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SUBJECT:

AIRBUS

AMBASSADOR KANTOR ASKED ME TO FAX THESE P YOU

TO FORWARD TO DR. TYSON. PLEASE CALL IF YOU HAVE ANY

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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 25, 1993

93-7
CONTACT: Anne Luzzatto
Pat Norman
202-395-3230

U.S. TRADE REPRESENTATIVE REQUESTS CONSULTATIONS
WITH EC ON AIRBUS

Ambassador Mickey Kantor, the United States Trade Representative, announced today that consultations had been requested with the EC Commission under the provisions of the US-EC bilateral agreement on trade in large civil aircraft, the "Airbus" agreement.

Kantor said, "The Clinton Administration places the highest importance on the effective functioning and implementation of this agreement -- we need the consultations to ensure both."

The US - EC agreement, which was signed in July, 1992, imposes strict disciplines on government support to the manufacture of large civil aircraft. It also provides for the exchange of extensive information on such support, and for consultations to review this information and monitor the agreement.

Kantor said the consultations should include:

- o an exchange of information on direct and indirect supports for, and government equity infusions to, the large civil aircraft industry;

- o a review of information provided last July on government support commitments predating the agreement;

- o the prospects for future government support for the development of new aircraft programs.

In addition, the United States will seek EC cooperation in improving the multilateral disciplines on government support to the aircraft sector through renegotiation of the GATT Aircraft Code. Improvements being sought, for example, would include stricter limits on the provision of government support and tighter terms and conditions for its repayment. These rules would apply to all the major aircraft producing countries, as well as the US and the EC.

TALKING POINTS: AIRBUS

Monitoring the Bilateral Agreement

- The U.S.-EC agreement on trade in large civil aircraft ("Airbus agreement") provides for regular consultations "to ensure correct functioning of the agreement."
- We anticipate that the first round of such consultations will take place before the end of March; we are in the process of scheduling a meeting with the EC.
- The bilateral agreement provides for exchange of extensive information on direct and indirect supports for the large civil aircraft industry so as to ensure effective implementation of the agreement.
- We expect that the consultations will cover a review of information already provided on government supports committed before the entry into force of the agreement, the prospects for any future government support for the development of new programs, a discussion of efforts underway to improve multilateral disciplines on aircraft through renegotiation of the GATT Aircraft Code as well as an exchange of information on government equity infusions and indirect supports provided to large civil aircraft industry and other information concerning the operation of support programs.
- These consultations will enable us to monitor the functioning of the agreement and ensure its effective implementation.

Multilateral Negotiations

- As part of the bilateral agreement, both the U.S. and EC agreed to seek improved multilateral disciplines on government support for the aircraft industry through renegotiation of the 1979 GATT Aircraft Code.
- Other members of the Aircraft Code agreed in July 1992 to begin negotiation of improved disciplines. This process is now underway. Meetings were held in October and December 1992 and in February 1993. The next session is expected to be held the week of March 29.
- The U.S. will be seeking tough new multilateral disciplines in that forum. Key improvements we are seeking include:

- Extension of the prohibition on production support to all aircraft products and all major producing countries.
- Progressive reduction of allowable government support for development -- i.e., further reduction of the 33 percent cap and tighter terms and conditions of repayment.
- Better discipline on government equity infusions (The bilateral agreement doesn't cover them but states that they can't undermine its disciplines on government support).
- Better rules for dispute settlement -- including a binding mechanism and the possibility of repayment of prohibited support. (The bilateral provides only for consultations and the prospect of termination if either side is deeply dissatisfied.)
- The GATT Aircraft Code covers not only large civil aircraft but also smaller aircraft, engines, and components. Most major aircraft producing countries (such as Japan, Canada, and Sweden) as well as the EC and U.S. are members although some important prospective aircraft producing countries are not. Expansion of the membership of the Code to cover such countries is also an important objective.

MEMORANDUM TO THE PRESIDENT

FROM: AMBASSADOR MICKEY KANTOR

SUBJECT: Airbus: Direct vs. Indirect Supports

In your discussion of Airbus with Prime Minister Major, as well as subsequent discussions of this issue, the assertion will likely be made that the U.S. provides massive "indirect supports" to its aircraft industry through government-sponsored R&D and Defense contracts. Your announcement of a \$17 billion aerospace research program might be cited in support of this argument. In the long-running dispute about Airbus, the EC side has consistently taken the view that their direct support was necessary to counterbalance the enormous advantage our industry enjoyed as a result of their work with DOD and NASA. Last year, the EC commissioned a study which asserted that the U.S. Government provided "massive, systematic support" to its commercial aircraft and estimated total benefits in the range of \$33-41 billion (current dollars) over the past 15 years. USTR found that study seriously flawed and issued a rebuttal.

