1987 and 1989. The industry still had large losses in 1992, and is unlikely to return to profitability until mid-1993 at the earliest.
  - The financial performance of the minimills has been much better than the integrated mills.
- Under the VRA's imports of steel were limited to 20.3 percent of apparent supply, although imports haven't achieved this share since 1989. In the first 10 months of 1992, imports of steel accounted for around 17.7 percent of apparent supply, the same level as in 1991.
- The steel industry, like the automobile industry, has become more globally integrated. Between 1985 and 1990, Japanese steel companies entered into no fewer than 19 technical agreements and 12 major joint ventures with U.S. steel firms. The total value of Japanese owned or joint-ventured steel plants in the U.S. is estimated to be around $7 billion.

Causes of Industry Difficulty

- Demand for steel has declined steadily since the mid-1970's, accounting for the bulk of the steel industries problems (see Chart 2).

  - Reduced demand arises from several sources:

    -- Reduced output of domestic products that make steel, especially consumer products and automobiles.

    -- Increased use of substitutes such as plastics, aluminum, ceramics and glass.

    -- Changes in consumer preferences such as smaller cars and increased use of frozen and microwavable foods over canned foods.

- The large integrated steel companies were slow in absorbing technological innovations.

  - The open hearth method of producing molten steel was the standard through the early 1960's. Since then it has been replaced by the basic oxygen furnace (BOF) and the electric arc. BOF is more efficient than the open hearth method. The large U.S. integrated mills were slow to adopt the BOF.

  - Continuous casting allowed thin slabs and rods to be produced continuously from raw molten steel. This allowed producers to dispense with the capital and energy costs associated with the rolling, reheating and transport equipment required under the older process. In 1992 about 77 percent of the steel produced in the United States was continuously cast. In 1980, this number was only 20.3 percent. In Japan, by comparison, 86 percent of raw steel was continuously cast by 1983, and over 90 percent is currently continuously cast.

  - It should be noted, however, that this may not have been an irrational decision, given the large costs associated with adopting the new technologies for integrated mills.

- Wages and benefits grew far more rapidly than productivity growth in the steel industry. As a result, the labor costs became much higher than international competitors. Unfortunately labor costs remain high, not only relative to other countries, but compared with other manufacturing industries.

- Hourly compensation of production workers in the steel industry grew at annual rate of 3.7 percent in real terms between 1970 and 1980, while productivity grew at only 1.7 percent. Since 1982, real wages have risen little, even though productivity grew rapidly throughout the 1980's. This has helped to restore the competitiveness of the large, integrated mills.

  -- Part of the slowdown in the growth of real wages stems from the downsizing of the unionized firms, combined with potent competition from both minimills and imports. In some sense, steel workers have paid, and continue to pay, for their overcompensation in the 1970's with layoffs and slow real wage growth.

- Hourly compensation for production in the steel industry has been greater than in all of manufacturing for many years. In the 1970's, compensation in the steel industry increased far faster than in the rest of manufacturing. By 1982 the rate of compensation in the steel industry was nearly twice that of all of manufacturing.

o The advantage that the United States enjoyed in raw material costs in the 1950's disappeared by 1980. The discovery of low cost iron ore outside the U.S. and lower international shipping costs, allowed the large integrated mills combined with deep water ports, first pioneered in Japan, to raw materials such as iron ore, limestone and coal at prices similar to those in the United States.

o The large appreciation of the dollar in the early 1980's, combined with a domestic recession, severely hurt the domestic steel industry, and forced it to restructure.

o In addition to restructuring, the depreciation in the dollar in the latter half of the 1980's, combined with the recovery, has helped make the steel industry more competitive.

  - Capacity utilization rose from a low of 48.2 percent in 1982 to just over 82 percent by the end of 1992.

o Most of the problems in the industry have been concentrated in the large integrated mills.

<u>Minimills and Specialty Steel Producers</u>

o Minimills using new technology and additional flexibility have been the most successful, and in many of their product niches are the low cost producers in the world.

- The electric arc furnaces use steel scrap as an input, thus eliminating the steps of coke production, iron ore agglomeration, and iron making, which require large capital investment. As a result the minimills can operate profitably at much smaller scales. Not only does the lower investment costs reduce the barriers to entry, hence making the industry more competitive, but it also gives the mills flexibility in changing their product line to match changes in demand.

- Originally scrap metal was cheaper than iron ore, helping launch the minimills. However, this price advantage has disappeared in recent years as the price of scrap metal has risen.

  -- As integrated mills become more efficient, they will reduce the supply of scrap metal for the minimills, adding further pressures to the price of scrap metal.

- Over 95 percent of minimills use continuous casting whereas 65 percent of the integrated mills use continuous casting.

