

**LEGISLATION AUTHORIZING INTERNATIONAL  
TRADE NEGOTIATIONS**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
INTERNATIONAL ECONOMIC POLICY AND TRADE  
OF THE  
COMMITTEE ON FOREIGN AFFAIRS  
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

**H.R. 6773, H.R. 5519**

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# LEGISLATION AUTHORIZING INTERNATIONAL TRADE NEGOTIATIONS

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TUESDAY, SEPTEMBER 1, 1982

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC  
POLICY AND TRADE,  
*Washington, D.C.*

The subcommittee met at 2:05 p.m. in room 2255, Rayburn House Office Building, Hon. Jonathan B. Bingham (chairman of the subcommittee) presiding.

Mr. BINGHAM. The Subcommittee on International Economic Policy and Trade will be in order. We meet today to hear testimony from the administration on upcoming international trade discussions and pending legislation relating to international trade negotiations.

The meeting of the members of the General Agreement on Tariff and Trade [GATT] is scheduled to take place at the end of November of this year. Those discussions could lead to a new round of international trade negotiations. It has been nearly 10 years since Congress has authorized such negotiations; that authorization, contained in the Trade Act of 1974, remains in force through 1987. The 1974 authorization is quite general, however, and does not reflect the agreements reached in the Tokyo Round which are now being implemented, nor does it reflect particular concerns in the Congress about new trade problems that have emerged in the meantime. It may be appropriate for the Congress to issue a new mandate for trade negotiations, as well as to revise the authorities and responsibilities of the President to respond to inequities in international trade.

## PENDING RECIPROCITY LEGISLATION

Several bills have been referred to the Committee on Foreign Affairs and to this subcommittee along these lines, most notably H.R. 6773 by Mr. Frenzel and others, which is identical to a bill reported favorably by the Senate Finance Committee, and H.R. 5519, by Mr. Florio and others, which has been reported favorably by the House Energy and Commerce Committee.

In addition, last week I circulated to members of the subcommittee a draft bill dated September 16, 1982, which is under consideration in the Ways and Means Committee as a possible substitute

both for H.R. 5519 and H.R. 6773. Extensive testimony has been received from public and private sector witnesses on the issues raised by the legislation during this subcommittee's hearings on the competitiveness of various U.S. industrial sectors and on United States-Japanese economic relations.

We are pleased today to hear the views of the administration specifically on the bills before us. I might add that, depending on the actions of the Ways and Means Committee, which has principal jurisdiction over these bills, it would be my intention to consider them in a markup session later this week or early next week.

We will proceed, then, to hear from the administration witnesses. Our first witness is the Honorable David R. MacDonald, Deputy U.S. Trade Representative. We are glad to have you, Ambassador MacDonald; please proceed.

**STATEMENT OF DAVID R. MacDONALD, DEPUTY U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE**

Mr. MACDONALD. Thank you, Mr. Chairman. Mr. Chairman, I appreciate the opportunity to appear before the subcommittee on the important topic of reciprocity legislation. I have a statement which I believe is responsive to the letter of request for testimony which you addressed to Ambassador Brock. It covers the subjects that you requested be covered in that letter, and I submit it for the record.

Mr. BINGHAM. Without objection, your entire statement will appear in the record.

Mr. MACDONALD. Let me briefly highlight my views.

Over the past several months, the administration, Congress, and the private sector have been carefully studying various legislative proposals on reciprocity. We have many interests affected by such legislation that often appear to be competing.

We want to enforce existing rights and we want to expand international rules to cover areas of increasing importance, such as services, investment, and high technology. We want to do this without putting the world trading system in jeopardy.

Carefully crafted reciprocity legislation that clarifies our ability to enforce existing rights and encourages our efforts in the GATT Ministerial can be very helpful. The administration has supported such legislation, including elements of H.R. 6773.

We are aware of revisions to H.R. 6773 now being considered in your committee, in the House Ways and Means Committee, and in other committees. We will study those proposals very carefully and with an open mind. I am hopeful that we can, working together, see positive trade legislation enacted this year.

That really ends the summary that I had. I can only add that, because the situation appears to be very fluid with respect to the exact content of H.R. 6773, at the present time it is a little difficult to go into particular provisions that may not be in the bill by the time it gets to this committee or may be amended in such a way that the testimony then becomes irrelevant. But the principles outlined in my full statement are indicative of principles that have been cleared by the administration, and as to which we would support those principles, which start on page 4 of my statement and go through page 6, actually page 7.

[Mr. MacDonald's prepared statement follows:]

PREPARED STATEMENT OF DAVID R. MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. Chairman, reciprocity is not a four letter word. It is in fact the cornerstone of the international trading system which the United States has helped mold.

Since The Reciprocal Trade Agreements Act of 1934 the United States has been at the forefront of every major multilateral trade negotiations aimed at obtaining the mutual liberalization of trading practices and policies. The heart of these negotiations, including the Kennedy Round in the 1960's and the Tokyo Round concluded in 1979, has been the reciprocal liberalization of trade.

While there have always been and always will be pressures for short term solutions to economic problems, we are firmly resolved to continue more vigorously than ever before our efforts to ensure a freer world trading system. We will not change course now.

The Reagan Administration statement of U.S. Trade Policy of July, 1981, states: "Free trade based on mutually acceptable trading relations is essential to the pursuit of our goal (of a strong U.S. economy) . . . We will strongly resist protectionist pressure. Open trade on the basis of mutually agreed upon rules is in our best economic interest.

"Internationally, we will pursue policies aimed at the achievement of open trade and the reduction of trade distortions while adhering to the principle of reciprocity in our trading relations.

"(Toward this end), we will strictly enforce United States laws and international agreements . . . and we will insist that our trading partners live up to the spirit and the letter of (such) agreements and that they recognize that trade is a two way street."

Fair and equitable market opportunities for U.S. exporters, investors, and service industries has been and will continue to be a goal of this Administration. This Congress and this Administration are both examining ways to better achieve this goal.

We must continue to do this within the context of our overall policy and our international obligations. This does not mean that the trading system is perfect, or that we should never question or seek to improve any provisions of our international obligations. Mr. Chairman, if that were the case, USTR would be redundant. However, we must be clear to avoid a distorted use of reciprocity that could undermine an already vulnerable multilateral trading system, trigger retaliation abroad, and further deprive the United States of export opportunities and erode, if not eliminate, our role as the world leader in liberalizing international trade.

As the Members of this Committee know, the commitment to an open trading system requires strong action to preserve its benefits. The dynamics of international trade are such that one must take long strides forward to avoid sliding back. Whatever we might gain in our pursuit of an open trading system will be lost if we ignore attacks upon it by others, or fail to pursue increased market opportunities for our goods, services, and investment.

History has shown that no nation can long sustain public support for an open trade policy unless its people sense that there is fairness and equity in the practices of other countries as well as their own, and that they see tangible benefits from the application of that policy.

Adherence to a free trade policy requires us to enforce strictly existing trade agreements, to enforce strictly domestic law implementing those agreements, to strengthen our domestic trade laws to make them more useful and responsive to the needs of those they protect, and to seek expanded coverage of trade issues under the mutually accepted international framework of the General Agreement on Tariffs and Trade (the GATT).

With regard to enforcement, the U.S. Trade Representative, has pursued a vigorous course of action. During the past year our office has initiated 12 section 301 investigations involving nine countries for unfair trade practices. We are now pursuing international dispute settlements in nine of these cases, and in two 301 cases filed earlier. Six of this year's investigations were recently initiated concerning the use of subsidies by European nations on the production of specialty steel. Other investigations address barriers to agricultural exports. In addition, we have assisted many smaller industries by providing technical assistance on different processes available for seeking relief from unfair trade practices or competition. It is our intent to continue these efforts during the coming year.

It is with respect to improving our enforcement abilities, strengthening our domestic trade laws, and expanding coverage under the GATT system, that we have

encouraged the drafting of legislation, like H.R. 6773, the Reciprocal Trade and Investment Act of 1982. Elements of this bill have the full support of the Administration. We have also endorsed similar legislation that has been approved by the Senate Finance Committee.

Let me briefly outline the elements of H.R. 6773, the Reciprocal Trade and Investment Act of 1982, which provide the basis for the Administration's support. Since the House Trade Subcommittee on Ways and Means has not yet concluded its consideration of the legislation, I ask the members of this subcommittee to bear in mind that the final bill may be changed. We will, of course, be happy to work with the subcommittee's staff to review any modifications that may be made.

#### SERVICES

H.R. 6773 addresses the critical area of trade in services. In contrast to trade in goods, we are currently operating without any meaningful international rules governing services trade. The United States is experiencing expanding trade opportunities in services and growing barriers inhibit these opportunities. It is therefore, timely for legislation like H.R. 6773 to establish specific negotiating objectives for the United States on international trade in services.

#### INVESTMENT

With respect to investment, negotiating objectives established in H.R. 6773 of reducing or eliminating barriers to certain investment issues and of developing international rules to discipline government intervention in this area will help ensure the free flow of foreign direct investment. This objective, as well as that of providing for dispute settlement procedures has the full support of the Administration.

#### HIGH TECHNOLOGY

H.R. 6773 also addresses the problems we are encountering in the high-technology area. High-technology goods and services and technical "knowhow" itself are essential to our economic development, industrial competitiveness, and national security. As international competition in high-technology industries becomes more intense, there is evidence that the competitive position of U.S. high-technology industries is eroding. There are indications that governments are promoting their high-technology industries in ways that create strains on the trading system and can retard the rapid pace of technological innovation.

The Administration believes that specific negotiating objectives with respect to high-technology products and related services will support our efforts to counter international barriers and distortions to trade and investment in this area. Since the tariff-cutting authority in the proposed extension of Section 124 of the Trade Act of 1974, which we strongly support, contains constraints that make it insufficiently flexible to permit negotiation on key high-technology items, general tariff-cutting authority for high-technology products should be considered as priority for enactment this year.

#### ENFORCEMENT

H.R. 6773 helps clarify and provide emphasis for appropriate Section 301 authority in the areas of services and investment. We need to demonstrate to our trading partners our resolve to seek fair and equitable market opportunities for U.S. interests. The most effective way to do this is for the U.S. Government to actively enforce U.S. rights under domestic and international laws, and to develop new international disciplines where needed. The President's current Section 301 investigative authority includes unfair practices in the areas of services and investment that burden U.S. commerce. This needs to be appropriately clarified. In that regard, I should state that the Administration fully supports the version of the reciprocity bill passed by the Senate Finance Committee. It has always been and will continue to be U.S. policy to welcome market oriented direct foreign investment to the United States. It is also U.S. policy to obtain fair opportunities for U.S. investors abroad to the greatest degree possible.

