

THE GATT AGREEMENT

4. AC 8/3: S. HRG. 103-982

The Gatt Agreement, S.Hrg. 103-982,...

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

THE IMPLEMENTATION OF THE URUGUAY ROUND AS IT AFFECTS
UNITED STATES AGRICULTURE

APRIL 20, 1994

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry



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HEARING ON THE GATT AGREEMENT

WEDNESDAY, APRIL 20, 1994

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:09 a.m., in room SD-562, Dirksen Senate Office Building, Hon. Patrick J. Leahy, Chairman of the committee, presiding.

Present or submitting a statement: Senators Leahy, Harkin, Conrad, Baucus, Kerrey, Feingold, Lugar, Dole, Helms, Cochran, McConnell, Craig, Coverdell, and Grassley.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good morning. I am glad to see so much interest in agricultural matters.

We are here today to begin debate on GATT, which was signed last week in Marrakesh. Ambassador Kantor tells me that it was an all-day signing. Secretary Espy, I appreciate your telephone call from there, bringing me up to date. I also appreciated the invitation to go over, but having heard that it was a 10-hour signing, I am glad to just have your accounts of it and not had the opportunity to see it personally.

Six months ago, when we met to discuss the North American Free Trade Agreement, we heard many reports of doom versus boom. In debating GATT, we are hearing some of the same issues. Opponents assert if we pass GATT, it will destroy the family farm, undermine all our public health and environmental standards, and limit our ability to effectively respond to unfair trade practices. At the other end of the spectrum, proponents contend that the United States faces economic obscurity if we don't pass this accord.

Today, we are here to carry the GATT debate one step further. As with NAFTA, there are responsible voices on both sides of this issue. On the other hand, I am not going to take very kindly to people on either side who try to make their case by exaggerating the benefits or the risk for the Uruguay Round Accord. I said once on NAFTA that it was neither as great as its extreme proponents said or as terrible as its extreme opponents said. We want to talk about the good and the bad, but I think we can do it honestly.

First and foremost, I will judge this agreement on how it is going to affect jobs, and when I do that, I am going to look, understandably, at jobs in Vermont. We have a large interest in semiconductor manufacturing. We have become more and more of a high-tech

State. I will look at that. I will also look at its effect on family farms, and in our State, that is largely dairy.

I want to make sure our environment is protected, that we are not going to run over the efforts we have made over the last 20 years to protect the environment in this country in the rush to free trade.

I think, as Chairman of the Senate Agriculture, Nutrition, and Forestry Committee, it is my responsibility to see that we are not compromising the safety and integrity of our food supply in the United States simply to champion free trade. Secretary Espy has said a number of times that we have the safest and best food supply in the world, and I compliment you, Mr. Secretary, on the steps you have been taking to make it even safer. I know Ambassador Kantor would be the last person in the world to want to see us compromise that safety.

The Uruguay Round Accord promises a new trading regime—and perhaps it can deliver—but we have to be certain. We must realize that it will not be a panacea for our economic, agricultural, and environmental concerns. There are many unsettled and contentious issues.

For the first time in 48 years, the Accord, if implemented, will fully bring agricultural trade into the GATT framework. The fact that the United States and other GATT negotiators were able to even reach an agreement is commendable. Frankly, I don't know how you put that kind of a Rubik's cube together, and I compliment you in doing it.

We have been assured that GATT benefits U.S. agriculture—that the provisions on export subsidies, market access for agricultural products, and sanitary and phytosanitary measures will benefit U.S. farmers, agribusiness, and consumers alike. We are told that the conversion of non-tariff barriers to tariffs will allow future U.S. negotiators to continue to advance the position of U.S. agriculture in international markets.

I hope today we will hear something of the ongoing trade discussions with Canada, our largest trading partner. We are very concerned about the outcome of these negotiations. For many in the agriculture community, including dairy, the outcome will color their perspective on the GATT agreement.

Let us hear what is best for the United States in this, not just what is best for world trade.

Senator Baucus, do you have an opening statement?

**STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA**

Senator BAUCUS. Yes, I thank the Chairman. I very much appreciate being recognized, and I apologize to you, Mr. Chairman, to the committee, and to Ambassador Kantor and Secretary Espy. I have to leave, hopefully soon, to meet Secretary Browner and nine others who are touring the Anacostia River promoting, frankly, changes in the Clean Water Act, and that tour begins in about 15 minutes. I hope you will accept my apologies for not being with you.

Mr. Chairman, and Secretary Espy and Ambassador Kantor, I, too, want to thank all of you for working very aggressively to try to get a good agreement in the Round.

You will recall that when the Uruguay Round opened, we hoped to expand the GATT to meet the economic challenges of a new century; that is, the world has been changing dramatically and each new Round addresses the new changes. We planned not only to continue the tariff and quota cuts of previous Rounds, but to extend GATT coverage to trade in agriculture, trade in services, and agree on ways to protect intellectual property, a very important industry to America.

We are here today, though, to look specifically at those provisions which impact the agriculture industry of our country. Agriculture is not simply a special interest, not one of many interests. It is a \$100 billion industry and must be treated very carefully. In many areas, production agriculture remains the only game in town, and we must ensure that our efforts do not rain on the game.

Take my State of Montana. Agriculture is the largest contributor to the economy. Our two largest crops are beef and wheat, and since our cows outnumber our people by three to one, we depend greatly on exports. Recently, unfortunately, too many of our people have been leaving our State. So a good GATT represents a great deal of market potential to my GATT.

According to the USDA, the value of wheat exports should increase by at least \$100 million annually in the year 2000, and by \$600 million, 5 years later. For beef producers, it is even better. Beef exports will increase by \$1.7 billion by the year 2005. That translates to higher farm income, and that serves America's farmers and ranchers quite well.

It sounds good, so where is the catch? I believe there are several, and I will address them very briefly.

To many in my State, it appears that we have given up way too much in exchange for much too little. In fact, if you look at the cuts we made in the 1985 and the 1990 farm bills, we went to the table with little to give. Coupled with reductions in the Export Enhancement Program, which were agreed to during the Round, it could be argued that, as regards agriculture, we went to war without our armor and we came home without our clothing.

Our producers argue that they have given enough. It is time to start getting something back. Farmers—and I agree with them on this—expect several provisions from the agreement at this time.

First, agriculture's financial contribution to the cost of the GATT must be limited to their proportionate share. Since agriculture cuts are costing just \$608 million in reduced tariffs, the industry should not be forced to bear the burden of cuts beyond that level. That means we don't want to see any cuts in farm programs suggested to pay for the GATT—none.

In fact, since the EEP cuts will total nearly 3 times that amount, I would suggest that those funds be directed back into GATT-allowable agriculture programs. We must stop disarming ourselves and hoping other countries will follow suit. That is a sure way to export our agriculture and that is simply not acceptable.

Finally, I must say that the maintenance of our trade laws is critical. Great pain must be taken to ensure that essential American trade laws—section 301, countervailing duty, anti-dumping, for example—are not weakened. I believe it is possible to not only preserve, but also strengthen, our trade laws in the context of the GATT implementing language.

Since Canada discovered our wheat markets in 1989, we have seen the devastating impact that unfair trade can have on an area like Northern Montana, and I speak for the Dakotas and other parts of our country as well. This demonstrates that it is imperative that we maintain and commit to the use of trade laws to prevent other countries from flooding our markets with dumped and subsidized goods. Lumber, wheat, beef, pork, sugar, too many industries have been hurt by unfair trade, and it is time we take steps to prevent further harm.

On a related topic, and I know you have heard me say this before, we have been trying for some time to get Canada to play fair when it comes to the wheat trade in North America. In my State, one of the most important goals of free trade is getting Canada to eliminate their barriers to free trade in wheat. We must increase pressure on them to achieve transparency in their wheat pricing and to eliminate barriers to the northbound movement of grain. I think an agreement to provide for truly free trade is more important than a temporary import restraint.

Although I must leave for another hearing, as I mentioned to you, I expect that you will address these points in the course of this hearing. I look forward to hearing what you have to say, because I know very much that other Senators will concentrate on many of these same questions.

I urge all of us to act quickly, because the people in our country are getting frustrated. They know these problems even better than we. They expect us to produce. That is why we are here; that is why we sought these provisions. The time bomb is ticking, and if we don't produce quickly, I think that the results will be not to our liking.

Thank you very much.

[The prepared statement of Senator Baucus follows:]

STATEMENT OF SENATOR MAX BAUCUS

Thank you Mr. Chairman, and thank you to our witnesses today, Secretary Espy and Ambassador Kantor. It is both appropriate and timely that you are here today. I commend you, Mr. Chairman, for holding this hearing today. We have several crucial issues in the GATT debate which must be addressed today.

When the Uruguay Round opened we hoped to expand the GATT to meet the economic challenges of a new century. We planned not only to continue the tariff and quota cuts of previous rounds; but to extend GATT coverage to trade in agriculture and services; and agree on ways to protect intellectual property.

We are here to look specifically at those provisions which impact the agricultural industry of this Nation. First, it is proper to briefly look at that industry.

As my colleague Senator Kerrey has said before, agriculture is not simply a special interest. It's a hundred-billion-dollar industry and it must be treated carefully. In many areas, production agriculture remains the only game in town and we must be sure that our efforts do not rain on the game.

Montana is a State where agriculture is the largest contributor to the economy. Our two largest crops are beef and wheat. Since our cows outnumber our people 3 to 1, we depend on exports. So a good GATT represents a great deal of market potential to my state.

According to USDA, the value of wheat exports should increase by at least \$100 million annually in the year 2000, and by \$600 million, 5 years later. For beef producers, it's even better. Beef exports will increase by \$1.7 billion by the year 2005. That translates to higher farm income and that serves America's farmers and ranchers well.

It sounds good so where's the catch. Well, I believe there are several and I'll address them right here.

To many in my State it appears we have given up way too much in exchange for much too little. In fact, if you look at the cuts we've made in the 1985 and 1990 farm bills, we went to the table with little to give. Coupled with the reductions in the Export Enhancement Program which were agreed to during the Round, it could be argued that, as regards agriculture, we went to war without our armor and we came home without our clothing.

Our producers argue that they've given enough. It's time to start getting something back. Farmers, and I agree with them on this, expect several provisions from the agreement at this time.

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Finally, I must say that the maintenance of our trade laws is a critical concern. Great pain must be taken to ensure that essential American trade laws—section 301, countervailing duty, and anti-dumping law—are not weakened. I believe it is possible to not only preserve but to also strengthen our trade laws in the context of the GATT implementing language.

Since Canada discovered our wheat markets in 1989, we've seen the devastating impact that unfair trade can have on an area like Northern Montana. This demonstrates that it is imperative that we maintain—and commit to the use of—trade laws to prevent other countries from flooding our markets with dumped and subsidized goods. Lumber, wheat, beef, pork, sugar—too many industries have been hurt by unfair trade and it's time we take steps to prevent further harm.

On a related topic, and I know you've heard me say this before, we've been trying for some time to get Canada to play fair when it comes to the wheat trade in North America. In my state, one of the most important goals of free trade is getting Canada to eliminate their barriers to free trade in wheat. We must increase pressure on them to achieve transparency in their wheat pricing and to eliminate barriers to the northbound movement of grain. I think an agreement to provide for truly free trade is more important than a temporary import restraint.

Although I must leave for another important event, I expect that you will address these concerns later in the hearing and I look forward to hearing your replies. We have a long ways to finishing this agreement and I urge you to make certain that agriculture is not the sacrificial lamb in this effort.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Coverdell, do you have an opening statement?

Senator COVERDELL. Mr. Chairman, I have no opening statement. I am ready to hear from our guests.

The CHAIRMAN. Thank you.

Senator Harkin?

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. Thank you very much, Mr. Chairman.

I, too, am sorry that I have to leave. The President is inaugurating his immunization program this morning, and those of us that are heavily involved in that are going down for that ceremony.

I just have four items I want to mention very briefly.

First of all, burden sharing in terms of agriculture, we talked about it a little bit before. I hope this will be fully explained here. From my initial look at this, it looks as though out of the \$14 billion that we are being asked to make up in terms of lost tariffs, that agriculture is being asked to swallow about \$4 to \$5 billion of that. That is about a third, and I think that is unfair. If there is some way that we ought to look at that differently, I would like to know about it, but I think it is grossly unfair that agriculture is asked to take that much of the burden.

Second, the longer I have been involved in this Canadian wheat dispute, just as I was with the oilseed dispute we had a few years ago with the EEC, the more I am convinced that it is easy to violate GATT but it is awful to resolve it. So those that violate are in the driver's seat. To try to resolve these disputes drags on for years and years. The oilseed dispute took us over 5 years, and it wasn't until we threatened to use our own section 301 in retaliation that they finally came to our senses.

I guess I am hoping that in this new GATT agreement, setting up this world-trade organization, that there is a more timely dispute resolution process.

My third point, Ambassador Kantor and Secretary Espy, has to do with the drafting of the farm bill next year. We are just months away from that. I have heard a lot of concern expressed by producers in my State that perhaps the GATT agreement may limit our policy options and what we may want to do in the 1995 farm bill.

For example, Mr. Ambassador, earlier this year, Secretary Espy raised the loan rates. I think that was met with a great round of applause throughout the farming sector. I supported that. I know my producers supported that. What we are concerned about is that under the GATT agreements, would such action by the Secretary be allowed in the future? What kind of policy options will we be hemmed in on as we begin to debate and develop the 1995 farm bill?

I guess, as one farmer said to me last weekend in Iowa, he said, will the farm bill be written in the implementing legislation for GATT, or will you be writing it in the Agriculture Committees? That is a real concern out there.

My last point has to do with the reduction in export subsidies that is coming about through this GATT agreement. We can all applaud that. I hope that Europe lives up to that, the European community lives up to that. However, if we reduce our export subsidies, that means that a lot of countries are going to have to pay more for our grains. That concerns me in terms of some of the poorer countries, where they do not have the wherewithal to pay more for the food stuffs that they need, which means I think there is going to be more of a demand for our Public Law 480.

I am one of those who has long believed that the more we put into Public Law 480, both Title I and Title II, that it helps our private sector even more, and we can prove that demonstratively, that the more we put into Title I and Title II, the more it develops markets in poorer countries. Again, that is going to be a hit on our budget.

In other words, as we decrease the export subsidies, we are going to have to make sure that poorer countries are able to get access

to food stuffs, and that may raise the need for increased input into Public Law 480, Title I and Title II.

I just wanted to mention those, Mr. Chairman. I thank you very much and look forward to the response. I am sorry I have to leave.

The CHAIRMAN. Thank you.

Senator Lugar?

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman.

Mr. Chairman, the Uruguay Round will have a broad impact on the international commerce and standard of living of this country. For many commodities, the Round's provisions will mean rising exports, prices, and income.

Among commodities very important to my State of Indiana, the United States Department of Agriculture projects improved exports and prices for corn, soybeans, pork, beef, poultry, wheat, and other products, and for that, we are grateful.

But the Round is equally important for the new principles it introduces: that export subsidies are to be reduced, that import barriers are to be made transparent, and likewise reduced; that internal supports which distort trade are to be disciplined, and subject to international scrutiny. For American farmers who are competitive world-class producers of a broad array of crops and livestock, these principles are certainly welcome.

Soon, we will begin to work with the administration and develop implementing legislation that will be considered under expedited fast-track procedures. I would like to express my hope that the administration will adhere to a somewhat stricter standard for what can be included in the GATT legislation than was the case during the NAFTA debate. Including clearly extraneous provisions can only serve, in the long run, to undermine congressional support for the entire concept of fast track.

In particular, I want to outline at this hearing, Mr. Chairman, that fast-track authority, dealing with labor and environmental issues may stretch the fast-track authority beyond the bounds that many Members of this body find appropriate. Fast track for trade issues, specifically, is one thing. Fast track for what appears to be broader social or environmental legislation is something else.

Many Americans already oppose fast-track procedures because they feel such practices constitute an abdication of congressional responsibility. I disagree with that idea for reasons that will be familiar to most people in this hearing today. However, it has always seemed to me that Congress should and must take an active role in establishing the ground rules for our Nation's trade negotiations, and that would not be the case if we simply granted unlimited fast-track negotiating authority.

I would like to return to a topic highly pertinent to today's hearing and raised by Members of the committee already in letters to the administration. There have been rumors, perhaps inaccurate, but persistent rumors, that the administration will propose new agricultural spending reductions to offset some of the costs of the Uruguay Round.

These cuts would not be the so-called natural savings that would occur because higher prices will reduce deficiency payment rates or because export subsidy levels would be reduced. Such savings have long been touted as one dividend of a successful Uruguay Round. The rumors to which I refer suggest the administration might propose substantial cuts beyond these so-called natural savings.

It seems inevitable to me that in that event, many previously supportive agricultural groups would become opponents of the Uruguay Round, arguing that new cuts would violate assurances from both the Clinton and Bush administrations that GATT would not require the United States to make further domestic changes in agriculture. The position of these groups, in turn, could affect a rather large number of votes in Congress, and particularly in the Senate.

Regardless of the merits of any cuts the administration might propose, new cuts can only imperil the chances for congressional approval of the Round.

Fortunately, the administration has an opportunity this morning to put the rumors to rest. I hope that Ambassador Kantor and Secretary Espy will do so in their testimony.

Finally, Mr. Chairman, I commend you for calling this hearing on the most significant trade agreement in several decades, one which caps negotiations begun by President Reagan, continued by President Bush, and now concluded successfully by President Clinton. The Uruguay Round talks have spanned three Presidencies and generated great hopes. We must work together to assure that these hopes are realized.

Mr. Chairman, I simply indicate my very strong support for congressional approval of the GATT Round. I thank the Chair.

The CHAIRMAN. Thank you very much, Senator Lugar.
Senator Conrad?

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman, and welcome, Ambassador Kantor, Secretary Espy.

Let me begin by saying I think the two of you are the best friends farmers have had in a very long time in your respective positions. I just want to say, I appreciate the efforts that you have made on behalf of farmers and other constituents across the country.

Let me just say that I think you inherited a mess of substantial proportions. I can remember very well when Secretary Yeutter came and talked to us in a private session and told us he was abandoning the notion of a level playing field in the GATT negotiations and instead was going to the concept of equal percentage reductions from what were clearly unequal bases of support, a policy that locked in a 2- or 3-to-1 advantage for the Europeans in terms of the level of support that they extend to farmers.

I remember telling him at the time it reminded me of the Russian proverb, the fat man gets thin and the thin man dies, and unfortunately, in this circumstance, we are the thin man.

So I think you walked into a very difficult negotiating position with respect to the GATT, and I think you have made substantial improvement that should be applauded and publicly commended.

Let me say that I have also heard the rumors. In fact, I was at a meeting of farm broadcasters yesterday in which I was told that the rumors are rife that the administration is going to propose substantial additional cuts in the agriculture sector in order to pay for the GATT. I hope that is not the case. I hope that is a misunderstanding. I don't think it would be fair, given the cuts agriculture has already taken.

First of all, I think we have to put this in some perspective. We have a \$1.5 trillion annual budget in this country. Agriculture is getting \$13 billion. So first of all, agriculture is a very, very small part of the Federal budget. I think a lot of people don't know that in the country.

Our share of the Federal budget has been in consistent decline. Last year in the budget deal, agriculture took the biggest proportionate hit. In 1990, agriculture took the biggest proportionate hit by far. Nobody was even close. So I think further reductions in agriculture would be short-sided and would be a mistake. Let me just say I think it would cost support.

A lot of people, I don't think, realize the position in agriculture today. We just had a study by my State university that says if current trends continue, 30 percent of the farmers in my State will fail over the next 5 years.

That is where the rubber meets the road, and I just say to you, we are threatened on all sides and we don't need another threat in terms of deep reductions in support for agriculture when we are fighting on a worldwide basis with other countries who support their farmers to a greater degree than do we.

Let me just turn briefly to the Canadian issue, because that was in the Press this morning. Again, I want to thank publicly Secretary Espy and Ambassador Kantor for the strong position you have taken. This is not just a matter, let me say, of wheat. It is not just a matter of wheat. It started there. It started with wheat, but it has gone to barley and it is now having a displacement effect on other commodities. More important than that, this is a question of whether the United States stands up for itself when it is the victim of unfair trade.

Let me just show a chart that shows what has happened to durum. Before the Canadian free trade agreement, Canada had 0 percent of the U.S. market—0. This year, they are going to have 40 percent of the U.S. market, not because they are more efficient, not because they are more productive, but because of loopholes in that agreement.

Let me just show that next chart and what we are talking about when we talk about loopholes in the agreement. Under the terms of the Canadian free trade agreement, it says right on the face of the agreement, neither party shall sell into the other's market at below its full acquisition costs. That is what it says.

That is not what happens, because Ambassador Yeutter entered into a secret side deal, that said, well, we don't really mean that. We don't mean what it says in the agreement. We won't count your transportation subsidy, 45 cents a bushel—and by the way, we

won't count the final payment you make to your farmers, Canadian government, that is now \$2.21 a bushel on a product that is worth \$4.98. So as long as our friends to the North sell in here at above \$2.32 a bushel, they are not dumping it below cost. It is outrageous.

That is why I say this goes beyond durum, it goes beyond wheat. It goes to the question of does the United States stand up for itself or do we get rolled?

Mr. Chairman, I hope we are able to more fully explore this issue as we proceed with the hearing.

The CHAIRMAN. I rather expect we will.

[Laughter.]

The CHAIRMAN. There are very few things of certainty in the Senate, but this probably fits into that category.

Senator Craig?

STATEMENT OF HON. LARRY E. CRAIG, A U.S. SENATOR FROM IDAHO

Senator CRAIG. Mr. Chairman, if my colleague is the drum, I shall be the drumsticks, because I can assure you that's our relationship with Canada at this moment—

The CHAIRMAN. Did you say the drum?

Senator CRAIG. If he is the drum, I am going to be the drumsticks, and both of us together are going to make a very loud sound on this issue.

The CHAIRMAN. I am sure of that.

Senator CRAIG. I do thank you, Mr. Chairman, for this hearing. I especially appreciate Secretary Espy and Ambassador Kantor for being here. Let me say right at the outset, as a Republican, I have appreciated your openness and your access and our ability to work together on these issues. That has always been appreciated. I know that given the agency, the personality, and the attitude, sometimes this is not the case when administrations change. It has been certainly been the opposite with you in respect to your access and your openness. As one Republican, I appreciate that.

I also appreciate your ability to finalize the Uruguay Round and get it to where we had hoped it would be. I am one of those who is extremely cautious in the process as it relates to where we will be 4 or 5 years from now. When I say "we," I mean American agriculture and its profitability and what our policy will ultimately evolve into.

There are some very rosy scenarios being painted at the moment, and you have some charts to indicate those scenarios. We all know that it is extremely hard to predict. We also know, or at least I do in my reading of it, that your optimism is all of that, highly optimistic optimism.

Having said that, let me mention in passing, because we want to hear you, that I am as concerned as many of our colleagues as it relates to the Canadian issue. We have met, you and I, all of us. We have discussed it. We have jawboned you; you have jawboned us. I read your statements in the paper.

Let me tell you, Mr. Ambassador and Mr. Secretary, I appreciate your rhetoric. I now want to see your action. Rhetoric is costing my farmers profit. Action might save them.

We have heard too much rhetoric. It started last October, and prices fell and farmers lost money and the rhetoric went on. Out of that did finally come some action, moving the ITC toward some examination. We had asked that you move preexamination findings. Proof is in the record, and the record is lost and damaged at this moment.

I didn't vote for the Canadian free trade agreement because I said the details hadn't been worked out. There were the unknowns that would impact the northern-tier States in a dramatic way, and doggone it, it happened, because we didn't work out all the details.

You are in the process of implementing end-use certificate requirements. We appreciate that. There are a lot of things that are beginning to happen out there.

But I will tell you, I was in my State the week before last and I held five different meetings with farmers. It is the planting season, and they are not planting barley. We are going to lose a major chunk of our market to the Canadians because they are dumping in our market. My colleague referred to the price of \$2.35. They are dumping at \$2.38. That is reality, and that is where we are.

Now that you are past the Uruguay Round, let us move beyond rhetoric to action to save our farmers so that we don't lose our markets to a Nation that is using the loopholes of the law that ought to be corrected. We ought to be tough enough to do it, and bring about some fairer trade with our neighbor to the North.

I am anxious to hear of your examination and your explanations about the Uruguay Round process. Thank you.

The CHAIRMAN. Thank you.

I would ask unanimous consent to include in the record a statement by Senator Dole and a statement by Senator McConnell. Without objection, those will be included in the record.

[The testimony resumes on page 13.]

[The prepared statements of Senator Dole and Senator McConnell follow, respectively.]

STATEMENT OF SENATOR BOB DOLE

Mr. Chairman, I want to thank you for holding this hearing at this important point in the process of congressional consideration of the Uruguay Round Trade Agreement.

Consultation with Congress is the central requirement of the fast-track process. In return for this high level of consultation, Congress agrees not amend a trade agreement and considers a trade agreement in a limited time.

It is essential that the administration maintain a high level of consultation with Congress over the next weeks and months as the various aspects of the implementing legislation are worked out. Substantive concerns and procedural concerns must be resolved in a bipartisan way.

As far as the substance of the agriculture provisions of the agreement are concerned, what I have heard from the American farming community has been generally supportive. While this agreement is by no means the broad trade agreement we had hoped for, one that eliminates virtually all trade-distorting practices and opens markets to American farm products as fully as possible, it is, nevertheless, a good agreement. It is a good start. We need to continue in the direction established under the Uruguay Round, and I will continue to work with the administration to open foreign markets and eliminate unfair trade practices throughout the global market.

The Uruguay Round already requires reductions in some of our agriculture programs. These reductions were agreed to because the real offenders in this area, the members of the European Community, will bear substantially more pain and will reduce longstanding subsidy practices that have hampered American producers

selling in the world market. I would be very concerned if the administration were to contemplate agriculture program cuts in addition to those that are required under the Uruguay Round.

The Budget Act clearly requires that we pay for this agreement. I want to help the President find a way to pay for this historic initiative. Clearly, Republicans would prefer to use spending cuts. I hope the administration will submit options for Congress to consider.

STATEMENT OF SENATOR MITCH McCONNELL

Over the last 50 years, international trade has grown at a remarkable pace. Trade has become an integral part of our economy. Today, 1 in 8 U.S. jobs depends directly on trade with foreign countries.

History has proven that as the economies of developing countries grow and individual income increases, demand for food and value added products grows faster than the country can increase its food production. This demand means new markets and opportunities for U.S. agricultural products and services.