- Minimills can locate near customers, thus reducing transportation cost. Since their source of supply is scrap, they are less tied to the iron ore producing areas.

- Some of the worst pollution problems that occur in the steel industry occur in the production of raw steel from iron ore (Big smoke stacks). Since minimills us scrap iron as their input, they face lower pollution control costs.

- Advances in technology not only have improved labor productivity in minimills, but has allowed them to expand their product lines.

o Technology in the steel industry is embodied in the plant and equipment of a firm. As a result adoption of new technology is expensive, especially in large integrated mills. The growth of the minimills may be expected eventually to make the U.S. steel industry more flexible, dynamic and profitable than that of other nations.

Developments in Foreign Countries

o The problems of large integrated mills are not unique to the United States. Japan and Europe have faced the same problems of decreased steel consumption, overcapacity and unprofitable integrated mills.

- The policy response overseas has been different than in the United States. Foreign governments supported their industry by subsidizing companies that are in trouble, as well as by restricting imports. As a result, inefficient producers remain in the market, the world steel industry remains characterized by overcapacity, and has become less competitive internationally.

  - Western European countries intervened in the steel markets to prevent the collapse of the industry and failing producers. Between 1980 and 1985, subsidies to steel producers are estimated to have been around $35 billion.

  - Japan also supported its industry with research funds to help firms produce higher end products, adopt newer technologies (this particularly helped the Japanese rapidly adopt continuous casting technology), and reduce the level of capacity utilization needed to be profitable.

  - The Japanese government has not been completely successful in getting their industry to restructure. The support that the ailing plants received has kept them operating when they should have shrunk. Furthermore, because the industry is organized as a cartel, Japan has not witnessed the emergence of a minimill industry as in the United States.

- Since 1970 developing countries have made a huge investment in steel making capacity, leading to greater capacity than their domestic industries could consume.[4]

  - Korea and Brazil are the biggest producers of steel from the developing countries.

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[4] Several developing countries began investing in steel in the late 1950's and 1960's. However, the big expansion came after 1970.

file Trade

A Trade Policy Test at Tennessee Nissan Plant

By KEITH BRADSHER

SMYRNA, Tenn. — For Sylvia B. Rice, who snaps window moldings onto the drivers' doors of new Nissan Altimas here, there are clear advantages when foreign companies set up shop in the United States.

"This factory has provided a lot of jobs to a lot of people," said the 40-year-old single mother of two teen-agers, as car bodies on an overhead conveyor belt moved past her.

But the Nissan Motor Corporation's recent expansion here, which made this car assembly plant the largest in North America, provoked a vigorous debate in the Clinton Administration this spring over whether the United States should encourage foreign companies to build factories here.

A rough consensus in favor of encouraging foreign-owned factories finally emerged at a meeting of top officials last month.

Objections to Tax Breaks

The issue in Nissan's case was whether to grant the company a Federal tax break of $5 million a year for the expansion, which enlarged the factory by two-thirds. It now covers the area of 92 football fields, and sprouts a small forest of chimneys that has given a skyline to the mostly rural Highway 41 here.

Similar tax breaks — called foreign trade zones — have been granted routinely in recent years for factories owned by American and foreign auto makers alike. But this time there were objections, and a contest that involved a new aggressiveness on the part of Detroit's Big Three auto makers, philosophical divides within the new Administration and two powerful native sons of middle Tennessee, Vice President Al Gore and Mickey Kantor, the United States trade representative.

The question was ultimately decided in Nissan's favor. Laura D'Andrea Tyson, the chairwoman of the Council of Economic Advisers, supported the tax break, contending that foreign-owned factories, by creating jobs, were better than imports, somewhat to the surprise of her critics. Commerce Secretary Ronald H. Brown also weighed in on the side of Nissan, defying top executives from the General Motors Corporation, the Ford Motor Company and the Chrysler Corporation.

"We'd prefer not to see it," Harold A. Poling, the chairman of Ford, said in a recent interview. The Big Three had filed legal papers with the Commerce Department last year to block the Nissan tax break, contending that the United States had too many car factories and that building new ones could cause old factories to close.

Nissan is making itself more competitive with American car makers by shifting production to the United States to insulate itself from trade battles and changes in the exchange rate between the yen and dollar.

The Nissan tax break consisted of an expansion of the foreign trade zone that surrounded its original factory. A foreign trade zone allows a manufacturer to pay less each year to the Treasury in customs duties for car parts. The expansion has allowed Nissan to increase production to 450,000 cars a year from 250,000 while continuing to pay the lower duties on auto parts. Nissan has increased employment to 5,900 workers from 3,100 to build the extra cars.