Suggested talking points to rebut the assertion that European supports for Airbus are no worse or greater than ours are:

- The spinoff benefits our commercial aircraft industry may have derived from NASA or Defense research activities is not comparable to the direct subsidization of Airbus' commercial operations that EC governments have undertaken.
- It is widely agreed that government has a legitimate role in promoting and funding research and technological development. Such activity strengthens the technological base of the economy and has broad societal benefits. It may ultimately provide commercial benefits to a particular firm but that is uncertain, it may take quite a long time to be realized, or it may be an entirely different company that takes advantage of, or commercializes, the technology. (Look at our experiences with Japan!)
- The sort of research and technology development that the U.S. has traditionally funded, and which I intend to bolster, accounts for only a small part of the costs of launching a new aircraft program. The really intensive cash requirements occur when the development

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of the commercial project itself begins. It is these costs that governments have funded in the case of Airbus.

- Direct funding of these development costs and production costs has a great distortive effect -- it basically changes the nature of the enterprise from a commercial to a government venture.
- This distortive effect is underscored by the increase in Airbus market share from about 15 to 35 percent of the world market for large civil aircraft over the past 10 years -- to the detriment of our producers.
- I am aware that the EC has had some studies done that indicate that enormous benefits have been provided to the U.S. commercial aircraft industry through Defense and NASA. We don't think much of these studies. Our experts carefully reviewed them and found them flawed, with a lot of factual mistakes, and fundamentally based on unsupported assumptions.
- FYI: There are provisions in the bilateral U.S.-EC agreement on indirect supports. They limit the "identifiable benefits" derived from indirect support to 3 percent of commercial sales of the industry or 4 percent of individual company sales. These provisions were drafted in close consultation with our industry. We do not believe they will constrain our government-sponsored R&D programs.
- FYI: As a follow-up to your remarks we are requesting consultations with the EC to monitor the implementation of the bilateral agreement. They will probably be held before the end of March.

February 22, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: AMBASSADOR MICKEY KANTOR

SUBJECT: Your Meeting with Boeing: Suggested Talking Points on Airbus

- I am very much aware of the crucial importance of the aircraft industry to the U.S. economy and the tremendous contribution you make to our trade balance. (A net surplus of \$17 billion for commercial aircraft alone.) I am deeply concerned about the current problems facing your industry and about recent announcements of major cutbacks in employment.
- I have strongly endorsed the establishment of a national commission to recommend ways to strengthen the aviation industry.
- I am also aware that your industry has been greatly disadvantaged by huge government subsidies given to your foreign competitors -- in particular, Airbus.
- The bilateral agreement negotiated with the Europeans last July -- in close consultations with your industry -- is an important step in placing serious constraints on government support for Airbus.
- We will be carefully monitoring compliance with the bilateral agreement and its effectiveness in "leveling the playing field".
- We will also be seeking tough new multilateral discipline on subsidies -- both in the Uruguay Round as well as through renegotiation of the GATT Aircraft Code. As I have stated before, my goal is to prevent the sort of subsidization we have seen with Airbus.
- I am committed to maintaining the vitality and competitiveness of your industry, and I will not let our trading partners maintain an unfair competitive advantage through vast government subsidies.

-2-

Background

Key provisions of the bilateral agreement, which applies only to support to the Airbus Consortium (and Boeing and McDonnell Douglas) include: (1) a prohibition on any future production support; (2) a cap on government support for development of any new aircraft at 33 percent (a level one-half to one-third of previous levels) and requiring a repayment plan at interest rates close to market levels; (3) repayment of past supports on the terms and conditions previously agreed -- thus permitting no revisions that would effectively increase the subsidy element; (4) strengthened disciplines against unfair government marketing practices; and (5) increased transparency of government support activities, which for Airbus have notoriously been a "black box".

The bilateral agreement also contains a quantitative, albeit a mainly symbolic and unrestrictive, discipline over indirect supports; the EC has argued that NASA and DOD programs result in major indirect supports to the U.S. aircraft industry. Either party may terminate the bilateral agreement after one year with one year notice.



EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

March 22, 1993

THE CHAIRMAN

Dear Mickey:

I understand that you have been requested to cancel the study of U. S. dumping subsidy laws ordered by Carla Hills shortly before she left office. Although it is likely that such a study will produce controversial results, I think it might be unwise to cancel it. Perhaps instead you could make sure that those responsible for the study have an objective view from the outset and are not committed to any particular outcome in advance. Our dumping laws have legitimate use, but they can also be misused, and we may want to consider how to modify them. An objective analysis could provide useful input to our efforts to formulate a sensible forward-looking trade strategy.

Sincerely,

A handwritten signature in cursive script, appearing to read "Laura".

Laura D. Tyson

The Honorable Michael Kantor
U. S. Trade Representative
209 Winder Building
Washington, D. C. 20506

Princeton University Woodrow Wilson School
of Public and International Affairs
Robertson Hall
Princeton, New Jersey 08544-1013
(609) 258-4823
Fax: (609) 258-2809

Gene M. Grossman
*Jacob Viner Professor
of International Economics*

March 11, 1993

Professor Laura Tyson
Chair
Council of Economic Advisers
Old Executive Office Building
Washington, DC

Dear Laura,

As you know, shortly before she left office, Carla Hills ordered a study of the U.S. dumping and subsidy laws. Mr. Don Newquist, chairman of the International Trade Commission, would like to see the study cancelled. Mr. Newquist has asked Ambassador Kantor to rule on whether the study should be pursued, stating to the press that "the Clinton administration might have different priorities." I am writing to urge you to support the study and to intervene with Ambassador Kantor on its behalf. //

The U.S. dumping and countervailing duty laws have legitimate uses. But it is my belief that the process has been coopted by special interests. The laws have been used too often to protect domestic industries in cases where the general interest is not well served. And the procedures used to evaluate both dumping margins and "cause of injury" are heavily biased in favor of the domestic producer. A thoughtful study by an impartial body might contribute beneficially to the public policy debate and lead to much needed improvements in the implementation of our trade laws.