Agricultural growth depends on the ability to export in the world's changing market. Agriculture has been one of the few segments of our economy maintaining a positive trade balance.

Nonetheless, barriers to U.S. agricultural products exist in every foreign country. Some countries stimulate high, inefficient production of farm commodities with billions of dollars annually and then spend several billion more to subsidize the dumping of this excess production on the world market, depressing prices and hurting our farmers.

In September, 1986, trade ministers from all over the world met in Punta del Este, Uruguay, to launch the Uruguay Round of Multilateral Trade Negotiations (MTN) under the General Agreement on Tariffs and Trade (GATT). The aim was to rewrite rules for the conduct of world trade. In agriculture the aim was to open world trade, reduce tariffs and subsidies, and develop better rules and guidelines sanitary and phytosanitary standards.

On December 15, 1993, the United States reached an historic agreement, concluding the Uruguay Round negotiations under the GATT. Last week, nearly 7 years after the negotiations began, more than 100 nations signed the new global trade treaty.

The agriculture negotiations were tense, complex, and discussions often broke down. Talks centered on export subsidies, internal supports, market access, and sanitary and phytosanitary rules.

While the agreement did not achieve all of the expectations created when the Round began in 1986, it does provide a significant step toward achieving more open and fair conditions of trade in agricultural commodities by establishing specific commitments to reduce export subsidies, tariffs and on-tariff barriers and trade-distorting internal supports.

The agreement is not a fix-all or cure-all, but it does provide for a new beginning—of a process that will lead to a set of rules member nations have agreed to adhere to.

The U.S. agriculture community awaits with great anticipation the benefits such an historic agreement will bring. In general the agriculture community hopes the agreement will lead to improved access for its products, leading to higher prices and significant reductions in export subsidies by other countries.

History tells us our quality of life rises with open trade and declines with protectionism.

Now that this historic agreement has been signed; it is time to focus on the implementing legislation. For agriculture, the focus will be on how best to utilize the dollars available while maintaining the maximum tools available for programs such as the export enhancement program.

Export markets are extremely important for most of the basic U.S. agricultural commodities, including tobacco, wheat, soybeans, corn, rice, and cotton. Freer trade in all products is necessary for continued and expanded growth for U.S. agriculture and its rural communities.

Kentucky farmers and ranchers are concerned about how subsidies will be broken out among individual commodities, what the budgetary outlays and quantity reductions commitments are, and how this compares to current programming. What legislative changes will have to be made to meet the outlay and quantity commitments? Is the administration committed to maximizing the export subsidies and quantity commitments agreed to?

In 1986 when the trade negotiations began, Kentucky exports were \$667 million. In 1992, my State exported over \$881 million in agricultural products. Farmers and ranchers in my State are concerned about the new disciplines agreed to in the Uruguay Round on market access, internal support, export subsidies, and sanitary and phytosanitary measures, will impact their ability to open new markets and increase market share. My producers and ranchers are tired of the rhetoric and want to know how the new agreement will impact their income and prices received for their hard work and labor.

An important issue, along with the implementation language of GATT, is how it will be financed due to lost revenue from lower tariffs. The agriculture sector is concerned about paying for a substantial portion of the costs by further cuts in farm programs and increased user fees. These issues and questions must be settled as we craft the implementing legislation.

I look forward to the comments from Secretary Espy and Ambassador Kantor on the status of the implementation language for this historic agreement.

The CHAIRMAN. Senator Kerrey?

**STATEMENT OF HON. ROBERT KERREY, A U.S. SENATOR
FROM NEBRASKA**

Senator KERREY. Depending on what Senator Feingold and I do, you guys may need a shave before you go on camera here. We have been going on for quite a while.

Let me first of all express to the two of you and to the President a very sincere congratulations. It was an awful lot easier to start this than to finish it. You not only finished this, but prior to this trade agreement, we had a very successful conference on APEC, pointing out the possibilities of trade with Asia, a continent that is going to grow 1.7 billion in population between now and the year 2025, while the developed world, which includes North America, the former Soviet Union, Western Europe, and Japan, the developed world will grow only 170 million. You have begun to develop APEC into something that is going to be extremely constructive.

You also pulled NAFTA completely out of the hat. No one, at least in that last month or so, believed that you would get that done.

So I want to congratulate this administration, and you, Ambassador Kantor, and you, Secretary Espy, for your clear vision of what is at stake here. I share the concern about the dumping that is going on that undercuts our confidence in the Canadian, now North American Free Trade Agreement, and clearly, the implementation of these agreements will determine whether or not the American people have confidence in them. Yet, you have also pushed beyond all of these issues to describe to the American people what is at stake, and a lot is at stake, not only for our economy, but in my judgment, for the political stability of the world over the next 30 years. I really think that you and the President cannot be given a sufficient amount of credit for what you have done.

When I am observing problems in the State of Nebraska or the Nation, there does seem to be a common denominator, and the President in Detroit really again focused on it, and that is, what do we do to lift the living standards of Americans? How do we create higher-paying jobs? There is no shortcut to getting it done. We have to have increases in productivity to do it. There is just no shortcut to it. There is no easy way. Unless there is an increase in productivity, protective measures and defensive measures just won't work.

I hope, and I know from listening to Secretary Espy that it comes out in his presentations, that the American people understand that agriculture is the most productive sector of our economy. According to McKinsey Worldwide, we have a 20-percent edge in agriculture against OECD nations. We have a tremendous competitive advantage—a tremendous competitive advantage.

I hear people talk about the failed agriculture policies of the last 50 years, and I point this out to the Press who are sitting on the wings right now, who might be inclined to trash agriculture in their editorial pages and their comments. Fifty years of failure is a total misdescription. We have had 50 years of tremendous success. It is the most productive sector of our economy.

I point this out because I too am very concerned about how we are going to pay for the cost of this new GATT agreement. If the administration expects to get this out of agriculture's hide, that would be a most unfortunate decision, because I think that could derail this agreement.

What I would like to hear you talk about as well is what do we need to do to take advantage of these new trade opportunities. What does the future look like over the next 30 years? Those 30 years will go by in a hurry for those Americans that are 19 and 20 years of age today. In the next 30 years, the world population is going to grow by nearly 3 billion. We know that 1.7 billion will be in Asia and about 700 million is going to be in Africa. The lion's share of the balance is going to be in South America.

What do we need to do to take advantage of the tremendous productive capacity we have in the United States of America to ensure that the rest of the world has the ability to sustain itself, that we don't, in short, end up finding ourselves 30 years from now saying we can't meet the new demand that is out there.

I believe, as I said, that this administration will be remembered for many, many things, but your determination and steadfastness in getting, first, NAFTA, and then describing the opportunities in APEC and strengthening APEC and in getting GATT, will be right up there at the top.

It seems to me that what we have to do is hear from you, Mr. Ambassador and Mr. Secretary, what are the policy areas that need to be addressed, not just in making sure that we give people confidence that these trade agreements work by enforcing them, but what's beyond that do we need to do to make GATT work, to make NAFTA work, to make these trade agreements work.

The CHAIRMAN. Thank you.

Senator Feingold?

**STATEMENT OF HON. RUSSELL D. FEINGOLD, A U.S. SENATOR
FROM WISCONSIN**

Senator FEINGOLD. Thank you, Mr. Chairman.

First, I want to commend you for holding this hearing in such a timely manner, giving the signing just last week of the GATT agreement in Marrakesh.

I would also like to thank Secretary Espy and Ambassador Kantor for taking the time to come before the committee.

I have a longer prepared statement. I ask unanimous consent that it be included in the record.

The CHAIRMAN. Without objection.

Senator FEINGOLD. Mr. Chairman, the GATT raises a myriad of issues of both great magnitude and great specificity. I can think of no other issue in which broad-scale concerns such as national sovereignty are raised right alongside of very specific issues like market access for specific agricultural products to individual countries.

The historic inclusion of agriculture in this Round of the GATT has been the source of substantial enthusiasm in agriculture, but also the source of significant apprehension by some farmers. As we look at agriculture in the aggregate, we may agree that this trade agreement will provide a net gain. However, for individual commodity groups, the forecast under the GATT is far more cloudy than clear.

Secretary Espy, when you were discussing the potential impacts of increased imports to the United States under the market access provisions in the GATT at a recent hearing in the house, you stated that the administration believes the impact of these imports on our producers must be viewed in the context of the enormous market access we gain for our exports around the world.

While that may be true, it implies necessarily that new market access has been achieved in this GATT agreement. It implies that this is also a fair trade agreement for the different commodity sectors.

However, unfortunately, this is not what I am hearing from virtually all dairy industry groups in Wisconsin. Some of the most ardent supporters of trade expansion in the dairy industry have raised serious questions about the Uruguay Round of the GATT as it affects their industry. Dairy farmers and others are telling me that while this is freer trade in dairy, it is far from fair trade.

Obviously, I would like to explore some of those concerns with you today at the hearing, and I will outline some of them here at the outset.

First, while the GATT would lessen the amount of subsidized commodity on the international market, it does little to level the playing field in world trade. By establishing fixed-percentage reductions in subsidized exports, little is done to establish equity in the level of subsidization.

Under this agreement, the numbers are really staggering, Mr. Chairman. By 2001, 30 billion pounds of milk exports will be subsidized by the EU versus only 1.5 billion pounds of milk to be subsidized by the United States.

Second, if our export subsidy reductions had been accompanied by significant new market access for U.S. dairy products, the GATT might hold some promise for dairy farmers. Most in the dairy industry are disappointed in the market access we have achieved in the Uruguay Round. They believe that the small quantities of increased imports can easily be filled by our international competitors, who already have aggressive export marketing boards that do not subsidize their exports.

Essential to this issue is achieving greater access to the Canadian market, which holds the greatest promise for the U.S. dairy industry. It is absolutely critical that our ongoing dispute with the Canadians regarding their obligations under GATT, NAFTA, and

the CFTA be resolved by providing greater market access for the United States' fluid milk and other dairy products.

So I applaud you, Mr. Secretary and Mr. Ambassador, for working diligently to resolve the issue with Canada. I appreciate it is not an easy task, and I know the dispute runs far deeper than just access for dairy products. It accompanies many commodities, not the least of which are wheat and poultry, which are of tremendous concern to some of my colleagues on the committee.

I urge you, though, in continuing negotiations to avoid making tradeoffs among commodities in dispute. I also urge you to resolve this matter in a manner which provides strong benefits to the dairy industry. I urge our witnesses to favorably resolve this matter as quickly as possible.

For many in the dairy industry, their support of the GATT hinges on the resolution reached with Canada. Not only is the industry concerned with the lack of market expansion for U.S. producers, but also with access opportunities we have provided in our own markets and converting Section 22 quotas to tariffs and gradually decreasing them.

USDA and other analysts anticipate increased imports in the United States of an additional 1 billion pounds. Without increased international market access for U.S. dairy products, this level of imports is obviously of great concern. The USDA has estimated that the costs of the dairy program will increase as domestic sales are supplanted by increased imports.

Meanwhile, as the dairy industry and others in agriculture work to adjust to changing terms of international trade, the question of whether or not we have abrogated our rights to established domestic policies to aid farmers has not been clearly answered. It is, in fact, altogether unclear what the next step is for the dairy industry as it attempts to adapt to these new conditions.

To conclude, Mr. Chairman, we hear often that trade is a 2-way street. You have to give up some to get some. The dairy industry has given up quite a lot, but it isn't clear that we are receiving much in return. The most optimistic report I have seen for dairy is, at best, this agreement is a wash for dairy. At worst, this agreement could end up costing dairy producers 50 cents per 100 pounds for milk. They believe that the agreement provides few opportunities for unsubsidized export expansion.

Mr. Chairman, this agreement may present substantial market and income opportunities for many agricultural sectors. I wish dairy were among them. Perhaps under this administration, that can happen, and I urge this administration to work to achieve that goal, and I look forward to working with these witnesses in that regard.

Thank you, Mr. Chairman.

[The testimony resumes on page 18.]

[The prepared statement of Senator Feingold follows:]

STATEMENT OF SENATOR RUSSELL FEINGOLD

First, I want to commend the Chairman for holding this hearing in such a timely manner given the signing of the GATT agreement in Marrakesh last week. I also want to thank Secretary Espy and Ambassador Kantor for taking the time to come before this Committee today.

The GATT raises a myriad of issues of great magnitude and also of great specificity. I can think of no other issue in which broad scale concerns such as national sovereignty are raised along side concerns such as market access for specific agricultural products to individual countries.

The historic inclusion of agriculture in this Round of the GATT has been the source of great enthusiasm in agriculture as well as the source of significant apprehension by some farmers. As we look at agriculture in the aggregate, I think we'll agree this trade agreement will provide a net gain. However, for individual commodity groups the forecast under the GATT is far more cloudy than clear.

Secretary Espy, when you were discussing the potential impacts of increased imports to the United States under the market access provisions in the GATT at a recent hearing in the House, you stated that the administration believes "the impact of these imports on our producers must be viewed in the context of the enormous market access we gain for our exports around the world."

While that may be true, it implies necessarily that new market access has been achieved in this GATT agreement. It implies that this is also a "fair trade agreement" for the different commodity sectors.

However, this is not what I am hearing from virtually all dairy industry groups in Wisconsin. Some of the most ardent supporters of trade expansion in the dairy industry have raised serious questions about the Uruguay Round of the GATT as it affects their industry. Dairy farmers and others are telling me that while this is "freer trade" in dairy, it is far from "fair trade". I want to explore those concerns with our witnesses in today's hearing. I'll outline some of them at the outset.

First, while the GATT would lessen the amount of subsidized commodity on the international market, it does little to level the playing field in world trade. By establishing fixed-percentage reductions in subsidized exports, little is done to establish equity in the level of subsidization. According to industry analysis, the United States starts from a base level of 3.1 billion pounds of subsidized dairy products and reduces that quantity down to 1.5 billion pounds.

Meanwhile, the European Union is required to reduce its subsidies from the extremely high level of 39 billion pounds of milk and dairy products to 30 billion pounds—20 times the amount of product the United States will be allowed to subsidize at the end of the 6-year period. While a 9-billion-pound reduction in the volume of subsidized milk products is substantial, some analysts do not believe it is sufficient to prevent artificially depressed world market prices from blocking non-subsidized U.S. dairy exports.

Second, if our export subsidy reductions had been accompanied by significant new market access for U.S. dairy products, the GATT might hold more promise for dairy farmers. Most in the dairy industry are disappointed in the market access we've achieved in the Uruguay Round. They believe that such small quantities of increased imports can easily be filled by our international competitors with aggressive export marketing boards that do not subsidize exports.

Hand-in-hand with the market-access concerns is our ongoing dispute with the Canadians regarding obligations under previous free trade agreements as they relate to the GATT. Market access for U.S. fluid milk and other dairy products in Canada is an absolutely *critical* issue to dairy farmers in Wisconsin and in the Chairman's State as well. Some say that without access to Canada, the GATT will be a net loss for the dairy industry.

I applaud Secretary Espy and Ambassador Kantor for working diligently to resolve this issue with Canada. I appreciate that this has not been an easy task, and I know the dispute runs far deeper than access for dairy products. It encompasses many commodities, not the least of which are wheat and poultry, which are of such great concern to my colleagues on this committee. I urge you, in your continuing negotiations, to avoid making trade-offs among commodities in dispute. If we are forced to pick and choose among sectors, no one will come out the winner. I also urge you to resolve this matter in a manner which provides strong benefits to the dairy industry.

While these disputes with Canada are not bound by the timelines of the GATT agreement, I urge our witnesses to favorably resolve this matter *as quickly* as possible. For many in the dairy industry, their support of the GATT hinges on the resolution reached with Canada.

Not only is the industry concerned with the lack of market expansion for U.S. producers, but also with access opportunities we have provided in our own markets by converting Section 22 quotas to tariffs and gradually decreasing them. USDA and other analysts anticipate increased imports into the United States of an additional 1 billion pounds. This level of imports would not be of great concern if there were substantial non-subsidy export opportunities for the United States, but without them increased imports are of immense concern. The USDA has estimated that the

costs of the dairy program will increase as domestic sales are supplanted by increased imports. Since dairy farmers pay for a large portion of the Government costs of the dairy program, this would be just another hit for the industry.

Meanwhile, as the dairy industry and others in agriculture work to adjust to changing terms of international trade, the question of whether or not we have abrogated our rights to establish domestic policies to aid farmers has not been clearly answered. It is in fact altogether unclear what the next step is for the dairy industry as it attempts to adapt to these new conditions.

We hear often that trade is a 2-way street—you've got to give some to get some. Well, the dairy industry has given up quite a lot but it isn't clear what we are receiving in return. The most optimistic report I have seen for dairy is that of the USDA—which indicated that the agreement will have minor impacts on our dairy industry with, at best:

- a 10-cent milk price increase if the price support increases
- higher input costs due to increased prices for feed grains
- increased Government costs of \$200 million per year by the year 2000
- a decrease in subsidized exports with no indication that non-subsidized exports would increase under GATT
- international price declines for butter-making unsubsidized sales virtually impossible for the United States
- small international price increases for nonfat dry milk
- slightly larger price increases for cheese in the order of 15 percent
- higher international prices which will stimulate production in Australia and New Zealand which already have a competitive advantage over the United States

. . . *And that's the rosy outlook.*

Some industry analysts believe the GATT will actually result in domestic milk price declines in the order of 50-cents-per-hundred pounds per milk. They believe that the agreement provides few opportunities for unsubsidized export expansion.

As the GATT stands for dairy, it will be, at best, a wash for dairy farmers and a cost to taxpayers, and at worst, it will cause substantial harm and dislocation in our dairy industry.

I know this agreement presents substantial market and income opportunities for many agricultural sectors! I wish dairy were among them. Perhaps, under this administration, it can be. I urge this administration to work to achieve that goal and I look forward to working with our witnesses in that regard.

The CHAIRMAN. Thank you very much.

Mr. Secretary, before you start your testimony, I want you to know that I still continue to hear good things about your trip to Vermont a few weeks ago. People are very thankful for your visit, and also your willingness to listen and answer questions. As you recall from that trip, some of the same issues came up that Senator Feingold has just raised concerning dairy. You will not be surprised when we get to my time for questions that I will have some questions on dairy.

I think that you should know that everybody who met with you, it seems, has gone out of their way to either call my office or write to my office to thank you for taking the time, especially with a change in the weather and the fact that you got practically no sleep on that trip, that you were able to get up there and spend so much time with everybody.

Mr. Secretary, it is all yours.

STATEMENT OF HON. MIKE ESPY, SECRETARY OF AGRICULTURE, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, DC.

Secretary ESPY. Mr. Chairman, I thank you, and I thank Senator Lugar and the Members of this committee for allowing me to ap-

pear today, along with Ambassador Mickey Kantor to discuss the Uruguay Round agreement and its impact on agriculture.

Since I am here, Mr. Chairman, I would be remiss if I did not take the first opportunity I have had publicly to thank you, and to thank Senator Lugar for pressing through this body the reorganization bill that affects the operation of the USDA. It was a fantastic occurrence, with a landslide vote—I believe it was 98 to 1. I thank you, Sir, for doing that, both of you. We talked about it in great detail, and I just wish that I could convince my House Colleagues on the other side to move as expeditiously and as forcefully as you have.

It is a landmark bill. We have not had such a change in structure since Abraham Lincoln created the USDA, and I am just very hopeful that we can move on and get out of this limbo phase that we are in over there. We will know what the organization will look like, and then we can move forward on some other plans. On the other hand, I do thank you for doing your part.

Mr. Chairman, I am here to discuss, along with Ambassador Kantor, the impact of the GATT on agriculture. Many things have been said about this agreement, and I want to be very practical here today. Many have talked about the tremendous breakthrough of the Uruguay Round and its effort to end things like the import ban on rice in Japan and Korea. The last time I checked, we have pre-Uruguay Round exports into Tokyo of rice coming mainly from California, and now the sales are pushing 400,000 metric tons. These exports to that market in Tokyo will be made permanent as a part of the GATT.

But I don't want to just dwell on that. I would like to talk about the longer-term benefits of this agreement.

The GATT was established shortly after World War II, when the major western countries recognized the critical role that trade plays in the economic and political development of the world. GATT became a great success, but principally for non-agricultural products, where we have seen tariffs reduced by more than 40 percent.

As trade expanded, standards of living improved. However, despite all this success, agricultural trade has not benefited as much as it could have from the GATT because it developed largely outside of the framework of the GATT. Instead, agricultural policies that emerged after World War II were really more of a haphazard mix that limited and distorted trade. International trade rules, where they existed, were, in fact, weak and largely impossible to enforce.

That was the scenario when the Uruguay Round began almost 8 years ago. Our scenario was straightforward, to work towards an agreement that promoted trade growth for our farmers by eliminating all policies that distort international agricultural trade.

I do not have to explain to this committee how important exports are to the income of our farmers and to the U.S. economy as a whole. This committee is well aware that 30 percent of all of the harvested acreage within the United States is destined for export markets somewhere in the world, and that fully a third of all the cash receipts headed for the pockets of the American producers are derived from export sales.

Perhaps the most telling number to me, Mr. Chairman, is that nearly 96 percent of the world's consumers live outside of the boundaries of the continental United States, so obviously this is the way that we must go. The greatest future market potential for American food and fiber lies outside of our borders. That is very clear.

When you combine this fact with the budget constraints that we are living under, the value of export markets as a mainstay of the U.S. farm income is even clearer.

Although it will not be possible to solve all the economic problems for U.S. agriculture incident to this Uruguay Round agreement, it is critical for farmers, because it will begin to open world markets, some for the first time. I would like to emphasize, though, that this is a work in progress. This is a task that we are just beginning.

The agreement will enable American farmers to do what they do best, produce food, feed, and fiber, and market them at competitive prices in the world market. All Americans, we believe, will benefit from an agricultural sector that can fully use its productive capacity.

Perhaps more importantly, this agreement brings agriculture more fully into the GATT system. That gives us a significantly improved process for resolving agricultural trade disputes.

In addition, for the first time, Mr. Chairman, we negotiated an agreement that helps our farmers in four specific areas: market access, internal support, export subsidies, and sanitary and phytosanitary rules. Changes in these four areas will be implemented over a period of 6 years, beginning in 1995. I would like to just briefly summarize the main benefits to agriculture in each of these four areas.

In the area of market access, to improve worldwide market access, all tariffs for agricultural products in all GATT member developed countries will be reduced by an average of 36 percent, and they will be reduced by an average of 24 percent in developing countries. In some of the most important growth markets for the United States, we achieved some specific and additional market openings that go significantly beyond these market openings, particularly for beef, pork, poultry, specialty products, and processed agricultural products. Yet, I would like to emphasize that tariffs for all agricultural products will be reduced.

Existing import prohibitions will be converted into visible tariffs through the process of "tariffication," and a minimum level of access is assured in these markets. This means, for example, again, that Japan and Korea will begin to import American rice on a permanent basis after 1995. We expect that a substantial portion of this rice will be coming from California, but also Arkansas, Louisiana, and Mississippi.

I gave a speech the other day, Mr. Chairman, to a union in town, the United Food and Commercial Workers, who, in our effort to pass the NAFTA, were on the other side. I talked to them about the increases we have seen in jobs, in particular, in the Port of Sacramento, where the International Longshoreman's Union has hired, in my knowledge, about 19 additional workers just to load the rice off of the trucks onto carrier ships destined for the Tokyo market.

So these trade agreements have impacts well beyond the direct impact to the American producer.

Further, the Uruguay Round agreement requires that all import quotas and the variable levies, as used within the European Union, minimum import price schemes, and other trade-distorting schemes to be replaced with tariffs or tariff rate quotas. With tariffication and the subsequent reduction in these new tariffs, we can begin to move toward the proverbial level playing field that we all talk about.

From the United States, the commitment on market access means that quotas imposed pursuant to Section 22 will be replaced with tariffs and tariff-rate quotas. The out-of-quota or second-tier tariffs initially will afford approximately the same level of protection that was provided by the quotas. In addition, a special safeguard will be available if there is a surge in imports or if import prices drop significantly.

But I do want to be clear. We believe that the impact of these imports, even though we have to give up our Section 22-type protections, we believe that the impact of these imports on our producers must be viewed in the context of the enormous market access we gain for our exports around the world.

In the area of internal support, the Uruguay Round is the first GATT agreement that disciplines internal agricultural support. Reduction commitments were established on the basis of what is termed "Aggregate Measure of Support," or AMS. Under this approach, each country must reduce its total internal support by 20 percent from the level that existed in the 1986 to 1988 base period.

But, Mr. Chairman, and this is a very important but, because the United States has already reduced its internal support by more than the required 20 percent below the appropriate base level, we will not be required to undertake any further reductions to meet our commitments under this agreement, and that is a very important statement to make as we approach discussion of the 1995 farm bill.

third, in the area of export subsidies, for the first time, GATT rules will effectively discipline the use of agricultural export subsidies. These subsidies are clearly defined and must be reduced by 36 percent in budgetary terms and 21 percent in quantity terms from the same 1986 to 1990 base period levels. We think that these cuts in subsidized exports will greatly benefit our producers.

Nearly all of the European Union exports are subsidized—nearly all, both in bulk and value-added products. A relatively smaller share of our exports are subsidized. So with a multilateral cut in export subsidies, the United States can cut export subsidies and still remain competitive. This will begin to establish fairness in the world-agricultural trading system and improve prices and markets in developed and developing nations.

Lastly, Mr. Chairman, in the area of S&P requirements, the Uruguay Round agreement ensures that any trade restrictive measure taken by an importing country for the purpose of protecting human, animal, or plant health must be based on principles of sound science. That is so very important, because many countries,

of course, can now erect trade barriers based on political considerations or based on whimsy or based on arbitrary motivations of whatever type.

Certain international standards are presumed, under the agreement, to be science based. However, if a country chooses to adopt stricter standards, much as we have already done within the United States, it may do so if it has a scientific justification for taking the stricter measure.

We believe that these provisions will discourage countries from using unjustified health-related measures as disguised barriers to trade while maintaining each country's right to protect the health of its citizens.

In summary, Mr. Chairman, I will say to you and to this committee that this is a progressive agreement. Looking down the road to the year 2000, we will see some benefits of the agreement as tariffs and export subsidies are reduced. Still, even more importantly, studies suggest that the Uruguay Round agreement will increase world income by as much as \$5 trillion in the 10 years after it goes into effect.

This growth will increase the demand for U.S. agriculture products, particularly for income-sensitive commodities like meat, fruits, vegetables, and other specialty crops. In addition, increased demand for beef, pork, and poultry means that U.S. feed grain and soybean producers will benefit as well.