Zone Status Has Advantages

Auto parts imported by factories in foreign trade zones are taxed at the rate of the finished car, which is 2.5 percent, instead of the rate that applies to individual parts, which can vary from 4 percent to 11 percent.

The zone status has also allowed Nissan to postpone paying duties until the finished cars left the factory, instead of paying when the parts entered the United States. This has allowed Nissan to earn interest on the money in the meantime. Parts that are rejected or broken during production are not subject to any duties.

Gail O'Sullivan Neuman, the vice president and general counsel for Nissan's manufacturing operations in Smyrna, said the savings were worth at least $20 per Altima, or $5 million a year, on top of $3 million a year for the original foreign trade zone. The expectation of the tax break was one of the considerations in Nissan's decision to expand production, but Ms. Neuman refused to speculate on whether the company would have proceeded without it.

Defenders of the zones said they had encouraged auto makers to perform at least the final assembly of cars in the United States, rather than importing finished cars at the 2.5 percent rate to avoid the higher duties on cars. "All that the foreign trade zone allows us to do is pay no more duties than we would pay" for assembled vehicles, Ms. Neuman said. "We certainly should not have a disincentive to build vehicles here."

Few Politics Involved

Foreign trade zones are routinely approved by civil servants at the Commerce Department with little political involvement. About 200 zones and subzones are active, most of them auto assembly plants or refineries using imported oil. The large domestic auto makers are among the biggest users of the zones, though their savings per car tend to be modest because they use fewer imported parts than foreign car companies.

The Commerce Department staff was close to approving the Nissan application in March when Mr. Kantor objected, protesting in telephone calls to Commerce Secretary Brown and Treasury Secretary Lloyd Bentsen.

"My biggest concern was, in advance of not having a fully laid-out and coherent Japanese policy, which we're going to have now, the timing was wrong," Mr. Kantor said. "Here is something that had some effect upon our relationship with Japan in a critical area, being autos and auto parts, which we're concerned about, and yet we were granting something at the outset, in advance of coming to a conclusion on how we wanted to handle it."

Other Administration officials said Mr. Kantor was concerned that the approval might hurt the Administration's efforts to woo the support of Detroit auto makers for President Clinton's economic plan, particularly the energy tax.

Workers Were Dismayed

Mr. Kantor had complained in early February about the auto makers' plans to seek steep duties on cars imported from Japan by filing unfair trade cases with the Commerce Department. The domestic auto makers later abandoned the plan for many reasons, including the Administration's doubts.

Workers here — 15 miles southeast of Mr. Kantor's home town of Nashville — were, not surprisingly, dismayed when told that Mr. Kantor had wanted to use their factory's customs duties as a bargaining chip.

"I don't think that Nissan has affected his life style and his family the way it has affected people here," said Jeff A. Stacey, a 27-year-old plant worker who assembles pistons and plugs them into engine blocks imported from Japan. "It has put people to work and helped families."

Mr. Kantor's objections came late in the process, and were rejected by other Administration officials for several reasons. They pointed out that foreign trade zones had been routinely granted for years. The large domestic auto makers were among the biggest beneficiaries because they used foreign parts. And Nissan was buying more of its parts from factories in the United States, although some of those factories were Japanese-owned.

Concern for Foreign Investors

Most of all, senior Administration officials said they wanted to avoid frightening foreign investors with an early decision reversing years of routine approvals. "We thought we shouldn't make a change in the absence of a full-fledged review of our Japan policy," Roger Altman, the Deputy Treasury Secretary, said.

One of Nissan's backers was Vice President Gore, a former Senator from Tennessee whose hometown, Carthage, is 35 miles northeast of here. "He supported Nissan's application for an extension of their foreign trade zone, which was viewed as part of the normal course of business in these matters," an aide to Mr. Gore said. The aide said Mr. Gore did not use the Vice Presidency simply to help his former constituents.

The final decision to grant the trade zone expansion was made on March 19. Four days later, Labor Secretary Robert B. Reich sent to President Clinton a widely discussed memorandum urging the Administration to do more to help foreign-owned companies expand production in the United States, and do less to help American-owned companies with overseas factories.

cot
Do we have this?
Tom

A rough consensus in favor of this position emerged at a meeting on May 26 of Mr. Kantor, Mr. Reich, Mr. Brown, Ms. Tyson and Robert Rubin, the coordinator of the National Economic Council. In an interview the following day, at which the compromise was not mentioned, Mr. Kantor said foreign investment, "is going to be an increasing part of our lives and we're going to have to learn to deal with it."