Mr. Newquist sees himself as a defendant of the producer interest. In a letter to the New York Times last year on the subject of antidumping, he wrote "... the laws seek to remedy the situation where foreign producers, free from significant import competition at home, use their surplus profits from domestic sales to subsidize low-cost export sales that injure American companies and their workers. Dumped imports that undersell United States products even slightly can lead to declines in production and market share, reduced cash flows, cutbacks in R&D, and disinvestment, not to mention employee layoffs and plant closings." Nowhere does he recognize that "underselling", when it is not part of a predatory strategy, serves to benefit the American consumer. I would hope that a study carried out by the Commission's nonpartisan staff might be

able to provide a more balanced appraisal. At the least the study could lay out the issues and point to areas for potential improvements in procedures.

I hope things are going well for you, as it seems they are. I wish you good luck in carrying out a difficult job.

With regards,

A handwritten signature in cursive script, appearing to read "Gene".

Gene M. Grossman

xc: Professor Alan Blinder

THE UNITED STATES TRADE REPRESENTATIVE

Public Affairs/Private Sector Liaison

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Washington, D.C. 20506

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TESTIMONY OF AMBASSADOR MICKEY KANTOR,
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE SENATE COMMITTEE ON FINANCE

March 9, 1993

I welcome the opportunity to appear before the Finance Committee today to discuss the approach and direction of the trade policy of the Clinton Administration. This is my first public appearance before a Congressional committee since I assumed my responsibilities. I am delighted that I can appear first before this Committee, which recommended me for confirmation to the position of USTR.

In his February 26 speech at the American University, President Clinton set forth his vision of America's role in the global economy, confronting the third defining moment of the 20th century. Our role in the world emerges quite clearly from that important speech. As we and other nations struggle to face the new realities in the aftermath of the fall of Communism, the United States will be fully engaged internationally, not turning inward. We see our prosperity bound up with prosperity of our trading partners, in Canada, Europe, Japan and Mexico. We will work with them to promote global growth, aid the development of other less prosperous nations, address the emerging issues of environmental degradation and proliferation, and focus on the central importance of what is at stake in Russia.

Where trade policy is concerned, the United States will continue to champion open markets and expanded trade, but we will insist that the markets of other nations be open to our products and services. As the President said, we will compete, not retreat.

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The trade policy of this Administration starts from the same point as its economic policy does: our prosperity and that of our children depends on our ability to compete and win in the global markets.

A little more than a generation ago, American industrial and technological superiority were unquestioned. Our workers, consumers and companies lived almost entirely within the American economy, and prospered there. But those days, when the world was a far simpler place, are long gone. Today, our exports and imports represent more than a quarter of our entire economy. And in the new global marketplace---where capital, management, production, technology and even labor are increasingly mobile---more than 70% of our products face competition from products produced in other countries.

Principles of Administration Trade Policy. Let me start with the principles that will guide Clinton Administration trade policy, as articulated in the President's American University speech.

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1. In this Administration, trade policy is a part of integrated economic policy, and the fundamental goal is economic growth and the creation of high wage jobs for American workers.

The trade deficits which have grown up since 1980 are a fair measure of our competitive slippage, but they represent many factors beyond trade policy and trade agreements. If as a nation, we increase public and private investment, if we attack our budget deficits, if we take control over our health care system, if we educate our children and train our workers---we will have taken enormous steps toward prospering in global competition. If we do not take those actions, trade agreements alone will not produce prosperity for our people.

Nothing is more important to our economic prosperity, our competitive success, and our trade policy than the adoption of the President's economic package. Bill Clinton was elected to get the economy back on track, and to fix the track: to insure that we came out of recession in the short term, and to lay the groundwork for long-term prosperity. The lack of investment and the deficits have crippled our economic performance; if unaddressed, they could consign this country and its children to a diminished economic future. America, and all of us in political life, will benefit if we can come together to pass the President's program.

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A real attack on the budget deficits will reduce long-term interest rates, leading to increased investment and job growth. U.S. companies choosing where to invest will find contributing to our own country's growth a more attractive option. Over the longer term, increased investment in the education and training of our workers, our transportation and communications infrastructure, and research and development generally, are vital to our ability to compete globally. In that connection, the Administration's New Technology Initiative, unveiled by the President and Vice President Gore on February 24, is a concerted effort to bolster U.S. civilian technology which has too often been slighted because of our traditional focus on defense technologies.