Based on the expanded growth in global incomes, U.S. agriculture exports are expected to increase by between \$4.7 billion to nearly \$8.7 billion by the year 2005. Grains account for more than half of this increase.

Exports mean, of course, more export-related jobs, particularly for high-value and value-added products. By the year 2005, export-related employment is expected to increase by as much as 190,000 jobs, as shown on the graph to my left.

Increased exports will boost farm prices, of course, increase farm income, and lower government outlays. The Uruguay Round agreement is expected to raise farm income over current baseline estimates by as much as \$2.5 billion in the year 2005. At the same time, government outlays for the domestic price and income support programs could be as much as \$2.6 billion lower in the year 2005, and, of course, that is good news to us in today's budget environment.

Perhaps even more importantly for the future is the discipline the Uruguay Round agreement provides to countries who wish to become a member of the GATT. Here, I list countries like China and Taiwan and nations of the former Soviet Union. They will have to subscribe to a discipline if they want to join the world league of trading nations.

So, Mr. Chairman, I have just presented what is a very short summary of an agreement that has taken a very long time to negotiate. I want to give specific credit to the gentleman to my right, Ambassador Mickey Kantor, for doing an excellent job in every category, including agriculture, to get us to this point.

After the fifth year of implementation, the countries of the GATT will come together in Geneva to continue the reform process started in Uruguay in 1986. We will decide how further market

openings and reductions of trade barriers and subsidies should continue after the sixth year of the agreement.

I would just like to remark that it has been over 30 years since a Secretary of Agriculture has served 8 consecutive years, so I can't promise you that I will be participating in the GATT negotiations in the year 2000, but I am certain that many on the panel will be here in order to supervise.

I welcome this chance to discuss this historic agreement with you at this time. Also, I would like to acknowledge the invaluable guidance, Mr. Chairman, that you played, and you, Mr. Lugar, played

in getting us also to this point. I know that when you sent Mr. Riemenschneider to Geneva, when we were negotiating in the final hours in very long, and protracted sessions. He gave me invaluable guidance as to your wishes, Mr. Chairman, and I want to thank him, I want to thank your staff, and Senator Lugar, you and your staff, and every Member of this committee for helping us to reach what I think is a very historic moment in U.S. agriculture trade.

Thank you.

The CHAIRMAN. I thank you, and I should note how much I and other Members of the committee appreciate your accessibility. You have gotten more suggestions from us as you have gone along than you probably would have liked, but I appreciate it. I remember those calls also coming from Geneva and the effort you made to track me down when I was in Vermont or in Washington to talk about it, and I appreciate that.

The CHAIRMAN. Ambassador Kantor, I recall saying when you were appointed—we were chatting and a lot of us didn't know whether to congratulate you or offer sincere condolences on your appointment. In so many ways, you have had one of the most difficult jobs that any President could give any ambassador. I know how much you have put into it.

I recall after your fall and your injuries, that you were back, I suspect, a lot quicker than the doctor would have liked, and I compliment you for what you have done. I think had you been unwilling to put so much effort into it, we wouldn't have come this far. I join with Secretary Espy in what he said about you.

Please go ahead, Sir.

STATEMENT OF HON. MICHAEL KANTOR, UNITED STATES TRADE REPRESENTATIVE, WASHINGTON, DC.

Ambassador KANTOR. Thank you very much, Mr. Chairman, Senator Lugar, and Members of the committee.

I will not repeat all of the points made by Secretary Espy. Let me just indicate that without his leadership and his staff, we would have never reached the good agreement in agriculture that we reached in the Round.

I think we did improve it, Senator Conrad. That doesn't mean that my predecessors or the prior administration didn't do a good job. This is the product of three administrations. There is something that goes on in Washington that always interests me, that everybody believes that when they got here, that is when life

began. Well, a lot of other people contributed to this, including Republicans and Democrats, and that is why we have, I think, a solid agreement that is in the best interest of the United States of America.

I am just going to go generally over a few points about the Round, then I am sure we both would be glad to take questions.

I would like to answer one question, though, or one observation, I think made by either Senator Baucus or Senator Harkin, I can't remember at this point. At my age, an hour ago was a long time. I can't remember these things.

But raising loan rates at this point, because we in the 1985 and 1990 farm bills reduced our internal supports by such a large degree, will not be affected by the Uruguay Round. We have a huge gap to fill there. As you know, we do not have to reduce by any percentage our internal supports, and we have a wide gap to fill. Therefore, agriculture can go ahead with its program undeterred by the Uruguay Round. I wanted to answer that question first.

Let me make just a few broad points, Mr. Chairman, and then I would be happy, and I am sure the Secretary, would be happy to take questions.

This agreement will cut worldwide tariffs according to the GATT by an average of 40 percent. It is certainly more than 33 percent. I agree with the Chairman. I think we sometimes overstate the case in these agreements and what we are trying to do in our zeal to both promote ourselves and promote what we have done, hopefully, for the country. Yet, the fact is, it is the largest tariff decrease in world history. It will have enormous effect on a country who has the most competitive businesses in the world today, the most productive workers in the world today.

If we are able to get health care reform and a reemployment program and turn around our educational system and do something about welfare reform, all of which the President is trying to work with the Congress on both sides, with both parties on, we will be the major winner in this Uruguay Round.

Second, it protects the intellectual property of U.S. entrepreneurs, whether it is entertainment or whether it is the pharmaceutical industry or whether it is the computer software industry. That cannot be overstated. As you know, our revenues from foreign trade in these intellectual property areas are growing exponentially.

Third, it ensures open foreign markets for the U.S. exporters of services—accounting, advertising, computer services. Sixty percent of our businesses in the country now are services. Seventy percent of the employment in the country is services. Nothing can be more important than bringing services under the GATT and opening up these areas which have been closed to us for so long, whether it was in Mexico, which we dealt with in the NAFTA situation, or in other countries around the world.

We ensure that developing countries follow the same trade rules as developed countries and bind their tariffs for the first time. The Tokyo Round was very important, but only 24 or 26 countries really bound their tariffs as a result of the Tokyo Round. In this case, 124 countries, 125 if you count the European Union, which, in addition, signed the agreement, will bind their tariffs.

That is a major step forward in trying to make sure that we are treated fairly in world markets.

It establishes an effective set of rules for prompt settlement of disputes. I think that question was raised. It is a critical step forward. We have a dispute settlement mechanism that, in most cases, only takes 16 months from consultation to final appeal resolution to get a decision out of the GATT. That is an enormous step forward.

We don't allow blockage. We allow, for the first time in the WTO, cross retaliation. Nothing could be more important than, frankly, our intellectual property area, because as you know, we are such a large exporter of intellectual property and such a small importer, we can't enforce those rules very well if we can only retaliate in that sector. To be able to cross-retaliate gives us a tool we didn't have before.

And, of course, it creates the World Trade Organization in order to implement the agreement, which I think is much more effective than the GATT has been.

Let me make three last points. What this agreement will not do, it will not impair the effective enforcement of U.S. trade laws or any other U.S. laws. I think that is critical.

Number 2, it does not limit the ability of the United States to set its own environmental or health standards in any way.

Number 3, it does not erode the sovereignty of our country. We were careful to preserve that. Our concern with that is no more than the concern of any other country in the world in preserving our sovereignty and our culture, and we have done that in this agreement.

Is it a perfect agreement? Absolutely not. Is it the biggest and most important agreement in history in trade? Yes, it is. Is it in the best interest of the United States that we ratify this agreement, for our workers, for our businesses, for our future growth? I believe to my core that it is, and I look forward to working with the Chairman, the Senior Ranking Member, Members of this committee, and the Senate in order to get this passed.

The CHAIRMAN. Thank you, Mr. Ambassador.

Again, I compliment your energy and stamina. I heard back, also, many reports from Dr. Riemenschneider when he was over there. I am glad you were the guys who were doing the negotiating. I am not sure I would have quite the patience. On the other hand, I have no trouble negotiating within this committee; to be doing it with the rest of the countries would be a lot.

I would note that is interesting, Senator Lugar and I were just looking down through the committee list, and I think you probably have the highest percentage of Finance Committee Members on this committee as you do on any other committee. So while you may spend a fair amount of time here on this, you are in some ways getting a "twofer." One problem that will come up before this committee and the Finance Committee, and is how you would pay for GATT.

The GATT agreement is going to result in a loss of about \$13—\$14 billion in tariffs over 5 years.

Because of pay-go, we have to have an offset in our implementing legislation.

We have been assured for some time by the administration that the GATT agreement would not require us to reduce deficiency payments, milk price supports and so on; but now there are some very active rumors in this town that the administration is going to look to agriculture for offsets to cover the budgetary costs of the agreement.

I have a letter to the President, signed by 17 Members of the committee who are very concerned about this. I will just read you the last paragraph.

It says, "If the administration were to propose new farm-spending reductions, we believe the prospects for congressional approval of the Uruguay Round implementing legislation would be seriously complicated." That is a New England understatement, I hasten to add.

[Laughter.]

The CHAIRMAN. "We again urge you to reject any such proposals." The letter will be part of the record.

The CHAIRMAN. Can you tell us, either of you, and I will start with you, Ambassador Kantor, how you plan to pay for it and whether there is a plan for consultation with the appropriate committees in the Congress as you work out that plan?

Ambassador KANTOR. Thank you, Mr. Chairman.

First of all, in order to put this in proper perspective, we ought to understand what is happening as a result of this agreement. Although there will be in the range of a \$13 billion reduction in tariffs over a 5-year period of time, that is, in fact, a tax cut for the American public. Obviously, that lowers the cost of goods, provides more competition. It is in the best interests of American consumers.

However, number 2, both an independent study just completed, which, I think, reviewed 40 different scenarios, and a study done within the administration both came to the same conclusion. On a weighted average, from \$3 to \$3.90 will be collected in Federal revenues in the first 5 years for every \$1 of tariffs we lose.

So we lower the cost to the consumer and we raise Federal revenues, but under the pay-go system, as all of you are more aware than I, that is a dynamic analysis and can't be used in a static budget concept.

So regardless of how well we do fiscally as a result of the Uruguay Round, we must find about \$13 billion in offsets, either in cuts in programs or in fee increases or extensions in order to pay for it.

Let me make something clear to begin. No decisions have been made. Director Panetta, Secretary Bentsen, myself, members of the White House staff, have met with Republican and Democratic leaders in both the House and Senate over the last 2 weeks to begin a discussion, working together, to try to come up with a proper formula as to how to pay for this Round.

The CHAIRMAN. When you are meeting with them, think of some of those here on the Agriculture Committee. Read that letter very carefully. You can't afford to lose 17 votes.

Ambassador KANTOR. I think Senator Dole is a Member of the committee.

The CHAIRMAN. He is.

Ambassador KANTOR. We, of course, have met with him. That doesn't mean we shouldn't meet with the Chairs and the Ranking Members as well. We are trying to be as inclusive as possible. We think it is important that we do so.

We have tried to deal with trade issues, whether it has been NAFTA or the Uruguay Round or APEC or a procurement agreement with the European Community or whatever we have tried to deal with on a bipartisan matter. Trade is not a partisan issue, and we are not going to make it a partisan issue. We are going to deal with both sides and both bodies and come up with a solution that we can all live with.

The CHAIRMAN. I understand. Nobody disagrees with that.

Ambassador KANTOR. I was hoping not.

The CHAIRMAN. This committee has probably set the standard for bipartisanship. Senator Lugar and I put the USDA reorganization bill forward, as a strong bipartisan effort, something that could not have been done without Senator Lugar's leadership. We would do this here, too.

We just want to know, though, that agriculture suddenly isn't put in the position of having to pick up the tab for this agreement.

Ambassador KANTOR. Let me assure you, agriculture will not pick up, obviously, the whole tab for this.

Number 2, it would be not candid to not say one of the obvious areas of interest that we will look at—because of the 21-percent cut by all countries in export subsidies—will be our EEP program, which will save us anywhere between \$1.5 to \$2 billion over 5 years, and that is being scrubbed right now, that that would be a proper area of inquiry—I am also understated; I am from Tennessee, Mr. Chairman—a proper area of inquiry as we try to put together a package of offsets.

The fact is that industries that are big winners like agriculture, pharmaceuticals, retailers, heavy construction equipment, intellectual property industries, and so on should also be the industries where we look to, to try to find the proper offsets in order to "pay for" the Uruguay Round.

The CHAIRMAN. Let us go to one of the specific ones. I should probably address this to Secretary Espy. He heard some of these same questions in Vermont. At the risk of sounding parochial, a lot of dairy producers not only in Vermont but throughout the country have called me and are concerned about what GATT might mean for them.

They hear we have given up Section 22 and will have to allow a lot more dairy product imports and that we will have to reduce subsidized sales under the Dairy Export Incentive Program. Hoard's Dairyman, just in the last few weeks, has predicted the agreement is going to shave somewhere from 40- to 55-cents-per-hundredweight off milk checks. They hear that USDA's own analysis shows that the agreement is going to increase the cost of the dairy program.

Why should anybody in the dairy industry support the agreement? What do they get out of it?

Secretary ESPY. Mr. Chairman, I can answer that question, but could I just add a word to the prior answer?

The CHAIRMAN. Certainly.

Secretary ESPY. First of all, we are reviewing the arithmetic at present on revenue losses across the board, and those of us within USDA also are scrubbing the numbers as well. I agree with Ambassador Kantor, that no decisions have been made, although this is under very active discussion within the administration.

If we accept the \$13 billion amount in lost tariff revenue due to the Uruguay Round, our analysis at USDA seems to suggest that about 5 percent of that comes from estimated losses in tariff revenues attributable to agriculture.

In particular, in the 5-year period, 1995 to 1999, depending on whether you use the January 1995 date or the July 1995 date, our figures suggest that net-reduced tariffs on agriculture commodities could reduce the U.S. tariff revenues by \$608 million, if you take the January date, and about \$500 million if you take the July date. So that is, again, about 4 to 5 percent of the \$13 billion to the overall tariff revenue loss.

But as the Ambassador also said, the income effects of all of this, really, in many ways, are not taken into account by the CBO. Within the USDA, we can take into account the reduction in outlays from CCC accounts because of our estimate of the farm price increases and its effect on our reduction to give deficiency payments. So we do have those numbers, also, the numbers with regard to our EEP reductions under the Uruguay Round.

Again, in the period 1995 to 1999, we expect that CCC outlays will be reduced under the EEP program \$1.6 billion over that same time frame, and when it comes to deficiency payments, this, of course, is a lot harder to figure out. It depends on farm price increases, it depends on the world-wealth figures, but we can see that within this same period of time, the CCC outlays will be reduced either at a very low base period, from \$682 million over the same 5-year period, to a high of \$1.95 billion. It depends.

Obviously, if cash prices increase, then as farmers will sell their commodities into the market and we will not have to give the deficiency payments, so a lot of that can be used to offset the revenue losses that are attributable to agriculture.

No decisions have been made, but all of these things are under discussion.

Now going to the second question, Mr. Chairman, I will just say this to you, Sir, that this is a multilateral deal which liberalized trade for all the GATT member nations all around the world. All had to open their markets, as did we. Many had to give up the protections that they have relied upon for generations, and we had to give up some of ours as well.

In the area of dairy, I would suggest to dairy producers who have some trepidation about our signing onto this agreement, that we have incredible market access opportunities available. As the Ambassador said, if you look at the issue of comparative advantage, we are competing against the European Community in dairy all across the world, but we are doing very well.

In Japan, Japan increases market access opportunities. Korea increases market access opportunities. Malaysia reduces tariffs for cheese and yogurt. Thailand reduces cheese and whey tariffs. South Africa increases access. Sweden opens access for the type of cheese

used in pizza. EFTA countries have open access for butter. Costa Rica increases access for dairy products.

And the European Community, Mr. Chairman, with whom we compete, will face much larger cuts in export subsidies than we do. Reductions from 1986 to 1990 base period is that for butter. We have to reduce to less than 6,000 tons; they have to reduce 97,000 tons. In skim milk powder, we reduce 18,000 tons; they reduce 65,000 tons. In cheese, 800 for the United States in cheese; 81,000 tons for the European Community. Also, in other dairy products, I see here that we must reduce by only 9 tons, but they have to reduce 250,000 tons.

So in the area of forcing them to reduce their export subsidies in dairy, this agreement does it. In the area of market access, this agreement allows us greater access than we have already.

The CHAIRMAN. Let me ask you about one country that I can drive to in an hour from my home, and that is Canada. I understand the Canadians are refusing to open up their dairy markets, even under the obligations of either GATT or NAFTA. We are going to still have increases in dairy imports in this country under GATT.

One of the fascinating things, if you actually read all the way through this agreements, when you read the small print, we are still going to have increased imports under GATT for dairy.

If Canada is unwilling to live up to its obligations to accept our dairy exports, I see a real problem within that industry. I wonder if either of you want to talk to me about that?

There is one group, the National Milk Producers, who issued a press release saying the administration is on the verge of selling out dairy interests in exchange for a deal on wheat with Canada. Where are we in this regard?

Ambassador KANTOR. That gets us into the negotiation, which I will refrain from to some degree, because I am sure I will be asked that, and so will Secretary Espy.

The CHAIRMAN. I understand, but you see the concern.

Ambassador KANTOR. Absolutely, and the concern is well founded, Mr. Chairman. Our goal, number 1, is to open up markets as wide as possible.

Number 2, to absolutely ensure that we level the playing field.

Number 3, let me be very specific. Under the GATT agreement, Canada has agreed to tariffication on all agricultural products, including dairy, eggs, and poultry. That means they get rid of all their non-tariff barriers and they have to "tariffy" those barriers. They will put in place tariff equivalents.

Once you put in place tariff equivalent under the Canadian Free Trade Agreement and NAFTA, Canada is obligated, of course, not to maintain tariff barriers in this area.

The CHAIRMAN. They can't create any new ones under NAFTA, either.

Ambassador KANTOR. That is right. It is an interesting situation, Mr. Chairman.

The CHAIRMAN. It is more than that.

Ambassador KANTOR. I am less ebullient than you are. It is an interesting situation. The Canadians understand it. They are obligated under one agreement to get rid of quotas and non-tariff

barriers, and to get rid of tariffs in the other. When you put that together, you come to an obvious conclusion.

Part of the discussion we have been having with our Canadian colleagues has been that we have a larger problem than just one particular commodity. Wheat, sugar, sugar-containing products, peanuts, dairy, eggs, poultry, if you want to put them all together. In some cases, we want to keep our industries as competitive as possible, and we believe the Canadians have not acted in a proper fashion.

In some cases, Canada wants to keep their industry, euphemistically, as competitive as possible, meaning dairy, eggs, and poultry, and therefore, we believe there is, as Senator Baucus said, "A bigger solution to this problem than just looking at a short-term solution."

Now we are going to have to go to some short-term solution in order to make sure that we gain the Canadians' attention in the proper way. We are prepared to do that.

However, we believe, and I think the Secretary would support this, that, one, we would be willing to go to free and open trade in all of these commodities and we think we would be much better off. The Canadians are unwilling to do that. The Secretary has offered that; they rejected it.

Now rejecting going to free and open trade in all these commodities means we are going to have to reach some accommodation in order to make sure our industries remain competitive, and that is what the argument is all about at this point.

Failing those discussions, or failing the success of those discussions, we will not hesitate to take action to make sure we protect the competitive position of our industries, whether it is wheat or sugar or sugar-containing products or peanuts, and that we increase our access in dairy, eggs, and poultry.

Secretary ESPY. Mr. Chairman, that is right. I agree with the Ambassador. We did offer to go free trade across the board, and we are not just talking about wheat only. It is very important to make this point.

I have read in press release after press release that we are talking about a wheat-only battle here and that we are trading off one commodity against another. That is not the case, Sir. We are talking about dairy, poultry, eggs, sugar, sugar-containing products, and wheat.

The CHAIRMAN. Even with regards to wheat, we are talking about using an Article 28 action. If you did that, I can't imagine the Canadians offering any additional access to our dairy products, or am I missing something?

Secretary ESPY. I think—

Ambassador KANTOR. Go ahead.

Secretary ESPY. I just want to reflect again on the status of negotiations to this point. We believe in free and fair trade, including all of these commodities, Mr. Chairman. We are very disappointed with the attitude that they have taken, frankly. We want increased access to the Canadian market for our dairy products and our poultry products.

They realize that under the GATT, their supply management system under which they have operated for so long is really illegal.

So what they have done, they have tariffed their quotas at tariff levels, which, in our opinion, are incredibly high, prohibitive, and will disallow only but a small trickle of imports from other nations.

For instance, they have tariffed cheese at 289 percent, butter at 351 percent, poultry at 280 percent. Now that is probably legal under the GATT, but, Mr. Chairman, that certainly is not in the spirit of the North American Free Trade Agreement, and we have made this point quite clear.

After the 22nd, we will be taking action to notify the GATT and notify our Canadian trading partners that we will be adjusting our tariffs on wheat, and they may take some retaliatory action. We will just have to resolve that when we discuss with them, Mr. Chairman, and we will just have to see what we get.

The CHAIRMAN. You can understand my concern, and I hear it back home, because we sit right there on the border. It literally is an hour's drive for me to be well into Canada.

Secretary ESPY. The access right now for dairy is very low. It can't get much worse.

The CHAIRMAN. That is what I am told.

My last question this round is on food safety and harmonization. We have very strong health and safety standards in my State, as many others do. There have been some reports of GATT requiring the United States to lower our pesticide and our food safety standards because they may actually limit trade. We talked about this earlier, that we can be justifiably proud on our safety record on food.

Will the GATT agreement—just so we will have it on the record—will it weaken U.S. food safety laws by requiring the United States to adopt less stringent standards?

Ambassador KANTOR. Absolutely not, and in fact, it is made specifically clear that any country, including the United States, can maintain higher standards than the international standards which are referred to under this agreement.

The CHAIRMAN. Based on available scientific information?

Ambassador KANTOR. We base all our laws on a scientific basis, so therefore, we will not be adversely affected in any way whatsoever by this agreement and can maintain the higher standards as well.

The CHAIRMAN. Who determines what those scientific standards are? Can we have somebody say that our scientific standards are set at an unnaturally high level or something like that?

Ambassador KANTOR. I guess we could be challenged under the dispute settlement understanding under the World Trade Organization, but we are fully confident that we can sustain our position before any panel. I think environmental organizations generally support what we were able to do in the last 48 hours in getting changes in the sanitary and phytosanitary sections in order to make sure we could maintain the highest standards and we wouldn't be penalized for that.

The CHAIRMAN. Are you comfortable with that, Secretary Espy?

Secretary ESPY. Yes, Sir.

The CHAIRMAN. Senator Cochran?

Senator COCHRAN. Mr. Chairman, thank you very much.

I have a number of questions I am just going to submit to the witnesses and ask that they be answered for the record.

I am specifically interested, in hearing from our witnesses their reaction to the fact that in the assessment of loss of revenues or costs of the GATT implementation, whether or not it would be proper to offset those losses with the anticipated increase in new jobs, new sales in exports, and various other positive things that are going to happen as a result of this GATT agreement.

I hear you all talking about things that will be consequences; financial consequences in terms of the Federal budget and farm program costs and that kind of thing. Isn't there room for us to calculate the increased income, new jobs, new taxes and revenues flowing into the Treasury as we try to determine whether this should be offset in some budget way?

Ambassador KANTOR. As I understand the so-called pay-go system, the answer is, unfortunately, no. As you know, I have recently come to Washington. It is now 14 months that I have been here in this job, although I was here early in my life as a Naval officer, but the fact is, it is somewhat stunning that we can't take that into account.

We will increase not only the number of employment in this country by an estimated—low estimate—in 10 years, by \$1.4 million net—that is net jobs—190,000 in agriculture alone, but we will increase the median income of a family by \$17,000 over the 10-year period, \$1,700 a year. We will add \$100 billion to \$200 billion a year to our gross product. This is an enormous economic winner, and, of course, we will have the resultant Federal revenues coming in, which will clearly offset, as these studies have shown, the loss in tariffs.

But under the static concept, under the pay-go rules, we can't count that, Senator, and it makes it very difficult, then, to find the offsets in order to pay for what is clearly an agreement that is in the best interests of our country.

Senator COCHRAN. I notice, for instance, Secretary Espy had similar comments in his prepared statement to us, Ambassador Kantor. It just seems to me that this could be, I suppose, an argument for Congress making a decision to either not require a total offset under strict budgetary or pay-go rules, as you say.

Mr. Secretary, what is your response?

Secretary ESPY. I would agree with the Ambassador, Senator Cochran. I just say that under an agreement this enormous, optimism is expected, but we are unable to quantify it. We are unable to claim credit for it under the budget rules, as we understand them.

Clearly, clearly, an opening of the market for agricultural products will increase demand, and will, therefore, increase income, improve jobs, and improve the overall GNP, but we are unable to claim that under the CBO rules as we understand them, which don't take into account income effects.

The only thing that we can do, as I suggested in my testimony, is to go directly to the CCC impacts. We know that under the GATT, we have to reduce our EEP and some of our other export subsidies, so we can measure that. We also can measure anyway the income effects by realizing that the other side of that means

that we won't have to pay out as much in deficiency payments, so we can measure that. However, above and beyond that, we cannot, and that is amazing to me as well.

Senator COCHRAN. In your statement, I think this confirms what you say, that farm income is expected to rise over current baseline estimates by as much as \$2.5 billion in the year 2005.

Secretary ESPY. Right.

Senator COCHRAN. There is a corresponding estimate about the reduction in outlays for domestic price and income support programs. That could be as much as \$2.6 billion lower by the same time.

Secretary ESPY. That is right.

Senator COCHRAN. So those outlays, we can calculate and use under the budget rules, but it is the income figures we cannot?

Secretary ESPY. Yes, Sir. We realize that the farmers, they don't just put the money in the mattress. They spend the money at the John Deere tractor dealer, and they pay for school taxes, and they enhance the revenue base of so many of these rural communities. We know that. That is just natural, but we are unable to quantify that.

Senator COCHRAN. Is the administration prepared to recommend, as a part of its proposal on this subject, that Congress take that into account under this situation?

Ambassador KANTOR. The administration is, as you know, beginning in January, has been very disciplined in its budgetary approach. The one thing we don't want to do is send any signal we are going to lessen that discipline in any way.

I would only note that we received a letter, I think signed by every Republican Member of this body, indicating that we should not waive the budget rules in this connection.

Senator COCHRAN. We talked about not being partisan. We have a letter here dated April 19 that is signed by Pat Leahy, Russ Feingold, Tom Harkin, Bob Kerrey, Tom Daschle, Max Baucus, Kent Conrad, David Pryor, Howell Heflin, David Boren, that says, "We write to express our strong concern over reports that the administration may propose new reductions in agriculture-related spending," and it goes on to talk about other things, but it is not a partisan issue.