Christian Group Criticized As Unsound Insurance Plan

By MICHAEL deCOURCY HINDS

Special to The New York Times

BARBERTON, Ohio — Two white Cadillacs are parked in front of the converted schoolhouse occupied by the Christian Brotherhood Newsletter, a not-for-profit charity, in this small city just west of Akron. Inside, two cooks are preparing a free lunch for the brotherhood's 60 employees.

The employees, nearly all related to Bruce E. Hawthorn, who founded the brotherhood, eat breakfast and lunch in a private dining room, visit their children in the cheerful nursery and, after work, exercise in the gymnasium.

But the brotherhood's days of prosperity may be numbered. Officials in eight states say the organization is illegally operating an unlicensed health- and life-insurance business. Delaware, Maryland, North Dakota, Washington and Wisconsin have banned the brotherhood, and Arkansas, Iowa, Pennsylvania are officially considering bans.

The Christian Brotherhood Newsletter began as a monthly publication designed to help its fundamentalist Christian subscribers share financial burdens, a quasi-insurance system based not on a contract but on what they call a mutual trust in providence.

Computerized Postcards

The idea was simple: People would pay a monthly fee to subscribe to the newsletter, and in return, when they were in need, the newsletter would publish their medical expenses of up to $1 million per illness, or up to $50,000 as a death benefit, bringing reimbursements from other subscribers' monthly fees.

The system is more formalized now. Eleven months of the year, subscribers receive a computer-generated postcard, which has all but superseded the published newsletter, directing them to send their monthly fee to a particular person in need. The subscriber whose expenses are being paid receives a list of those expected to contribute and reports back to the brotherhood if the money is not received.

In the 12th month, subscribers send their fees of some $2.2 million to the brotherhood to cover administrative expenses. The brotherhood also asks subscribers to pay some expenses directly. In the June newsletter, for example, the brotherhood asked a group of subscribers to send $5 checks to its lawyer.

The brotherhood has 23,000 subscribers, up from 2,400 in January 1989. Regardless of age or health, monthly fees are $50 for an individual, $100 for a couple and $150 for a family of any size. The brotherhood does not accept homosexuals, people who smoke or drink alcohol, unwed mothers, women seeking abortions or people who do not regularly attend a Christian church.

Some insurance regulators say the brotherhood is likely to collapse soon, since it has no reserve fund for unexpected losses or for paying off pending claims — valued, by one estimate, at $10 million by the State of Delaware — should the operation fail.

"In their eyes, the brotherhood is fulfilling God's work, but Jesus isn't an underwriter," said Roger H. Needham, a spokesman for the Delaware Department of Insurance and a certified public accountant who restructures failing insurers. "These guys are not bad guys, they just don't know what they are doing."

John Hawthorn, 56, the older brother of the founder and a vice president of the operation, conceded that the brotherhood could collapse.

"If it's true, what critics are saying, we could be in financial trouble," Mr. Hawthorn said. "But it won't be their predictions that will cause it to collapse, it will be God saying that its mission has ended."

Mr. Hawthorn acknowledged that the brotherhood had dropped its practice of assuring subscribers that their needs would be met, but he could not recall precisely when.

Need for Constant Growth

According to Mr. Needham, the brotherhood program is analogous to a Ponzi scheme, requiring a constant flow of new investors to pay off those who joined the scheme earlier.

Under pressure from regulators, the Christian Brotherhood Newsletter recently discontinued a successful marketing program. Should it stop growing altogether, it would have to increase subscription fees significantly, Mr. Needham said. As fees reached the levels of conventional insurance, younger and healthier people would be likely to drop their subscriptions and buy traditional insurance, leaving behind a pool of subscribers whose needs would go increasingly unmet.

States are divided over whether they can regulate the brotherhood as an insurer. Five states have banned it on the ground that its newsletter, description of benefits and promotional materials constitute an implied insurance contract.

But this month, Kentucky joined nine other states, including New York and New Jersey, in deciding not to regulate the brotherhood because its does not fit the states' definition of insurance, which is usually the contractual transfer of risk for a premium.

The group denies that it sells insurance and asserts that it is accountable to no one but God. "The Bible has been teaching the concept of helping each other for centuries, and we're helping Christians do that efficiently with computers," said Mr. Hawthorn, the brotherhood's 52-year-old founder.

Praise From Subscribers

Some subscribers, including Carl Varadin, a janitor in Hannibal, Mo., and his wife, Joan, a restaurant cashier, say the brotherhood has been a blessing. They heard about the program last year while listening to a talk show on a Christian radio station, and sent away for the program's 12-page guidelines, which read much like an insurance policy, describing "qualifying medical needs" and a variety of exclusions, including some "pre-existing conditions" and illnesses that occur during a subscriber's first three months.