Moreover, the link between the President's program and our ability to promote global growth is inescapable. The economic stagnation of the past few years has not been confined to the United States. Growth will resume through concerted action by the leading economic powers: our attack on the budget deficits, Germany's willingness to lower interest rates, Japan's readiness to stimulate its domestic economy. For each of us, hard steps, with short term costs, are necessary to produce growth and prosperity. President Clinton's call to arms makes it possible for him to enlist other nations in joining us in a concerted effort to promote global growth.

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2. Past Administrations have often neglected U.S. economic and trading interests because of foreign policy and defense concerns. The days when we could afford to do so are long past. In the post-Cold War world, our national security depends on our economic strength.

In the immediate aftermath of World War II, the United States led the free world in creating a free and open trading system. The Bretton Woods Agreement, the Marshall Plan, the creation of the GATT and the IMF are all testimony to the vitality of the free world in creating a post-war economic framework.

This framework was both geo-political and economic in its origin. The United States recognized the military threat posed by Communism; that our vital interests would almost always be defined in national security terms. At the same time, we realized that the expansion of trade and investment was one of the Free World's most potent weapons.

This policy was virtually painless for the United States. Although the U.S. was the world's economic giant, U.S. trade amounted to relatively little. In 1950, for example, U.S. exports and imports each amounted to only about 4% of the GNP, or

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8% for trade as a whole. For Britain and France, on the other hand, trade was their economic life line, representing 30-45% of their GNP.

As a result, the United States tolerated "infant industries" policies in both Europe and Japan and other forms of protectionist economic policy in the post-war environment. Indeed, the creation and support of these economic policies by our allies was seen as an essential element of our national security interests.

Our foreign and economic policy in the post war era deserves credit for its historic accomplishments. We contained Communism, and rebuilt the economic strength of the free world. In the four decades following World War II, growth in the non-Communist world tripled. More importantly, Communism as a political system failed to maintain its toehold in Western Europe.

By the early 1970's, however, our trading partners had begun to come of age, and external shocks, such as the oil embargo of 1973, jolted our economy. The U.S. ran its first merchandise deficit of the century in 1971, and confronted the first wave of popularity of cars from Japan. Accustomed to steady economic growth and a secure domestic market, American business and workers had difficulty adjusting to the new dynamics

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of world trade. Equally important, government policy did not change. American jobs and economic interests continued to take a back seat to foreign policy concerns.

The deep recession of 1981-82 took a devastating toll on U.S. manufacturers, but even when the economy recovered strongly, the overvalued dollar saddled U.S. exporters with a serious competitive disadvantage. Confronted with the reality of Japan's trade and industrial policies, the Reagan Administration's principal response was laissez faire and, after the 1985 Plaza Accord, dollar devaluation. By 1987, the U.S. merchandise trade deficit was \$150 billion, \$57 billion of which was with Japan. The weakness infecting basic industries spread to our leading edge high technology sectors as well.

The truth is there is ample blame for everyone. The great majority of U.S. companies were very slow to adjust to the blast of competition; there was no excuse for their failure to see what was happening years ago. But it is also true that U.S. government policy saddled our companies with every conceivable burden: higher costs of capital, increasingly serious health care costs, and, most relevant to us, a trade policy that for many years failed to enforce our laws at home, or open markets abroad.

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The fundamental question that I am asked about trade policy is: how much continuity, and how much change? There will be a great deal of continuity, largely because of the six year, bipartisan Congressional effort, in which this Committee was instrumental, which culminated in the Omnibus Trade and Competitiveness Act of 1988. Thanks to that Act, the United States has a trade policy, with clear objectives that have broad support from Congress and the private sector. Obviously, there will be no shortage of difficult decisions to make, but the United States Trade Representative is charged with enforcing the laws and opening foreign markets, and given the tools to do so.

At the negotiating table, I will be representing the interests of American workers, farmers and businessmen and women, just as my counterparts represent theirs. We will continue to play our part in making the international trading system work, but we will insist on our trading partners bearing their share of the responsibility as well.

3. We will compete, and we have proven that we can.

Because of failed government policies, and the difficulty of adjusting to the new global economy, the United States has had serious competitiveness problems in many areas of the economy. But I have no doubt about the ability of our corporations, our farmers and our workers to compete. In many

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sectors---computers, aircraft, machinery, agriculture, motion pictures, financial services---American companies and American workers set the standard of excellence in the world. Our universities and our entrepreneurs are the envy of the world. We will build and maintain a strong manufacturing base, and we will manufacture a full range of products from semiconductors to steel. We welcome the products of other nations, but we will not prosper if we are content to simply buy, sell, assemble, and distribute high-quality and low cost goods from abroad.

Export expansion has been the bright spot in an otherwise dismal economic picture over the past few years. From 1985 through 1992, U.S. merchandise exports increased from \$222 billion to \$445 billion, in current dollars, a virtual doubling. We regained our position as the world's number one exporter. By 1990, more than one in six U.S. manufacturing jobs were related to merchandise exports, and the average wages for workers in manufacturing and service exporting sectors, where American products are most competitive, substantially exceed the U.S. average. This dramatic increase in exports has occurred even though 85% of U.S. exports come from only 15% of U.S. companies. The export potential of our vibrant small and mid-sized businesses remain to be realized, and that is a high priority for this Administration.