Ambassador KANTOR. Oh, not at all—

Senator COCHRAN. There are also Republicans on this letter.

Ambassador KANTOR. We are all in the same position. We want to make sure the financial markets are absolutely certain that we are going to all work together for budget discipline.

On the other hand, we all want to pay for the Uruguay Round.

On the third hand, frankly, everyone is a bit concerned as to whether their area they are most concerned about, and in this case we are talking about agriculture, pays an unfair share of that burden or takes an unfair share of the burden. We need to all work together, and I agree with you, work together to try to come to a rational conclusion as to how we are going to find the offsets, where they are going to come from, and not to overburden any particular sector as we do it.

Senator COCHRAN. I have other questions that I will submit for the record. I want to assure you of this Senator's interest in resolving this issue on a bipartisan basis.

[Senator Cochran's prepared statement follows:]

STATEMENT OF SENATOR THAD COCHRAN

Thank you, Mr. Chairman, for holding this very important hearing today on the impact of the GATT agreement on U.S. agriculture. There is no question that U.S. agriculture will benefit from enhanced trade due to the Uruguay Round GATT agreement. The future of agriculture in this country depends upon opportunities to sell what we produce in the world market.

Lost market share since the mid-1980's has cost U.S. agriculture about \$10 billion in annual export sales. This has translated into about \$24 billion less each year in economic activity and a loss of around 200,000 jobs. It was the hope of many in agriculture that the Uruguay Round GATT agreement would help turn this situation around.

The GATT agreement has the potential to be good for U.S. agriculture because it provides the opportunity to expand sales that will create thousands of new jobs. However, to realize this potential will require a strong commitment on the part of the Government to help ensure that our policies will help make our exports competitive in the global marketplace.

Additional reductions in the Federal agriculture budget, and cuts in agricultural programs to implement the GATT agreement would be counterproductive and unfair to agriculture. Spending for agricultural programs has been reduced by over 50 percent since 1986.

It is my hope that as we consider implementation language for the GATT agreement, agriculture will not be asked to pay a disproportionate share of the implementation cost.

I look forward to the testimony of Secretary Espy and Ambassador Kantor, and to working with this committee on this very important issue.

Senator CONRAD [presiding]. If I could just go to a number of questions. First of all, it seems to me it is very important that people understand that our dispute with Canada should not be a case where we put one U.S. commodity against another. That is not the issue. We have a dispute with Canada across a series of commodities; that is, dairy, poultry, peanuts, sugar-containing products, wheat, barley. All of those commodities are being disadvantaged by Canadian policy, is that not the case?

Secretary ESPY. It seems to me, Sir, that they want their cake and eat it, too. I hate to stay within the wheat category, but the fact is that they want the *status quo* plus growth in markets where they have some advantage, and in markets where they want the *status quo* protection, they don't want any change. That, Sir, is not fair. So that brings into play a range of commodities, all of which you mentioned.

Senator CONRAD. So isn't it the case that fundamentally, we are going to have to have, ultimately, a negotiation that is going to involve all of these commodities, and that all of these commodities, at the end of the day, ought to come out better than they are now. Isn't that the goal of this administration and those of you who are negotiating on behalf of our country?

Secretary ESPY. Yes, Sir, that is our goal.

Senator CONRAD. Ambassador Kantor, would you reflect on that as well? This is not a case that should be pitting one U.S. commodity against another, this is a case of us in the United States being the victims of unfair treatment by our neighbors to the North, is that not the case?

Ambassador KANTOR. Absolutely. If you look at the numbers, they are fairly stunning, and you have referred to them, Senator. In total wheat, 420,000 total tons, 1988-89, imports from Canada; it was 1,555,000 tons by 1992-93, a stunning growth. Durum now has 40 percent of the market.

Why has that occurred? You have the Canadian Wheat Board. It is a monopoly and it is non-transparent. You use the figures in terms of final payments, and you have a Western Grain Transportation Act, which, of course, adds to the subsidies which are provided unfairly to Canadian wheat providers.

We also are locked out of their market, given the fact that they have a monopoly which will not buy from us. So it is the worst of all worlds. We need a long-term solution to that problem, and I am afraid we are going to have to go to a short-term solution, which may be somewhat painful, in some ways, in order to get some movement.

But you are absolutely correct. We are not trading off one against the other. There is, frankly, a legitimate and obvious answer to this problem, and that is we take all of these commodities, we try to, on one hand, keep each of the industries competitive on each side of the border while we make sure that we provide more and more access.

What has happened is the Canadians want it both ways. They want no more access in dairy, eggs, and poultry, and they want more access in wheat or in sugar, in sugar-containing products and peanuts, all those peanut farmers in Canada that we are aware of, of course. We haven't found one yet, but we are still looking.

The fact is that this is going to take, between two strong allies who cooperate on so many things, it is going to take a tough negotiation but one that is in the interest of both countries. I believe that is going to happen, but I think we may have a little bit of a dust-up before we get there.

Senator CONRAD. Let me just say, I would hope that my colleagues would not see an Article 28 action by this country to stick up for itself with respect to a situation in which it is clear that we are victims of unfair trade practices by our neighbors as a threat to other commodities. I hope that, instead, they will see that the Article 28 action leads us ultimately to a resolution across all commodities, because this is a case, I believe, where we are all in the same boat together.

Either that boat reaches shore with all of us on board or we go down together. Right now, we are going down. We are going down. That is dairy and that is poultry and that is sugar and that is wheat and that is barely, and we have got to make sure that all of us arrive on shore together in that boat.

Let me go to the question of how we pay for the GATT, because this is a deep concern. I would just say this. You look at the makeup of the Finance Committee, who are going to deal with this question, and you look at the Membership just from our side of the aisle here. We have Senator Pryor, Senator Daschle, Senator Boren, myself, Senator Baucus. On the other side, we have Senator Dole, we have Senator Grassley, who is on the Finance Committee.

[The testimony resumes on page 36.]

[The prepared statement of Senator Grassley follows:]

STATEMENT OF SENATOR CHARLES GRASSLEY

Thank you Mr. Chairman. I'd like to add my voice to the chorus before me to express a couple of concerns.

First, I must say that agriculture's support for the GATT has cooled considerably since December, with farm constituencies asking us—in so many words—to explain how GATT is good for them in light of the disproportionate share of cost that may be shouldered on the American farmer. This pain is all the more acute for farmers in light of the major spending cuts absorbed by farmers in the 1990 and 1993 budget deals. Farmers are more than willing to pay their fair share—but I personally feel that we crossed that line a long time ago.

Second, I want to lend my support to the proposal circulating in the agriculture community to channel funds from current export programs—soon to be inconsistent with the GATT—into into “green box”—or GATT-legal—subsidies. This is all the more crucial for the American farmer in light of the current budget proposed by the Clinton administration which has proposed reductions in Public Law 480, Market Promotion Program, FAS Market Development, TEFAP, COAP and SOAP. These cuts, combined with proposed additional cuts to fund tariff revenue shortfalls under the GATT, are very significant. Moreover, I guarantee you that the European Union will channel funds to green-box subsidies. It is not the right time for the US to unilaterally disarm.

Mr. Chairman, Senator Heflin and I have a bankruptcy bill on the floor today, and, unfortunately, I will be unable to stay. appreciate you calling this hearing and I hope it will set the stage to settle many of the pressing issues confronting American agriculture as we approach implementation of the GATT agreement.

Thank you. I yield the floor.

Mr. CHAIRMAN. We are obviously going to be very concerned about how agriculture is treated with respect to the funding. I don't think it is unreasonable that we look on the EEP side of the house.

I have real reservations about the deficiency payment side for lots of reasons. One is we have a baseline here that has no provisions for the Conservation Reserve Program. You talk about a budget system that makes no sense at all, because the CRP, Conservation Reserve Program, ends next year, there is no money in the baseline to continue the Conservation Reserve Program that has got tens of millions of acres in this country. I tell you, it is going to come as a big surprise to the people around this country who are dependent upon the Conservation Reserve Program, that there is no provision, none, zero, for the continuation of that program.

So I would just alert you that that needs to be factored into our considerations of how we deal with agriculture as well.

If I might just ask, on the Section 22 investigation, I understand that, Mr. Secretary, you will have the chief economist there speaking for you at the hearing on April 28, is that the case?

Secretary ESPY. Yes, Sir. We will be presenting our findings and presenting our opinions before the ITC next week, I believe it is, Wednesday, I believe, and I will be asking Mr. Keith Collins, the chief economist of the USDA, the chief economist to the Secretary, to present our story.

Our story, Sir, will be that we believe that there has been, there is, and there will continue to be material interference with U.S. farm programs because of the tremendous increase in wheat coming from Canada. We have a case that, I think, is well documented. We talk about the particulars of their State trading monopoly, where they can purchase from the Canadian wheat producers and sell into the world at predatory prices.

We have documented sales where they have sold, for instance, wheat to Brazil from Canada which has been \$10 to \$15 per ton below world prevailing prices as measured by EC export prices at that time.

So we will be making the case. The way that they calculate the acquisition cost is also—as you suggested—not fair because the WGTA rail subsidies are not included. They pay their producers an initial price, which is determined to be about 75 percent to 80 percent below what they determine the world price to be, and that is a cushion that they can play with to undercut the United States and undercut the world price in selected markets, and that is what they do.

It is just very non-transparent, and they are not willing to change their operation. I am afraid that they are going to have to. They are going to have to, because not only are we excited about it, but in my trip to Marrakesh, where the Ambassador and I had bilaterals with many, many nations, we discussed this issue with other countries.

I remember in particular a discussion I had with the Argentinian agriculture minister, and he was absolutely livid with the degree to which they undercut—the Canadian Wheat Board is what I am speaking of—undercut world prices in the Brazilian market. That is a market for them. They want to sell their wheat into Brazil. I could say I could not be as disturbed, ever, I believe, as he was with me in discussing with me what they want to do about it. They are also having trouble in the Mexican market.

I think that this has become more and more an issue for the world to discuss. They will focus on the program and the approach of the Canadian Wheat Board.

Senator CONRAD. Let me just say, I appreciate very much the review of the facts that you have given, Mr. Secretary. We have 300 Minuteman IIIs in North Dakota that we are ready to retarget, and maybe that will get their attention.

[Laughter.]

Secretary ESPY. I would say that we have \$210 billion of 2-way trade between the United States and Canada, and within agriculture, it is about, I think, \$10 or \$11 billion. We have to have somebody over there, Mr. Chairman, to consume.

[Laughter.]

Secretary ESPY. I would just rather keep it in the framework, as best we can contain it, within wheat, and if that is not possible, within agriculture, and if that is not possible, hey—

The CHAIRMAN. I never heard arms control approached quite that way. Anything can happen in this committee.

[Laughter.]

Senator CONRAD. Let me just conclude by asking, do you intend to include barley, with respect to the case that you will make on the 22nd, Mr. Secretary?

Secretary ESPY. No. We will be discussing durum wheat—

Senator CRAIG. Thank you, Mr. Secretary.

Secretary ESPY. Durum wheat, and other wheat items.

Senator CONRAD. I appreciate it. Again, I want to thank you, Mr. Secretary, and the Trade Ambassador, for being very aggressive

and for getting up to speed on what is a very arcane issue. We understand that, and we appreciate deeply the commitment that you have made on this issue.

The CHAIRMAN. Thank you.

Senator Craig?

Senator CRAIG. I don't think I have any questions. I appreciate your comments, and I apologize for being out of the room. I and others had requested this hearing with you, and the Chairman was quick to accommodate and fulfill, and I had requested another hearing with another Secretary. You are competing with Secretary Babbitt for time. I am not quite sure which is worse, grazing fee proposals or prices in barley and wheat in Idaho right now. So I am playing the elevator game. Thank goodness we have both hearings in the same building.

But Mr. Secretary, I am extremely pleased to hear you talk about April 22 and what you plan to do and say. My question was going to be, did it include barley. You have answered that. There are a lot of other detailed questions that I am going to submit to you in writing.

Senator CRAIG. We think it is time you get specific with the Canadians. We got specific with the Japanese on a little thing called Kodak. We ought to be able to do something for our farmers. Thank you.

Secretary ESPY. Yes, Sir, and the measures we will take beginning April 22 are completely consistent with the GATT, completely consistent with the world-trading rules. No one can—

Senator CRAIG. We would expect that of you.

Secretary ESPY. Yes, Sir, completely consistent.

The CHAIRMAN. I would note, most Members, have been in here at one time or another today. There are several competing hearings, and I must say the Secretary and Ambassador were extremely helpful in setting up a time for this hearing. Senator Lugar and I will keep the record open until the close of business today, if there are questions to be submitted.

Senator Feingold?

Senator FEINGOLD. Thank you, Mr. Chairman.

I, again, appreciate the opportunity to get into some of the specifics of GATT as it relates to agriculture. One concern that has come up is that rather than simply reduce the dairy export incentive program in a manner consistent with the obligation to reduce quantity by 21 percent and outlays by 36 percent, that the administration may, in an attempt to find budget savings, completely eliminate the DEIP program and other similar programs, such as the Export Enhancement Program.

These programs have been very important to agriculture and are responsible for some of the stability, to the extent we have it, in agriculture. I know the Chairman and many of my colleagues would share the concern that these programs continue.

What assurance can you provide agriculture that funding and resources for these programs will not be reduced by more than the actual percentage amount required by GATT?

Secretary ESPY. We don't intend to eliminate the DEIP. In our 1995 budget submission, it evidenced our intent not to eliminate the DEIP. There were some reductions. In my opinion, these reduc-

tions were minimal, but we just realize that the European Community operates in a way to subsidize their dairy products. What we are talking about here is fair trade. We will compete toe-to-toe against them.

That is why I believe that the dairy producers should run to an agreement like this, which forces our main competitor, the European Community, to substantially reduce their export subsidies on dairy and dairy products.

Into the record, I have already documented that with regard to the degree to which they must reduce, in fact, many, many more times, and we have to as well.

So by forcing them to reduce their export subsidies and giving us the opportunity to increase access into selected markets, also as I identified in my testimony, I think that it allows us to be more competitive, and the DEIP program is the mechanism which will ensure that.

I don't foresee, Senator Feingold, any elimination of the DEIP at all.

Senator FEINGOLD. You see DEIP as an essential part of our ability to compete in the post-GATT context?

Secretary ESPY. Yes, Sir, I do.

Senator FEINGOLD. Currently, the United States and Canada are engaged in a study on the equivalency or lack thereof of our standards for the production and processing of milk for fluid consumption. The terms of the study negotiated late last year indicate that the study will be completed in about 8 years. I understand that the study is very comprehensive in nature, as a study like that should be. However, I am concerned that that is a pretty long period of time to wait for the results of the study. Meanwhile, the dairy industry is, of course, hoping to gain access for fluid milk into the Canadian market.

Will the fact that this study is not yet completed be an obstacle for resolving the issue of access on fluid milk between the United States and Canada, or will it be used as an obstacle?

Secretary ESPY. No, Sir, it should not be used as an obstacle. What we seek on our side is only fair. We want free trade in all agriculture commodities, much in the way we are moving to free trade with Mexico, our neighbor to the South, in all commodities as well, zero tariffs between now and 15 years from now, and that is the approach which we ought to take with our friends to the North, and that includes dairy and dairy products and that should not wait for the completion of the equivalency study.

Senator FEINGOLD. Are the time periods that have been established carved in stone, or is there some flexibility on that?

Secretary ESPY. On the 8 years? I am not sure. I am not sure.

Senator FEINGOLD. Let me know.

Secretary ESPY. I am told that this is an FDA study. You are familiar with FDA studies.

Senator FEINGOLD. Yes, I am.

Secretary ESPY. They are the ones coordinating the equivalency study, and I obviously can't speak for them.

Senator FEINGOLD. Thank you, Mr. Secretary.

We have talked already today about the hope that GATT can be very beneficial for agriculture and that would be the overall result,

but as I indicated, many in the dairy industry don't see it the way you see it, in part, of course, because we don't look at this as just a question of Europe having a certain reduction, and the United States having a certain reduction. The percentages still end up being very different in terms of how much support is actually given.

So my question is simple, and actually, the one that I am asked the most, "Why isn't this agreement better for the dairy industry? Is your answer simply that it is a great deal, or is there some reason why it isn't better?"

Secretary ESPY. I think "better" is relative. From the standpoint of a policy maker in agriculture, I think it is a good agreement. It is a good agreement because it forces dairy's main competitor in world markets to the table, and actually, it forces them, in many respects, to their knees. They subsidize their dairy products 12, 13, 14 times higher than we do, and they have to subscribe to a fixed-percentage reduction over the next 6 years, which by the very nature of the arithmetic suggests that they have to put less money in subsidizing their dairy than we do.

If we did not have a GATT, they would be free to improve, enhance, increase the subsidies which they direct to their dairy products. So it forces them to the table and it forces discipline on the subsidy approach, which, to me, has run amok over there in the last several years.

At the same time, it allows us access into prescribed and very targeted markets. I read the list. Asia, other Pacific Rim countries, for the first time, we are allowed mozzarella cheese into the European Community, which, in my opinion, had never been realistically allowed.

I hope that we reach an agreement on dairy with Canada, because, in my opinion, this would be an incredible market for our dairy producers. You know that we are working on it. The fact that we have not reached an agreement suggests how much we will not trade dairy off against wheat. If that had been the case, we would be sitting here and we would have done it and you would be lambasting us for having done that, but we have not reached an agreement, which suggests that everything is in play.

So I just say that it is much better than it could be. It is much better than it is. Beyond that, better is in the eyes of the beholder.

Let me also suggest that I have been speaking, as well, around the country to many, many dairy trade groups and dairy producers about programs that they could undertake on their own to make their situation together, to prepare for the post-GATT world. You know, Senator, that we have many dairy producers that have been talking about the dairy self-help program.

On the Houseside, Congressman Volkmer has already introduced a bill, and I believe he will be having hearings on it, if he hasn't already. I told him that we have some problems with dairy self help because it, in many ways, conflicts with many of the things we are doing, but on the whole, we will work with him, we will work with them, to make sure that we can enhance the competitiveness of dairy.

Senator FEINGOLD. Mr. Secretary, the Chairman held an extensive hearing on self help already, and we are looking at that, too.

I agree with the principles you are articulating for GATT and the idea that the concept of getting our subsidized competitors to the table is good. I hate using a cliché that Ross Perot minted around here, but the devil is in the details. Even on this mozzarella issue, my staff tells me that under this agreement, there is only one type of mozzarella produced by only one firm in the United States that would actually benefit from this. It is not a complete opening of the agreement.

Secretary ESPY. Does that mean that other U.S. firms could not produce mozzarella?

Senator FEINGOLD. It is a particular type, that I guess is only produced by one firm. However, I don't mean to fly speck the thing, but obviously, each one of these particular items, as you know better than I do, affects a number of people's actual livelihood. It is not looking at grammatical errors in an agreement.

I guess I will quit at this point, but there are some other specific questions about some of the specific agreements, the provisions relating to New Zealand, whether they requested them and so on, that I would like to submit to you.

Secretary ESPY. Yes, Sir.

Senator FEINGOLD. My goal is to understand this. Obviously, I have to explain to the farmers of Wisconsin, who aren't persuaded that this is a good deal, if I am going to be able to support it. So that is the spirit of my questions. I am not questioning the notion that it is good to get our competitors to drop some of their support of the industry so we can have fair trade.

Secretary ESPY. Yes Sir. We will be better off in the long run as the EC subsidies are reduced. That is the first point.

The second point is that we are among the lowest-cost producers in the world for dairy products, and that suggests to me that we will have an advantage when tariffs are reduced and markets are opened around the world, but no product got more access and more attention in the Uruguay Round than did dairy.

Senator FEINGOLD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Helms?

Senator HELMS. First of all, Ambassador, I want to commend you for being accessible. That office, the office you hold, has not always practiced that with Members of Congress. There has been some difficulty from time to time.

Ambassador KANTOR. Thank you.

Senator HELMS. But in any case, I enjoy working with you and your staff. You have a good one.

Ambassador KANTOR. Thank you.

Senator HELMS. The same with you, Mr. Secretary. You travel more, I believe, or are gone more than the Ambassador, but the people manning the office while you are gone, they are very helpful and very cooperative.

Having said that, I took note of the comments about the Canadians, how surly they are and how grasping they are. Maybe it is because they are upset because the United States is taking so many of their doctors who are coming down here to practice.

[Laughter.]

Senator HELMS. And so many of the patients in Canada are looking for first-class health care instead of the socialized system they have. Maybe all of that has the Canadians upset and so they are taking everything they can get from us otherwise. If you think I am giving you a little bit of implicit advice about health care plans, you got it.

The CHAIRMAN. Are we going to put that in GATT, too, Jesse?

Senator HELMS. Yes, Sir, whatever you want to do with it.

Mr. Ambassador, you identified what you described as the big winners in GATT. Would you be willing to identify one or two of the big losers?

Ambassador KANTOR. I am not going to shock you with this answer, Senator. There are no big losers, if you assume that—which we have and which I think is correct—that the United States has the most productive workers in the world and we have the most competitive businesses. I think every statistic that has been used, either by the GATT or the OECD, indicates that now. We have never been in a better position to have markets opening overseas and to take advantage of reducing tariff, reducing non-tariff barriers, protecting intellectual property, and allowing not only our goods in agriculture in, but services as well.

The fact is, some will do better than others, but all will do better than where we are today. I would only refer back to Senator Feingold—I am sorry I didn't comment when he was here. Would we rather have a system where we continue to have export subsidies, internal supports, non-tariff barriers such as the variable levy in Europe, which has been pernicious in keeping U.S. products, including dairy or cheese, out of Europe? I think the Secretary will tell you that. Or would you rather get rid of that and compete on a fair basis?

My answer to that question, at least from my point of view, is yes, we would rather compete.

Senator HELMS. When I was Chairman of this committee, I agreed with what you have just stated. I think we have gone too far down the road of subsidies, including subsidies of products in my State.

Your having said that there are no losers, may I ask you if you would be willing to meet with representatives of the textile industry?

Ambassador KANTOR. I have done it, and I will continue to do it. In fact, what is interesting about this agreement is if we can, which we are working hard on, and Jennifer Hillman from your State as our Trade Ambassador has done a perfect job. She negotiated 26 bilateral textile agreements in 12 months. That means one every 2 weeks, which I think is an all-time record.

If we can stop the trans-shipment and the circumvention by China and others, open market access in Pakistan and India, as well as some others, but those would be the two major concerns that the textile industry would have, we only reduced our tariffs, as you know, by 11.5 percent, and we can live with the MFA phase-out over a 10-year period of time, because our industry is becoming more and more not only productive but competitive.

But all those things have to happen. That is why we insisted in the World Trade Organization agreement in the textile area, we

could bring a dispute settlement action against someone for second- and third-level quota growth. In other words, deny that to a country if they didn't open their markets to our goods.

Senator HELMS. I am going to get to the WTO in just a minute. You predicated what you just said on "if." I can't speak for Fritz Hollings or Strom Thurmond. I think I can speak for Lauch Faircloth. Yet, we have a specific and particular interest in getting our people to either understand what you are saying or have you understand what they are saying.

Let me, in all good faith and with friendliness, suggest that we work together and get a meeting like that scheduled.

The World Trade Organization bothers me, because I believe—and I know that you don't believe this, and I respect your view—but I fear that the sovereignty of the United States is put in question on a number of subjects and issues. As far as I know, there has been no hearing conducted on that. I imagine the Judiciary Committee will have a hearing, but I want to be certain before the Senate votes on the World Trade Organization, which is what we are talking about, because the United States does not ask for membership in it. It is automatic, having participated in the GATT. Is that not correct?

Ambassador KANTOR. No, it is not automatic. This body, as well as the other body, must ratify—

Senator HELMS. I understand that, but once the Senate, wisely or unwisely, ratifies this agreement, then the membership of the United States of America is automatic in the World Trade Organization, right?

Ambassador KANTOR. We are in the organization, but, of course, it is a contractual organization and it operates by consent. Any amendment or regulation or change in the way it operates that we don't like, no country has to apply it. It is interesting. It doesn't operate any differently than the GATT operated in that respect.

Senator HELMS. This agreement had no sooner been completed than a couple of our competitors in the aircraft business were complaining about unfair practices in the United States when the planes were sold to Saudi Arabia. You are aware of that, aren't you?

Ambassador KANTOR. Yes, they—

Senator HELMS. Yes. Now would you contemplate that they could go to the WTO? Why not?

Ambassador KANTOR. Because it is not a violation of the rules, whatsoever, for the United States to advocate selling its own products.

Senator HELMS. We take that position, but they don't take that position, and who is going to man the World Trade Organization?

Ambassador KANTOR. There are dispute settlement panels, and there is an appeal procedure. I would say that I think by a 4-to-1 basis, the fact is, in terms of blocking or not adhering to World Trade Organization decisions, other countries have taken advantage of the current system more than we have. The fact is, the United States, in almost every case, adheres to our international obligation, and when we don't, I think because of the transparency in this country, we are quickly called to order on those issues. I don't have any concerns that the new dispute settlement process

and the operation of the WTO is not in the best interests of this country and our sovereignty is protected. This President would never, never have allowed an agreement to be initialed by the Trade Ambassador or any other—

Senator HELMS. Unless he were misled or misunderstood. Not intentionally, I agree with you, nor would you. However, there are some pretty fair lawyers around who are fearful about the sovereignty of the United States. I am not a lawyer, and I brag about it all the time. Still, I worry about it, and—

Ambassador KANTOR. I used to be a lawyer.

Senator HELMS. I came to this Senate, and my senior Senator my first 2 years was a fellow named Sam Irvin. That name is familiar to you, and he would say that he was just a country lawyer, but he was about as good a constitutional authority as has come down the pike in a long, long time. He joined George Washington in this business of entangling alliances.

Anyway, I know that your intentions are good, and all I ask is that maybe we can have a couple of meetings that wouldn't take too much of your time so that we could rest our minds on issues that are bothering us, Mr. Ambassador.

Ambassador KANTOR. Absolutely.

Senator HELMS. I don't doubt your good faith. You are probably correct, but I want to be sure about it.

Ambassador KANTOR. I would be happy to do that. If I could only make two brief comments, Mr. Chairman, in response.

One, whether we like it or not, globalization, economically, of this world is going to continue. Change is the only constant that we face. The question for us is, are we going to shape change in order to best serve the American people and American businesses, and that is what we agree on.