In return for a monthly "unit subscription" fee of $150, the Varadins were assured that, should they or their two sons get sick or die before age 65, the brotherhood would publish their medical bills of up to $100,000 each, minus a $200 deductible, and death needs of up to $50,000 each.

After making some inquiries with friends and local hospitals familiar with the brotherhood, the Varadins dropped their conventional health insurance policy, which had cost $500 a month.

Last November, Mr. Varadin, 53, was hospitalized with pneumonia and the next month Mrs. Varadin, 50, had a heart attack. They submitted their medical bills, totaling $69,652 after a $200 deductible. As required by the brotherhood, they also submitted a signed statement from their pastor, affirming that, to the best of his knowledge, the Varadins complied with the guidelines by attending church regularly, and not smoking, drinking or practicing a homosexual life style.

'A Whole Network'

Apart from this pastoral confirmation, the brotherhood operates on the honor system, without claims investigators or physical examinations.

The brotherhood reviewed the Varadins' bills, and in March, sent postcards to nearly 800 subscribers, asking them to send letters of encouragement, prayers and their monthly subscription to the Varadins. The postcards, generated by the group's computer and automated mailing system, have replaced the original newsletter that had performed the same function. What remains of the newsletter are a few "prayer pages," with brief descriptions of needy people not covered by the regular programs, including people who have been dropped from the program or failed to make the monthly subscription gift, even after two reminders.

"We got all but a couple hundred dollars of the $69,652 bill," said Mr. Varadin. Many people also sent letters wishing them well, and some called to say that their church congregation was praying for the Varadins. "It was like a whole network of caring people," Mrs. Varadin said.

In interviews with nearly a dozen subscribers, all spoke about the Christian Brotherhood Newsletter as an insurance program.

Disclaimers and Optimism

Indeed, Joshua Massaro, 63, a general contractor in Hoschton, Ga., said that the program should be a model for national health insurance. "I thought after some very serious thought that Clinton ought to know about this plan," Mr. Massaro said. He said the subscription includes his wife, Carol[...] and costs $100 a month, $200 a mon[th] less than he was planning to pay for Blue Cross plan with a $5,000 dedu[ct]ible.

Mr. Massaro signed up last September and had a heart attack in January. In April, other subscribers began sen[d]ing him checks totaling $30,700 to cov[er] his hospital bills.

The brotherhood's promotional material mixes blunt disclaimers with optimistic statements. A 1992 brochur[e] addressing prospective subscribe[rs] states: "It is very important that yo[u] realize that the Brotherhood Newsle[t]ter is not an insurance company. It is not-for-profit ministry which simpl[y] puts Christians in need with those wh[o] are willing to share. Even though th[e] Christian Brotherhood has operate[d] flawlessly for almost 10 years, ther[e] are no guarantees by Christian Broth[er]hood Newsletter that the member[s] will continue their faithfulness."

But other promotional materials distributed by a marketing agent las[t] year, refer to the Christian Brotherhood Newsletter as "insurance pro[-]gram" and assert: "The CBN plan wa[s] designed to be as secure as an insur[-]ance company."

Insurance regulators say they have not received any complaints about the brotherhood, which has coordinated about $14 million in subscription payments this year alone. But they are not surprised.

"I've seen a number of insurance companies come and go," said Mr. Needham of Delaware, "and they always look good right until the end," said Mr. Needham.

DATA/ANALYTICAL REQUIREMENTS FOR SETTING TRADE PRIORITIES: USTR PERSPECTIVE

I. Defining the Issue

-- Trade priorities (for export support and negotiating efforts) need to be set to strengthen domestic economy.

-- Criteria need to be selected to make judgements about priorities in the trade area (e.g. export potential, high-tech content of exports, job creation, wage effects, linkages to other U.S. industries).

-- Applying criteria to various trade policy options to prioritize efforts will require analysis. Sometime the analysis can be simple (e.g. descriptive statistics for various exporting and importing industries); sometime more complex (e.g. comparing economy-wide effects of various negotiating options in the Uruguay Round).

-- Implementing the above will require data and analytical tools, some of which are available, some of which are not.

-- This paper discusses the last 2 items above: what type of data and analytical tools to do what analysis.

II. Initial Stocktaking

Need see ascertain what Federal government priorities currently are (as expressed in current distribution of resources) and what data and analytical resources currently available to support change.

-- Canvas current resources (e.g. export promotion, negotiation) expended on trade. Two cuts for analyzing current resource use: one by Standard Industrial Classification (SIC) sectors; one by country, region. Narrative views on policy priorities could also be solicited.

-- Economists' group determine, for selected criteria, what data/analytical tools are required.

-- Economists' group, statistical agency reps, canvas as to data and tool availability; identify missing elements.