4. We will seek to expand trade by opening foreign markets, and we will enforce the laws at home. One of my principal responsibilities as USTR is to open foreign markets and break down barriers to U.S. manufactured goods, agricultural products and services. This includes pursuing the strong protection of U.S. intellectual property, so important to our high technology industries. When all is said and done, opening foreign markets is our main objective in the Uruguay Round; it is the impetus, from our standpoint, for the North American Free Trade Agreement (NAFTA); it will be a principal focus of our efforts with respect to Japan and China, as well as in other nations around the world.

We are not a perfectly open market, of course, but because of history, practice, and our concern for maximizing consumer choice, this market will always be basically open. Consequently, we need to use every tool at our disposal--- multilaterally where possible, and bilaterally where necessary--- to make sure that other markets are comparably open to our own. That includes resort, where legitimate and necessary, to Section 301, strengthened by Congress in 1988. Both Super and Special 301, used appropriately, have proven to be valuable tools for breaking down significant barriers to our products and services, including the failure to protect our intellectual property.

It should be understood: while there are many factors beyond trade policy that contribute to trade deficits, trade policy matters. In today's global economy, allowing other nations to promote and protect their industries, building profits from secure home markets, while targeting our open market, is a formula for competitive suicide. We will not stand by and pretend that other nations share our commitment to expanded trade and open markets if the real world evidence suggests that they do not.

5. We will ask companies and workers to join in partnership with government to build competitive industries. Nor will we stand by, indifferent, when companies, workers and communities are hard hit by foreign competition---fair or unfair. In appropriate cases, our Administration will offer trade relief to industries under pressure, but we will expect in return that the affected companies and workers will commit to actions that will build the future competitiveness of the industry. This Administration is asking all Americans to join in the effort to rebuild our country's economic strength; there will be no free rides. We will not protect industries, only to watch them raise salaries for their CEO's and prices for their customers.

Let me address specifically a number of the major issues facing us.

NAFTA. President Clinton has consistently affirmed his support for the North American Free Trade Agreement (NAFTA), provided it is accompanied by effective U.S. domestic economic policies and supplemented by additional agreements and domestic actions to address concerns regarding labor, the environment, and safeguards against import surges. Addressing these concerns does not mean re-opening the NAFTA text. Our goal is rather to negotiate the necessary supplemental agreements and to work with Congress to develop implementing legislation so that the NAFTA and the supplemental agreements and domestic measures can be in place by January 1, 1994. An enhanced NAFTA package can contribute to the ability of our companies and farmers to compete at home and abroad and help improve working condition, living standards, and environmental quality throughout North America.

We have already seen the benefits we can gain as Mexico opens its markets. Thanks to the economic liberalization program enacted by President Salinas, our merchandise exports already have grown from about \$12.4 billion in 1987 to \$40.6 billion in 1992. This export growth has reversed what was a \$6 billion trade deficit in 1987 and turned it into a trade surplus of nearly \$6 billion last year. And these increased exports have come from every region of the United States. Mexico is one of the top 10 overseas markets for 38 states, and 20 states each shipped roughly \$250 million or more to Mexico in 1991.

Mexico is our fastest growing major export market, our second-largest market for manufactured goods, and our third-largest market for agricultural products. Seventy percent of Mexico's imports come from the U.S., and Mexicans already consume more U.S. goods per person than either the Europeans or the Japanese. The NAFTA will open still greater opportunities for US exporter by eliminating Mexican tariffs (which are more than twice as high as US duties, on the average) knocking down other forms of Mexican trade restrictions, and eliminating discrimination against US providers of goods and services.

On March 17 we will begin negotiation of the supplemental agreements on labor standards and safety, the environment, and import surges which the President called for during his campaign. We will pursue these agreements vigorously, let me assure you that we will not sacrifice substance for speed -- nor will we delay our efforts in the name of an artificial timetable. We will not ask you to vote on NAFTA implementing legislation until these negotiations result in comprehensive, enforceable agreements.

In the supplemental agreements on environment and labor, we are looking for concrete improvements. We want the agreements to have mechanisms and provisions to help raise standards where they are deficient, strengthen national enforcement of national laws, improve the U.S.-Mexico border

environment, and ensure, so far as possible, that the NAFTA promotes prosperity and improved social conditions in all three countries.

I am optimistic that we can achieve these goals. My Mexican counterpart, Jaime Serra Puche, has told me that he would like to view these talks not as a negotiation, but a collaboration. Mexico has excellent labor and environmental standards on its books, and President Salinas has repeatedly recognized the need for strengthened enforcement.

I see the labor standards and environmental agreements covering three basic areas:

- improved cooperation on worker and environmental safeguards, including technical assistance, and data sharing, with a goal of attaining the best protections possible;
- improving enforcement of standards and national laws, both through the administrative and judicial processes of each country, and new labor and environmental commissions which will provide independent scrutiny of measures taken to enforce national laws; and
- encouraging a positive impact of the NAFTA on North America's working conditions and the environment.