Now we could argue about any detail in this 22,000-page agreement, and I am more than happy to come up and spend as much time as necessary and go through it.

Let me make one other comment and go back to Canada, because I think your implication in your statement is very important. We have \$210 billion worth of trade with Canada every year. It grows. Even if 5 percent were in question or in argument, that is \$11 to \$12 billion. That is not even in question now. Ninety-six, 97 percent of our trade with Canada goes on every day without fighting, without argument, without threats, and I would just like to make that clear.

This is the largest trading relationship in the world between any two nations, so when 3 or 4 percent may be in question, whether it is lumber or beer or wheat or dairy, eggs, and poultry, we should not become concerned that somehow the relationship is in question.

Senator HELMS. I agree with you, absolutely. I have a lot of friends in Canada, as have you. They don't want to take advantage of the United States, and I don't want to take advantage of them.

I do have a problem with Canada about trans-shipment, though, of sugar. You know about that, Mr. Secretary.

Secretary ESPY. Yes, Sir.

Senator HELMS. We got beat to death on that, Cuban sugar coming into Canada, and they feed it into our market, but that is another story and we will get to that later.

If you were thinking you were getting off scot-free, you are not, Mr. Secretary. I have a few questions for you.

[Laughter.]

Senator HELMS. You issued a press release back in March in which you listed the benefits to American agriculture. You said, "Increased income for producers and increased job opportunities for all Americans." Do you still agree with that statement?

Secretary ESPY. Yes, Sir. From farm to table, when you consider the agricultural chain, that includes many, many people. Off-farm jobs are the greatest beneficiary of these type of multilateral trade agreements. We suggest here in our discussion that 190,000 jobs will be created in an off-farm capacity because of the passage of the GATT.

We have already seen it with the "temporary" opening of the Japanese rice market. I think before you came in here, Sir, I talked about the 19 jobs that I have documented in the Port of Sacramento from the ability of the International Longshoreman's Union to hire new workers to load the rice from the Sacramento, California, area on ships destined for Tokyo. That is an off-farm job, and that opening will be made permanent because of the market access commitments in Japan under the GATT.

So all across the board, farm producer income, farm workers, off-farm laborers, will all see an increase because of this, in my opinion.

Senator HELMS. I am obliged, coming from North Carolina, to ask you about one segment of farmers, and you know which they are.

Secretary ESPY. Yes, Sir.

Senator HELMS. Let me preface my statement by saying I don't smoke, I don't get into the smoking issue, my family doesn't smoke, but we have, I think the figure is, about 130,000 people who grow tobacco. I will tell you, I believe I hear from half of them every day, and the next day I hear from the other half. They are justifiably concerned, because they don't understand some of the things going on in Washington, DC.

They want to know, for example, if the administration has intentionally singled out them to put their jobs in jeopardy. These are just the farmers. Actually, there are 681,000 Americans who work in the tobacco industry.

It is all well and good to do all the things and to say all the things and claim all the things, but we have to bear in mind, unless and until tobacco is outlawed in the United States, and I don't believe you should hold your breath until that happens, the greatest beneficiaries of what is going on now are the people who grow tobacco in South America, Argentina, China, and so forth, and that tobacco will be rolling into the United States of America like Blalock's bull.

The thing that bothers me, it is a good headline-grabber. The news media, they love it. Most of them are reformed smokers, and they are the most irritable people, I guess, in the world.

[Laughter.]

Senator HELMS. They write all these things about tobacco, but nobody seems to be paying any attention. I wanted you, Mr. Secretary, to look me in the eye and say, I will be perfectly willing to meet with the tobacco farmers. I would like to see you offer to go down there.

Secretary ESPY. Senator, I can do better than that. I can look you in the eye and tell you I have already done that. I was a guest in Raleigh, North Carolina, last month, where 100 tobacco producers showed up and had me in a room for about 3 hours, answering questions.

Senator HELMS. I have in mind having 1,000 meet you.

Secretary ESPY. Do I hear 1,500?

[Laughter.]

Senator HELMS. I am serious. You can take all the armed guards you want.

Secretary ESPY. Yes, Sir. No, no—

Senator HELMS. But seriously, they need to have more than a meeting with 100 in Raleigh, North Carolina. There is not a stalk of tobacco that is grown in Raleigh, and that happens to be my home town. That is where I come from.

I want you to go down to Greenville and Washington and New Bern and Robeson County and so forth and meet the people—and I will help you arrange it. They are becoming cynical.

One guy called me up, and he is a good man. He raised a fine family, he grows other crops, but he is a tobacco farmer. He said, "I noticed that the President has been down here 3 times in about 3 weeks, 2 times to see a basketball game and 1 time to go down and see a Mustang display. How about the President coming down here and talking to us and seeing what is being done to us?"

I don't know whether you can persuade the President to go down there for that, but I certainly do wish he would.

These people are not any evil ogres. They are the people who built such institutions as Duke University and Wake Forest University and Bowman Medical School and Duke Hospital and so forth.

I am not talking about you, but they can be waved aside and condemned, but it is still their jobs and their families and they need some attention and I think they deserve it.

Secretary ESPY. Yes, Sir. That is why, Senator, he sent his Secretary of Agriculture down to meet with them. I didn't choose the venue, but I tell you, they drove to Raleigh from wherever inside of that great State, and they talked to me about their businesses and their farms and the future of their farms, how lucrative in terms of the cash crop that tobacco represents to the North Carolina economy.

I remember someone told me that on 2 acres of land, nowhere in the country can there be derived about \$80,000 in cash income. That is pretty good.

So I talked to them about my impression of the situation, and I talked to them directly about the relationship between tobacco and the USDA. I think that relationship is good.

Senator HELMS. It is.

Secretary ESPY. I think it will continue. In addition, I talked about the GATT, Senator, and I talked specifically about how our signing onto the GATT accord will force other nations to reduce their tariffs to our tobacco exports.

Right now, the 1992 exports of all tobacco total about \$1.5 billion. That accounts for 40 percent of the total domestic production. In the Philippines, Japan, Hong Kong, New Zealand, all have obliged to reduce their tariffs to our tobacco exports, and therefore, hopefully, allowing for increased jobs in North Carolina.

Senator HELMS. There has been improvement. Mike Mansfield, for example, in Japan, when he was Ambassador, and he was one of the best ambassadors we ever had anywhere, he worked with them. Yet, up until Mike got there, you couldn't even see any American-made products. They almost put you in jail for trying to buy some.

Anyway, I appreciate the attitude of both of you. Let us work together. If there is anything that I can work with you on, I want you to call.

Secretary ESPY. Yes, Sir. Thank you.

Senator HELMS. Thank you very much, both of you.

The CHAIRMAN. Senator Lugar?

Senator LUGAR. Thank you, Mr. Chairman.

Earlier in the hearing this morning, you heard, as you often do, from Senators who are upset in their States, and Senator Conrad and Senator Craig talked about wheat and the Canadians and what have you.

Let me just offer a countervailing opinion. Eighteen Senators have written to President Clinton to express our concerns over reports that the administration is about to impose unilateral restrictions on imports of durum and other wheat from Canada unless Canada agrees to a voluntary cap. I will not go through all the arguments that we have used with the President, but we indicate that there is no doubt that imports of durum wheat from Canada have been increasing really dramatically in recent years.

The United States durum wheat prices have also been increasing dramatically. The Department of Agriculture prices reported paid to farmers in the United States for U.S. durum wheat averaged \$5.78 a bushel in mid-March of this year, up 90 percent from the same point last year. That is a pretty heady rise for durum wheat.

Secretary ESPY. Yes, Sir.

Senator LUGAR. The increase in both imports and prices can be explained, in large part, by reduced United States durum production, which totaled just 68 million bushels in 1993-94, down from 97 million in 1992-93. Durum wheat, as you know, is used in making pasta, and the reduced U.S. production noted above has created a shortage in durum wheat in the United States, thus raising prices and increasing imports to meet the needs of the pasta production.

I would say that a change in the situation will make it difficult for the users of durum wheat, but I would also say, in addition, unilateral action by the United States invites retaliation by Canada against other United States farm products.

Some news reports have said the Canadian government has begun preparing a retaliation list, including pasta, wine, baked

goods, rice, apples, soybeans, and processed foods, such as breakfast cereals. Furthermore, our action would provide the Canadian government with a justification for their proposed import restrictions on dairy and poultry products, so the end of the chain can hardly be foreseen, but the beginning surely ought to be.

I would just say, respectfully, that even as we discuss the GATT, and we have been discussing the NAFTA, how ironic it would be if, in attempting to meet the anguished cries of wheat State Senators, who really, I think, ought to analyze what is occurring in their States and how that might affect at least their incomes, quite apart from the whole chain of American agriculture, I hope you will not more precipitously. I don't accuse you of doing so, but I want some information, while you are here, as to what is going on in this situation. We are beginning to read some alarming thoughts, and that is why I tried to help 18 Senators onto this letter, which I think was important for the President to consider.

Secretary ESPY. Senator, if I could comment, your assessment of the situation and the obvious irony is correct. The irony is obvious. As we advocate the GATT, which is a world-liberalization attempt, we seem to be now moving towards some degree of restriction. As the Ambassador said, we hope that it will be of a short-term duration, but I do think that it is necessary.

First of all, we began from the concept that we believe in free trade. We signed onto the NAFTA, which to our neighbor to the South means zero tariffs over the next 15 years. So why should we ask any less of our neighbors to the North? That is where we start from. We say it to you; we said it to them.

Senator that is not an approach that they wish to take. They have had a supply management system, very restrictive, very protectionist, which has served to disallow excess for certain commodities into their market, principally dairy and poultry. They do not want to change that.

Also, with regard to products here, we have seen unlimited trade from Canada in sugar and sugar products, in wheat, and in particular, durum. The fact of the matter is that we have seen some price increases, but we believe that those price increases are attributable to, number 1, this incredible 500-year flood we have had, and hopefully we will never see another like it, which reduced our yields to a great degree, Senator, which shot up prices.

Second, our EEP. Our EEP program is responsible for some of this. We admit to that, and admit that to them. The fact is that if you take normal trade over the last 5 years, excluding this unusual year, which is an aberration, we paid 80,000 wheat farmers deficiency payments, Senator, because of the impact of the flood—80,000 farmers. We have seen an increase of what is normal trade around a million tons coming in, if you take a 3-year average. If you take a 5-year average, it is about 460,000 tons.

So if you look at that against 3-year average, 5-year average, this 1994 number is just incredible—2.5 million tons, and our friends to the North want that to grow to 3 million tons over the next 3 to 4 to 5 years. That is a situation that we just could not have.

That impacts on our farmers' decisions, because they are discouraged from planting durum. That is what we have seen in our surveys. They are discouraged from planting durum because of their

expectation that there is no cap, that there is no discipline on wheat imports coming into Canada. They know how the Canadian Wheat Board operates, Sir.

That is why we don't have one, and that is why our neighbor to the South, Mexico, is moving away from that, a state-central trading monopoly which operates to buy wheat and sell wheat in a predatory way. We don't have that. Mexico is moving away from that, and we don't want to see it.

So there is no way to exact discipline other than, we believe, the way that we intend to go. So hopefully it will be of a short-term duration. As the Ambassador has already said, we have \$210 billion in 2-way trade, about \$11 to \$12 in agricultural trade. I sure hope that continues. Right now, I think that we are probably moving to take some action which I hope will have no adverse effects on non-wheat trade.

Ambassador KANTOR. If I might make just one brief comment, Senator. I think the Secretary has covered most of this.

One, it is not unilateral. We are using a multilateral mechanism, which is the GATT. We have every right to use Article 28, and therefore, we are not acting in a unilateral fashion.

Number 2, all commodities need fair treatment, and the one way to do this is, of course, to have an overall, what you might call a global settlement, everything from wheat to dairy, eggs, and poultry, with sugar, sugar-containing products, and peanuts also involved. We think that would be helpful.

You have a Canadian Wheat Board that acts in a monopolistic fashion, not transparent, a Western Grain Transportation Act which provides subsidies, end-use certificates which really, because of the monopolistic board, keep our wheat out of Canada.

I guess I would go back to the old saying, Senator, if you see a turtle sitting on a fence post, you know it didn't get there by accident. The fact is that our farmers in that area have not been treated fairly, but this is a way, frankly, we believe, tactically, strategically, and substantively, to be able to open up this whole discussion and get to a larger solution which is in everyone's interest.

We hope that our Canadian colleagues react in a manner that is productive. We think that they will. However, we are going to act on Friday, if we do not have some movement that is helpful in this regard.

Secretary ESPY. Could I have one more word? Sir, that goes to the letter. Hopefully, we can assure the signatories to that letter that we will be methodical and careful, because we do not choose any enmity to continue between the United States and Canada with regard to these contested items. We are friends, and in the context of friendship, we want to promote free trade.

We also want to assure the pasta manufacturers and the durum users that in our attempt to notify the GATT and notify Canada of our scheduled changes, we hope to assure them that there will be an adequate supply of durum available to them. That is why we have a zero ARP, which encourages plantings. That is why we choose, in our schedule announcement, hopefully, we will choose a number which will assure them of adequate domestic supplies, and that number has yet to be shown. I have talked to them, as well,

many times in my office, all through this issue. We want to assure them that they have access to adequate supplies.

We have, patently, an unfair situation, and as I said before, they want their cake and to eat it, too. In this world, that is not available.

Senator LUGAR. I appreciate your assurances that you are going to act carefully, and I know you will, in accordance with the treaties that we have signed, as opposed to an arbitrary or a unilateral activity that simply invites retaliation outside the treaty, too. You worked long and hard to come-to-trade agreements, and they are carefully constructed. There are anti-dumping provisions in our laws. I would not for a moment say we should operate without taking that into account.

I just am dismayed in a way, however, that usually, American agriculture thrives because we have a natural advantage, natural in part because of our weather and our infrastructure, perhaps. Clearly, we want to be able to assert that. That is the purpose of reducing tariffs all over the world.

Canadians may say, we produce durum wheat at a lower cost than people do in South Dakota and North Dakota, why should we not have a similar advantage?

You may argue, and maybe this is the answer, that they have predatory, monopolistic marketing, that they have transportation subsidies, and there are other factors that are something other than a natural advantage.

I hope that that is basically the argument, because otherwise, almost everyone in the United States, at whatever cost he or she produces anything, could say, I have a right for protection from my government from predators that are coming in, and that is what protectionism is all about. We have too much of that in American agriculture anyway, in my judgment, and I hope we are not moving back toward that in this instance.

Secretary ESPY. That is our argument.

Senator LUGAR. My only other question—and this you have touched upon in other occasions—but just trace your best estimate as to a game plan for Senate and House approval of this treaty. Obviously, you are here today. You were in Marrakesh last week and are moving in due speed.

However, you read accounts in the Press, as we do, that given numbers of people who are coming at you in all directions, on labor issues and environmental issues, and Senator Danforth and his concern about targeting and subsidies and what have you, some people in the House and the Senate are saying there are just all kinds of disputes here and a lot of other agenda, health care coming along and the appropriations bills. So what ought to occur in 1994 might not occur in 1994, it might be 1995.

What I suppose I want to hear from you, because you have testified before, I think, that one reason you made January 1, 1995, the target date for the start of the whole treaty was, in part, to help discipline our process, to make sure we considered that during 1994.

But can you give any overview as to how this might happen, in other words, your own views of how ratification might occur and

how those of us who favor the treaty, and I am one of them, might be helpful in that process?

Ambassador KANTOR. The 120 days in the fast-track law ran on April 15. It just happened to coincide with the day we signed the agreement in Marrakesh. We didn't sign the WTO agreement because we couldn't until the Congress ratified.

This administration intends to go forward with this agreement this year.

Senator LUGAR. Good.

Ambassador KANTOR. Regarding the non-markup process, we have already started informal discussions with committee staff in a number of committees in both bodies. We would like to begin the non-markup process as soon as possible. We will have to answer the question in terms of offsets, which we believe can be answered on a bipartisan basis. We expect that non-markup process to take no longer than 45 to 60 days, and then we can put the final bill into the House.

The normal time of a fast-track related bill to get through the Congress has been about 13 days, that has been the average, so we are somewhat optimistic on the timing.

Now you have mentioned a number of questions that have been raised. Frankly, after going through the NAFTA debate, Senator, they seem quite—I think we can handle those questions, given what we have been through. I think there is wide support for this agreement in both bodies, in both parties. I agree with you, we ought to move this as soon as possible.

Senator LUGAR. That is encouraging news. Let me just underline, I think in this committee, our interest in the treaty, but I personally believe that this is absolutely vital to American business and our overall security. This is not something to be trifled with, as an incidental affair that we might deal with some day.

You cannot argue, and you have argued eloquently the other way, about economic growth in the country and growth in jobs and what have you and then take a very casual attitude toward GATT. This is an integral part of any kind of strategy and a bipartisan way for people that want to see this country prosperous.

So I am really hopeful that the time table will move as you have suggested, and I simply pledge to be as helpful as I can.

Ambassador KANTOR. Thank you, Senator, very much.

The CHAIRMAN. Incidentally, some comment was made earlier by another Senator about whether lawyers may interpret or not interpret different aspects of the agreement. I would note for the record, I know of no lawyer in this country more qualified to interpret that agreement than Ambassador Kantor. I mean that very seriously. It is a very complex and difficult issue, but I know of nobody who brings more qualifications to the table.

I also know of no Secretary of Agriculture who worked harder to protect agriculture's interest than Secretary Espy has.

My last question is, "Will there be pressure to use EEP to the maximum, even after the GATT agreement goes into effect?" I have some concern that EEP and some of the other tools that we developed to get us into GATT—as you know, they were always there

as a threat and a lever, and I worked on some of those in the last farm bill—are the most appropriate weapons in a post-GATT world.

Do you expect that the administration is going to be proposing some changes in our export programs as part of a GATT-implementing bill?

Secretary ESPY. Changes beyond those already required in the GATT?

The CHAIRMAN. I am just wondering if you agree with me that EEP may not be the best tool in a post-GATT world.

Secretary ESPY. Thank you, Sir. First of all, I will suggest that we must remain competitive, and in doing so, we have to use all tools in our arsenal, including the EEP, the MPP, the GSM, and a lot of the credit guarantee opportunities that we have in the Commodity Credit Corporation. I think that we will be just as zealous and as assiduous in using all of these tools to the maximum allowable advantage.

The CHAIRMAN. Might there be changes in some of them as a part of GATT implementing legislation?

Secretary ESPY. I don't see that. I don't see changes, no Sir.

The CHAIRMAN. That is good.

Ambassador KANTOR. Except for the reduction that we are required to come up with, the 21 percent over 6 years.

The CHAIRMAN. I understand. We may want to discuss that one a little bit further.

Gentlemen, I thank you. You have been very, very patient. I know that you have to go through this many times. Testifying for the GATT is probably going to, in some ways, seem more arduous than the negotiating. Again, thank you very, very much.

Ambassador KANTOR. Thank you, Mr. Chairman.

Secretary ESPY. Thank you, Sir.

The CHAIRMAN. The hearing is adjourned.

[Whereupon, at 12:48 p.m., the committee adjourned.]

A P P E N D I X

PREPARED STATEMENTS

HON. MIKE ESPY

Mr. Chairman, Members of the committee, I appreciate the opportunity to appear before you with Ambassador Kantor to discuss the Uruguay Round Agreement negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT) and the Agreement's benefits for American agriculture.

While we naturally tend to focus on the more dramatic breakthroughs of the Uruguay Round, such as the permanent end to the rice import bans in Japan and Korea, today I would like to emphasize the longer term benefits of this agreement. To do that, I'd like to take a few moments to put the agricultural trade system in perspective.

The GATT was established shortly after World War II when the major western countries recognized the critical role that trade plays in the economic and political development of nations. GATT became a great success, but principally for non-agricultural products, where we've seen tariffs reduced by more than 40 percent. As trade expanded, standards of living improved.

However, despite all this success, agricultural trade has not benefited as much as it could have from the GATT because it developed largely outside the GATT framework. Instead, the agricultural policies that emerged after World War II were—really more of a haphazard mix that limited and distorted trade. International trade rules, where they existed, were weak and largely impossible to enforce.

That was the scene when the Uruguay Round began almost 8 years ago. Our goal was straightforward—to work toward an agreement that promoted trade growth for our farmers by eliminating all policies that distort international agricultural trade.

I don't have to explain to this committee how important exports are to the income of our farmers and to the U. S. economy as a whole. This committee knows that 30 percent of—all the harvested acreage is destined for export markets, and that a third of all the cash receipts headed for the pockets of American farmers is derived from export sales.

Perhaps the most telling number to me is that nearly 96 percent of the world's consumers live outside of the boundaries of the United States. Obviously, the greatest future market potential for American food and fiber lies outside our borders. When you combine this fact with the budget constraints we are living under, the value of export markets as a mainstay of U.S. farmers' income is even clearer.

Although it will not solve all the economic problems for U.S. agriculture, the Uruguay Round Agreement is critical for our farmers because it will begin to open world markets—some for the first time. I would like to emphasize, though, that this is a work in progress. The Agreement will enable American farmers to do what they do best—produce food, feed, and fiber and market them at competitive prices in world markets. All Americans will benefit from an agricultural sector that can fully use its productive capacity.

Perhaps more importantly this agreement brings agriculture more fully into the GATT system. This gives us a significantly improved process for resolving agricultural trade problems.

In addition, for the first time, we negotiated an agreement that helps our farmers in four specific areas—market access, internal support, export subsidies, and sanitary and phytosanitary rules. Changes in these four areas will be implemented over a period of 6 years—starting in 1995. I would like to briefly summarize the main benefits to agriculture in each of these four areas.

Market Access

To improve world-wide market access, all tariffs for agricultural products in all GATT member developed countries will be reduced by an average 36 percent, and they will be reduced by an average of 24 percent in developing countries. In some of the most important growth markets for the United States, we achieved some specific and additional market openings that go significantly beyond these tariff cuts, particularly for beef, pork, poultry, specialty crops, and processed agricultural products. Tariffs for all agricultural products will be reduced.

Existing import prohibitions will be converted into visible tariffs through the process called "tariffication". Also, a minimum level of access is assured in these markets. This means, for example, that Japan and Korea will import rice on a permanent basis after 1995. We expect a substantial portion of this rice will come from the United States, principally California.

Further, the Uruguay Round Agreement requires that all import quotas and variable levies, minimum import price schemes, and other trade distorting schemes, be replaced with tariffs or tariff rate quotas. With tariffication, and the subsequent reduction in these new tariffs, we will begin to move toward the proverbial level playing field.

For the United States, the commitment on market access means that quotas imposed pursuant to Section 22 of the Agricultural Adjustment Act of 1993, will be replaced with tariffs and tariff-rate quotas. The out-of-quota or second-tier tariffs initially will afford approximately the same level of protection that was provided by the quotas. In addition, a special safeguard will be available if there is a surge in imports or if import prices drop significantly. We believe that the impact of these imports on our producers must be viewed in the context of the enormous market access we gain for our exports around the world.

Internal Support

The Uruguay Round is the first GATT Agreement that disciplines internal agricultural support. Reduction commitments were established on the basis of what is termed, Aggregate Measure of Support (AMS). Under this approach, each country must reduce its total internal support by 20 percent from the level that existed in the 1986–88 base period. Because the United States has already reduced its internal support by more than 20 percent below base period levels, *we will not be required to undertake any further reductions to meet our commitments under the Agreement.*

Export Subsidies

For the first time, GATT rules will effectively discipline the use of agricultural export subsidies. These subsidies are clearly defined and must be reduced by 36 percent in budgetary terms and 21 percent in quantity terms from 1986–1990 base period levels. We think that these cuts in subsidized exports will greatly benefit our producers.

Nearly all exports from the European Union are subsidized. A relatively smaller share of our exports are subsidized. With multilateral cuts in export subsidies, the United States can cut export subsidies and be competitive. This will begin to establish fairness in the world agricultural trading system and improve prices and markets in developed and developing countries.

Sanitary and Phytosanitary Requirements

The Uruguay Round Agreement ensures that any trade restrictive measure taken by an importing country for the purpose of protecting human, animal, or plant health must be based on science. Certain international standards are presumed under the Agreement to be science-based. However, if a country chooses to adopt stricter standards, it may do so if it has a scientific justification for taking the stricter measure. We believe these provisions will discourage countries from using unjustified health-related measures as disguised barriers to trade while maintaining each country's right to protect the health of its citizens.

Effects of Uruguay Round Agreement

What I would like to stress today is the progressive, evolutionary effect of this agreement. Looking down the road to the year 2000, we will see some benefits of the Agreement as tariffs and export subsidies are reduced. But even more importantly, studies suggest that the Uruguay Round Agreement will increase world income by as much as \$5 trillion in the 10 years after it goes into effect. This growth will increase the demand for U.S. agricultural products, particularly for income-sensitive commodities like meat, fruits, vegetables, and other specialty crops. In addition, increased demand for beef, pork, and poultry means that U.S. feed grain and soybean producers will benefit as well.

Based on the expanded growth in global incomes, U.S. agricultural exports are expected to increase by between \$4.7 billion to nearly \$8.7 billion by 2005. Grains account for almost half of this increase.

Increased exports means more export-related jobs, particularly for high-value and value-added products. By 2005, export-related employment is expected to increase by as much as 190,000 jobs. Increased exports will bolster farm prices, increase farm income, and lower government outlays. The Uruguay Round Agreement is expected to raise farm income over current baseline estimates by as much as \$2.5 billion in 2005. At the same time, government outlays for the domestic price and income support programs could be as much as \$2.6 billion lower in 2005—and that is good news in today's budget environment.

Perhaps even more important for the future is the discipline the Uruguay Round will apply to countries that might otherwise choose the direction of closed markets, production-inducing internal supports, and subsidized exports. This has important consequences for our large trading partners that are currently outside of the GATT—China, Taiwan, and the nations of the former Soviet Union.

CONCLUSION

Mr. Chairman, I've just presented a very short summary of an agreement that has taken a long time to negotiate. However, it is not the end of the line, it's just the beginning of the line.

After 5 years of implementation, the countries of the GATT will come together again in Geneva to continue the reform process started in 1986 in Uruguay. We will decide how further market openings, and reductions of trade barriers, and subsidies should continue after 6 years of this agreement.

Mr. Chairman, it's been over 30 years since a Secretary of Agriculture served 8 years, so I can't promise that I'll be participating in the GATT negotiations in 2000, but I am confident you will be.