H.R. 6773, under consideration at this hearing today, provides for the improvement and strengthening of our negotiating authority and leverage in areas of critical importance to the Administration such as services, investment and trade in high technology goods. These provisions can be very useful in our efforts to address these critical issues with our trading partners at the GATT Ministerial as well as in overall efforts to preserve by strengthening the international trade and investment system throughout the remainder of this century.

While the United States can make important contributions to services and investment issues through legislation like H.R. 6773, an international forum is necessary to have our interests reflected in the international trading system. To this end the United States is actively participating in preparations for the Ministerial level meeting of the GATT in November. It is our hope that this meeting will not only reaffirm an international commitment to resist protectionism, but also chart a course for international trade activities for the balance of the 1980's.

Among our key objectives are improving the rules for agricultural trade, reforming the GATT's dispute settlement process, concluding an agreement on safeguards, and initiating work programs on trade in services, trade-related investment issues, and trade in high technology goods.

Since January the Preparatory Committee, established by the GATT Council to plan the Ministerial, has met monthly. We are now in the critical stage of the negotiations on the meeting agenda. While there is general agreement on the outlines of a three-part agenda, negotiations are continuing on the exact form and substance of the specific items. It is anticipated that the agenda will not be finalized until the end of October.

Part I will contain an assessment of the problems facing the international trading system and a political commitment to further liberalization.

Part II will include decisions to be taken by the trade ministers to improve the operation of the trading system in the near and medium term.

Part III will provide for the establishment of the future work program of the GATT.

We are placing a great deal of stock in this Ministerial and are working very closely with our trading partners to ensure that the current tensions in the international trading system are not allowed to overshadow the important work underway in Geneva to complete preparations for the Ministerial meeting.

In this regard, H.R. 6773, the Reciprocal Trade and Investment Act of 1982, will be of great assistance. Not only does this legislation direct attention to specific trade problems and issues, but more importantly, taken as a whole, the bill is really an endorsement of our GATT system.

H.R. 6773 has been written with our international obligations and agreements in mind. The legislation will strengthen our position at the Ministerial Meeting in Geneva because it unequivocally demonstrates that the United States intends to work within the GATT structure and to vigorously demand the same degree of commitment from our trading partners.

In considering this legislation, let us remember that the decisions we make will set the tone in world trade centers. It is with this sense of responsibility that we will work to open foreign markets, not erect new barriers. Any other action would be contrary to the interests of our nation and that of the world trading system.

Mr. BINGHAM. Thank you very much, Ambassador MacDonald.

We will hear next from Mr. Denis Lamb, Deputy Assistant Secretary for Trade and Commercial Affairs, Department of State.

#### STATEMENT OF HON. RAYMOND J. WALDMANN, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY, DEPARTMENT OF COMMERCE

Mr. LAMB. Thank you, Mr. Chairman.

With your permission, I would like to briefly summarize my prepared statement.

Mr. BINGHAM. Without objection, your full statement will appear in the record.

#### TRADITION OF EQUITY IN TRADING RELATIONSHIPS

Mr. LAMB. Let me begin by saying that we have traditionally followed reciprocity in reducing barriers to trade. Since the Reciprocal Trade Agreements Act of 1934, the United States has been at the forefront of every major multilateral trade negotiation aimed at obtaining the mutual liberalization of trade practices and policies. In these negotiations, reciprocity, or put differently, equity in trading relationships, has been an essential goal of U.S. policy.

The Department of State believes that the thrust and principal provisions of H.R. 6773 are consistent with this tradition. We are especially pleased with the negotiating objectives provided to the executive branch in the areas of trade in services, trade-related investment distortions, and high technology trade. These are the issues on the frontier of trade policy. It is appropriate that we begin serious international discussion of them with a view toward future negotiations.

We are studying the informal revision of H.R. 6773 under the aegis of the Trade Representative's Office, and definitive administration comments will be available shortly. I would, however, note our support for language such as that appearing in section 4 of the informal draft which requires the President to take into account the obligations of the United States under applicable international agreements when making determinations or taking action under section 301.

#### NEED FOR LEGISLATION TO ADVANCE GOALS

With no international framework of agreed rules for trade in services, with the growth of trade-related practices affecting investment flows, and given the emerging consensus that actual and potential distortions to trade in high technology products merit our serious attention, passage of H.R. 6773 will advance our international goals. A legislative mandate to act will strengthen our credibility with our trading partners and insure serious consideration of U.S. proposals in international forums.

Improved market opportunities and reciprocity as a principle embodied in the GATT are goals of our, or indeed any free trade, policy. This bill embodies those principles. It is an antidote to pressure to enact legislation which would move U.S. trade policy in the direction of bilateral, sectoral, or product by product reciprocity. The most effective method for obtaining fair and equitable market opportunities is to be found in the increased openness of foreign markets, which we are actively seeking.

My prepared statement deals at some length with the GATT Ministerial this November. In summary I would only note that the meeting bears a twofold burden: it will be held at a time when the industrialized democracies will be emerging from a severe recession; and it must address particularly resistant barriers to trade, which the GATT has had only limited success in reducing, as well as new problems.

Recognizing these constraints, it is nevertheless essential that the Ministerial set priorities and establish a direction for the trading system, because the success of the GATT depends upon the ability of governments to use it to address the relevant issues. We in the administration, accompanied by representatives of both Houses of Congress, will be going to Geneva in 2 months with this very much in mind.

Thank you, Mr. Chairman.

[Mr. Lamb's prepared statement follows:]

PREPARED STATEMENT OF DENIS LAMB, DEPUTY ASSISTANT SECRETARY FOR TRADE AND  
COMMERCIAL AFFAIRS, DEPARTMENT OF STATE

Mr. Chairman, thank you for the opportunity to appear before this subcommittee to discuss pending legislation setting forth objectives for international trade agreements and otherwise revising U.S. trade acts. In addition, I will be pleased to review ongoing plans for the November GATT Ministerial, as requested in your invitation.

Let me begin by reiterating that the United States has traditionally followed a policy of reciprocity in negotiating reductions in barriers to international trade. Since the Reciprocal Trade Agreements Act of 1934, the United States has been at the forefront of every major multilateral trade negotiation aimed at obtaining the mutual liberalization of trading practices and policies. In these negotiations, reciprocity, or put differently, equity in trading relationships, has been an essential goal of U.S. policy.

We see no reason to change our basic philosophy now. As always, there are protectionist pressures for actions which will provide, at best, short term alleviation of long-term systemic problems. We are convinced that such actions are shortsighted, and instead we will continue to work toward a long-term liberalization of the trading system. This Administration's statement on trade policy states that:

"Free trade based on mutually acceptable trading relations is essential to the pursuit of our goal (of a strong U.S. economy). We will strongly resist protectionist pressure. Open trade on the basis of mutually agreed upon rules is in our best economic interest.

"Internationally, we will pursue policies aimed at the achievement of open trade and the reduction of trade distortions while adhering to the principle of reciprocity in our trading relations.

"(Toward this end), we will strictly enforce United States laws and international agreements and we will insist that our trading partners live up to the spirit and the letter of (such) agreements and that they recognize that trade is a two way street."

I believe this statement of trade policy is consistent with the goal and intent of H.R. 6773, the bill introduced by Mr. Frenzel, which is being considered in this hearing.

In earlier Administration testimony, we enumerated four principles which any new legislation should incorporate:

"First it must be absolutely consistent with our current obligations under the GATT and other international agreements.

"Second, it must address multilateral rather than bilateral or sectoral solutions.

"Third, it must focus on strengthening international institutions and expanding international agreements to include those areas such as services, investment, and high technology that are not presently covered.

"Fourth, it must strengthen the negotiating mandate and flexibility of the President in his effort to achieve a more liberalized world trading system and a reduction of barriers affecting U.S. workers and enterprises."

H.R. 6773 appears to meet these criteria.

We have seen the informal revision of H.R. 6773, and we wish to study this version of the bill in greater detail before commenting on it. We will give full support to the U.S. Trade Representative's Office to make certain that interagency review is completed promptly when a final marked up version is available. I would note our support for the proposed language in section 4 of the informal draft which requires the President to take into account the obligations of the United States under any applicable trade agreement when making determinations or taking action under section 301.

There are many provisions in H.R. 6773 which the Administration wholeheartedly supports. We are especially pleased with the negotiating objectives it provides to the executive branch in the areas of trade in services, trade related investment distortions and high technology trade. These are issues on the frontier of trade policy. Little consideration has been given to these sectors up till now. But, as they increase in importance, we believe that it is appropriate to initiate serious international discussions on them, with a view to international negotiations in the future.

#### SERVICES

At present, there is no international framework of agreed rules for trade in services. As other countries experience the shift to services industries which occurred in the United States in the 1970's, we can expect heightened international competition. The United States has strongly supported work in the OECD on services and is encouraging our major trading partners to define their interests and objectives for

future international negotiations. At the GATT Ministerial in November, our goal is to obtain agreement to pursue a serious work program on services trade.

#### TRADE-RELATED INVESTMENT PRACTICES

Just as in services, there is no international framework of agreed investment rules. In the past there has been a general consensus favoring the relatively free flow of investment capital. Investment issues tended to be intermittent and country specific. With the global economic downturn, resort to interventionist policies has increased. Our goal is to reverse that trend by establishing international understandings and rules which support an open investment climate. Among our specific goals are better market access and national treatment for U.S. investors abroad.

#### HIGH TECHNOLOGY

Although the term high technology eludes precise definition, it generally describes industries which are intensely research dependent and innovative in applying research results to new products and processes. Its characteristics invite increased internationalism in production and varying degrees of increased government involvement in promotion and financing. The unique character of this trade suggests that distortions exist that have not previously been considered internationally such as industry targeting and government financed R&D. At the GATT Ministerial, we seek formation of a working group to identify distortive practices and recommend ways to handle them under existing GATT rules and procedures.

In these three areas, we believe that passage of H.R. 6773 will allow us to pursue our international goals more effectively. A specific legislative mandate to act will strengthen our credibility with our trading partners and ensure serious consideration of U.S. proposals in international forums.

In addition, H.R. 6773 clarifies presidential authority to act to enforce U.S. rights under Section 301. We welcome this clarification, which will demonstrate to our trading partners our resolve to seek fair and equitable market opportunities for U.S. interests. Improved market opportunities and reciprocity as a principle embodied in the GATT are goals of any free trade policy. This bill embodies those principles and is welcomed by the administration. We must be careful not to yield to short term pressures and enact legislation which will move U.S. trade policy in the direction of bilateral, sectoral or product by product reciprocity. We believe the most effective method for obtaining fair and equitable market opportunities is the increasing liberalization of foreign markets rather than raising equivalently restrictive barriers of our own. Our goal is to move our trading partners to a more open approach which will operate to our mutual advantage.