III. Wish List: Analytical Tools

-- In Executive Branch, empirical trade economists capable of state-of-art modeling concentrated at Dept. of Ag. (CIA?). Need more (or redistributed) professional economic resources for rest of U.S. goods and services trade (and investment issues?).

-- Review of various <u>sector specific</u> models for tasks such as prioritizing barriers listed in USTR's <u>National Trade Estimates Report</u>. Development of government-use modeling packages.

-- Development of trade-oriented <u>economy-wide model</u> of U.S. economy, and linked models for other major economies/regions. Substantial product disaggregation (SIC-based) required, at least for U.S.

-- Positioning of government economists' group to incorporate as quickly possible new models being developed for measuring the <u>dynamic</u> as well as static effects of changes in trade policy.

-- <u>Trade barrier identification/quantification</u>: develop best tools possible for identifying (non-tariff/non-transparent) foreign trade distortions and quantifying their equivalent price or other effects.

-- Question: are there any accepted techniques/models for estimating the effect of <u>foreign direct investment</u> (fdi) barriers/distortions or individual fdi decision involving the United States?

IV. <u>Wish List: Data</u>

-- Improved, detailed data on U.S. <u>service exports</u>.
-- From Commerce, development of data for disaggregated traded-goods industries of <u>U.S. exports, imports, production and apparent consumption</u>. Data base capable of being linked both backward to <u>U.S. industry characteristics</u> (e.g. R&D expenditure, employment, labor characteristics, I-O linkages to other industries) and forward to detail on flows with trade partners.
-- More timely annual survey of <u>total labor content of U.S. exports</u> (merchandise); development of similar data set for U.S. services exports. <u>Export-wage effect estimations</u> for both merchandise and services.
-- Improvement in U.S. data on <u>exports by state</u> (possibly by sub-state level as well): more timely, greater reliability, appropriate disaggregation; information of destination.
-- Central data base on <u>elasticity estimates</u> required for modeling purposes.
-- User-friendly <u>software</u> for easily commanding <u>trade trends</u> and other manipulations of the Census merchandise data base (a better services data base, when and if it is ever developed).
-- On-line <u>access to GATT's trade data base</u> (world's only timely, complete, disaggregated network table of world trade).
-- Complete and up-date <u>inventory of barriers and</u>

distortions affecting U.S. trade, both foreign and domestic.
-- Central data base on private sector research/projections on fastest growing product markets, countries, regions.
-- Central data base of "wise persons" lists of "strategic technologies," and "critical industries" with statistical linkages to trade.
-- Data base locating various U.S. "technology-intensive" exports/imports on the product cycle curve.
-- Data base on the direct and indirect effects (I/O relations) of various U.S. exports (e.g. for comparisons such as U.S. economy wide effects of $1 additional foreign insurance premium versus $1 additional aircraft mainframe sale).
-- Data for various industries and products of global market and shares for U.S. and selected trade partners.

D.Walters/USTR/3/28/93

93-17

FOR IMMMEDIATE RELEASE
MONDAY, MARCH 29, 1993

CONTACT: Anne Luzzatto
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202-395-3230

U.S. Statement on Bilateral Meeting Between Ambassador Kantor and Commissioner Brittan

March 29, 1993

Today's meeting was a productive exchange on how to resolve our differences over government procurement and how to advance a successful Uruguay Round.

On the Uruguay Round, it is now clear that the Community is serious about working expeditiously on a larger market access package than was previously on the table. It is also clear that the EC is prepared to work on market access as the first order of business, rather than waiting until the very end of the Round to finalize such a package. We still have a long way to go, but we have agreed on an accelerated pace of bilateral and plurilateral discussions, including a series of meetings between us in April, May and June. It is our hope that in the period prior to the summer break we can make the critical decisions to achieve bilateral and purilateral solutions that will serve as a basis fo the final market access package in Geneva.

We were encouraged by today's discussion, and want to contin working with the EC in an atmosphere of cooperation, with both sides aiming toward a substantially larger access package that includes as many sectors and countries as possible.

On procurement, we discussed a new set of proposals from Sir Leon Brittan. We must emphasize that we've just seen these proposals. At first blush, they contain some constructive ideas for a comprehensive agreement to eliminate discriminatory practic -- including Article 29 -- but they also contain some ideas we would find unacceptable. Nevertheless, the EC's proposals indica a serious desire to resolve the problem of discriminatory procurement and therefore give us a basis for continuing negotiations.