I welcome this chance to discuss this historic agreement with you at this time. I would like to acknowledge the invaluable guidance, Mr. Chairman, that you played, and you, Senator Lugar, played in getting us also to this point. I know that when you sent Mr. Riemenschneider to Geneva, when we were negotiating in the final hours in very long, and protracted sessions. He gave me invaluable guidance as to your wishes, Mr. Chairman, and I want to thank him, I want to thank your staff, and Senator Lugar, you and your staff, and every Member of this committee for helping us to reach what I think is a very historic moment in U.S. agriculture trade.

Thank you.

HON. MICKEY KANTOR

Mr. Chairman, thank you very much. It is a pleasure to be here today to discuss the Uruguay Round Agreement. This historic and far-reaching pact sets the stage for a more competitive and prosperous U.S. economy as we prepare to meet the challenges of the 21st century. I look forward to working with you this spring as we formulate legislation that will implement the Round. I hope the Congress will agree with our conclusion that the Round offers enormous potential for U.S. and global economic expansion.

Mr. Chairman, on December 15, 1993, 117 countries concluded a major agreement to reduce barriers to world markets (in agriculture, manufactured goods, and services) as well as to create fairer, more comprehensive, more effective, and more enforceable trade rules. In order to ensure the efficient and balanced implementation of the agreements reached, they also provided for the creation of a new World Trade Organization (WTO). Last week, we joined with other participants in the Uruguay Round in the formal signing of the Agreement in Marrakesh, Morocco.

The Uruguay Round trade agreement is the largest, most comprehensive trade agreement in history. The existing GATT system was incomplete; it was not completely reliable; and it was not serving U.S. interests well. The new agreements open up major areas of trade and provide a dispute settlement system which will allow the United States to ensure that other countries play by the rules.

The successful conclusion of the Uruguay Round negotiations was an important part of the President's strategy for strengthening the domestic economy. A little over a year ago, President Clinton entered office, faced with daunting challenges in his effort to restore the American Dream.

The economy was stagnant. Unemployment was high, and confidence was down. In just 1 year, we have turned a corner. Our economy is growing and millions of jobs have been created. People are getting back to work. On the other hand, these are just the first steps in preparing our Nation for the 21st century. The President is addressing the long-term issues facing our economy.

All of the elements of the President's economic strategy—reducing the deficit, reforming education, the President's re-employment program, and health care reform—are geared towards creating jobs and making our country more prosperous. All of the parts work in tandem, each reinforcing the other.

An essential element in this strategy is to open and expand foreign markets. Expanding trade is critical to our ability to compete in the global economy and create high-wage jobs. That is why the President focused so much attention in 1993 on the Uruguay Round, the North American Free Trade Agreement, the Japan Framework and the Asia Pacific Economic Cooperation conference.

The U.S. economy is now an integral element of the global economy. Over a quarter of the U.S. economy is dependent on trade. Where we once bought, sold and produced mostly at home, we now participate in the global marketplace. By expanding our sales abroad, we create new jobs at home and expand our economy.

The United States is positioned economically, culturally and geographically to reap the benefits of the global economy.

Economically, because our farmers and workers are the most productive in the world, and our economy is increasingly geared towards trade.

Culturally, because of our tradition of diversity, freedom and tolerance will continue to attract the best and brightest from around the world, ensuring that we will never stagnate as a people.

Geographically, because we are at the center of a nexus between our historic trading partners in Europe and Japan, and the new dynamic economies in Latin America and Asia.

Our trade policy is guided by a simple credo. We want to expand opportunities for the global economy, but insist on a similar responsibility from other countries.

Trade is a 2-way street. After World War II, when the American economy dominated the world, we opened ourselves up to help other countries rebuild. It was one of the wisest steps this country ever took, but now we cannot have a one way trade policy. The American people won't support it and the administration won't stand for it.

For other nations to enjoy the great opportunities here in the U.S. market, they must accept the responsibility of opening their markets to U.S. products and services. Ultimately, it is in their own self-interest to do so, because trade fosters economic growth and creates jobs.

The Uruguay Round ensures American producers are trading on a 2-way street; that they benefit from this new globalized economy; that they can sell their products and services abroad; and that they can compete on a fairer playing field.

President Clinton led the effort to reinvigorate the Uruguay Round and to break the gridlock, which had stalled the negotiations despite 7 years of preparation and another 7 years of negotiations.

We did not accomplish everything we wanted to in the Uruguay Round. But, the final result is very positive for U.S. producers and companies. It helps us to bolster the competitiveness of key U.S. industries, to create jobs, to foster economic growth, to raise our standard of living and to combat unfair foreign trade practices. The agreement will give the global economy a major boost, as reductions in trade barriers create new export opportunities, and as new rules give businesses greater confidence that export markets will remain open and that competition in foreign markets will be fair.

More importantly, the final Uruguay Round Agreement plays to the strengths of the U.S. economy, opening world markets where we are most competitive. From agriculture to high-tech electronics, to pharmaceuticals and computer software, to business services, the United States is uniquely positioned to benefit from the strengthened rules of a Uruguay Round Agreement that will apply to all of our trading partners.

The Uruguay Round

The Uruguay Round is the right agreement at the right time for the United States. It will create hundreds of thousands of high-wage, high-skill jobs here at home. Economists estimate that the increased trade will pump between \$100 and \$200 billion into the U.S. economy every year after the Round is fully implemented. A study by DRI/McGraw Hill estimated that the net U.S. employment gain (over and above normal growth of employment in the economy) will be 1.4 million jobs, 10 years after implementation.

This historic agreement will:

- cut foreign tariffs on manufactured products by over $\frac{1}{3}$, the largest reduction in history;
- protect the intellectual property of U.S. entrepreneurs in industries such as pharmaceuticals, entertainment and software from piracy in world markets;
- ensure open foreign markets for U.S. exporters of services such as accounting, advertising, computer services, tourism, engineering and construction;
- ensure that developing countries follow the same trade rules as developed countries and that there will be no "free riders";
- establish an effective set of rules for the prompt settlement of disputes, thus eliminating shortcomings in the current system that allowed countries to drag out the process and to block judgments they did not like; and
- create a new World Trade Organization (WTO) to implement the agreements reached.

This agreement will not:

- impair the effective enforcement of U.S. laws;
- limit the ability of the United States to set its own environmental or health standards; or
- erode the sovereignty of the United States.

Agriculture. U.S. farmers are the envy of the world, but too often they were not able to sell the products of their hard labor abroad, because the old GATT rules did not effectively limit agricultural trade barriers. Many countries have kept our farmers out of global markets by limiting imports and subsidizing exports. These same policies have raised prices for consumers around the world.

The agriculture agreement is a marvel both for its scope and its breadth. It will reform policies that distort the world agricultural market and international trade in farm products. By curbing policies that distort trade, the World Trade Organization will open up new trade opportunities for efficient and competitive agricultural producers like the United States.

With the Uruguay Round Agreement, U.S. agricultural exports are expected to increase by \$1.6 billion to \$4.7 billion in 2000 and by \$4.7 billion to \$8.7 billion in 2005. Increased exports mean more export-related jobs, particularly for high-value and value-added products. Agricultural export-related employment is expected to increase by as much as 112,000 jobs in 2,000, and by as much as 190,000 jobs in 2005.

The effects on U.S. agricultural exports are as follows (in million dollars):

Commodity	Change from Baseline	
	FY 2000	FY 2005
grains/feeds	400-1,940	1,950-3,910
cotton	50-290	60-590
animal products	740-1,660	1,690-2,510
horticultural products	180-280	200-370
oilseeds and products	170-530	810-1,330

For the first time, non-tariff import access barriers, internal supports and export subsidies on agricultural products will be fully brought under the disciplines of the GATT. No longer will members be able to freeze out imports with protective trade barriers or use their national treasuries to gain market share at the expense of non-subsidizing exporters.

When the Uruguay Round began in 1986, there were a myriad of problems in agricultural trade. Indicative of this is the fact that in the early 1980's, 80 percent of the disputes in GATT were on agricultural trade issues, and most of these involved disputes between the United States and the European Union. It was readily

apparent that the exceptions which permitted import restrictions and export subsidies on agricultural products when the GATT was entered into in 1947 were no longer appropriate for the agricultural trading environment of the 1980's.

Aided by the impervious variable levy, the European Union over the previous 10 years had gone from a net importer to a net exporter of most agricultural commodities. Moreover, because EU internal prices were higher than world market prices, export subsidies were used extensively to move surpluses into the world market. In 1985, the EU spent \$6 billion on agricultural export subsidies. Unable to negotiate meaningful disciplines on export subsidies, the United States initiated the Export Enhancement Program in 1985 in order to compete. In recent years, this program has made available approximately \$1 billion of export subsidies each year.

Non-subsidizing exporters were frustrated at having to compete in world markets with national treasuries rather than other farmers. Import restrictions, prohibitions and high tariffs in countries such as Japan were also motivations for a broad, trade liberalizing Round on agriculture.

The Punta del Este Declaration set the goals for the agricultural negotiations. It said . . . "Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines . . ."

The agreement we reached in December is truly remarkable in its conformity with the objectives that were only envisioned at the time of Punta del Este. The agreement brings into play a new accounting system, i.e., tariffication which converts non-tariff measures affecting import access into tariff equivalents. Likewise, trade-distorting internal support, whether it is provided through direct payments to producers or by market price support, is put on a common denominator basis through calculations called "aggregate measures of support."

Tariffication and aggregate measurement of support provided a way to evaluate the impacts of very different import and domestic policy systems on a common basis, thereby facilitating the negotiations. However, the immediate benefits of the Agreement are in the commitments. The most important of these are:

- Members will reduce tariffs and tariff equivalents by 36 percent on average with a minimum reduction of 15 percent for each tariff line item. For developing countries the commitments are 24 percent and 10 percent, respectively.

- For products with tariff equivalents, minimum access and current access opportunities are required.

- With tariff equivalents, all import access barriers will now be on a tariffs only basis, with two temporary exceptions. All tariffs will be bound—meaning all agricultural products are now covered by the GATT.

- Domestic support programs which have no, or minimal, trade distorting or production effects ("green box") are exempted from reduction commitments and from countervailing duties.

- Direct payments to producers that are linked to production-limiting programs will not be subject to reduction. However, trade-distorting support programs must be reduced by 20 percent. (Due to the farm support reductions contained in the 1985 and 1990 Farm Bills, the United States has already met the 20-percent requirement and will not need to make additional changes to farm programs to comply with the Uruguay Round commitments.)

- Export subsidies are to be cut by 21 percent in volume and 36 percent on the basis of budgetary outlays.

The relative simplicity and straightforwardness of the commitments on export subsidies belie the difficulties in reaching agreement with the European Union. In both 1990 and 1991, the Uruguay Round failed to conclude because of EU intransigence on export subsidies. Last year, EU negotiators tried to back away from a deal that had been struck in 1992, but we were able to strike an agreement that was to our mutual benefit. The reductions in export subsidies can be made in equal installments from the 1991-92 marketing year if subsidized exports have increased from their base levels. This permits both the EU and the United States to smooth out the reduction slope for certain agricultural export subsidies. However, at the end of the 6-year implementation period, export subsidies will still have to be reduced by 21 percent and 36 percent, respectively, from the volume and budgetary outlays of the 1986-90 period.

- Because of their much larger volumes of subsidized exports, the European Union will have to make greater absolute reductions in export subsidies than will the United States. For example, by the end of the 6-year implementation period the United States will have reduced its annual subsidized exports of coarse grains by 415,000 tons while the European Union will have cut theirs by 2.65 million tons.

For other commodities, the absolute reductions the EU must make are as follows: sugar, 340,000 tons; cheese, 122,000 tons; beef, 362,000 tons; pork, 107,000 tons; poultry meat, 179,000 tons. These reductions in EU subsidized exports are a key factor in the projected increase in U.S. export as a result of the Round.

- An important achievement in the Agreement is the commitment to continue the process of liberalizing agricultural trade in the fifth year of the Agreement. A strong incentive to make further reforms in trade distorting support, import barriers and export subsidies is provided in the peace clause of the Agreement. After 9 years, "green-box" support programs will no longer be exempted from countervailing duties; domestic supports programs which account for more than 5 percent of the value of production will no longer be exempted from the serious prejudice findings of the subsidies agreement; and export subsidies on agricultural products will no longer be exempted from the prohibition on export subsidies in the subsidies agreement. Negotiations to extend the peace clause will be the opportunity to secure greater agricultural trade liberalization in the future.

Sanitary and Phytosanitary Measures. The agreement on the Application of Sanitary and Phytosanitary ("S&P") Measures will guard against the use of unjustified S&P measures to keep out U.S. agricultural exports. S&P measures are laws, regulations and other measures aimed at protecting human, animal and plant life and health from risks of plant and animal-borne pests and diseases, and additives and contaminants in foods and feedstuffs. They include a wide range of measures such as quarantine requirements and procedures for approval of food additives or for the establishment of pesticide tolerances. The S&P Agreement is designed to distinguish legitimate S&P measures from trade protectionist measures. For example, S&P measures must be based on scientific principles and not maintained without sufficient scientific evidence and must be based on an assessment of the risk to health, appropriate to the circumstances.

The S&P Agreement safeguards U.S. animal and plant health measures and food safety requirements. The agreement clearly recognizes and acknowledges the sovereign right of each government to establish the level of protection of human, animal and plant life and health deemed appropriate by that government. Furthermore, the United States has a long history of basing its S&P measures on scientific principles and risk assessment.

In order to facilitate trade, the S&P Agreement encourages the use of international standards as a basis for S&P measures. However, each government remains free to adopt an S&P measure more stringent than the relevant international standard where the government determines that the international standard does not provide the level of protection that the government deems appropriate.

Dispute Settlement. The Dispute Settlement Understanding (DSU) creates new procedures for settlement of disputes arising under any of the Uruguay Round agreements. Representatives of the soybean industry who were involved in the U.S. challenge to EC oilseed subsidies will immediately recognize the value of this agreement. The new system is a significant improvement on the existing practice. In short, it will work and it will work fast. The process will be subject to strict time limits for each step. There is a guaranteed right to a panel. Panel reports will be adopted unless there is a consensus to reject the report and a country can request appellate review of the legal aspects of a report. The dispute settlement process can be completed within 16 months from the request for consultations even if there is an appeal. Public access to information about disputes is also increased.

After a panel report is adopted, there will be time limits on when a member must bring its laws, regulations or practice into conformity with panel rulings and recommendations, and there will be authorization of retaliation in the event that a member has not brought its laws into conformity with its obligations within that set period of time.

The automatic nature of the new procedures will vastly improve the enforcement of the substantive provisions in each of the agreements. Members will not be able to block the adoption of panel reports. Members will have to implement obligations promptly and the United States will be able to take trade action if members fail to act or obtain compensation. Trade action can consist of increases in bound tariffs or other actions and increases in tariffs may be authorized even if there is a violation of the TRIPS or Services agreements.

The DSU includes improvements in providing access to information in the dispute settlement process. Parties to a dispute must provide non-confidential summaries of their panel submissions that can be given to the public. In addition, a member can disclose its submissions and positions to the public at any time that it chooses.

Panels are also expressly authorized to form expert review groups to provide advice on scientific or other technical issues of fact which should improve the quality of decisions.

Environment. Comprehensive as it is, the Final Act did not cover every aspect of trade policy of great importance to the United States and to this administration. Our trading partners recognize that the work of shaping the World Trade Organization to the needs of the 21st century must continue without pause. We begin with the agreed premise that international trade can and should promote sustainable development, and that the world trading system should be responsive to the need for environmental protection, if necessary through modification of trade rules.

In December, the Uruguay Round participants decided to develop a program of work on trade and environment and recommendations on an institutional structure to present to the ministers in Marrakech in April.

At Marrakesh, the United States sought and obtained a work program that ensures that the new WTO is responsive to environmental concerns. We also pressed for and got agreement on establishing a Committee on Trade and Environment within the WTO with broad terms of reference. International trade can contribute to our urgent national and international efforts to protect and enhance environmental quality and conserve and restore natural resources. At the same time, we will continue to advocate trade rules that do not hamper our efforts to carry out vital and effective environmental policies, whether nationally or in cooperation with other countries. We will be working closely with environmental organizations and business groups, as well as the various agencies, and of course this Committee and others in Congress, as we define our trade and environment objectives.

CONCLUSION

Mr. Chairman, Congress will be considering the Uruguay Round implementing legislation at an auspicious time for America. The U.S. economy is expanding; investment is increasing; jobs are being created; and optimism about the prospects for our economy is soaring. This economic expansion reflects the fact that this country is moving in the right direction. The policies of the Clinton administration, starting with our budget plan; the adjustments made over the last several years by our workers and companies—all of our efforts make us as a nation stronger and more competitive.

In setting the negotiating objectives for the Uruguay Round, Congress clearly signalled its belief that strengthening the multilateral rules of the GATT would make America more competitive in world markets. We succeeded. We met those objectives; and I am convinced that the new multilateral rules agreed to in the Uruguay Round will work together with our ongoing efforts to increase regional cooperation. America is uniquely positioned to benefit from expanding trade—in this hemisphere and in the world. The Uruguay Round builds on our strengths. It will benefit us, and the world economy as a whole.

NEW ENGLAND BROWN EGG COUNCIL

Because of the potentially devastating effect which the GATT Agreement will have upon New England egg producers, the New England Brown Egg Council welcomes this opportunity to submit testimony.

Our Council is a trade association representing virtually every producer of brown eggs in the six New England States. Our offices are located at 77 Water Street, Hallowell, Maine 04347; our mailing address is Post Office Box G, Augusta, Maine 04330.

New England's brown egg produced on small family farms and medium and large production complexes through the region. There are six major packing firms which process the vast majority of these eggs for retail:

DeCoster Egg Farms, Turner, Maine
 Dorothy Egg Farms, Winthrop, Maine
 Kofkoff Egg Farms, Lebanon, Connecticut
 Mountain Hollow Farms, Manchester, New Hampshire
 Southern New England Eggs, Franklin, Connecticut
 Westminster Egg Farms, Westminster, Massachusetts

New England represents approximately 3.3 percent of the Nation's egg production, with 9.3 million hens producing 2.5 billion eggs annually. The proportion of New England's egg industry to the national egg industry—slightly over 3 percent—is similar to the ratio of New England's human population to the total U.S. populace.

In other words, the egg industry is no more—and no less—important in New England than in the country as a whole.

What is significant, however, is the importance of and to the Nation's exports of eggs, and the importance of these exports to New England's egg industry.

Of the approximately 70 dozen eggs exported last year the United States, approximately ½ of these exports came from New England. This apparent anomaly results from the significance of egg shell color. The majority of the world's population consumes brown eggs, from the strains of layer hens which produce these own shell-colored eggs. New England is the only region of the United States with significant brown-egg production, going back to the days of the Yankee Clipper ships, when crews brought brown-egg laying hens back from China.

Because of this international preference for brown eggs, particularly in the Pacific rim nations, New England eggs have for years been aggressively exported. U.S. traders, years ago, established Hong Kong, one of the major importers of eggs, as a major customer for New England brown eggs. In the 1980's, however, the nations of Western Europe, seeking to support high domestic agricultural production through export subsidies, displaced U.S. egg sales to Hong Kong. The major European (EU) egg exporters have been the Dutch.

As members of the subcommittee are well aware, the United States countered the European export subsidies with our Export Enhancement Program (EEP), which has had marked success and without which the GATT Agreement never would have been reached. However, the EEP did not initially include table eggs; when it did, several revisions and adjustments were necessary to make the EEP workable. U.S. egg exports therefore did not increase significantly until 1990. Since that time, U.S. egg exports, under the EEP, have reached approximately 60 million dozen a year.

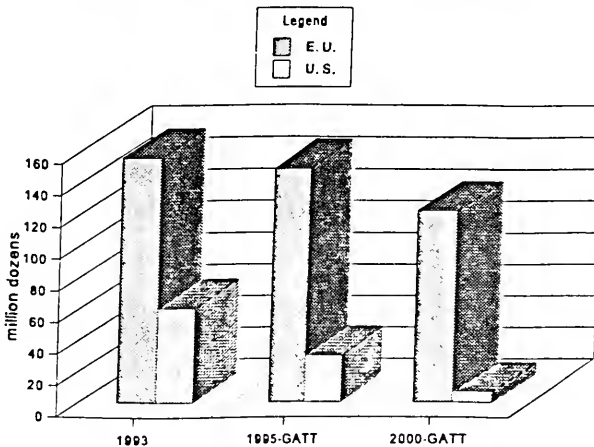
The GATT Agreement, however, set 1986–90 as the base period. *This places U.S. eggs at an incredible disadvantage.* The Agreement was modified, prior to signing (Blair House II) to incorporate a base period of 1991–92 for the *first year* of implementation of the GATT Agreement, with the permissible level of "subsidized egg exports" in the final year remaining the same as agreed to earlier.

In *millions of dozens*, the levels of subsidized egg exports under GATT are now as follows:

	E.U.	U.S.
Present levels of exports (1993 estimates)	155	60
Permissible levels, first year of GATT	148	30
Permissible levels, final year of GATT	122	7

As the graph below indicates, the EU will proceed from a current advantage of 2.5 to 1 to an advantage of 5 to 1 in 1995 and nearly 20 to 1 by the year 2000.

IMPACT OF GATT ON EGG EXPORTS



While this agreement is clearly to the disadvantage of U.S. egg producers, it is more than unfair to New England's brown-egg producers. To us, it is devastating.

The GATT Agreement clearly calls for a 50-percent reduction in U.S. egg exports in 1995. To the U.S. egg industry in total, this means a loss of 1.5 percent of total sales. If production levels remain constant, this will mean a drop of 7-8 cents/dozen in the wholesale price for eggs, which will mean disaster for many producers (who are already looking at a tough year in 1995).

New England brown-egg producers, however, currently export almost 20 percent of their eggs under the EEP. In 1995, therefore, they are looking at a loss of 10 percent of their total sales. Because the domestic demand for brown eggs is inelastic and other export opportunities are limited, the GATT Agreement will force a major reduction in New England's egg production. The first to feel these reductions will be the family farms, which are less cost-efficient than the larger complexes. There will also be significant losses of jobs in related industries. In Portland, Maine, for instance, eggs are now the largest single cargo shipped from that harbor.

We recognize that the Congress cannot call for renegotiation of the GATT Agreement. We ask, however, that the Congress' ratification of this agreement be made contingent upon a number of measures designed to limit the effect of this agreement upon New England's egg producers.

Such measures could include:

- Agreement, to be obtained by the U.S. Trade Representative, for the EU to cease payment of the "restitution differential" to its egg exporters.

This "differential" was established by the EU to retain the upper hand for its egg exports in countries where U.S. egg exporters are working with the EEP. Now, however, once U.S. egg exports in a given year have reached the level permitted by GATT, there is no justification for continue by the EU of the differential. This is an unpublicized issue EU and has not been addressed in the GATT negotiations.

- Full use of the EEP until the GATT initiations take effect. U.S. egg exporters are preparing to fight aggressively for sales when the EEP is scaled down. They should not be undermined by premature reductions of the EEP.

- Expanded use of non-branded Market Promotion Program funds. This will enable egg exporters to retain some sales of eggs for which EEP assistance is being withdrawn.

In the weeks ahead, our council will be developing in other possible methods of counteracting the impact of GATT upon New England's egg producers, and we look forward to working with the Committee on Foreign Affairs in this regard.

SENATORS' QUESTIONS SUBMITTED TO WITNESSES WITH RESPONSES THERETO

Hon. Mike Espy

The Chairman: The President's 1995 budget makes major cuts in spending on international food aid programs. Meanwhile, the GATT Agreement we just signed specifically says that the need for food aid remains. Without sufficient food aid, poor importers could be harmed by the reductions in subsidized exports. Is this the time to make big cuts in the food aid budget? Does the administration intend to propose reforms to food aid programs so that we can do more with less?

Mr. Espy: Overall, the Uruguay Round is expected to help developing countries by increasing opportunities for their exports into all countries, particularly developed country markets. Uruguay Round participants recognized, however, that with world commodity prices increasing as expected under the Uruguay Round Agreement, certain net-food importing developing countries could face increased food bills. The Agreement calls for periodic reviews of food aid levels to ensure that legitimate needs are addressed. It should also be noted that since the Agreement is to be implemented over several years so that no sudden price shocks are expected. With respect to food aid programs, the administration will examine possible modifications in the context of the 1995 farm bill.

Senator Cochran: The GATT Agreement categorizes certain export programs, market development programs and food aid programs as "green box" permissible ac-

tivities. Would the administration support a proposal to authorize transfer of funds which might ordinarily be spent in "amber or red-box" activities or funds authorized but underspent in certain "green-box" activities to be redirected into food aid or export development programs?

Mr. Espy: Green-box programs only refer to domestic subsidy programs that have no or only a minimal effect on trade. It is true, however, that certain export programs, including market development programs and food aid that the United States currently has, are not considered export subsidies in the Uruguay Round and are therefore not subject to reduction commitments. I have said many times that we should use all of our export tools as aggressively as possible. The administration is committed to using export programs to the fullest extent allowed under the Uruguay Round Agreement.

Senator Cochran: It appears from a review of the list prepared by the administration concerning legislative changes necessary as a result of the GATT that the only domestic commodity program legislation requiring changes is the cotton title of the Food, Agriculture, Conservation and Trade Act of 1990.

Mr. Espy: The United States has already fully met Uruguay Round domestic support commitments. For this reason, the administration is not proposing any changes to domestic support policy. There are some necessary amendments regarding cotton quotas.

Senator Cochran: Since the 1980's, U.S. agriculture's share of the world market has declined significantly due to subsidized competition and artificial trade barriers. This has cost U.S. agriculture and our economy \$10 billion in annual exports; \$24 billion in lost economic activity; and over 200,000 lost jobs.

However, in recent years, we have begun to see some recovery due to a combination of factors, including changes in our domestic programs—such as the marketing loan, and the use of programs relating to market development, market promotion, and U.S. agricultural exports provides job opportunities for over 20,000 Americans.

Is the administration concerned that further spending cuts related to such programs may reverse some of the gains of recent years?

Mr. Espy: I believe that the successful Uruguay Round Agreement puts the administration in an excellent position to face the issue of tightening budgets. Our analysis indicates that as a result of the Uruguay Round, net farm sector income will increase by as much as \$2.5 billion annually by 2005. At the same time we will be able to reduce government expenditures between \$1.7 to \$2.5 billion annually by 2005. We are committed to using our export programs to the fullest extent allowed by our Uruguay Round commitments. For programs unrestricted by the Uruguay Round Agreement, we must recognize the leaner budgets we are facing and target our market development ever more efficiently.