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In these negotiations, we will be breaking new ground for the United States and for our continent. We want to promote the strongest possible improvements in all areas. At the same time, we have to bear in mind that the agreements will apply to us as well as our neighbors. This could raise tough issues for us, including matters of prosecutorial discretion, state/federal relationships, the operations of the courts, and Constitutional guarantees of due process. My staff and I will be looking to you and to our experts in the labor and the environmental communities to find ways to address these problems as the negotiations progress. At the same time, USTR, along with OMB, Treasury, Labor and EPA, will be studying the various options for funding critical environmental cleanup efforts.

In the area of import surges, we are not looking to change the mechanisms in NAFTA, but rather want to ensure that these provisions can be effectively and fairly used for all sectors. I know there are concerns in certain industries about whether NAFTA's provisions could result in an import surge, and I want to address those concerns. At the same time, we should remember that our exports are a much greater share of the Mexican and Canadian domestic markets than are their exports in our much larger economy. So any new measures may be more likely used

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against U.S. exports. As with labor standards and the environment, I will be looking to you and the private sector for guidance on these matters.

The Uruguay Round. President Clinton is committed to the successful completion of the Uruguay Round of multilateral trade negotiations which has been on-going since 1986. When Sir Leon Brittan, the EC Trade Minister was here on February 11, I announced the President's decision to seek the renewal of fast track procedures to complete the Round. I indicated at that time that timing of the request and the duration of the authority we would seek would be determined only after further discussions within the Administration, and consultation with Congress and the private sector. We are in the midst of that process, and no final decision on timing or duration has yet been made.

Ambassador Hills, and the staff at USTR, expended enormous effort for four years to reach a strong Uruguay Round agreement. Others committed to the Round, including the Director General of the GATT, Arthur Dunkel, have done the same. Through discussions with the private sector and Congress, we are developing a good sense of the accomplishments to date, and the remaining obstacles to be overcome before the Round is completed. I think we can complete the Round in a way that will benefit the United States and the world economy, but based on our discussions to date, I do not believe that we were as close to completion as

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some have reported in early January. I told Sir Leon that our goal was a good agreement, not just a quick one.

Sir Leon pointed out the danger that whatever consensus that has emerged so far behind the draft "Final Act," known as the Dunkel text, could dissipate if quick agreement was not reached and the U.S. and other nations tried to re-open the text to address issues where we have concerns. While I recognize his concern, the fact remains that we are not going to reach agreement until some of our major problem areas with the draft "Final Act" are dealt with seriously and effectively.

Moreover, the question of whether we can reach an agreement depends very much on the market access commitments for goods and services which are still being negotiated. If we reach ambitious agreements on market access---cutting tariffs, breaking down non-tariff barriers---the Round will hold out potential benefits of the magnitude that will inspire enthusiasm in the American business community, and their workers, that has been, to date, muted, at best.

We chose to announce the decision to seek fast track procedures when Sir Leon was here, because the Round depends, in the first instance, on U.S. and EC leadership in setting out the ambitious objectives to be achieved in areas such as market access for goods and services. The three-year deadlock between

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the rest of the world and the EC over agriculture stalemated the Round and gave other nations, most notably Japan, the ability to avoid contributing meaningfully to the successful completion of the talks. We will not complete the Round without some leadership by the U.S. and the EC, but we will also not complete it if Japan continues to behave as if it has little stake in the outcome. We also need to see meaningful contributions from other trading partners---the newly-industrializing countries in Asia and Latin America---and the developing countries who owe their economic gains to a strong, open multilateral system. It is time to address the free riders in this Round.

A successful Round would give an immediate boost of confidence to the world economy, sorely in need of one. It would contribute to increased economic growth over the next decade by lowering barriers to trade in goods, bringing new rules and discipline to services, agriculture and textiles, and creating, for the first time, a set of enforceable rules for protecting intellectual property and governing investment. But the Round is not a favor that the United States is doing for the world. If it is ambitious enough, U.S. companies and workers stand to gain a great deal because of lowered barriers in our existing markets, and the creation of new markets.

But our criterion should be clear: despite the sometimes single-minded focus on agriculture, and the

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preoccupation with the so-called "new issues" of intellectual property and services, support for the Round in the U.S. will turn on the benefits that result for U.S. exports of manufactured goods, agricultural goods, and services produced by workers and farmers here in the United States. However, in pursuit of those benefits, we will not weaken the provisions of current law such as those that provide remedies for our industries against the unfairly traded products of other countries, and those that protect health, safety and the environment.

European Community. We have our share of current difficult issues with the EC. Despite this, our trading relationship with the European Community is one of the most important in the world and is critical to the integrity and vitality of the multilateral trading system. We are each others' largest trading partners, and maintain a diverse and largely balanced trade relationship. Last year two way-trade amounted to \$197 billion, with the U.S. running a surplus of nearly \$9 billion.