In this regard, we view the upcoming GATT Ministerial meeting as an excellent opportunity to press for international consensus on a number of important liberalizing actions. It is our hope that this meeting will not only review the operating and implementation of the multilateral trade negotiation MTN agreements, but will set the course for international trade activities for the 1980's. Among our key objectives are the initiation of work programs on services, investment and high technology which I described earlier. We also hope to use the Ministerial to renew discussions on the conduct of agricultural trade and to encourage developing countries to take a more active and responsible role in the international trading system.

The administration feels strongly that thoughtful and positive legislation such as H.R. 6773 can be very useful in achieving our international objectives and commends the work of you, your Committee and the bill's sponsors for your efforts.

#### GATT MINISTERIAL

Preparations for the GATT Ministerial are under way at a critical time for the world trading system. Slow economic growth, high and rising unemployment and rapid shifts in competitive position among nations and sectors have increased trade tensions among nations and protectionist pressures within them. There is a growing sense in this country that while the United States has relatively few import barriers, our exporters face a variety of barriers which impede and frustrate the access of their products to foreign markets. At the same time, economic weakness is making it difficult for many governments to make hard political choices that would improve the adjustment capabilities of their economies, reduce barriers which protect particular sectors from international competition, or remove trade distorting subsidies and other export incentives.

The GATT—with its emphasis on multilateral, nondiscriminatory reduction of trade barriers—was designed to prevent a recurrence of the self-destructive trade

policies of the 1930's. Central to the successful operation of the GATT is the maintenance of an equitable balance of rights and obligations, which provides for resolving trade problems through procedures based on rules rather than tests of political strength. This balance is crucial to the preservation of the consensus on which the system ultimately depends. The institution would rapidly become irrelevant and lose support if major trading nations did not regard the rules as equitable, and did not feel that others were faithfully adhering to them.

I outlined earlier the scope of problems we hope the Ministerial will tackle—agriculture, developing country participation, services, trade related investment practices and high technology and what we generally hope to achieve recognizing that all problems cannot be resolved at once, the Ministerial should set in motion a process which will ensure certain and steady progress so that by the end of the decade there will be agreed rules to cover the numerous areas where they do not at present exist or are inadequate. The effectiveness of the institution and the trading system will depend on our bringing a variety of trade practices under increasing international discipline or scrutiny.

The November Ministerial bears a twofold burden: It will be held at a time when several of the industrialized democracies will be in the midst of or just emerging from a severe recession, and it must address particularly resistant barriers to trade which the GATT has so far not been able to reduce. Recognizing the constraints that these factors place on the outcome of the meeting, it is nevertheless essential for the Ministerial to set priorities and a direction for the trading system and establish a strong political commitment to both so that the GATT can provide an effective framework for dealing expeditiously and fairly with the trade problems of the 1980's. In the end, the success of the institution depends upon its being relevant to, and able to successfully address, the problems of the trading system and upon its being effectively used by governments to that end. I believe, and I believe you share my view, that the stake of the United States in world trade justifies our strong support for an effective GATT.

Mr. BINGHAM. Thank you, Mr. Lamb.

Next we will hear from Raymond Waldmann, Assistant Secretary for International Economic Policy, Department of Commerce.

**STATEMENT OF HON. RAYMOND J. WALDMANN, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY, DEPARTMENT OF COMMERCE**

Mr. WALDMANN. Thank you, Mr. Chairman.

I do have a full statement for the record. I would just like to highlight a few points.

Mr. BINGHAM. Without objection, the full statement will be incorporated.

Mr. WALDMANN. Thank you.

**GROWTH OF NEW TRADE BARRIERS**

We believe great progress has been made in recent years in the reduction of tariff barriers and even more recently in the reduction of nontariff barriers. But the task of opening international markets to U.S. competition is far from over.

In recent years, as the more traditional barriers to trade have receded, many new foreign practices have emerged which are just as effective as the older barriers in stifling competition. This new and more subtle generation of trade barriers includes national preferences for local products, industrial targeting policies, export credit subsidies, regional investment incentives, closed national distribution systems, and many other practices which undermine the ability of our businesses to compete in foreign markets.

Because we believe that the future success of the international trading system requires that these practices be brought under con-

trol, we have aggressively pursued both bilateral and multilateral initiatives toward this end. We have expressed our support for legislation of the type proposed by Senator Danforth, and H.R. 6773 as introduced by Congressman Frenzel, presently pending before this subcommittee in a form quite similar to the Danforth bill. Like the Danforth bill, it contains important clarifications and improvements to the existing section 301 procedures and remedies. One of the most important aspects of this bill is its clarification that the denial of fair and equitable market opportunities is a basis for action under section 301. Equally important, the bill provides a mandate for negotiations with our trading partners on the subject of investment and services and high technology trade.

We continue to believe that reciprocity legislation of this nature would be an extremely useful adjunct to our efforts to secure equitable entry into foreign markets. We hope the subcommittee will give serious attention to the need for this legislation.

#### IMPORTANCE OF LEGISLATION TO GATT

Passage of reciprocity legislation is especially important as we approach the GATT Ministerial meeting, demonstrating our determination to press for improvements in and extensions of the multilateral disciplines embodied in the GATT. At the GATT there will be a common assessment of the difficulties confronting the international trading system and, we hope, a strong political commitment to further trade liberalization.

Second, the Ministers will review and, where necessary and possible, seek to consolidate the existing accomplishments under the GATT. Additionally, we hope to conclude ongoing negotiations on Safeguards and Counterfeit Codes. We are also seeking a commitment to address the problems in trade-in agriculture, and the need to promote greater developing country participation in the multilateral trade system, and finally to improve the GATT's dispute settlement mechanism.

The third area the GATT will address consists of the establishment of a future work program. The United States is actively urging that the GATT begin studies of trade-in services, trade-related investment problems and trade-in high technology goods, to prepare for the challenges of the 1980's. Where necessary, new approaches should be considered.

I would just point out, Mr. Chairman, that the Commerce Department, along with Ambassador MacDonald, others at the USTR and the other agencies represented here, has been actively engaged in the preparations for the GATT Ministerial, and we recognize that progress at the GATT Ministerial will not come easily.

While some of our trading partners may argue that such intervention as the types of intervention that we have pointed out are appropriate, our goal will be to maintain support internationally for a liberal trading system, not just in high technology but in other areas as well.

Thank you, Mr. Chairman.

[Mr. Waldmann's prepared statement follows:]

## PREPARED STATEMENT OF HON. RAYMOND J. WALDMANN, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY, DEPARTMENT OF COMMERCE

Mr. Chairman, I thank you for the invitation to appear before this subcommittee. In my testimony this morning I will address H.R. 6773, Congressman Frenzel's reciprocity bill and will also review our preparations for the November GATT Ministerial.

## RECIPROCITY

I will first turn to the reciprocity legislation, H.R. 6773. The opening of foreign markets to U.S. business on an equitable basis is one of the principal objectives of the Administration's foreign economic policy. Great progress was made in earlier years in the reduction of tariff barriers and, more recently, in the reduction of at least some non-tariff barriers. However, the task of opening international markets to U.S. competition is far from over. In fact, we are now facing the greatest challenge to the international trading system since it emerged from the protectionism of the 1930's.

In recent years, as the more traditional barriers to trade have receded, many new foreign practices have emerged which are just as effective as the older barrier's in stifling competition. This new, and more subtle, generation of trade barriers includes national preferences for local products, industrial targeting policies, export credit subsidies, regional investment incentives, closed national distribution systems and many other practices which undermine the ability of our businesses to compete in foreign markets.

Because we believe the future success of the international trading system requires that these practices be brought under control, we have aggressively pursued both bilateral and multilateral initiatives toward this end. Insofar as existing international agreements are applicable, we have challenged foreign market-distorting practices under those agreements. In several areas of significance to the U.S., however, the existing international agreements do not provide adequate rules to insure that free trade prevails. In the key areas of direct investment, services and high technology, we have taken action on both bilateral and multilateral fronts to encourage the development of standards of conduct more consistent with free trade principles.

I will describe in a moment the efforts we are making to have these subjects addressed at the GATT Ministerial. While we have had bilateral discussions in these areas with many of our trading partners, the most noteworthy have been those with Japan. We have had continuing talks with the Japanese on a great number of questions concerning access to Japanese markets. In addition, we have joined with the Japanese, in a bilateral working group, to address the many complex trade and investment questions raised by the emergence of high technology industries.

While we are fully committed to the pursuit of free trade and open markets through the bilateral and multilateral efforts I have mentioned, we recognize that mere advocacy of these causes is not enough. We have previously indicated that additional legislation, clarifying the President's authority to respond to foreign trade and investment barriers, might strengthen our negotiating position. In particular, we have stated that a positive use of the "reciprocity" concept might be helpful in enabling us to reduce or eliminate barriers to U.S. participation in foreign markets.

We have expressed our support for legislation of this type proposed by Senator Danforth. H.R. 6773, as introduced by Congressman Frenzel and as it presently appears before this subcommittee, is quite similar to the Danforth legislation. Like the Danforth bill, H.R. 6773 contains important clarifications and improvements to the existing Section 301 procedures and remedies. One of the most important aspects of the bill is its clarification that the denial of fair and equitable market opportunities is a basis for action under Section 301. Equally important, the bill provides a mandate for negotiations with our trading partners on the subject of investment and services and high technology trade. We continue to believe that reciprocity legislation of this nature would be an extremely useful adjunct to our efforts to secure equitable entry into foreign markets. We hope the Subcommittee will give serious attention to the need for such legislation.

Passage of reciprocity legislation is especially important as we approach the GATT Ministerial, demonstrating our determination to press for improvement in and extensions of the multilateral disciplines embodied in the GATT. Failure to adopt such legislation or, worse, the adoption of legislation protecting our domestic industries from international competition, would convey exactly the opposite message and our hopes for improved access to foreign markets and for meaningful progress at the Ministerial would be seriously undercut.

## GATT MINISTERIAL

As I indicated earlier, more equitable market access requires a concerted international effort to insure free and fair competition. Therefore, the Administration has actively pursued—and will continue to pursue—multilateral and bilateral initiatives as the most effective vehicles for achieving our goals.