Senator Craig: Agriculture has taken major budget cuts over the past few years. Agriculture has given more than its "fair share" to the effort to balance the budget. How does the administration plan to pay for the costs of this agreement?

Mr. Espy: The administration is looking at a number of options including using savings expected in agricultural export subsidies and deficiency payments that result from the Uruguay Round Agreement. The administration is not proposing any new spending reductions in agriculture.

Senator McConnell: Funding implementation of Uruguay Round Agreement:

a. What options are the administration proposing to offset potential revenue losses resulting from tariff reductions under the Uruguay Round implementing legislation?

b. Is the administration proposing new spending reductions to pay for implementation of the Agreement?

Mr. Espy: The administration is looking at a number of options including using savings expected in agricultural export subsidies and deficiency payments that result from the Uruguay Round Agreement. The administration is not proposing any new spending reductions in agriculture.

Senator McConnell: KFC—poultry exports to Canada:

a. In your opinion, what is the likelihood that Canada would retaliate against U.S. chicken if we issue a GATT challenge to the wheat export policies?

b. As you know, many of my colleagues and I have strongly urged you to avoid any linkage between our demands on wheat and Canada's demands on other products. Has the United States indicated to Canada in any way that it might be willing to agree to a minimum export growth for poultry in exchange for a deal on wheat?

Let me just state for the record that if any deals are struck that would limit the access of U.S. chicken producers and retailers to Canada's market, I would consider it a clear violation of the whole spirit of the GATT Agreement, which is supposed to be a free-trade agreement.

Mr. Espy: The Uruguay Round Agreement goes a long way toward moving us toward freer trade, but it is not a free-trade agreement as such. Canada has indicated that it might retaliate against the United States for its curbing of Canadian wheat and poultry imports. We were explicit in our de-linkage of wheat from all other commodity issues with Canada. The understanding we have just reached with Canada on wheat will provide relief for our producers while not hampering our efforts on the other commodities. The United States has never indicated to Canada that we might be willing to agree to a minimum export growth for poultry in exchange for curbs on Canadian wheat exports into the United States. We maintain our position that Canada must live to its NAFTA commitments on these products. We will be discussing these issues further with Canada in coming months.

Senator Harkin: With the reduction in export subsidies under the Agreement, poorer countries will face higher prices for the commodities they purchase to feed their populations. That would seem to indicate that there will be a greater need for food assistance such as under FL 480 and related programs. It is my understanding that food assistance is not limited by the Agreement, and a GATT ministerial declaration notes the need for increased food assistance because of reduced export subsidies. Yet the administration's budget calls for a significant reduction in spending on FL 480. How do you reconcile the apparent need for food assistance with the budget request?

Mr. Espy: Overall, the Uruguay Round is expected to help developing countries by increasing opportunities for their exports into all countries, particularly developed country markets. Uruguay Round participants recognized, however, that with world commodity prices increasing as expected under the Uruguay Round Agreement, certain net-food importing developing countries could face increased food bills. The agreement calls for periodic review of food aid levels to ensure that legitimate needs are addressed. It should also be noted that since the Agreement is to be implemented over several years so that no sudden price shocks are expected. With respect to food aid programs, the administration will examine possible modifications in the context of the 1995 Farm Bill.

Senator Harkin: Published reports indicate that the administration has considered calling upon agriculture to contribute about 1/3 of the spending reductions needed to offset tariff reductions under the GATT. That has caused a lot of concern in the agriculture community. I can assure you that asking agriculture to bear such a disproportionate cost is unacceptable. Agriculture has already taken heavy cuts, and was promised that this agreement would not require further cuts to domestic farm programs.

What assurances can you give us today that the administration is not serious about asking agriculture to take such cuts to finance the GATT?

Mr. Espy: The administration is looking at a number of options including using savings expected in agricultural export subsidies and deficiency payments that result from the Uruguay Round Agreement. The administration is not proposing any new spending reductions in agriculture.

Senator Baucus: There is a great deal of talk about agriculture funding a significant portion of the costs associated with the GATT. I would say as the outset that I find that unacceptable. As a result of the 1985 and 1990 farm bills, the United States has exceeded its commitment on domestic price supports. Additionally, the Uruguay Round Agreement will reduce the EEP program by \$1.6 billion over

5 years. Since the reduction in tariffs due to agriculture cuts will be less than 5 percent of the lost revenue, agriculture is already paying its way.

Can you assure that agriculture will not be targeted for additional cuts to pay for the GATT?

Mr. Espy: The administration is looking at a number of options including using savings expected in agricultural export subsidies and deficiency payments that result from the Uruguay Round Agreement. The administration is not proposing any new spending reductions in agriculture.

Senator Baucus: As I mentioned earlier, I am concerned about the dramatic cuts in the EEP program. These savings should be redirected into GATT-allowable agricultural programs. How will you ensure that these savings are not redirected away from agriculture?

Mr. Espy: We, along with our trading partners, in particular the European Union, have agreed to reduce our subsidized exports by 21 percent and our expenditures on export subsidies by 36 percent over a 6-year period. U.S. agriculture stands to benefit greatly from this agreement on reducing export subsidies because we are ready to compete head-to-head without subsidies. The administration is committed to using our export program to the fullest extent allowed by the Uruguay Round Agreement. Nevertheless, regarding the savings from a reduced reliance on the Export Enhancement Program, the administration believes these should go toward offsetting the cost of the GATT implementing legislation.

Senator Feingold: Will the USDA and the USTR be willing to work with the dairy industry to develop exporting-marketing functions that are legal under the framework of GATT?

Mr. Espy: We have been listening to various options to change the U.S. Dairy Program.

Senator Feingold: Will the administration make a firm commitment to maintain these programs over the life of this agreement?

Mr. Espy: It is difficult to make a judgment prior to a specific program being developed.

Senator Feingold: Will the GATT allow the administration to channel the funding from cuts in DEIP into so called green-box programs such as domestic and international food assistance, promotion programs and market development programs? If so, will the administration seek to redirect this funding in this manner?

Mr. Espy: The Uruguay Round Agreement does not place a cap on so-called green-box domestic policies, food aid programs, or on market development programs as currently carried out by the United States. The administration is committed to using export programs to the fullest extent allowed under the Uruguay Round Agreement. Nevertheless, we believe that the savings in agricultural programs that flow from the implementation of the Agreement should go toward offsetting the cost of the GATT implementing legislation.

Hon. Mickey Kantor

The Chairman: A number of other Senators and I wrote to President Clinton on March 23, 1994 to urge him to help establish a standing committee with the WTO to examine the relationship of worker rights and labor standards to trade. Will the WTO ensure a full discussion of the intersection of trade and internationally recognized labor standards, and how will this discussion be carried over into the WTO itself?

Ambassador Kantor: This administration is committed to addressing the link between international trade rules and internationally recognized labor standards. At Marrakesh, we won the right to raise this issue in the Preparatory Committee, which was established to pave the way for the new World Trade Organization. Despite extensive efforts on the part of three administrations and four Congresses, this is the first time the issue of labor standards will be discussed in a multilateral trade framework.

One of those internationally recognized labor standards is a minimum age for the employment of children. The very notion of a young child chained to a machine or forced to carry heavy stones hour after hour is appalling.

A number of developing countries fear that we will use the whole labor issue to discriminate against their products. They are particularly sensitive to the question of child labor. We have tried to reassure them that our goal in discussing labor standards is not protectionism but trade and development.

The Chairman: Many of my constituents in Vermont are concerned that the new World Trade Organization will limit the ability of Congress to represent the interests and concerns of the United States people. Will the new WTO limit the U.S. Congress' ability to legislate?

Ambassador Kantor: The WTO and U.S. rights and obligations under the Uruguay Round agreements further a wide range of U.S. interests. When Congress legislates, and only Congress can legislate in the United States, U.S. international rights and obligations should factor into the consideration of what steps are in the overall interest of this country. If Congress or the Executive takes action that a WTO dispute settlement panel determines is inconsistent with a Uruguay Round Agreement, the WTO can recommend that the United States bring that measure into conformity with its obligations. Only Congress and the Executive Branch determine whether to implement that recommendation and, if so, how to implement it.

The Chairman: The Uruguay Round established a temporary Committee on Trade and the Environment within the WTO, but it is unclear how effective this group will be—or what its priorities are given the tension and controversy that surrounded the committee's creation. What exactly does the administration expect to be accomplished by the Trade and Environment Committee?

Ambassador Kantor: The Ministerial Decision on Trade and Environment adopted in Marrakesh establishes a permanent Committee on Trade and Environment. The Committee has a broad mandate which is intended to make trade rules and environmental objectives compatible, and a non-exclusive work program which will permit discussion of all relevant issues. The Committee has within its terms of reference the mandate to examine what changes, if any, would be needed to the rules of the trading system in order to accomplish the objectives set out for it. It is to make an initial report to Ministers at their first biennial meeting after the entry into force of the WTO at which time the Committee's terms of reference will be reviewed.

The administration is pleased with this decision, because, for the first time, environmental issues will be discussed on an ongoing basis within the trading system. The Committee provides an opportunity to launch a dialogue between trade and environment experts on issues such as the interaction between international environmental agreements and the rules of the trading system, the treatment of processes and production methods, public access to WTO proceedings . . . to name but some to the topics up for discussion. The Committee will also be expected to make recommendations on possible solutions to problems. We expect the Committee to begin the long process of integrating appropriate environmental considerations into the trading system.

The Chairman: Can this be accomplished within the 2 years allotted the committee?

1. If not, do you envision that this Committee's temporary authority will be extended?

2. Will you continue to work to make this a permanent structure in the WTO?

Ambassador Kantor: The Committee's mandate is not limited to 2 years. Although developing countries had taken the position that they wanted only an "ad hoc group" with a life of 2 years, this was not the ultimate outcome of the negotiations. The Marrakesh Ministerial Decision on Trade and Environment clearly establishes a committee, without placing a limit on its duration. It is, therefore, in fact a permanent structure within the WTO. It is expected to report its initial findings and recommendations at the first Ministerial Conference after entry into force of the WTO, or about 2½ years from now assuming entry into force January 1, 1995. At that time, the Committee's terms of reference will also be reviewed.

The Chairman: What are the administration's plans for requesting new trade negotiating authority and will that request include the authority to expand the NAFTA agreement to Latin American countries?

Ambassador Kantor: In the Uruguay Round implementing legislation, the administration will be seeking extension of fast-track negotiating authority. Such authority is essential in a rapidly changing global environment.

Trade negotiating authority in the form of a fast-track mechanism represents a joint undertaking by the President and Congress to accomplish the best possible agreements for the United States. The fast-track mechanism maximizes the credibil-

ity and leverage of the United States in trade negotiations by ensuring that the deal reached in the negotiations will be the deal considered by Congress. At the same time, the fast-track procedures have ensured early and full involvement of the Congress throughout the negotiation of trade agreements. The procedures allow Congress to consult with the President at anytime. They specifically provide for Presidential notification and consultation at crucial stages in the negotiations, in advance of Congress's vote on the final agreement. In this way, fast track ensures the full information and participation of U.S. interests at the same time that it ensures full leverage by the President to advance those interests in the negotiations.

The United States must have the tools to ensure that our companies are not left out of the opportunities and benefits from more open and expanded trade, particularly in fast-growing regions of the world. The most essential tool is the ability to negotiate agreements providing for market access and improved disciplines in a variety of areas of importance to our economy.

In Latin America—the second-fastest growing region in the world, to which U.S. exports are growing at three times the global rate—President Clinton has expressed a clear interest in negotiating a free-trade agreement with Chile. While Chile is our first priority in the region, we will not be able to get other countries in the region to continue to open their markets and undertake economic reforms if we cannot credibly leave open the prospect for additional agreements with those selected additional countries that have undertaken the necessary economic and trade reforms and market opening measures that we seek.

There are many factors to consider regarding whether any additional agreements in Latin America should be in the form of an extension of NAFTA or a separate free standing agreement. We feel that we should not prejudice this question at this time.

Along with possible bilateral and regional market-opening agreements which offer great promise, we see other possible situations where fast track authority is necessary, including to resolve some issues that were not resolved in the Uruguay Round and to consider additional steps to strengthen the international trading system in areas that we think are not now being adequately addressed.

The Chairman: What are the administration's plans for re-authorizing the Generalized System of Preference? Do you intend to include this in the GATT implementing legislation?

Ambassador Kantor: The administration has nearly completed its legislative proposal to renew the GSP program. We will be transmitting it to Congress shortly together with Uruguay Round implementing legislation.

The Chairman: Under the Marine Mammal Protection Act (MMPA), the United States banned certain tuna imports that were caught by the use of purse seine nets. The United States argued that it was merely enforcing at the border an internal regulation of a product. A GATT panel held against the United States but this decision was never adopted. How does the administration intend to resolve the status of an outstanding GATT Panel decision that has not been adopted but is often cited in the international trade and environment communities? Does this mean that import bans will be in jeopardy under the SPS Agreement?

Ambassador Kantor: The MMPA tuna embargoes are not sanitary or phytosanitary measures and the SPS Agreement is not relevant to this issue. As you know, a GATT panel, responding to a challenge by Mexico, found that the MMPA tuna embargoes constitute a quantitative restriction under GATT Article XI. Further, the panel found that the exceptions contained in GATT Article XX(b) regarding measures necessary to protect animal life or health or GATT Article XX(g) relating to the conservation of exhaustible natural resources are not available for measures to protect resources outside a country's jurisdiction. The issues raised by this panel report are of deep concern to the United States. We have had an opportunity to revisit this issue before a second GATT Panel as a result of a challenge by the European Community and the Netherlands to the MMPA embargoes. That panel report is expected shortly. Also, we were a leader in obtaining the establishment of a permanent Committee on Trade and Environment within the WTO in part in recognition of the issues raised by the Mexico panel and to provide a forum for resolving those issues.

The Chairman: How does the administration plan on resolving the current impasse between GATT obligations and other treaties with trade restrictive measures?

Ambassador Kantor: To date there has not been a GATT panel report, or other finding, on any dispute involving GATT obligations and other treaties, so it is not accurate to refer to an "impasse" in this area. In fact, one of the specific items we

were able to achieve in the work program for the Committee on Trade and Environment is the "relationship between the provisions of the multilateral trading system and trade measures for environmental purposes, including those pursuant to multilateral environmental agreements."

The Chairman: Critics of this agreement argue that the least trade restrictive language of the agreement on SPS will hinder the United States' ability to defend its domestic sanitary and phytosanitary measures. Do current U.S. food safety and environmental laws meet the least trade restrictive test?

Ambassador Kantor: This criticism is misplaced. Paragraph 6 of Article 5 of the agreement on the Application of Sanitary and Phytosanitary Measures provides that "Members ensure that such measures are not more trade-restrictive than required to achieve their appropriate level of sanitary or phytosanitary protection, taking into account technical and economic feasibility." For these purposes, "a measure is not more trade-restrictive than required unless there is another measure, reasonably available taking into account technical and economic feasibility, that achieves the appropriate level of sanitary or phytosanitary protection and is significantly less restrictive to trade."

Accordingly, it is clear that WTO members are assured of being able to have sanitary and phytosanitary measures that achieve the level of protection they determine to be appropriate. Furthermore, we believe that U.S. sanitary and phytosanitary measures are not more trade-restrictive than required, taking into account technical and economic feasibility. The United States does not seek through its sanitary and phytosanitary measures to provide extra trade protection.

The Chairman: The 1995 Farm Bill may contain a proposal to extend Hazard Analysis Critical Control Point (HACCP) to meat and poultry, as well as all other foods. Unless this type of safety system is adopted by CODEX and others, won't this be establishing a non-tariff barrier and therefore subject to successful challenge?

Ambassador Kantor: There is no requirement in the S&P Agreement that countries can only adopt S&P measures that have been adopted by the CODEX. In fact, paragraph 3 of Article 3 of the Agreement provides that "Members may introduce or maintain sanitary or phytosanitary measures which result in a higher level of sanitary or phytosanitary protection than would be achieved by measures based on the relevant international standards, guidelines or recommendations, if there is a scientific justification, or as a consequence of the level of sanitary or phytosanitary protection a member determines to be appropriate." Furthermore, "there is a scientific justification if, on the basis of an examination and evaluation of available scientific information in conformity with the relevant provisions of this agreement, a member determines that the relevant international standards, guidelines or recommendations are not sufficient to achieve its appropriate level of sanitary or phytosanitary protection."

If the United States adopted a HACCP system that was more stringent than the relevant international standard based on a scientific justification or because the United States sought a higher level of protection, this would be consistent with this provision. As a practical matter, however, this is not an issue, since CODEX has already adopted a HACCP guideline developed by the Food Hygiene Committee and the Fisheries Committee is including control points in the approximately 14 standards currently under revision. The Committee on Import and Export Certification Systems is evaluating both HACCP and the other international standard which may be relevant, the ISO 9000 Standards for Quality Assurance Systems. ISO 9000 goes beyond HACCP but they are compatible since quality systems that meet the 150 standards can be implemented incorporating HACCP. (For example, the EU Food Hygiene Directive that will go into effect in 1996 mandates HACCP, but explicitly permits member states to move further and require other provisions of ISO 9000.)

Many advanced countries, including the EU, Canada, New Zealand, Australia and Chile, are developing HACCP rules for seafood and other components of the food industry. Most importantly, the Codex Alimentarius Commission has in principle adopted HACCP. The Commission has charged the CODEX Committee on Food Hygiene and the CODEX Committee on Fish and Fishery Products to incorporate HACCP concepts and principles into their codes of practice and standards. Thus, while there can be GATT challenges to particular components of any HACCP plan, HACCP itself has received the CODEX imprimatur, and as such should be immune to GATT challenge.

The Chairman: Is the administration's pesticide legislation, which would set a new standard for pesticide residue tolerances and prohibit or limit the export of some pesticides, consistent with the new agreement?

Ambassador Kantor: The administration takes its international obligations seriously. The administration developed its proposed pesticide legislation against the backdrop of the S&P Agreement. There is nothing in that legislation that is inconsistent with that agreement.

The Chairman: Is the zero-tolerance standard of the Delaney Clause inconsistent with the GATT Agreement mandate that standards be based on science? Critics are concerned that this clause will be held to be merely a political decision and therefore, it may be determined to be more trade restrictive than required under the new agreement.

Ambassador Kantor: The United States was careful, in the S&P Agreement negotiations, to keep firmly in mind the Delaney Clauses and other provisions of U.S. law, and to safeguard the ability of governments to ensure food safety. To understand how the S&P Agreement applies to these and other "sanitary and phytosanitary measures," it is important to distinguish between two key concepts—the level of protection that a government chooses and the measure that the government uses to achieve that level of protection.

The S&P Agreement makes explicit that each government may establish those levels of protection for human, animal or plant life or health that the government considers to be appropriate. A government's choice of the level of protection concerning food additives or other products need not be based on a scientific rationale or on a "risk assessment." The S&P Agreement implicitly recognizes that such choices are based on societal, not scientific, values.

The Delaney Clauses, in the first instance, establish a level of protection. They reflect a decision by the Congress that there should be no risk of cancer to humans from the substances those clauses cover. That decision is fully protected under the S&P Agreement. The S&P Agreement does require governments to meet certain elementary requirements when applying laws and regulations to achieve their chosen level of protection.

The S&P Agreement provides safeguards against blatant trade protectionism in the guise of a health regulation. Our trading partners have repeatedly sought to exclude perfectly safe U.S. products from their markets by citing false "health" pretexts.

For example, the S&P Agreement requires that the sanitary or phytosanitary measure used be based on scientific principles and on a risk assessment appropriate to the circumstances.

It makes sense to require governments to meet these tests since legitimate health laws and regulations would have a scientific basis and are the product of a risk assessment. For example, a determination that a particular food additive poses a health risk is made on *scientific* grounds. Similarly, legitimate food additive regulations are based on "risk assessments" of the type required in the S&P Agreement—that is an evaluation of the potential for adverse effects on human health arising from the presence of additives, contaminants, toxins or disease-causing organisms in a food, beverage, or feedstuff.

The Delaney Clauses are entirely consistent with the S&P Agreement's requirements in this regard. The determination that a particular substance poses a risk of cancer is a scientific determination, based on an evaluation of the potential for carcinogenic effect. Based on scientific principles, the United States has determined that if a substance induces cancer in animals, it poses some risk of human carcinogenesis. Since the level of protection under Delaney requires that there be zero risk of carcinogenesis, we prohibit the substance.

Senator Grassley: The specificity provision of the countervailing duty law is designed to ensure that programs providing generalized benefits such as education or interstate highways are not countervailable. The Uruguay Round Agreement on subsidies and countervailing measures merely confirms much of the Commerce Department practice with respect to specificity. However, I believe that amendments are necessary to clarify several aspects of U.S. law, particularly in areas that have been misconstrued by bi-national panels formed under the United States-Canada Free Trade Agreement and to prevent the creation of loopholes that would favor the movement towards complex, opaque forms of subsidies. Is the administration planning to address the specificity issue in its proposed implementing legislation? If not, I would like to inquire as to the administration's rationale.

Ambassador Kantor: At this moment, a team of inter-agency experts still is analyzing how to reflect the results of the Uruguay Round Subsidies Agreement in U.S. implementing legislation. One of the key questions for each issue is whether

it is "necessary" to change U.S. law to conform to the provisions of the Subsidies Agreement. We will be sure that you are advised of the decisions we come to as soon as they have been made.

Senator Grassley: What is the administration's intention with regard to the inclusion of worker rights and environmental standards in this and future trade agreements? Why are they included in fast-track authority?

Ambassador Kantor: The President has made clear that labor and environmental issues are important elements in the context of our bilateral and multilateral trade agenda. The administration intends to continue to work closely with Congress to consider how worker rights and environmental objectives should be addressed in connection with major trade agreements in the future, including how such objectives might be addressed in any future fast-track law.

Senator Grassley: With respect to the durum wheat issue, two of the possible trade responses against Canada are a Section 22 action and an Article 28 action. Both options would essentially close the border with Canada over wheat. If the United States were to unbind concessions previously granted, what kind of precedent would that set, what kind of example would that be, especially in light of possible actions that the European Union may want to take against U.S. commodities entering their borders?

Ambassador Kantor: Neither a Section 22 action nor recourse to GATT Article XXVIII would necessarily close our border to imports of Canadian wheat. Either option provides considerable discretion in determining appropriate levels of trade. The administration's objective is to provide for reasonable levels of trade in line with historical trends. Since authority to impose Section 22 restrictions on GATT-member countries (including Canada) will expire with implementation of the Uruguay Round Agreement (contingent on Congressional action, but hopefully on January 1, 1995), Article XXVIII becomes the only viable option for imposing limits on imports.

Article XXVIII is a GATT-sanctioned mechanism for modifying tariff concession and, thereby, tightening access levels. It may be used by any GATT-member nation. It does, however, involve a re-balancing of concessions. This means that the country taking the action must offer compensation to adversely affected trading partners in the form of lower tariffs on other products. If there is no agreement on compensation, the adversely impacted partner(s) may retaliate against the country taking the action by raising duties on products it imports from that country.

Senator Grassley: There are many issues on the table with Canada, not just wheat. For example, the Canadians offered to end WGTA subsidies and end-user certificates. Why didn't you settle those issues?

Ambassador Kantor: WGTA subsidies and end-user certificates apply to wheat as well as certain other grains. As part of a broader package, Canada has offered to drop WGTA subsidies on grain moving into the United States and requirements for end-user certificates on U.S. wheat and barley shipped to Canada. While the United States has indicated that these are useful concessions, the Canadian side has made it clear that they will not be forthcoming on these and other concessions until there is final agreement on the entire package which is likely to include provisions on wheat, barley, peanut butter, sugar, sugar-containing products, as well as poultry, dairy and egg products.

Senator Helms: Certain countries such as Pakistan and India, and others have not put forward serious offers to increase market access into their country. These countries maintain very closed markets to imports of textiles and raw cotton. The United States will open up its market, but these countries refuse to do the same. There is a total lack of reciprocity and fairness. How will you make sure that we can sell our products in India and Pakistan? Why can't the United States just deny them increased access to our markets?

Ambassador Kantor: We share your desire and that of the textile and apparel industries to achieve market access for U.S. textiles and clothing. We are proud that in most of the key countries for our exports, we have been able to achieve substantially improved binding commitments for market access for our textile and apparel exports. These markets include virtually all of Latin America, most of the ASEAN nations, most of Asia, as well as Europe. These nations, like the United States, will be staging in their tariff cuts over a period of time, usually 10 years, but shorter in some cases and immediately in certain cases. In the case of textiles and clothing, non-tariff barriers, aside from those maintained under the Multi-fiber Arrangement, will be either brought into conformity with the GATT or phased out in 3 years.

Therefore, we will not have to wait 10 years to take advantage of market opening opportunities in export markets.

We continue to be disappointed that India and Pakistan have yet to offer market access commitments, particularly in view of the fact that most other countries, certainly the major trading nations in textiles and apparel, have provided substantial commitments. However, we agreed in Marrakesh to continue the process of negotiating with India and Pakistan in an effort to secure comprehensive, substantive commitments to open their markets for exports from the United States. We see this continuation process as an integral part of the Uruguay Round, and any commitments entered into, even though subsequent to the Marrakesh Ministerial, equally binding on India and Pakistan.

As you know, we have taken steps to notify India and Pakistan that we will take appropriate action, should our negotiations fail to produce positive results for the textile and apparel sector. Specifically, we have put India and Pakistan on notice that we will review their GSP privileges in connection with the President's mandate to take into account the extent to which a country has assured the United States that it will provide "equitable and reasonable access" to its market. Additionally, India and Pakistan's practices have been identified as a major barrier to U.S. exports in our National Trade Estimates report for 1994.

Senator Helms: I am very concerned about how Canadian bi-national panels have interpreted the U.S. subsidies laws. In several cases, like the swine case and the recent lumber case, these bi-national panels have misinterpreted our laws. These cases will have a negative impact on the hog and lumber industries, as well as many other industries that are fighting harmful subsidies. The administration has a chance in the GATT implementing bill to address the subsidy issue. Will the administration include strong language in the implementing bill to remedy the damage done by the swine and lumber cases?

Ambassador Kantor: The swine and lumber decisions raise three concerns: first, that panels will not apply the U.S. standard of review when reviewing U.S. agency determinations; second, that panels have misconstrued the specificity test; and third, that panels have misconstrued U.S. countervailing duty law as requiring application of a "market effects" test. We addressed the first concern in Chapter 19 of the NAFTA in a way that will reduce the likelihood that a panel's misapplication of the standard of review will go uncorrected. In addition, we will continue using the "extraordinary challenge" procedure when panels fail to apply the correct standard of review. With respect to specificity and market effects, we recognize that any changes made to existing U.S. law to reflect the results of the Uruguay Round Subsidies Agreement should be clearly written so that future panels will not be able to misconstrue the applicable legal requirements for countervailing subsidies.