Commissioner Brittan made two additional proposals that are extremely useful. First, he has agreed to begin immediately the preparations for the EC Council of Ministers decision to terminat the imposition of Article 29 on U.S. bidders, on the assumption that we can achieve a final deal. Second, he agreed that when we meet on April 19-20 in Washington, we will try to reach agreement on the elements of a final deal covering both telecommunications and heavy electrical equipment which would open once and for all the EC markets to U.S. companies. On the basis of these positive steps, including his willingness to begin immediately the process of removing Article 29, Ambassador Kantor indicated that we will delay imposition of Title VII sanctions until after such meetings

We want to emphasize that it is not certain we can reach a comprehensive deal on April 19-20. If agreement is not possible, the U.S. will go forward with its Title VII sanctions. We cannot allow Article 29 to remain in effect without a U.S. response. However, our purpose has always been to open markets -- not close them. Sanctions are not an end in themselves, and thus we are interested in pursuing these new openings. Our patience is not unlimited, but given today's somewhat promising developments, we believe further negotiations are justified.

- 30 -

Sat Groupmtg

Laura,

I drafted this
for NEC they want
a disscussion of
data need for
tomorrow's Deputy
meeting KC

K.C.

Data requirement in Trade Policy Decision-Making

Issues of Competitiveness

o We first need to have a complete data set on the relative importance of different sectors/industries. Some of the data we need include:

value added
research and development spending
employment
employment of scientists and engineers

Other information that may require more analysis:

recent historical trend of the sector, global market share
geographic concentration (e.g. in California?)
potential spillover effects
economy of scale
learning effects
information on fixed costs and risks for product development
linkages to other sectors

Export Promotion Programs

o The idea here is to rationalize the limited promotional resources to get the biggest bang for the buck.

First, we need the industry characteristics above
We also need information on foreign markets, who are our competitors, are our competitors subsidizing their exports and how much, what kind of promotional programs do they have, in what markets do they concentrate their resources and where are the best markets for us

Trade Negotiations

o We need data to help our trade negotiators and to implement trade laws

measurement of foreign market barriers
how much will we be harmed if they retaliate
extent of our damages due to foreign trade barriers
benefits from negotiating bilateral, regional or multilateral trade agreements; who are the winners and losers by industries, by state

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001. memo	Michael Kantor to POTUS; re: Trade Issues at the U.S. - EC Summit (3 pages)	05/06/1993	P1/b(1)

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FACSIMILE COVER SHEET

THE UNITED STATES TRADE REPRESENTATIVE

OFFICE OF CONGRESSIONAL AFFAIRS

EXECUTIVE OFFICE OF THE PRESIDENT
600 17TH STREET, N.W.
WASHINGTON, D.C. 20506

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FROM: [redacted] RUFUS YERXA - USTR

PHONE: [redacted] 395-5114

FAX#: [redacted]

CONTACT: If you have any problems call 395-6951

SUBJECT: FAST TRACK

COMMENTS: As promised:
Enclosed are the draft statement and Q + As we have sent to George Stephanopoulos.

JL
SR
KK
Miranda

Saturday Group

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Statement of the Decision
to seek Fast Track Renewal

The President has asked me to announce today his decision to pursue with Congress the approval of legislation renewing fast track procedures to conclude the Uruguay Round of multilateral trade negotiations.

Since taking office in January, this Administration's highest priority has been to strengthen the U.S. economy. We have put forth an ambitious program designed to reduce the budget deficit and increase investment in areas critical to our future economic strength. But while the Administration's economic strategy starts with the enactment of the President's economic program, global economic growth from expanded world trade is a crucial part of our strategy.

The Uruguay Round, involving more than 100 nations, began in 1986. The failure to complete the Round has been a source of disappointment and frustration to the United States and many of our trading partners. A successful Round would lower tariff and non-tariff barriers around the world, and establish new multilateral rules for world trade. It would be the single most important step we can take to open foreign markets around the world to U.S. manufactured goods, agricultural products and services.

President Clinton and Ambassador Kantor have spoken with leaders from the EC, Japan and other nations and emphasized our strong desire to complete an ambitious Uruguay Round this year. They believe that our trading partners share their commitment to the overriding importance of completing the Round.

Consequently, the President has decided, after consulting with members of Congress, to seek the legislation needed to complete these important negotiations this year. The draft bill we will send to Congress would extend Congressional "fast track" procedures to a Uruguay Round implementing bill, provided that he notifies the Congress no later than December 15, 1993, of his intent to enter into such agreement before April 15, 1994.

I want to emphasize that the President is seeking this authority only for the Uruguay Round. There will be other important trade agreements that the Administration hopes to negotiate in the future, but the President will ask for Congressional authority to negotiate those agreements at a later time. Similarly, while many members of Congress have trade legislative proposals to which they are committed, some of which the Administration supports, we hope that they will be willing to wait for an opportunity later this year to offer that legislation. We hope that Congress will move quickly to give the President the authority needed to help bring the Round to a successful conclusion.