This November, for the first time in nearly a decade, the trade Ministers of the member countries of the GATT will meet. We have been promoting an ambitious agenda for the meeting. The Geneva Preparatory Committee for the Ministerial has agreed that the agenda will be divided into three broad areas, with the details of each section still under intensive negotiation.

First, there will be a common assessment of the difficulties confronting the international trading system and, we hope, a strong political commitment to further trade liberalization.

Second, the Ministers will review and, where necessary and possible, seek to consolidate the existing accomplishments under the GATT. Additionally, we hope to conclude ongoing negotiations on safeguards and counterfeit codes. We are also seeking a commitment to address the problems of trade in agriculture, the need to promote greater developing country participation in the multilateral trade system and the need to improve the GATT's dispute settlement mechanism.

The third area consists of the establishment of a future work program for the GATT. There are a host of obstacles to trade on the horizon, which, if unchecked, will become the crises of tomorrow. The U.S. is actively urging that the GATT begin studies of trade in services, trade related investment problems and trade in high technology goods to prepare for the challenges of the 1980's. We must begin examining the adequacy of the existing GATT mechanisms to address these problems. Where necessary new approaches should be considered.

Let me take a moment to elaborate on one of these areas: high technology. Our technology-intensive industries provide a significant contribution to overall economic growth, productivity, and trade performance. Indeed, these industries are vital to the U.S. economy.

However, growing foreign government involvement in the development and support of their own high technology sectors is causing increased friction in the trading system. Industry targeting, government financed R&D, discriminatory subsidies, and various other forms of direct and indirect financial aid distort trade and disadvantage our high technology industries' ability to compete. We believe that these practices now exist in areas not considered by the GATT to date.

In response, we are proposing at the Ministerial that the GATT undertake a study of how country policies and practices that act as barriers or distortions to trade in high technology goods and services are dealt with under the General Agreement and the MTN codes. More importantly, we then want to turn to what specific steps are needed to deal with trade problems in this sector.

On a related note, as a follow-up to the study by the Cabinet Council on Commerce and Trade of the international competitiveness of U.S. high technology industries, the Department of Commerce is examining a number of specific considerations which affect that competitiveness. For example, we have instituted a program to collect data concerning industrial targeting practices of foreign countries. We are also examining the impact of government funding and incentives for research and development on competitiveness, both in the U.S. and abroad.

We recognize that progress will not come easily. While some of our trading partners may well argue that such state intervention is an appropriate activity, our goal will be to maintain support internationally for a liberal trading system in the high technology sector.

Our proposed agenda for the work of the GATT in the 1980s is ambitious. The development of U.S. priorities for the Ministerial and the process of seeking to obtain international acceptance of them has required an active interagency process. The Department of Commerce has been involved throughout. We have coordinated consultations with the private sector to ensure that their views were considered in establishing our priorities. In fact, a delegation of U.S. business representatives and Commerce and USTR officials is now in Europe discussing the Ministerial. We have also participated in Preparatory Committee meetings in Geneva and will continue to do so. I have just returned from discussions with several Latin American countries during which we exchanged views on the Ministerial and sought to enlist greater developing country support for our initiatives.

As the Ministerial approaches, more such bilateral efforts will be necessary. There is a broad consensus among developed countries on the major issues. The positions of developing countries are less encouraging. We will need to firm up support

for our initiatives among developed countries and engage in continuing consultations with developing countries. The negotiating process will undoubtedly continue to the eleventh hour. However, we are hopeful that in the end the realization that we all have a stake in maintaining and in improving the international trading system will prevail.

Mr. BINGHAM. Thank you, Mr. Waldmann.

Next we will hear from the Honorable Marc E. Leland, Assistant Secretary for International Affairs, Department of the Treasury.

**STATEMENT OF HON. MARC E. LELAND, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY**

Mr. LELAND. Thank you, Mr. Chairman.

As with the other witnesses, I have a prepared statement to submit for the record and I will just make a few brief comments at this time.

Mr. BINGHAM. Without objection, your full statement will be entered in the record.

Mr. LELAND. Thank you.

On the subject of the legislation that has been proposed, as has been noted, the administration has supported the Danforth bill and is examining the amendments made under the Frenzel bill, and I would just reiterate our support for the comments made by Mr. MacDonald and Mr. Waldmann.

**PROSPECTS FOR GATT**

With that in mind, I would just make a few comments on the prospects for the GATT Ministerial. The trade situation today is tense. The political pressures to restrict trade are enormous, both in the United States and overseas. However, as the summit nations agreed in June, trade restrictions are not the answer to current economic problems. The fundamental economic answer is to increase growth and employment, while maintaining our fight against inflation.

The administration's economic policy is aimed to do just that. In the meantime, we remain firmly committed to open markets as a key element of U.S. economic policy. However, this does not mean that the administration will not continue to enforce both domestic and international rules to protect U.S. industries against unfair trading practices.

We must use the upcoming GATT Ministerial in November to begin the process of developing new rules in areas of increasing friction. This Ministerial will set the tone for international trade relations until at least the next decade. It is vitally important for the United States and for the world economy that the results of this meeting be positive.

A key objective of the Ministerial will be to focus on the dangers of protectionism and to achieve a global commitment to avoid taking actions for purely protectionist purposes. An increase in protectionism here or abroad could weaken the U.S. economy. It would in particular dangerously threaten the President's economic recovery program.

FRAMEWORK FOR INVESTMENT FLOWS

However, the Ministerial must do more than this. It should seriously address the problems of safeguard actions and agricultural subsidies, and begin creating the framework for new rules in areas not presently covered by the GATT. The administration has taken a special interest in pushing for rules governing investment flows. In the current strained international economic environment, governments are intervening increasingly to tip the benefits of investment flows in their favor.

While the use of such practices may provide a degree of temporary economic relief to a country, their overall long-term macroeconomic effects are to distort trade and investment flows and contribute to the inefficient allocation of resources. Use of such measures is causing serious divisive strains among countries, fueling protectionist pressures, and undermining the important role of investment in promoting growth and development.

Our goal is to establish a framework for investment flows similar to that which presently exists for trade-in goods. Our efforts thus far have met with caution but some progress. At the OECD Ministerial in May, countries agreed to an expanded work program on performance requirements and investment incentives, and this work has already begun. We also seek a commitment at the GATT Ministerial to undertake a comprehensive work program.

We hope that a work program could begin in early 1983. We expect the results of this work, along with that of other institutions, will provide the necessary data and information for determining the next steps in our effort to develop a framework for investment.

Thank you.

[Mr. Leland's prepared statement follows:]

PREPARED STATEMENT OF HON. MARC E. LELAND, ASSISTANT SECRETARY FOR  
INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

RECIPROCITY LEGISLATION AND THE GATT MINISTERIAL

I welcome this opportunity to discuss Congressman Frenzel's bill on reciprocity in trade, H.R. 6773, and the upcoming GATT Ministerial.

There is at present considerable concern among policy officials of the major nations that, given the strong protectionist and interventionist pressures stemming from the current period of slow growth and high unemployment, the international trading system may be seriously compromised. The trade situation today is indeed tense. Political pressures to restrict trade are enormous both in the U.S. and overseas.

President Reagan and other U.S. Government officials devoted great personal effort at the Versailles economic summit earlier this summer to achieve the commitment of the key industrial nations:

- (1) To resist protectionist pressures and trade-distorting practices
- (2) To improve the capacity of the General Agreement on Tariffs and Trade (GATT) to solve current and future trade problems.
- (3) To work toward the further opening of our markets.
- (4) To work for early renewal of the OECD export credit consensus.

The Summit nations agreed that trade restrictions are not the answer to current economic problems; the real fundamental economic answer is to increase growth and employment, which "can be attained on a durable basis only if we are successful in our continuing fight against inflation."

This Administration is firmly committed to open markets as a key element of its economic policy. Yet we recognize that domestic support for open markets depends in large measure on a perception that the United States is being treated fairly in

foreign markets, and that foreign goods sold both here and abroad do not benefit from artificial advantages that undermine the ability of U.S. goods to compete. We also recognize that foreign nations increasingly are intervening in support of their distressed industries in ways that can adversely affect U.S. industries.

The question of how the United States should respond to such measures when they distort international trade and investment is a difficult one to answer, especially when these measures are an integral part of foreign economic policies to maintain production and employment to ease the burden of adjustment. Is a protectionist response justified? Should we mimic the foreign practices? Or should we seek to negotiate new disciplines to deal with these problems?

Our first course of action must be the enforcement of U.S. rights through internationally approved mechanisms. We are doing this. A number of complaints about foreign practices have been received by the USTR and the Commerce Department and are being actively pursued under the provisions of U.S. laws and the complaint procedures of the GATT and its international codes.

On steel, as you know, Secretary Baldrige and his staff have worked diligently to achieve an agreement with the European Community that would be acceptable to the U.S. industry as a basis for dropping its subsidy complaints. In the absence of such an acceptable agreement, however, U.S. laws will be enforced. The cost to Europe in trade terms could be very high.

In the agricultural area, USTR is pursuing numerous complaints against EC subsidies through the GATT subsidies code.

The Administration will continue to enforce both domestic and international rules to protect U.S. industries against unfair trading practices. How we act in areas where there are no rules is more difficult to decide. Unilateral retaliation against foreign barriers in the investment or services area, as some have argued for, may have the apparent advantage of strengthening our hand for future negotiations, but also risks a strong foreign reaction. Due to our strong dependence on investment and services trade, the likelihood of such a reaction has to be carefully considered.

Much of the heated debate about the notion of reciprocity has centered on these issues. Discussions within and among government, Congress, and the private sector have helped to better define our trade policy objectives and the means to achieve them. That consensus is not completely firm, but the legislation which Congressman Frenzel has introduced is in our judgment a good reflection of a healthy give-and-take process between the Administration and Congress. It reflects the recognition that U.S. industries cannot have it both ways: closed markets here and more open markets overseas. It avoids the temptation to match foreign practices country-by-country, product-by-product, in a retaliatory mood. Instead it emphasizes: (1) The importance of fair trade laws that work effectively; and (2) the need for future international negotiations to develop new disciplines in the key services and investment sectors.

The Administration has supported similar legislation in the Senate sponsored by Senator Danforth. I understand that the International Trade Subcommittee of the House Ways and Means Committee is considering a number of changes in H.R. 6773. Many of these changes seem very helpful, and I applaud them. They help to assure that the legislation is forward-looking. I will, however, defer to Ambassador Macdonald for specific comments on this legislation.