The evolution of the European Single Market (EC-1992), which officially came into effect on January 1 of this year, has been a prominent feature in our trade relations with the EC in recent years. We have welcomed the European project for its elimination of trade barriers between 12 of our most important trading partners, creating a single market comparable in size to

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our own. But we insist that European integration legislation and policies treat US firms fairly. When European policies create new barriers to US exports, we will act firmly to protect our interests. I have already moved to address the barriers to US firms created by the newly-implemented EC directive on procurement by utilities. As the EC proceeds to form the European Economic Area with other Western European countries, to deepen its own economic and monetary integration and to add associate members from Eastern Europe, we will continue to make full use of the tools in our international agreements and US trade laws to keep markets open.

Japan. No aspect of our trade policy has proven more complex or contentious than our relationship with Japan. In the past decade, our trade deficit with Japan has totalled nearly \$500 billion dollars. The bilateral deficit peaked at \$57 billion in 1987, and then came down over the next four years to \$43 billion. U.S. exports did increase from \$28 billion in 1987 to \$48 billion in 1991, but have levelled off since, as the Japanese economy has stalled. This year, the bilateral deficit has again increased to \$49 billion. As always, the disproportionate amount of the deficit is made up of autos and auto parts, and electronics.

A year ago, in the immediate aftermath of President Bush's trip to Japan, there was significant anger on both sides

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of the Pacific, particularly as the recession deepened. The presidential campaign, which had the potential for inflaming the relationship further, did not. A great deal of credit goes to President Clinton who steadfastly refrained from criticizing Japan and instead ran a campaign focused on dealing with our problems at home to strengthen our economy.

Nonetheless, the U.S.-Japan trade relationship needs immediate and serious attention. Clearly, the Japanese market has gradually become more open to our products and services, and those of other nations, over time, but the progress has not been rapid enough to produce the level playing field that we have sought for years. Numerous barriers remain in Japan which prevent, or dramatically reduce, the sale of U.S. products and services which are highly sought after in other countries around the world.

At the same time, Japan feels that it has been bombarded by demands from the U.S.---export less, import more, strengthen the yen, negotiate about individual products, negotiate about sectors, talk about structural impediments--- demands that frequently change, but never end. After years of a booming economy, Japan faces its own economic difficulties, making government and business leaders even more hostile to pressure from the United States, even while many in Japan express the view that change can occur only as a result of outside

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pressure. Resentments on both sides of the Pacific have built as a result of a decade of almost constant acrimony over one trade issue after another, but despite efforts by both sides, we still find ourselves with an intolerable trade deficit, and still limited access to this critical market.

In the first instance, we must insist that Japan fully implement the range of agreements already negotiated---and implement them in such a way that they provide important and concrete benefits to the U.S. and other non-Japanese suppliers. Very early on, we have a chance to gauge the efficacy of these agreements. In the coming weeks, we will be reviewing the progress on the Semiconductor Agreement, to monitor the progress being made toward the expectation of a 20% market share in Japan for foreign semiconductors. We intend to vigorously follow up on commitments that were made in January 1992 with respect to the auto parts market in Japan. Recent developments in our Supercomputer Agreement are troubling, and we are evaluating our next steps. On all these issues, we will be consulting closely with this Committee and other interested members of Congress.

Above and beyond the series of individual disputes, we need to find a better approach for dealing with Japan trade issues---one that will lead steadily in the direction of a more equitable balance of economic benefits and responsibilities. The beginning of a new Administration is the natural juncture for a careful review of the overall U.S.-Japan relationship, to

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underscore the importance of the relationship by collaborating on problems that we can move on jointly, while moving to address the very real bilateral problems between us. President Clinton's commitment to dealing with our problems at home, without blaming Japan or any of our other trading partners, provides a more promising starting point for discussions about hard steps that Japan needs to take on its part.

China. With the highest growth rate in the world over the past decade and an entrepreneurial boom in the south, China has enormous potential as a market for American goods and services. At the same time, China's human rights practices do not conform with international standards; we are concerned that its arms sales behavior jeopardizes our global non-proliferation efforts; significant barriers to our products and services continue while China sends an increasing share of its exports to the United States. All these factors raise serious questions about the nature of our relationship.

These issues have come together in the annual MFN debate in the Congress. The Bush Administration was adamant in rejecting every effort to put conditions on extension of MFN to China. The Clinton Administration will address all of these concerns---human rights, proliferation and trade---and we will address them aggressively. We are currently reviewing our policy

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toward China, including MFN, and I can tell you that we will consult closely with the Congress.

On trade, an interagency team was in China last week following up on the two trade agreements that Ambassador Hills negotiated last year on intellectual property rights and on market access. So far, the Chinese are abiding by the terms of the IPR agreements. On market access, there are some problems, and I am following up with my Chinese counterparts. We are leading the process to negotiate China's entry into the GATT, and we will ensure that significant further changes in China's trade regime are made before that happens. Finally, we are looking at other areas, such as services, that were not the subject of earlier negotiations yet are very important to our businessmen. We expect an equitable and balanced trading relationship with China, and we will settle for no less.