Senator Helms: Will you indicate how you plan to address each of the issues listed on the attached page? (See Attachment A)¹

Ambassador Kantor: No decisions have yet been made regarding any of the issues which you set out in your attachment. At this moment, a team of inter-agency experts still is analyzing how to reflect the results of the Uruguay Round Subsidies Agreement in U.S. implementing legislation. One of the key questions for each issue is whether it is "necessary" to change U.S. law to conform to the provisions of the Subsidies Agreement. We will be sure that you are advised of the decisions we come to as soon as they have been made.

Senator Helms: I'm very concerned about the new World Trade Organization that is created. At least with the existing GATT, the United States has a veto. The WTO is like a U.N. World Court and the United States no longer has a veto. Does the United States have the same vote as countries like Bangladesh?

Ambassador Kantor: The GATT has operated for more than 45 years on the basis of one vote for each party to the Agreement. In practice, decisions are based on consensus with the possibility of a vote should there be a failure to reach a consensus.

The WTO operates on the same basis, except that the requirement to attempt to reach a consensus is codified and the voting thresholds have been increased in many cases, or maintained at GATT levels. The result is that the United States must agree to any change in its substantive rights and obligations.

In the context of dispute settlement, there must now be a consensus to reject a panel report or a request for retaliation. This is a positive element for a country

¹See page 73.

whose economic growth is centered on exports and that uses the GATT dispute settlement mechanism more than any other GATT party. Congress set improved dispute settlement as a principal negotiating objective in the Uruguay Round to stop others, such as the European Union, from continuing to block adoption of reports and the effective operation of dispute settlement.

Senator Helms: Third-world countries can challenge our laws as "GATT-illegal" and the super-national panels decide the case. If U.S. law is found "illegal," then we must either change our law or face trade retaliation. Is it true that the United States might have to change some of our laws? Isn't that why we changed our clean air law when Venezuela complained?

Ambassador Kantor: Other GATT parties, and in the future WTO members, can challenge U.S. laws as inconsistent with our international obligations. We expect other parties to trade agreements to provide us our rights and benefits under those agreements and use section 301 and GATT dispute settlement to pursue those rights and benefits.

If the WTO Dispute Settlement Body adopts a panel report recommending that the United States bring its laws into conformity with its obligations under a Uruguay Round Agreement, Congress and the Executive Branch must decide whether we would implement those recommendations and how we would do so. If we choose not to make changes, we could pay compensation or reach a mutually satisfactory solution of the matter with the complaining party.

The Uruguay Round implementation package will set forth the changes in U.S. law necessary and appropriate to comply with the agreements that Congress will approve.

With respect to reformulated gasoline, the U.S. law in question, the Clean Air Act, has not been changed. The Environmental Protection Agency has had a number of options on how it could implement U.S. law, and USTR has counseled EPA on the potential GATT implications of its reformulated gasoline regulations since late 1992. It has been USTR's position throughout that the Clean Air Act objectives have been—and remain—of overriding importance. However, any regulation that has different procedures for imports and domestic products raises a potential GATT problem; the GATT requires that any discrimination be justifiable. It was USTR's view throughout this process that we should not invite a GATT challenge on reformulated gasoline if EPA determined that our clean air objectives could be realized in a way that does not raise such GATT concerns. This view in fact mirrored EPA's own concern that the regulations be equitable.

When EPA issued a final rule on December 15, 1993, it also announced that although the rule did not provide for similar treatment of foreign refiners, the Agency was still seeking a way to accommodate the concerns of the Venezuelan refiner, PDVSA, while meeting the requirements of the Clean Air Act. Based on the continued technical discussions between EPA and PDVSA since December, EPA decided in March 1994 that it was prepared to issue a notice of a proposed rule, which, if ultimately adopted, would accomplish that objective. Accordingly, we sought a commitment from the Government of Venezuela to drop its request for the formation of a GATT dispute settlement panel at the March 22 GATT Council and not resurrect it during our rulemaking process. Both sides understood that the Government of Venezuela would retain its right to a GATT panel should progress on the issue not continue.

On April 21, EPA issued a notice of proposed rulemaking describing an alternative approach that aims to alleviate the major concerns of PDVSA and its customers but fully achieve air quality objectives in the northeastern United States. Fifty-nine Fed. Reg. 22,800 (May 3, 1994). EPA will hold a hearing on this proposal on May 23; interested parties have until June 23, 1994 to submit written comments to EPA. After reviewing comments, EPA will make a final decision.

Senator Helms: Communist China is negotiating to gain GATT membership. I am very troubled to hear that China may become a member of GATT (or the new WTO) with minimal changes to their economy. Could you please report on the status of those negotiations? What are the conditions for China's acceptance to the GATT? I am told that the PRC wants to join the GATT as a "former member." Is this report accurate? Does it jeopardize the ability of the United States to insist in economic changes in the PRC and what is the United States' position on this issue?

Ambassador Kantor: China was a full participant in the Uruguay Round. It is eligible to become an original member of the WTO if it completes its GATT 1947 accession process prior to the implementation of the WTO and attaches its schedules as provided for in the text of the Final Act. The United States supports China's accession to the GATT/WTO on terms that recognize the full acceptance of basic GATT obligations, that will bind its trade regime to GATT provisions, and that provide for

market access for U.S. and other CP exports commensurate with China's position as a major world economy and trading country. China's desire to negotiate contracting party status to the GATT 1947 does not automatically entitle China to enter either GATT or the WTO without substantive negotiations to bring its trade regime into conformity with GATT provisions.

Senator Helms: Countries such as China and Taiwan are not members of the GATT, but they may benefit from the GATT Agreement. Will these countries receive the benefits of expanded market access into the United States as provided in the Agreement?

Ambassador Kantor: In general, GATT benefits now and WTO benefits in the future do not go to countries that are not members of those agreements. An exception to this rule is tariffs, where Congress has decided to grant MFN tariff treatment unless it explicitly exempts a country from such treatment. In addition, in the area of intellectual property, the United States accords national treatment to countries that are members of an international intellectual property agreement but not members of the GATT or the WTO.

The United States grants MFN to China and Taiwan under bilateral agreements. The reduced tariff rates provided for in the GATT 1994 will be available to all countries and other trading entities that have MFN status with the United States. However, the administration worked closely with relevant U.S. interest groups and was careful to avoid making concessions in the context of the Uruguay Round that would be of benefit to these economies.

Senator Helms: Will countries with MFN status, automatically have access to the U.S. tariff and market access concessions negotiated in the GATT?

Ambassador Kantor: As indicated above, in the areas of tariffs, MFN treatment is granted unless it is explicitly denied. The United States also grants MFN status to a number of countries that are not members of the GATT under bilateral agreements that specify such treatment. As long as these trading partners are granted MFN status by the United States, they will have access to U.S. tariff concessions provided for in the GATT 1994, just as they do now vis-a-vis GATT 1947.

Senator Helms: In the opinion of the administration, is the tobacco domestic content law legal under GATT? If not, how does the administration plan to deal with this law?

Ambassador Kantor: A GATT panel was formed on January 25 to hear the complaint of nine countries (Argentina, Brazil, Canada, Chile, Colombia, El Salvador, Guatemala, Thailand and Zimbabwe) that U.S. domestic content legislation (the Ford amendment) violated their rights under GATT articles II (tariff concessions), III (national treatment) and XI (prohibition of quantitative restrictions). The panel is tentatively scheduled to make known its findings on July 22.

The administration has been cooperating with the experts on the panel. We believe that our policies and legislation relating to tobacco are compatible with GATT disciplines.

Senator Helms: Ambassador Kantor, in an appropriations hearing, you stated that the administration will insist that China meet its obligation under the 1992 Memorandum of Understanding without regard to the nature of the product. You stated that you would seek trade liberalization for tobacco. How do you plan to follow up on that commitment?

Ambassador Kantor: As we have in every area of the 1992 market access MOU, our negotiators will monitor implementation of China's pledge to lift licensing requirements for tobacco-products, now scheduled for removal by December 31, 1994.

In addition, in the course of negotiations over China's accession to the GATT/WTO, we will ask the Chinese to remove any other non-tariff restrictions on tobacco.

ATTACHMENT A

The implementing legislation should clarify the following areas:

Definition of a Subsidy: Subsidies include not only direct outlays of government money but also indirect subsidies.

Economic Effects: Once the Commerce Department finds that a subsidy—an artificial competitive benefit—has been provided, it need not prove that the subsidy increased output or lowered the price of the subject merchandise.

Specificity: Subsidies must be countervailed unless not "specific" to a group of industries (e.g., infrastructure subsidies may be used by virtually anybody). Subsidies given to a more narrowly defined group (such as the forest products industry) are countervailable regardless of why the beneficiaries are limited.

Indirect/Direct Evidence: An International Trade Commission ("ITC") injury finding may be supported by relevant direct or indirect (circumstantial) evidence.

Cross-sectoral Comparison: The ITC may compare the performance of an industry under investigation to a closely-related industry to show the effect of imports.

Greenlighted Subsidies: The implementing legislation should narrowly define those subsidies that under the Uruguay Round are permitted.

Senator Baucus: Congress is, as you know, insistent that the United States maintain effective remedies against unfair trade in the Uruguay Round implementing legislation. In all of the focus on very important anti-dumping and section 301 issues, I wanted to take the opportunity to remind you that effective remedies against subsidized imports are crucial and simply cannot be gainsaid. In the implementing legislation, will the administration ensure remedies against injurious subsidies consistent with current Department of Commerce practice and the commitments given in the course of the NAFTA discussions?

Ambassador Kantor: I can assure you that the Clinton administration indeed is committed to creating the strictest and most effective possible unfair trade remedies consistent with our newly accepted international obligations.

Senator Cochran: As you know, the benefits of the GATT for the U.S. forest products industry are much less than that industry had hoped. We were not able to achieve the elimination of tariffs on wood products, and the paper industry must wait another decade to see the real benefits of the Agreement to eliminate tariffs in that sector.

What is USTR's strategy for continuing negotiations on zero tariffs for wood products with the Japanese? Is new negotiating authority required to continue discussions on these remaining issues from the Uruguay Round? If so, do you plan to seek that authority in the GATT implementing legislation?

Ambassador Kantor: We pushed extremely hard at all levels of government to get Japan to accept zero/zero on wood. I personally raised this with Minister Hata on several occasions. In the end, it proved impossible to achieve as part of the Uruguay Round.

Japan has offered a 50-percent reduction on wood. The EC offered close to a 50-percent reduction on wood. In the face of our disappointment that we did not achieve zero/zero on wood, we adjusted our wood offer. We are offering about 1/3 cut on wood. We consulted with our industry before tabling this offer and believe it meets their concerns.

The issue of Japan's tariffs on wood is important. We will work with the wood industry to determine how we can make progress bilaterally now that the Round is over.

Senator Cochran: I understand that when the United States received the final European tariff offer on paper products, we discovered that many of their tariff cuts were "back-loaded" so as to stretch out their protectionist tariffs as long as possible. I also understand that USTR has made an official inquiry of the Europeans on this unwelcome development.

Have you received a response from the EC and if so, what do they plan to do to address this anomaly?

Ambassador Kantor: We achieved zero/zero on paper with staging over 10 years. Key participants are the EC, Japan, Canada, the United States and Korea. We recognize the importance to the paper industry in shorter staging for the zero/zero. We have pressed the Europeans to agree to this, but they have refused. Most recently, I gave Sir Leon a paper during a meeting on April 25 indicating our continuing interest in shortening the paper staging.

We and the industry would like to pursue this issue further but at the moment we have no authority to accelerate our own staging should the Europeans agree to 5-year staging. Acceleration of the staging of existing tariff concessions will require additional authority from Congress, possibly in the form of a consultation/layover procedure similar to what is provided for in NAFTA acceleration. The administration is currently consulting with Congressional staff on the best means of addressing this issue.

Senator Cochran: *Specificity.* Subsidies must be countervailed unless not “specific” to a group of industries (e.g. infrastructure or schools may be “subsidies,” but are used by all sectors of an economy). Under Commerce practice, subsidies given to a more narrowly defined group (such as the forest products industry) are countervailable regardless of why the beneficiaries are limited.

Unfortunately, several U.S./Canada FTA bi-national panels have used this specificity requirement to protect injurious Canadian subsidies. Essentially, the panels have said that if there is a reason for the subsidies to be specific, they cannot be countervailed. This misses the point: if a subsidy is provided to a specific sector—for any reason or for no reason—it is capable of distorting the economy to the detriment or otherwise competitive U.S. industries. This must be clarified.

The United States has long maintained that only subsidies that are provided to specific sectors should be subject to countervailing duties—broad, economy-wide subsidies such as schools and roads should not. At the same time, several bi-national panels have used this requirement of “specificity” as an excuse to protect foreign subsidies that are in fact utilized by only a specific sector. Will the administration correct these errors and useless litigation by making clear in the implementing legislation what was intended in the 1988 specificity amendments: if a subsidy is provided to a specific industry—regardless of the reason—it is countervailable?

Senator Cochran: *Subsidy definition.* The GATT Subsidies Code establishes that subsidies provided by a government both directly and indirectly are countervailable. Foreign governments tried to negotiate a provision making countervailable only those subsidies where the government directly hands a private party money, but the United States was able to insert a provision making indirect subsidies countervailable as well, subsidies where the government directs private parties to give benefits to other private parties. Even the EU—the main proponent of looser subsidy rules in the Uruguay Round negotiations—has recognized that government action mandating a private party to provide a subsidy is meets the Code’s “financial contribution” test.

Shouldn’t we make the countervailability of indirect subsidies explicit in the implementing legislation so that if a government essentially mandates that a private group provide a subsidy, it will be actionable? Effectively, this is the same thing as a direct subsidy and the GATT explicitly recognizes that indirect subsidies can be actionable.

Ambassador Kantor: No decisions have yet been made regarding either of the issues which you raise. At this moment a team of inter-agency experts still is analyzing how to reflect the results of the Uruguay Round Subsidies Agreement in U.S. implementing legislation. One of the key questions for each issue is whether it is “necessary” to change U.S. law to conform to the provisions of the Subsidies Agreement. We will be sure that you are advised of the decisions we come to as soon as they have been made.

Senator Cochran: *Maintaining Effective Trade Law.* Effective enforcement of U.S. trade law against unfairly subsidized imports is pivotal for the U.S. lumber industry and other U.S. industries that must compete against subsidized foreign producers. As the administration has conceded, the Uruguay Round agreements do require some changes to the U.S. unfair trade remedies which, viewed in isolation, will weaken those remedies somewhat. Looking at the trade laws as a whole, the legislation implementing the Uruguay Round agreements will be crucial in determining whether the surviving U.S. unfair remedies are effective lines.

Is the administration committed to creating, through the legislation, the strictest and most effective possible unfair trade remedies consistent with our newly accepted international obligations?

Ambassador Kantor: I can assure you that the Clinton administration indeed is committed to creating the strictest and most effective possible unfair trade remedies consistent with our newly accepted international obligations.

Senator Cochran: It is unclear what the exact status is of countries that are not (1) GATT members or, (2) that do not become members of the new World Trade Organization proposed to be established under this agreement. Countries such as China and Taiwan are currently not members of the GATT. Will these countries receive the benefits of expanded market access into the United States as provided in the Agreement?

Ambassador Kantor: In general, GATT benefits now and WTO benefits in the future do not go to countries that are not members of those agreements. An exception to this rule is tariffs, where Congress has decided to grant MFN tariff treatment unless it explicitly exempts a country from such treatment. In addition, in the area of intellectual property, the United States accords national treatment to those

countries that are members of an international intellectual property agreement but not members of the GATT or the WTO.

The United States grants MFN to China and Taiwan under bilateral agreements. The reduced tariff rates provided for in the GATT 1994 will be available to all countries and other trading entities that have MFN status with the United States. However, the administration worked closely with relevant U.S. interest groups and was careful to avoid making concessions in the context of the Uruguay Round that would be of benefit to these economies.

Senator Cochran: Will these countries receive the benefits of expanded market access into the United States as provided in the Agreement.

Ambassador Kantor: The reduced tariff rates provided for in the GATT 1994 will be available to all countries and other entities that have MFN status with the United States.

Senator Cochran: After the GATT Agreement is implemented, will there be countries that are GATT members, but not members of the World Trade Organization? If so, exactly what range of benefits will such countries be entitled to receive?

Ambassador Kantor: Contracting parties to the GATT 1947 at the time of WTO implementation which are prepared to accept the WTO agreements and also to attach schedules of concessions for agriculture and goods and a schedule of commitments for services can become original members of the WTO. It is possible that not all GATT 1947 CPs will become original WTO members. The United States intends to withdraw from the GATT 1947 at the time of WTO implementation, removing the U.S. obligation to grant MFN trading status to GATT 1947 contracting parties that are not members of the WTO or that do not have a bilateral basis for MFN treatment after that time.

Senator Cochran: There are countries that currently enjoy "most-favored trading" status with the United States but are not members of the GATT and would not (presumably) immediately become members of the World Trading Organization. Will these countries, as a result of their MFN status, automatically have access to the U.S. trade concessions negotiated in the GATT Agreement by the United States?

Ambassador Kantor: The reduced tariff rates provided for in the GATT 1994 will be available to all countries and other entities that have MFN status with the United States.

Senator Cochran: Certain GATT member countries, such as Pakistan, India, Paraguay and others have not put forward legitimate offers to increase market access into their country. Specifically, some of these countries maintain very closed markets to imports of textiles or raw cotton. Conversely, these countries are among those who loudly demand market access into the United States.

If countries such as these do not provide acceptable market access, what recourse does the United States have? Can the United States block these countries' membership in the World Trade Organization? If their membership is blocked, what effect will that have on their ability to receive the benefits of the GATT agreement?

Ambassador Kantor: We continue to be disappointed that India and Pakistan have yet to offer market access commitments, particularly in view of the fact that most other countries, certainly the major trading nations in textiles and apparel, have provided substantial commitments. However, we agreed in Marrakesh to continue the process of negotiating with India and Pakistan in an effort to secure comprehensive, substantive commitments to open their markets for exports from the United States. We see this continuation process as an integral part of the Uruguay Round, and any commitments entered into, even though subsequent to the Marrakesh Ministerial, equally binding on India and Pakistan.

As you know, we have taken steps to notify India and Pakistan that we will take appropriate action, should our negotiations fail to produce positive results for the textile and apparel sector. Specifically, we have put India and Pakistan on notice that we will review their GSP privileges in connection with the President's mandate to take into account the extent to which a country has assured the United States that it will provide "equitable and reasonable access" to its market. Additionally, India and Pakistan's practices have been identified as a major barrier to U.S. exports in our National Trade Estimates report for 1994.

Senator Cochran: The People's Republic of China is negotiating to gain GATT membership. Could you please report on the status of those negotiations? Further, it has come to my attention that the People's Republic of China is attempting to join GATT as a "former member," acceding to the seat once held by democratic China. If this report is accurate, it would appear that the People's Republic of China

may be allowed to become a member of the GATT without making significant changes in its market system. Could you report on this development?

Ambassador Kantor: As noted above, China was a full participant in the Uruguay Round. It is eligible to become an original member of the WTO if it completes its GATT 1947 accession process prior to the implementation of the WTO and attaches its schedules as provided for in the text of the Final Act. The United States supports China's accession to the GATT/WTO on terms that recognize the full acceptance of basic GATT obligations, that will bind its trade regime to GATT provisions, and that provide for market access for U.S. and other CP exports commensurate with China's position as a major world economy and trading country.

China's desire to negotiate contracting party status to the GATT 1947 does not automatically entitle China to enter either GATT or the WTO without substantive negotiations to bring its trade regime into conformity with GATT provisions.

Senator Harkin: We have had a very hard time getting satisfactory resolution of various trade disputes under existing trade agreements. Of course we are all aware of the ongoing dispute with Canada over wheat and barley imports. We also have problems with hog and pork imports and with lack of access to the Canadian market for our dairy and poultry exports. Under the existing GATT Agreement, the dispute with the EC over oilseeds dragged on for years under GATT procedures and only came to a head when we drew up a list for retaliation under our own section 301—and we still did not get an outcome satisfactory to our oilseed producers.

What specifically does the new GATT Agreement do to give us more effective and timely dispute resolution and remedies for unfair trade practices?

Ambassador Kantor: Under current GATT dispute settlement rules, we have sometimes been denied effective recourse for resolving problems because other countries have blocked adoption of panel reports. The new dispute settlement system has stringent time limits for each step and a government found to be in violation of its obligations must act within a set period to remedy the problem or pay compensation. If that country's government fails to act, it is subject to retaliation. The Dispute Settlement Body must approve our request to act. However, that approval is automatic unless there is a consensus to disapprove the request.

Senator Harkin: I understand that we still have the ability in implementing legislation to help strengthen our position in the dispute resolution process and our ability to pursue remedies. What will the administration's position be on putting tough provisions in the implementing legislation on dispute resolution and remedies?

Ambassador Kantor: The explicit language of the new dispute settlement agreement will ensure that the frustrations we have faced in past disputes under the current GATT rules—endless delays in the proceeding, refusal to allow adoption of panel reports, inability to secure authorization to retaliate—no longer occur. As set out in the answer to the prior question, the new rules provide fixed time limits for each stage of the proceeding and the automatic right to go on to the next stage if a party does not meet any time limit. The new rules also prevent the losing party from blocking adoption of a dispute that it has lost. Finally, the new rules require that a time table for implementation be established for each case in which a party is found to be in violation of its WTO obligations. Failure to meet this time limit for implementation (*i.e.*, for correcting the law or practice found to be in violation) automatically will lead to approval of a request to retaliate; such a request cannot be blocked. All of this is provided in the Agreement itself.

The administration does intend to include in the Statement of Administrative Action accompanying the implementing legislation a policy statement that will explicitly reaffirm our continuing commitment to use section 301. Where an alleged violation is covered by the WTO Agreement, we will use the WTO dispute settlement mechanism. This is not a change from the present situation. Where an alleged violation is not covered by the WTO Agreement, we will investigate the matter directly as we have done to date; here, too, there will be no change in the way we now use section 301.

Senator Harkin: How does the new World Trade Organization differ from the current GATT administrative body? Particularly, what new authority will it have compared to the GATT, and what authority will the United States relinquish to the WTO? What do you make of the concerns that a number of people have expressed about the United States giving up some of its sovereignty to this international body?

Ambassador Kantor: The World Trade Organization (WTO) will operate in the same manner as the GATT. Indeed, some GATT practices have been codified in the Agreement establishing the WTO and thus cannot be abandoned as they might have been under the GATT. For example, WTO members will continue the GATT practice of consensus decisionmaking. No new authority has been ceded to the WTO—members make the decisions, not a bureaucracy.

I believe that the concerns expressed about loss of sovereignty are totally without foundation and represent a misunderstanding of the GATT and the WTO. I have enclosed a detailed response to the arguments made by some regarding sovereignty and decisionmaking in the WTO. Briefly summarized, I believe that the WTO and the Uruguay Round agreements safeguard U.S. sovereignty and contribute significantly to our shared objective of opening foreign markets. We will continue to use traditional U.S. trade provisions such as section 301 in a way that will maintain our success in persuading other countries to adopt more open trade regimes.

Senator Harkin: Ambassador Kantor, as you know in the 1970's we established the principle and practice that the United States should use its economic aid programs to insist upon human rights improvements in recipient countries. Today we have built on that legacy and require that the United States use its far-reaching economic leverage and markets to insist upon respect for basic human rights.

I know that this administration agrees with me on this and I would like to take this opportunity to commend you for your recent success in getting the GATT Trade Negotiating Committee to permit the issue of labor standards to be raised in the Preparatory Committee to establish the World Trade Organization rather than having to wait for its creation in 1995.

Your statement of last week affirming that "addressing the intersection of trade and internationally recognized labor standards is a high priority of the United States" was a clear signal to this administration's commitment to human rights in U.S. trade policy and most welcome. Again I commend you for your efforts in this area.

As you know, one of those labor standards being increasingly violated in the world today concerns the exploitation and use of child labor.

Both UNICEF and the ILO estimate that hundreds of millions of children worldwide under the age of 15 are employed. Many of these children begin working in factories at the age of 6 or 7. They are poor, malnourished and often work 60 or 70 hours per week with little or no pay.

And, as I'm sure you know, these children are often employed producing products subsequently imported into U.S. markets.

It is for this reason that I have introduced S. 613, the Child Labor Deterrence Act which would prohibit the importation of any article manufactured or mined with child labor. My bill denies U.S. markets for those importers violating international labor rights through the employment of children. As it now stands, the United States prohibits the importation of products made with child labor and even prohibits the importation of the spotted green turtle but does not prohibit the importation of product made with child labor. Through this legislation importers would have the opportunity to be part of the solution by ending this horrendous situation.

Can you assure me that your office will involve itself in this legislation effort given the bill's consistency with this administrations demonstrated commitment to using economic leverage and markets to uphold international labor standards?

Ambassador Kantor: I very much appreciate your ongoing efforts to improve our understanding of the issue of child labor. I plan to work closely with Secretary Reich and others to carefully review the provisions in your bill.

PATRICK J. LEAHY, VERMONT, CHAIRMAN
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United States Senate

COMMITTEE ON
 AGRICULTURE, NUTRITION, AND FORESTRY
 WASHINGTON, DC 20510-6000

April 19, 1994

The Honorable William J. Clinton
 The White House
 Washington, D.C. 20500


Dear Mr. President:

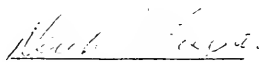
We write to express our strong concern over reports that the Administration may propose new reductions in agriculture-related spending as part of the Uruguay Round implementing legislation to help offset potential revenue losses resulting from tariff reductions.

U.S. agriculture has already taken actions that more than meet the commitment on domestic supports as required by the Uruguay Round. In meetings, in testimony by Administration witnesses, and in documents prepared by the Administration, we have been assured repeatedly that the Uruguay Round agreement will not require any further reduction in existing farm programs, including income and price supports.

If the Administration were to propose new farm spending reductions, we believe the prospects for Congressional approval of the Uruguay Round implementing legislation would be seriously complicated. We again urge you to reject any such proposals.

Sincerely,


 PATRICK LEAHY
 Chairman


 RICHARD LUGAR
 Ranking Minority Member

The President
 April 19, 1994
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Tom Feringall

Lee De

Tom Hark

Bill McCull

Bob Terry

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