#### GATT MINISTERIAL

Let me turn now to a few specific remarks about the GATT Ministerial to be held in November of this year. This Ministerial meeting of the 87 member nations of the GATT, plus observers, will be the first since the Tokyo Round of Multilateral Trade Negotiations was launched in 1973. It will set the tone for international trade relations for the next decade, perhaps longer. It is vitally important for the United States, and for the world economy in general, that the results of this meeting be positive and forward-looking.

A key objective of the Ministerial will be to focus on the dangers of protectionism and to achieve a global commitment to avoid taking actions for purely protectionist purposes. For the U.S. economy, retaining as open a market as possible is critical. Trade benefits our national welfare by promoting the efficient allocation of resources, lowering costs, increasing competitive pressures, providing consumer with a wider choice of goods and services, and, in the export sector, increasing U.S. production and employment. An increase in protectionism, here or abroad, could weaken the U.S. economy. It would in particular dangerously threaten the President's Economic Recovery Program.

The United States, however, has urged that the Ministerial should do more than focus on the dangers of protectionism and the need to implement the Tokyo Round agreements, as the European Community would have us do. It should also begin the process of improving existing GATT rules in areas such as safeguard actions and agricultural subsidies, and begin creating the framework for new rules in areas not presently covered by GATT.

These are bold proposals, but ones which the United States believes are necessary in order to create a solid framework for future trade relations. Unfortunately, many of our trading partners feel that now is not the time to talk about new rules, when we are still embroiled in disagreements over the old ones. But if not now, when do we begin to look to the future? Why wait until the restrictions which impede the flows of services, investment, and high technology goods have created a distortion of the international market which will take decades to unravel? Why pretend that problems of agricultural subsidization and temporary import restraints don't exist?

I see this as the major issue for the GATT Ministerial: to begin work toward better disciplines in these "key" areas. Treasury has taken a special interest in pushing for rules governing investment flows.

Governmental policies that distort investment have not been adequately addressed by the international community, and the implications of that lack of oversight are becoming increasingly serious. Despite the historical significance and increasing importance of international investment to individual countries and to the global economic system, no international system exists for dealing with problems that arise in this area. We believe that it is time to mobilize international support for developing greater discipline on the use of restrictive governmental policies in the investment area.

Our goal is to establish a framework for investment flows similar to that which presently exists for trade in goods. To be effective, such a framework must have binding rules and include the developing countries. However, while there is a general consensus on the need for some concerted action to remove barriers and distortions to investment, there is little consensus on the particular course of action or the appropriate framework required.

Interventionist policies have taken many forms, including: special incentives to attract investment or to direct it to specific sectors or geographic areas; conditions relating to equity participation, technology transfer, and financing; and trade-related performance requirements, relating to local content, export, and/or imports, or employment.

While the use of such practices may provide a degree of temporary economic relief to a country, their overall long-term macroeconomic effects are to distort trade and investment flows and contribute to the inefficient allocation of resources. More importantly, however, use of such measures is causing serious divisive strains among countries, fueling protectionist pressures, and undermining the important role of investment in promoting growth and development.

As a first step in our efforts, we have been pushing for recognition among countries of the harmful effects of such measures on the international economic system, and agreement to intensify work on these practices in the appropriate multilateral fora.

Our efforts, thus far, have met with cautious but clear progress. At the OECD Ministerial in May, countries agree to an expanded work program on performance requirements and investment incentives, and this work has already begun. Currently, we are consulting with countries with the aim of obtaining a commitment at the GATT Ministerial to undertake a comprehensive work program.

Such a program should aim to: (1) develop an inventory of trade-distorting investment practices; (2) discuss the trade impact of these practices; (3) examine which GATT rules apply to these practices; and (4) analyze how GATT might be amended to deal with trade-related investment problems.

We would hope that such a work program could begin in early 1983. Work within the GATT would be complementary to work being done within the OECD, the World Bank, and other multilateral institutions.

#### CONCLUSION

The future of the international trading system is of considerable importance to the U.S. economy. We hope that the GATT Ministerial will succeed in our objectives of strengthening the GATT, assuring a firm commitment to avoid protectionist pressures at the highest political levels, and moving beyond to establish new work areas leading to better disciplines in the investment, services, and high technology sectors. The Danforth and Frenzel bills help to provide a basis for moving in this positive

direction, while assuring the more efficient use of our unfair trade practices laws at home. We would strongly oppose any clearly protectionist amendments to this legislation.

Mr. BINGHAM. Thank you, Mr. Leland.

Finally, we have the Honorable Seeley Lodwick, Under Secretary for International Affairs and Commodity Programs, Department of Agriculture.

**STATEMENT OF HON. SEELEY G. LODWICK, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE**

Mr. LODWICK. Thank you, Mr. Chairman. Thank you also for this opportunity to appear before this subcommittee in support of H.R. 6773, which endorses the principle of reciprocity in the U.S. international trade.

The statement here, Mr. Chairman, is brief. It divides itself into two parts. One addresses H.R. 6773, and the other concerns the GATT ministerial.

A fair and equitable trading environment is certainly fundamental to the GATT. It is also essential to the economic health of our Nation, and especially so in agriculture, where foreign markets now take the harvest of 2 out of every 5 crop acres and generate one-fourth of the farmers' income.

Ambassador MacDonald has outlined some of the complexities involved in seeking reciprocal market access and we agree that to pursue such a goal on a narrow sectoral basis would be a mistake. In order to flourish, however, international trade must be a two-way street. We believe H.R. 6773 would reinforce the U.S. commitment to this concept as well as make several positive additions to current trade law.

Of particular interest to USDA are the provisions amending the use of section 301, which would give the President more flexibility in responding to unfair trade actions. Also, the sections on negotiating objectives and authority for trade in services, foreign direct investment and high technology products would complement USDA efforts to expand agricultural exports. The United States currently faces difficult problems in its agricultural trade, stemming from the fact that such trade is not being pursued on a fair and equitable basis.

**NEGOTIATIONS WITH JAPAN FOR MARKET ACCESS**

Japan, although it is the No. 1 market for our farm products, maintains strict limits on imports of many U.S. agricultural products, despite the massive trade surplus it traditionally runs with the United States. We have long pressed for greater liberalization of the Japanese market, but our success to date has been very—I would underline that word "very"—limited.

On October 22, we will begin negotiations with the Japanese for greater market access for beef and citrus products. We feel we have a good case. However, the relaxation of these quotas is a very sensitive political issue in Japan, and the negotiations are bound to be tough.

We also have market access problems with the European community, but we are even more concerned with the EC's growing use of export subsidies. In the upcoming GATT ministerial meetings in November, it is USDA's major objective to focus attention on the distortions in trade that such subsidies are causing.

#### USDA PREPARATIONS FOR GATT

Mr. Chairman, you requested that we provide the subcommittee with information regarding our preparations for these GATT Ministerial meetings. We are working closely with the U.S. Trade Representative, the Department of Treasury, Department of Commerce and others involved. Ambassador Brock will lead the U.S. delegation to the meetings, and the Department of Agriculture will be represented in his delegation to assist him in agricultural matters.

Between now and November we will have a lot of work to do to persuade other countries to take action on export subsidies. It was only 3 years ago that we agreed in the multilateral trade negotiations on an international subsidies code that tightened some of the rules on agricultural export subsidies. We are currently pursuing several cases in the GATT which are based on the subsidies code.

Nevertheless, the problems created by export subsidies have reached such proportions that something more must be done now. U.S. exporters of farm products cannot remain competitive in international markets if other countries continue to use export subsidies. Other exporting countries are experiencing these same problems and are joining with us in this effort to confront the subsidy problem head on.

I must be candid about our expectations for the November Ministerial meetings. The unfair policies pursued by some of our trading partners did not start yesterday. They are the result of deliberate policies adopted for social and economic reasons, and we anticipate great reluctance in response to any request for a change. However, focusing attention on such policies in the GATT Ministerial meetings is essential. The U.S. ultimate goal is a commitment to the elimination, within a reasonable period of time, of all agricultural export subsidies.

Mr. Chairman, that concludes my testimony and I will certainly be very happy to respond to any comments or questions that you or other subcommittee members may have.

Thank you.

[Mr. Lodwick's prepared statement follows:]

#### PREPARED STATEMENT OF HON. SEELEY G. LODWICK, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

Mr. Chairman, thank you for the opportunity to appear before this committee in support of H.R. 6773, which endorses the principal of "reciprocity" in the United States' international trade. A fair and equitable trading environment is certainly fundamental to the General Agreement on Tariffs and Trade (GATT), of which the United States is a member. It also is essential to the economic health of our nation, but especially so in agriculture where foreign markets now take the harvest of two out of every five crop acres and generate one-fourth of farmers' incomes.

Ambassador MacDonald has outlined some of the complexities involved in seeking reciprocal market access—and we agree that to pursue such a goal on a narrow, sectoral basis would be a mistake. However, international trade, in order to flourish, must be a two-way street. We believe H.R. 6773 would reinforce the United States'

commitment to this concept, as well as make several positive additions to current trade law.

Of particular interest to USDA are the provisions amending the use of Section 301 which would give the President more flexibility in responding to unfair trade actions. Also, the sections on negotiating objectives and authority for trade in services, foreign direct investment and high technology products would complement USDA efforts to expand agricultural exports.

The United States currently faces difficult problems in its agricultural trade, stemming from the fact that such trade is not being pursued on a fair and equitable basis.

Japan, although it is the No. 1 market for our farm products, maintains strict limits on imports of many U.S. agricultural products, despite the massive trade surplus it traditionally runs with the United States.

We have long pressed for greater liberalization of the Japanese market, but our success to date has been very limited. On October 22, we will begin negotiations with the Japanese for greater market access for beef and citrus products. We feel we have a good case. However, the relaxation of these quotas is a very sensitive political issue in Japan, and the negotiations are bound to be tough.

We also have market access problems with the European Community, but we are even more concerned with the EC's growing use of export subsidies. In the upcoming GATT Ministerial Meetings in November, it is USDA's major objective to focus attention on the distortions such subsidies are causing in world trade.

Mr. Chairman, you requested that we provide the committee with information regarding our preparations for these Ministerial meetings. I'd like to do that at this time.

In preparing for the meetings, USDA is working closely with the U.S. Trade Representative and with other government agencies to assure that our position has broad support. Ambassador Brock will lead the U.S. delegation at the meetings, and the Department will be represented in his delegation.

Between now and November we will have a lot of work to do to persuade other countries to take action on export subsidies. It was only three years ago that we agreed in the Multilateral Trade Negotiations on an international Subsidies Code that tightened some of the rules on agricultural export subsidies. We are currently pursuing several cases in the GATT which are based on the subsidies code.