Conventional wisdom says it will be difficult to complete this Round, to expand and liberalize trade at a time when much of the world economy is in the doldrums. But the President believes that is precisely the time when we must do it. We ask other nations to join us in taking the sometimes hard steps needed to bring the Round to a successful conclusion, for the benefit of all nations.

Q's and A's on Fast Track Announcement

Q. Did the Administration consult with the Hill in reaching the conclusion that you should seek fast track only for the Uruguay Round?

A. We did consult with key members in the Congressional leadership and on the committees with jurisdiction over trade. Their overall reaction was that if the President asked for the negotiating authority to try to complete the Round, Congress would likely give him the chance. A broader request, however, would open the door to a major trade bill, which we are not seeking at the present time.

Q. The request envisions 120 days between the time when the President gives notice of his intention to enter into an agreement and when he actually signs it. Why have you increased from the usual 90 days.

A. Congress would be out of session for much of December and January, and we wanted to make sure that Congress had adequate time to fully review the envisioned agreement and consult with the Administration.

Q. Isn't the decision to seek fast track only for the Uruguay Round a disappointment to Latin American nations, particularly Chile, which hoped to be next in line to negotiate a trade agreement with the U.S.?

A. The decision in no way diminishes our admiration for what Chile (and other nations in Latin America) have accomplished in liberalizing their economies and democratizing their political systems. We share the hope, held by many, that Chile will be next in line for an FTA. But our decision reflects the reality that this year, our trade negotiating priorities are completing of the Uruguay Round, and the implementation of the NAFTA, assuming we can reach sufficiently strong supplemental agreements on labor, the environment and import surges. We will also, of course, be working hard on bilateral issues with Japan and China, as well as Special 301 on intellectual property, enforcing existing trade agreements and using statutory tools that Congress has provided.

At a later point, the President is likely to ask Congress for more general authority to negotiate trade agreements, and we expect that request will occasion a major debate in Congress over trade policy and priorities, as has traditionally been the case when the President seeks broad negotiating authority.

Q. How quickly do you think you can get a fast track renewal through Congress?

A. We have no fixed timetable in mind, but the chairmen and ranking members of the trade committees have been supportive and encouraging, and we hope the Congress will share their view that it is important for us to do our part to complete the Round.

Q. President Clinton and Ambassador Kantor have expressed support for "Super 301". Would the Administration oppose a Congressional effort to add Super 301 to a fast track bill?

A. The President does believe Super 301 has been a useful tool in opening foreign markets. But we would like to put this fast track extension through as quickly and cleanly as possible; therefore we would prefer that even amendments that we support should wait for another legislative vehicle.

Q. Can you elaborate on why the President thinks that the Round can be successfully completed this year?

A. The President has had conversations with numerous leaders of our trading partners about the Uruguay Round, including Prime Minister Major, President Mitterand, Chancellor Kohl, and EC President Delors. He has received a letter from Argentine President Menem conveying the strong views of 37 nations about the importance of completing the Round. He looks forward to discussing the subject with Prime Minister Miyazawa. There is a widely shared belief that the Round must be successfully completed, and as has been said "if not now, when? If not us, who?"

Q. Can you give us any insight into the Administration's strategy for finishing the Round?

A. Ambassador Kantor has conferred with Sir Leon Brittan, the EC Trade Minister, and they have agreed that the U.S. and the EC should take the lead in an intense work plan, starting immediately, to make concrete progress in the weeks leading up to the G-7 Summit in Tokyo in July. The U.S. and the EC have begun meeting bilaterally on market access issues and have received enthusiastic responses from other nations about joining in the talks in the coming weeks.

Q. There has been concern that the Administration is seeking major changes in the Draft Final Act, also known as the

Dunkel Text. If the U.S. seeks such changes, won't other nations, causing the text to unravel?

A. We admire the prodigious work that went into the Dunkel text, but we do see some areas in which it has to be strengthened. No one should doubt that there is still a lot of work, and some hard bargaining ahead. We are committed to doing our part to see this through to a successful conclusion.

Q. Do you see the current unpopularity of NAFTA on the Hill hampering progress on the Uruguay Round?

A. They are distinct trade agreements, each posing very different issues. I think that Congress will take each on its respective merits. Let me say on NAFTA: if we are successful in our efforts to negotiate strong supplemental agreements, I think the value of NAFTA, in terms of economic benefits, and enhanced environmental quality and worker standards, will be more widely appreciated as the year goes on.

Q. Does the President really think that you can successfully implement NAFTA and negotiate the Uruguay Round at the same time?

A. We thought it would be a very busy, challenging year, and it is shaping up as we anticipated. And you failed to mention the economic package and health care.