The Administration and Congress also face the issue of renewing the Generalized System of Preferences (GSP) program, which we are reviewing carefully as we consider our overall policies of trade and aid with developing and Eastern and Central European countries. As the President noted in his speech, the steady expansion of growth in the developing world is in our interest and theirs as well. We need to do our part to alleviate the grinding poverty which afflicts much of the world; at the

same time, we are building markets for products made by our workers here.

Let me close on a personal note, which I mentioned in my confirmation hearing. There is nothing theoretical about the job I have, or the work that we will do together. I travelled around the country during the last campaign, and I have seen the pain inflicted on people and communities from jobs lost as a result of a changing global economy. I have spoken with many of you, and through you, I have heard the concerns of those you represent. Together, we need to find the mix of policies that rebuild the U.S. economy so that our children have the opportunities that we were fortunate enough to have.

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TELEFAX COVER SHEET

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*Executive Office of the President
Washington, D.C. 20506*

Date: 2/27

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TO:
The Honorable Ron Brown
The Honorable Laura Tyson
Bowman Cutter

FAX NUMBER:
482-1157
395-6947

FROM: Ambassador Mickey Kantor

PHONE: (202) 395-3204

FAX: (202) 395-3911

SUBJECT: _____

COMMENTS: _____

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

FEB 26 1993

The Honorable Yoshiro Mori
Minister of International Trade and Industry
Ministry of International Trade and Industry
1-3-1 Kasumigaseki
Chiyoda-ku, Tokyo
Japan 100

Dear Minister Mori:

Thank you very much for your letter of February 1, 1993, regarding your views on the implementation of the U.S.-Japan Semiconductor Arrangement and the classification of multipurpose vehicles (MPVs).

With respect to the implementation of the U.S.-Japan Semiconductor Arrangement, quite frankly, I do not share the positive assessment portrayed in your letter. We are, in fact, extremely disappointed with the current market access situation in Japan for foreign semiconductor suppliers. Virtually no progress was made over the first nine months of the 1991 Arrangement. An upturn in the second quarter 1992 foreign market share figure was followed by no improvement in the third quarter. Indications are that the fourth quarter number may show some improvement but will still be far below twenty percent, the figure we expected to be reached by the end of 1992 and, indeed that we were supposed to attain by the end of the first Semiconductor Arrangement in mid-1991. In addition, the U.S. semiconductor industry has reported that design-in activity has subsided over the past six months and continues to express concern about the lack of quality design-in arrangements.

I will be reviewing carefully Japanese implementation of this agreement over the coming months, and, together with my counterparts in other agencies, will be developing an appropriate response to the situation. For this reason, I believe that it is imperative for the Japanese side to take immediate action to substantially increase access for foreign semiconductor suppliers. For our part, the U.S. Government will continue to work with U.S. suppliers to see that their market access efforts continue.

With regard to the classification of multipurpose vehicles, as you are well aware, discussion about this matter has been going on for many years. Given that some have questioned the present classification, the Administration intends a thorough review of the matter. As we conduct this review, the Administration obviously will take into account the interests of our trading partners and our international obligations.

The Honorable Yoshiro Mori
Minister of International Trade and Industry
Page Two

Thank you again for your letter and your warm remarks
congratulating me in my new position. I look forward to
discussing these and other trade issues with you when you come to
the United States in March.

Sincerely,



Michael Kantor

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

file USTR

*KC
attended
this mtg.*

The Honorable Laura Tyson
Chair, Council of Economic Advisers
Old Executive Office Building
Washington, D.C. 20500

FEB 26 1993

Dear Laura:

As you know, the President has determined that international environmental issues are significant factors in U.S. national security and foreign policy. Many of these issues are intertwined with a broad array of international trade policy issues.

In order to develop a coherent and positive U.S. policy on these issues, the President has ordered a careful systematic review of international environmental issues, considering U.S. economic, environmental and foreign policy interests. This review, which will include trade and environment policy, is to assess the issues and provide policy options.

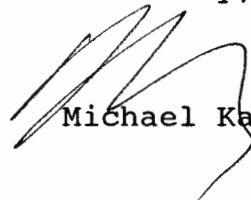
Under Presidential Review Directive/NSC-12, this office has been tasked with preparing a draft review paper on trade and the environment, in consultation with other interested agencies. This paper is to be completed by March 30.

Pursuant to this Directive, I am establishing an interagency group to draft the review paper on trade and the environment. This group will be chaired by Carmen Suro-Bredie, the Assistant U.S. Trade Representative for the Environment and Intellectual Property. Due to the complexity of the issues involved and the short time-frame for completion of the paper, I ask that you designate a policy-level representative to this group who can speak authoritatively regarding the views of your department on these issues.

We will hold the first meeting of this group on Tuesday, March 2, from 2:00 to 4:00 p.m. in Room 403 of the Winder Building (which is located at 600 17th Street, N.W.). We will be circulating an agenda for this meeting shortly.

Please forward the name and telephone number of your agency's designated representative to Laura Anderson of my office, at (202) 395-4946, as quickly as possible.

Sincerely,


Michael Kantor

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