Nevertheless, the problems created by export subsidies have reached such proportions that something more must be done now. United States exporters of farm products can not remain competitive in international markets if other countries continue to use export subsidies. These exporting countries are experiencing these same problems and are joining with us in this effort to confront the subsidy problem head on.

I must be candid about our expectations for the November Ministerial meetings. The unfair policies pursued by some of our trading partners did not start yesterday. They are the result of deliberate policies adopted for social and economic reasons—and we anticipate great reluctance in response to any request for a change. However, focusing attention on such policies in the GATT Ministerial meetings is essential. The United States' ultimate goal is a commitment to the elimination, within a reasonable period of time, of all agricultural export subsidies.

That concludes my testimony. I will be happy to answer any questions you or other committee members may have.

**Mr. BINGHAM.** Thank you very much.

Just one clarifying question to begin with. Mr. Leland, you referred to safeguard actions. What does that refer to?

**Mr. LELAND.** Well, Mr. MacDonald can probably explain it better. He is the world's expert on this subject.

**Mr. MACDONALD.** A safeguard action is an action taken by a government to protect a particular domestic industry which normally is in economic trouble. It may take the form of an additional tariff, a quota, a tariff quota, or some other. It may even take the form of assistance to the industry domestically—government assistance of some kind.

## ADMINISTRATION'S SUPPORT FOR LEGISLATION

Mr. BINGHAM. What degree of priority does the administration attach to the enactment of some legislation along the lines expressed in this Congress?

Mr. MACDONALD. I will take a stab at that, if I may. I am by no means the only one who should address it.

I would say this: There is a serious deterioration in the faith that the American public has in the support for the multilateral trading system. At least one of the reasons for this deterioration is that the trading system is not perceived to fairly protect U.S. interests.

The concept behind H.R. 6773 and the Danforth bill, will not cure that problem, but they do address certain aspects of it in such a way that I would say it is—I hesitate to use the word "critical," but extremely important may be a better one—extremely important that it be passed containing those concepts of negotiation in certain areas where the shoe has really pinched—high technology, trade-related investment, and expansion of the President's jurisdiction in the area of services and trade-related investment when it comes to unfair actions that the President can take against foreign unfair competition.

Mr. WALDMANN. Mr. Chairman, I might add I think the administration has placed importance on this. I think the time for this legislation—the timing is important because of its relationship to the GATT Ministerial and because of ongoing negotiations that we have in many areas. We have had testimony before this committee and many other committees on this bill. I think it is important.

Mr. LODWICK. Mr. Chairman, might I certainly add my support to my two predecessors and also to commend the committee for having these hearings at this time. As I indicated, this is a very critical time.

In further elaboration as it relates to the agricultural sector on Mr. MacDonald's remarks, yes, there is considerable concern in the agricultural sector about whether we have a viable way in which to develop and enforce trading rules. We are coming to a very critical point here. We are going to see, hopefully, progress in beef and citrus negotiations coming up, but also the whole purview of the GATT Ministerial is going to be very important to the agricultural sector of the United States.

The agricultural sector is going through some very severe financial problems right now. As indicated, the production from 2 out of 5 acres is exported. That is very important to us. So it becomes very obvious the importance that GATT has because it does enforce and also set up the rules under which we negotiate and trade.

I suppose I cannot help but emphasize the importance of the GATT Ministerial and the successful GATT Ministerial as far as agriculture goes.

Mr. BINGHAM. That does seem to address a somewhat different problem.

## RECIPROCITY LEGISLATION AS SUBSTITUTE FOR DOMESTIC CONTENT

Let me play the devil's advocate for a minute and ask you to respond to a different type of question. I happen to be in general sympathy with this legislation, but my understanding is that one of

the reasons for going forward with this type of legislation is to head off much more objectionable kinds of legislation. There are many in the Congress who are strongly in favor of domestic content legislation.

The question I ask is as we get into this debate in the full committee, how does this type of legislation help in the sectors that are particularly in trouble—those that feel aggrieved that their problems have not been met, particularly the automobile industry, the beef and citrus growers, problems that have given rise to the pressures for not only domestic content legislation but for more extreme reciprocity legislation?

How does this kind of legislation help to meet those problems?

Mr. MACDONALD. Mr. Chairman, I will take another stab at that one. Mr. Chairman, you started out with the assumption that this legislation was a kind of substitute for domestic content legislation that might be considered, I guess, a palliative. That was not your word, but for those who might otherwise be in favor of domestic content legislation.

I think this legislation has been around a lot longer, at least, than the time that the administration really felt that domestic content legislation had a serious chance of passing. The administration now feels that it does have a serious chance of passing. It did not always feel that way. So I do not think of it really as a substitute for domestic content which, as you point out—or may be you did not point this out—you said there are some horrible pieces of legislation around. We consider the domestic content legislation to be one of those horrible pieces of legislation, being counterproductive in its effect and violative of our international obligations.

I think this legislation takes a little bit more realistic, long-term view of enabling the executive branch to work on opening markets of other countries, insisting on fair and equitable access to markets of other countries, but not insisting on what are in essence a substitute for tariffs or quotas; namely, a requirement that a percentage of an automobile made elsewhere actually be added in the United States.

This legislation enables us to maximize the law of comparative advantage, if I may say that, so that we can insist on other countries removing obstacles to the mutual benefit of ourselves and the other country, including the Japanese in the case of citrus and beef. We feel that this would be of great benefit to the Japanese consumer if they would do that, as well as to our exporters.

The domestic content legislation, on the other hand, is a restrictive piece of legislation designed to create obstacles to international trade and thus just continue and exaggerate distortions which will bring us to a position in which jobs are less available. I think it is a fair thing to say that over the last 10 years most of the jobs that have been created have been created in the international trade field. The amount of our production that has gone into international trade has doubled in the last 10 years.

The economy has been relatively stagnant but in international trade there have been jobs created all the time. The domestic content legislation goes against that. It starts a trend going in the other direction.

Mr. BINGHAM. Would anybody else care to comment?

Mr. LELAND. I think that the type of legislation that is represented by the Danforth and Frenzel bills are the kind of approaches where you are still working to maintain an open market system and it is providing you with the tools to do it and to let you know that no one is just going to sit back and allow foreign practices, subsidies et cetera, or closed markets to close us out.

Our objective is to negotiate the opening of markets and to have the tools to do that. If we start closing our own markets and just do that, we will not accomplish the objective of opening other markets. It will just further distort the international trading system and be a bad example.

For example, in another area, export credits that we have been working on so hard over the last 2 or 3 years, we could have gone and spent a lot of our money and not necessarily achieved as much. We had to be prepared with a threat that we could meet the competition if necessary and using that particular leverage to get changes in the system.

I think that is what this bill is designed to do as compared to these other bills, which are really designed to change the whole system.

Mr. LODWICK. Mr. Chairman, one rather specific small yet important provision of the bill is that it requires our cousins, the USTR, to make their recommendations on 301 cases in 8 to 9 months instead of 7 to 12 months. Now this may not seem like a whole lot of time, but in the case of agriculture there are situations that exist that if they are prolonged for another 3 to 6 months can just wreak havoc on certain sections of agriculture.

So we think that this is an improvement because it does shorten the time through which the GATT process goes.

Mr. WALDMANN. Mr. Chairman, I just may add a point. There is a great deal of concern which I have heard expressed at the GATT preparatory meetings in Geneva. When the concept of reciprocity first emerged, people were concerned that this was going to be interpreted in a very narrow sectoral connotation—sector by sector, or country by country.

The bill that you have before you has as its purpose, to insure the continued expansion of reciprocal market opportunities in the areas of concern—trade, services, investment. I think it is important for the Congress now to give that signal and this would help to avoid the pressures that the local content and other pieces of legislation are forcing on us.

Mr. BINGHAM. Mr. Lagomarsino.

Mr. LAGOMARSINO. Thank you, Mr. Chairman.

#### AGRICULTURAL EXPORTS TO JAPAN

Mr. Lodwick, you specifically mentioned Japan, and citrus and beef.

Mr. LODWICK. Yes.

Mr. LAGOMARSINO. As you well know, and you also mentioned there will be discussions on those two subjects in November.

Mr. LODWICK. It is October 22.

Mr. LAGOMARSINO. And as I'm sure you know there have been a number of Japanese officials here testing the water, I guess is the

best way to put it. Some of them have told me that the impression of others who have visited here earlier—and I do not know where they got this—was that the Congress did not particularly care about agricultural exports to Japan, that it was a poor second in relation to some of the other issues.

I have done my best to dissuade them of that opinion; do you have this kind of opinion too?

Mr. LODWICK. Mr. Congressman, no, I do not have that impression at all. I do know that this administration has certainly received the full cooperation of congressional Members as it relates to this, to the best of my knowledge, and has been very helpful.

I think that one of our strengths, Mr. Congressman, in terms of dealing with Japan is the unanimity that we have. I would say the unanimity not only is represented by the five agencies here and the others involved in the executive branch but the unanimity among the Members of Congress and certainly the unanimity among the private sector. Together we make a much more strong, effective case than we do individually.

Mr. LAGOMARSINO. I guess what I wanted to ask you is: do you have the impression that some of the Japanese feel that this is not such an important issue?

Mr. LODWICK. Mr. Congressman, I suppose frankly I do not know the Japanese quite that well. Now, we have heard reports of that, but I do not know whether they just basically believe that or perhaps they are testing our waters and testing our mettle to find out whether we really mean it.

Mr. LAGOMARSINO. Mr. MacDonald is nodding.

Mr. MACDONALD. I was told exactly what you were told by a Member of the Diet that just came through here about 3 or 4 days ago. Perhaps it was the same Member that talked to you.

Mr. LAGOMARSINO. I am sure it is.

Mr. MACDONALD. I think wish is father to the thought, in his case. We tried to disabuse him of the notion that either Congress or the administration was going to back off of these issues because of some political problems that the Japanese have, and indeed they have political problems. I would not deny that. But we also have enormous political problems in the agricultural community, worse than we have had since the Depression years, and we are quick to point that out to them, as I am sure you are.

I am aware of no Congressman who is lackadaisical on that issue.

Mr. LAGOMARSINO. Thank you.

Mr. BINGHAM. Did you have more questions, or did you want to come back later?

Mr. LAGOMARSINO. Would you bring us up on the 301 cases pending on the EEC now?

Mr. LODWICK. Mr. Chairman, Mr. Congressman, if it would be satisfactory with you, what I would prefer to do is to submit for the record an exact rundown, because I do know these cases are changing very rapidly. We expect to hear almost any time the result of one very important one, and I would like to make sure the information is current to you.

Mr. LAGOMARSINO. That would be fine.

[The information referred to follows:]

## STATUS OF 301 ACTIONS

Unfair EC trade practices, including aggressive use of export subsidies, production and processing subsidies and illegal preferential tariffs, have given rise to several complaints being filed under Section 301 of the Trade Act of 1974 by U.S. producers. The status of the complaints is summarized below:

*Canned fruits and raisins.*—The United States processed fruit industry 301 petition alleges that EC production subsidies for canned peaches, canned pears and raisins impair EC tariff concessions to the United States and restrain U.S. exports of these products to the EC. After unsuccessful consultations under GATT Article XXIII, the United States requested a panel. The panel has begun to review the case and will meet on September 29.

*Pasta.*—The 301 petition filed by the U.S. National Pasta Association alleges that EC export subsidies on pasta violate Article 9 of the Subsidies Code which prohibits subsidies on nonprimary products. The EC claims that they are legally subsidizing only the primary ingredient (wheat) in the pasta. A panel, requested by the United States, has begun to review the case and will meet again on October 8.

*Citrus.*—In 1976, the U.S. citrus industry filed a 301 petition alleging that tariff preferences granted by the EC to Mediterranean citrus suppliers were inconsistent with GATT and represented a barrier to U.S. exports of citrus to the EC. Efforts to resolve this issue in the MTN, through bilateral consultations and consultations under GATT Articles XXII and XXIII have been unsuccessful. The EC contested the U.S. request for a panel, and under the direction of the GATT Director General, the United States and EC are making a final attempt at conciliation before a panel is established at the October 1 GATT Council meeting.

*Wheat flour.*—In 1975, the U.S. wheat flour industry filed a 301 petition charging that the EC used export subsidies that were excessively high and allowed material price undercutting in third country markets. The United States and EC have had technical discussions and consultations under GATT Article XXII and the Subsidies Code. A panel, requested by the United States in December 1981, has reviewed the case and is expected to give its recommendations in late September or early October.

*Poultry.*—The poultry 301 case, charging the EC with using export subsidies to undercut prices and to gain a more than equitable share of world trade, has been complicated by the EC argument that Brazilian subsidized poultry exports are a major factor in U.S. market displacement. Because of this, proceeding to conciliation with the EC was postponed while Brazil's position in the market is being investigated. Informal consultations were held with Brazil on August 30 to discuss their subsidy system, the possibility of a bilateral solution, or their willingness to join in informal trilateral consultations with the EC. On September 14, Brazil responded that it had no interest in participating in trilateral discussions. The United States is now preparing a request for formal consultations with Brazil under Article 12 of the Subsidies Code.

*Sugar.*—The sugar 301 petition charges that subsidized EC sugar exports have displaced U.S. exports in third countries and depressed the world market price thereby depressing the U.S. market price. Consultations and conciliation talks with the EC held under the provisions of the Subsidies Code have been unsuccessful. The U.S. has deferred requesting a panel to review this case until some of the controversies surrounding the new U.S. sugar program have been settled; discussions will continue bilaterally.

## SECTION 301 PETITION ON CITRUS

*Background.*—In November 1976, the domestic citrus industry filed a petition under Section 301 of the Trade Act of 1974, alleging that tariff preferences granted by the EC on citrus were inconsistent with GATT and represented an unreasonable barrier to U.S. exports of citrus to the EC. In its complaint, the U.S. citrus industry requested that all tariff preferences be eliminated of fresh oranges, fresh tangerines, fresh lemons, fresh grapefruit, orange juice, lemon juice, grapefruit juice, grapefruit segments, and pectin.

From the inception of the preferential system, the United States has actively sought tariff reductions from the EC on citrus fruits in order to reduce the margins of preference. These efforts were successful in achieving temporary duty reductions on fresh grapefruit and oranges in 1972 and 1973 and permanent reductions in 1974. However, the duty reduction on fresh oranges applies only during the time of year when EC citrus is not marketed. In the winter months when European citrus is on the market, the duty for fresh oranges remains unchanged at 20 percent. The countries with preferences pay duties in this period ranging from 4 to 12 percent. Conse-

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quently, U.S. fresh orange exporters suffer a competitive disadvantage during this period.

The United States believes that the EC's Mediterranean preferences are inconsistent with the GATT Article I which states that the most favorable access conditions provided to one country for a given product must also be provided to all other countries. The preferential duties applied by the EC on citrus products from Mediterranean countries are considerably lower than those applied to citrus products are provided more favorable access conditions than are products from the United States and, therefore, Mediterranean citrus products are provided more favorable access conditions than are products from the United States.

*Current situation.*—Attempts to resolve this matter during the MTN and later in non-GATT bilateral consultations were unsuccessful. The United States therefore held consultations with the EC GATT Article XXII: 1 in 1980 and under Article XXIII: 1 in early 1982. Both consultations were totally unproductive. The EC maintains its position that its preferences do not damage U.S. citrus exports.

In July 1982 the United States requested that formal dispute settlement (panel) procedures be undertaken in the GATT. The GATT Council requested, however, that the two sides first attempt to reconcile the problem with the assistance of the GATT Director General. Two meetings have been held without any sign from the EC that it would be willing to take steps to resolve the problem. Another such meeting is scheduled for September 27. The United States has made it clear that, lacking a satisfactory result from this conciliation effort, we will again request, at the GATT Council meeting on October 1, that the issue be decided by a GATT panel.

#### AMENDMENTS TO SECTION 301

Mr. LAGOMARSINO. You mentioned, several of you did, that the legislation we are considering would improve the President's ability to deal with 301 cases, and I think in response to one of the chairman's questions you went into some of that. Could you give us some idea of other areas where 301 would be made more effective?

Mr. LODWICK. Mr. Chairman, Mr. Congressman, I wonder if I could yield to Mr. MacDonald on some of these areas? I mentioned one time-related area that I think is quite important, but undoubtedly there are others, too.

Mr. MACDONALD. I think principally the area of services, and it also clarifies the President's authority in the area of trade-related investments. Services, as I am sure you are aware, is an area of increasing employment in this country, and yet they are totally uncovered by the international rules. I think the first thing we probably should be doing is establishing our own right to enter into agreements and then enforce those agreements where unreasonable and unjustified trade practices appear and violations of the agreements occur. I think this bill makes that quite clear.

Mr. LAGOMARSINO. Thank you.

Mr. WALDMANN. Mr. Chairman, I would just add that I think the proposed amendments to section 301 clarify the definitions of what constitutes unreasonable and unjustifiable acts, and I think those are important additions to the existing language of the statute.

Mr. BINGHAM. Thank you. The subcommittee will be in recess for 10 or 12 minutes.

[Whereupon, a short recess was taken.]

Mr. BINGHAM. The subcommittee will resume its sitting.

What is the fundamental objection to bilateral reciprocity legislation?

## OBJECTIONS TO MULTILATERAL RECIPROCITY LEGISLATION

Mr. MACDONALD. Ever since the GATT was formed in 1937, it has been an accepted principle that each country should export those products which it manufactures most efficiently and with the most quality, and that, therefore, each country would seek access to other countries for those products which it has an interest in. Other countries in turn are seeking access for those products in which they have a larger interest. Therefore, you end up with an overall reciprocity but, for example, we will not have pressed the Japanese in automobiles. We will have pressed them in agricultural and other areas. They will press us in automobiles and other areas they think they are most efficient at.

If we start channeling the reciprocity into a particular sector or a particular product, we do not really get—it is an artificial thing which again distorts trade. We are not interested in some products that we receive from Japan, and they are not interested in access to our market for feed grains. So, when we begin to insist on sectoral reciprocity as a sine qua non in which we bring an action, you tend to reward the operational manufacturer or someone who is trying to export a particular product by giving them a cause of action when the whole system has been built on a multilateral overall reciprocity.

Now, that is a very bad first effort at a very basic and fundamental question to the trading system.

Mr. BINGHAM. You are just helping them.

Mr. LELAND. Mr. Chairman, I think basically that is what Ambassador MacDonald said. What we are after in this is effectiveness, and bilateralism or mirror image actions do not really accomplish what you want. What you really are trying to get at in all of our international negotiations, what we have got in section 301 and we will get in this legislation, will accomplish something we are after while reciprocal bilateral sectoral measures will not. They will probably just distort it.

The perfect example is in our relations with Japan, where concern for opening the Japanese markets to our automobiles is not primary. There are other more important areas. So, you have more than bilateral sectoral trade.

Mr. WALDMANN. Mr. Chairman, while I think we are concerned about overall market access, the way to do it is not through sectoral deals outside of the multilateral negotiations. But we do have to be concerned about the degree of reciprocity in market access. We are in fact pursuing that on a bilateral basis as well as on a multilateral basis, as we do not want foreign markets to be closed to American producers.

I think one of the interesting and important things that this bill does is, it provides a few tools to achieve that kind of openness in foreign markets.

## COMPENSATION FOR TRADE BARRIERS

Mr. BINGHAM. Turning now to some of the more specific provisions in the bill, and since I gather you are not in a position to comment on the draft bill at this point, we talked about H.R. 6773 as one of the objectives for negotiation of high-technology agree-

measures. The bill makes reference to seeking to obtain compensation for the effect of trade barriers. What does the term "compensation" mean in that respect? What kind of compensation?

Mr. MACDONALD. Compensation is a—I will try and flip over and find the particular section, but generally compensation is an accepted and longstanding concept in the international trade field whereby if someone else erects a barrier which violates their obligations under the General Agreement on Tariffs and Trade, they, as a sovereign country, obviously do not have to dismantle that barrier at your request or demand. Your remedy is to go into the GATT, point out the barrier, request compensation, and be authorized to take compensation against them, and the GATT then authorizes the country to take compensation, and the country can then begin to unbind its own bindings toward that country.

If it is Japan, we could unbind our 2.9-percent auto ad valorem duty on the import of autos, and if we can show it is a similar amount of trade, we might be able to raise it to 4.3, or something like that.

Mr. BINGHAM. I see. So, this is kind of a term of art. A more easily understood phrase might be "compensatory action." Is that right?

Mr. LELAND. That is correct.

Mr. BINGHAM. I gather that given the extent of protectionist sentiments and the difficulties being encountered, even with implementing the Tokyo Round agreements, some observers feel we would be doing well to simply preserve the existing international trade system, however imperfect it is, at the coming GATT meetings. Do you agree with that assessment?

Mr. MACDONALD. No, sir, I think the President at Versailles and Bill Brock certainly feel that when the going gets rough, the last thing we want to do is start erecting more barriers, because that brings us down the slippery slope toward an abyss of depression. We watched that happen with the Smoot-Hawley tariff back in 1930, which I think contributed to the degree to which we went into a depression. Therefore, it makes the importance of efforts to continue liberalization and to strengthen the trading system even more important.

It is a cliché today, but there is a saying which I think is probably true that if you are not constantly struggling to go forward in the trading system, you tend to be sliding backward just out of inaction.

#### INADEQUATE IMPLEMENTATION OF TOKYO ROUND

Mr. BINGHAM. Could you review for us the areas in which you think there has been inadequate implementation of the Tokyo Round agreements?

Mr. MACDONALD. Yes. The first and probably most important is the safeguard area, the area that you were originally directing your questions to. There was a code under negotiation on safeguards during the Tokyo Round which remained unagreed at the termination of the Tokyo Round. One of the efforts of this Ministerial will be to reinvigorate the effort to again enter into a safeguards code which brings safeguards actions under the GATT, yet

does not destroy the trading rules. It is not so loose that it destroys the trading rules of the GATT.

At the present time, only the United States, Canada, and Australia are frequent and regular users of the GATT safeguards provision, article 19 of the GATT. Other countries, by and large, and the United States also, take safeguard actions totally outside the GATT, and this promotes both a disrespect for the system and an inability to see where trade is being diverted in order to see where you are being hurt. So, the biggest objective on safeguards will be to try to bring safeguards into the system with a workable safeguards code.

Dispute systems is another area. GATT can settle disputes between countries, and their report then goes up to the GATT Council, which is the major body of the 87 or so trading partners. That dispute settlement system, as Under Secretary Lodwick pointed out—well, he was talking about 301, but it is integrated into the international dispute settlement system—it is somewhat cumbersome, and allows a means for delay. We are trying to speed up, to modernize, and simplify the dispute settlement.

Then there are other areas we entered into agreement on that we think have to be revisited. One of the most important ones is probably subsidies. Our agricultural community has been placed in a state in which it cannot remain. Something must be done. By reason of the \$7.5 billion to \$8 billion worth of export subsidies that the European Community grants to its own agricultural producers as they export agricultural commodities, it has the effect, one, of reducing world prices on products such as wheat, flour, sugar, and other products, so that those prices impact domestically and kill our farmers. Second, it takes away our markets, our third country markets such as the Middle East. The EC claims, frankly, that they are entitled to that, they negotiated that, and that they are perfectly legitimate, in light of what they negotiated during the Tokyo Round. We claim they are not, and we have six cases pending to try to settle that question, actually four cases trying to settle that question; two other cases are trying to settle other agricultural questions. But regardless of how the cases come out, it really behooves us to go back to the agreement we negotiated and try to renegotiate it to establish additional disciplines on the export subsidies that are allowable on agriculture, but are clearly not allowable with manufactured products.

#### IMPORTANCE OF RECIPROCITY LEGISLATION TO GATT

Mr. BINGHAM. Will the enactment of the legislation before us be of assistance to us in the GATT Ministerial, or not necessarily?

Mr. MACDONALD. I think it will definitely be of assistance, because it definitely shows that Congress is behind the effort the administration is making. The questions you are asking are questions that our trading partners sometimes ask also. Is this important? Are you really interested in high technology? Or services? You know, we are a little reluctant to enter into agreements on services. Are you sure you really care? Well, when Congress gets behind us and starts showing that they care, and are authorizing negotiating and are granting negotiating mandates, it is of substan-

tial assistance to us, to our friends, and to the people that are skeptics that we are serious about these areas.

#### CONFIDENTIALITY OF BUSINESS INFORMATION

Mr. BINGHAM. Both bills contain new provisions for establishing and protecting the confidentiality of business information. What is the current practice with regard to confidentiality accorded such information? Who determines its confidentiality? Why is the provision needed?

Mr. MACDONALD. Let me ask our assistant general counsel, Mike Hathaway, to answer that question.

Mr. HATHAWAY.<sup>1</sup> In the version of the bill that is before the subcommittee, it provides provisions for confidentiality which are now provided in the regulation that these same provisions are provided in other types of import relief laws such as the countervailing duty and antidumping laws and procedures before the International Trade Commission. What this would do would be to make uniform those confidentiality provisions for other areas of trade law, 301 provisions. So it is viewed by many as a technical change, but it is something that is quite important to the private parties as they may prefer to use these provisions more, and they would prefer to have the confidence contained in the statute as opposed to a regulation.

Mr. BINGHAM. Thank you. That is helpful. H.R. 5519 as reported by the Committee on Energy and Commerce would require exporters of services to report their exports to the Federal Government for purposes of achieving more reliable data on service exports, and rather severe penalties are provided for failure to report. Is such data really needed? Is it sufficiently important to subject people to penalties? What estimate do you have of how much it would cost the Government to collect and enforce the reporting requirement, and to analyze the information?

Mr. WALDMANN. Mr. Chairman, I am not really prepared to answer that. I will be glad to supply the information you requested for the record. I think in general we have recognized in the Commerce Department and the Government generally a lack of data on service trade and that bill was designed to put in place a broader program of support for the service industries, including the data collection function. I would be glad to submit something for the record on that question.

[The information referred to follows:]

#### REPLY BY ASSISTANT SECRETARY WALDMANN TO REPRESENTATIVE BINGHAM REGARDING THE NEED FOR DATA ON THE EXPORT OF SERVICES

The administration is committed to a policy of international negotiations for the reduction of barriers to trade and investment in service industries. These negotiations require an adequate statistical base. Presently available data simply are not adequate, and for some service industries, there are, in effect, no data available on the international business in those industries. There is a clear need for improved data on international services activities. The most effective way to ensure reliable and complete data is to make the reporting of the requested information mandatory; this necessarily implies a penalty for non-compliance.

<sup>1</sup> C. Michael Hathaway, Deputy General Counsel, Office of the U.S. Trade Representative.

We do not have a good estimate of the cost of collection and enforcement of reporting requirements and analysis of the information. U.S. Government agencies which are involved in data collection are considering several possible avenues leading to more complete data on services trade and investment. To a certain extent, limited improvement can be made without additional cost by modifying current collection and analysis and procedures and forms. Nevertheless, the amount and variety of data, which we foresee as being required ultimately, calls for new reporting systems beyond those now in place. The cost for such new systems could easily be over a million dollars a year with additional reporting burden on the respondents.

Mr. BINGHAM. I might mention that we have found it difficult to get the data that has to do with portfolio investment under the International Investment Survey Act, and the dollars available have apparently not been enough to enable the executive branch to collect all the data, so that I think it is important that if there are data requirements, that there be the funding available to make use of it.

I think that is all. Thank you very much, gentlemen. The subcommittee is adjourned.

[Whereupon, at 3:25 p.m., the subcommittee adjourned, to reconvene upon the call of the Chair.]

## APPENDIX

### STATEMENT SUBMITTED BY DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY

(The U.S. Council for an Open World Economy is a private, nonprofit, public-interest organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

Tributes to open markets and to fairness in international trading practices highlight depiction of U.S. trade-policy objectives in these hearings as in trade-policy hearings before other Congressional committees. However, neither the Administration's trade-policy agenda (including plans for the forthcoming GATT meeting of trade ministers), nor any of the bills now before Congress, nor hardly any proposals from the nation's "liberal trade" movement, adequately addresses the nation's needs in this policy area. They do not address the need, especially for the economically most advanced countries, to move with deliberate speed to program the removal of all barriers that unfairly obstruct foreign access to these markets with respect to goods, services and investment—in fact, negotiate the phasing-out of all artificial impediments to international commerce in accordance with a realistic timetable.

S. 2094 in its present form, and the corresponding House bill (H.R. 6773), may strengthen procedures and political will for gaining fair access for American goods, services and capital in foreign markets. Surely, these measures are welcome as alternatives to the dangers of trade warfare that lurked in the "reciprocity" propositions of the Senate bill in its original form. But none fills the bill as a legislative mandate for what the United States should be seeking in its international economic policy. These bills tend more toward retaliation against allegedly unfair impediments to international commerce (as a device to get these barriers removed, but risking counter-productive consequences) than steady, substantial progress toward free, fair international trade on a truly reciprocal basis.

Nor is the highly touted effort to secure fair treatment for U.S. services and investment abroad likely to produce substantial benefits for American business if the initiative is cast in the terms indicated both in current bills and in Administration plans, rather than in terms of an overall, deliberate, free-trade strategy projecting definitive commitments to the termination of barriers on all such transactions. Such a strategy is not on our national agenda for the 1980's. The highly touted effort to achieve reciprocally lower barriers to trade in high-technology products (in fact, elimination of barriers in these products) suffers similar inadequacy.

U.S. plans for the GATT ministerial in November do not even include a proposal for far-reaching, innovative, greatly needed reform of the "safeguard" mechanism along lines requiring a coherent industrial redevelopment strategy as the framework for import-restriction aid to an industry that has been seriously injured by imports. Intentions on negotiation of a new escape clause are hamstrung by old habits and a timid approach to new international realities that demand a resolute, rapid search for sound, progressive responses.

If, as the U.S. Trade Representative has said, "this is the most crucial year we have faced in interantional trade policy since the second world war," this is a time for much more than the Administration is seeking, than anyone in Congress is seeking, indeed more than the U.S. "liberal trade" community (almost without exception) is seeking. The other contracting parties of the General Agreement on Tariffs and Trade may not be ready for anything more than the proposed "work programs on longer-term issues" and reviewing implementation of the codes negotiated in the Tokyo Round. But the United States should not lower its sights to the low denominators that may now be common in the councils of foreign governments. Our government should raise the sights of our own country and the world to the need to seek, with deliberate speed, the freest and fairest interantional economic system—indeed optimum reciprocity through negotiation of a free-trade charter (encompass-

ing goods, services and investment) with as many industrialized countries as may wish to join us in such a venture. Once one or more countries negotiate such an arrangement with the United States, all the economically advanced countries will do so sooner or later. If the champions of "reciprocity" want reciprocity in its finest sense, totally free trade, accompanied by totally fair trade, should be the standard with which they identify themselves. If indeed the objective of reciprocity is fairness, attention should be given to the fact that the most far-reaching progress toward totally fair trade will not be achieved unless impelled, in fact compelled, by negotiated removal of all impediments to international trade, services and investment in accordance with a realistic timetable (permitting departures to help deal with unforeseen emergencies, but in accordance with strict standards). Free trade and fair trade are one objective indivisible, achievable by one strategy indivisible, backstopped by a domestic adjustment and redevelopment strategy. Anything less than these goals shortchanges America as a nation, and the American people as workers and consumers.

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