H.R. 553, THE CARIBBEAN BASIN TRADE SECURITY ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

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SUBMISSIONS FOR THE RECORD

104TH CONGRESS
1ST SESSION

H. R. 553

To provide, temporarily, tariff and quota treatment equivalent to that accorded to members of the North American Free Trade Agreement (NAFTA) to Caribbean Basin beneficiary countries.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 18, 1995

Mr. CRANE (for himself, Mr. SHAW, Mr. GIBBONS, and Mr. RANGEL) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To provide, temporarily, tariff and quota treatment equivalent to that accorded to members of the North American Free Trade Agreement (NAFTA) to Caribbean Basin beneficiary countries.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Caribbean Basin Trade Security Act".

SEC. 2. FINDINGS AND POLICY.

(a) FINDINGS.—The Congress finds that—

(1) the Caribbean Basin Economic Recovery Act represents a permanent commitment by the United States to encourage the development of strong democratic governments and revitalized economies in neighboring countries in the Caribbean Basin;

(2) the economic security of the countries in the Caribbean Basin is potentially threatened by the diversion of investment to Mexico as a result of the North American Free Trade Agreement;

(3) to preserve the United States commitment to Caribbean Basin beneficiary countries and to help further their economic development, it is necessary to offer temporary benefits equivalent to the trade treatment accorded to products of NAFTA members;

(4) offering NAFTA equivalent benefits to Caribbean Basin beneficiary countries, pending their eventual accession to the NAFTA, will promote the growth of free enterprise and economic opportunity in the region, and thereby enhance the national security interests of the United States; and

(5) increased trade and economic activity between the United States and Caribbean Basin bene-

ficiary countries will create expanding export opportunities for United States businesses and workers.

(b) POLICY.—It is therefore the policy of the United States to offer to the products of Caribbean Basin beneficiary countries tariff and quota treatment equivalent to that accorded to products of NAFTA countries, and to seek the accession of these beneficiary countries to the NAFTA at the earliest possible date, with the goal of achieving full participation in the NAFTA by all beneficiary countries by not later than January 1, 2005.

SEC. 3. DEFINITIONS.

As used in this title:

(1) BENEFICIARY COUNTRY.—The term "beneficiary country" means a beneficiary country as defined in section 212(a)(1)(A) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702(a)(1)(A)).

(2) NAFTA.—The term "NAFTA" means the North American Free Trade Agreement entered into between the United States, Mexico, and Canada on December 17, 1992.

(3) TRADE REPRESENTATIVE.—The term "Trade Representative" means the United States Trade Representative.

(4) WTO AND WTO MEMBER.—The terms "WTO" and "WTO member" have the meanings

given those terms in section 2 of the Uruguay Round Agreements Act.

TITLE I—RELATIONSHIP OF NAFTA IMPLEMENTATION TO THE OPERATION OF THE CARIBBEAN BASIN INITIATIVE

SEC. 101. TEMPORARY PROVISIONS TO PROVIDE NAFTA PARITY TO BENEFICIARY COUNTRY ECONOMIES.

(a) TEMPORARY PROVISIONS.—Section 213(b) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(b)) is amended to read as follows:

"(b) IMPORT-SENSITIVE ARTICLES.—

"(1) IN GENERAL.—Subject to paragraphs (2) through (5), the duty-free treatment provided under this title does not apply to—

"(A) textile and apparel articles which are subject to textile agreements;

"(B) footwear not designated at the time of the effective date of this title as eligible articles for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

"(C) tuna, prepared or preserved in any manner, in airtight containers;

"(D) petroleum, or any product derived from petroleum, provided for in headings 2709 and 2710 of the HTS;

"(E) watches and watch parts (including cases, bracelets and straps), of whatever type including, but not limited to, mechanical, quartz digital or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which HTS column 2 rates of duty apply; or

"(F) articles to which reduced rates of duty apply under subsection (h).

"(2) NAFTA TRANSITION PERIOD TREATMENT OF CERTAIN TEXTILE AND APPAREL ARTICLES.—

"(A) EQUIVALENT TARIFF AND QUOTA TREATMENT.—During the transition period—

"(i) the tariff treatment accorded at any time to any textile or apparel article that originates in the territory of a beneficiary country shall be identical to the tariff treatment that is accorded during such time under section 2 of the Annex to a like article that originates in the territory of Mexico and is imported into the United States;

"(ii) duty-free treatment under this title shall apply to any textile or apparel article of a beneficiary country that is imported into the United States and that—

"(I) meets the same requirements (other than assembly in Mexico) as those specified in Appendix 2.4 of the Annex (relating to goods assembled from fabric wholly formed and cut in the United States) for the duty free entry of a like article assembled in Mexico, or

"(II) is identified under subparagraph (C) as a handloomed, handmade, or folklore article of such country and is certified as such by the competent authority of such country; and

"(iii) no quantitative restriction or consultation level may be applied to the importation into the United States of any textile or apparel article that—

"(I) originates in the territory of a beneficiary country,

"(II) meets the same requirements (other than assembly in Mexico) as those specified in Appendix 3.1.B.10 of the Annex (relating to goods assembled from fabric wholly formed and cut in the United States) for the exemption of a like article assembled in Mexico from United States quantitative restrictions and consultation levels, or

"(III) qualifies for duty-free treatment under clause (ii)(II).

"(B) NAFTA TRANSITION PERIOD TREATMENT OF NONORIGINATING TEXTILE AND APPAREL ARTICLES.—

"(i) PREFERENTIAL TARIFF TREATMENT.—Subject to clause (ii), the United States Trade Representative may place in effect at any time during the transition period with respect to any textile or apparel article that—

"(I) is a product of a beneficiary country, but

"(II) does not qualify as a good that originates in the territory of that country,

tariff treatment that is identical to the preferential tariff treatment that is accorded during such time under Appendix 6.B of the Annex to a like article that is a product of Mexico and imported into the United States.

"(ii) PRIOR CONSULTATION.—The United States Trade Representative may implement the preferential tariff treatment described in clause (i) only after consultation with representatives of the United States textile and apparel industry and other interested parties regarding—

"(I) the specific articles to which such treatment will be extended,

"(II) the annual quantity levels to be applied under such treatment and any adjustment to such levels,

"(III) the allocation of such annual quantities among the beneficiary countries that export the articles concerned to the United States, and

"(IV) any other applicable provision.

"(iii) ADJUSTMENT OF CERTAIN BILATERAL TEXTILE AGREEMENTS.—The United States Trade Representative shall undertake negotiations for purposes of seeking appropriate reductions in the quantities of textile and apparel articles that are permitted to be imported into the United States under bilateral agreements with beneficiary countries in order to reflect the quantities of textile and apparel articles of each respective country that are exempt from quota treatment by reason of paragraph (2)(A)(iii).

"(C) HANDLOOMED, HANDMADE, AND FOLKLORE ARTICLES.—For purposes of subparagraph (A), the United States Trade Representative shall consult with representatives of the beneficiary country for the purpose of identifying particular textile and apparel goods that are mutually agreed upon as being handloomed, handmade, or folklore goods of a kind described in section 2.3 (a), (b), or (c) or Appendix 3.1.B.11 of the Annex.

"(D) BILATERAL EMERGENCY ACTIONS.—The President may take—

"(i) bilateral emergency tariff actions of a kind described in section 4 of the Annex with respect to any textile or apparel article imported from a beneficiary country if the application of tariff treatment under subparagraph (A) to such article results in conditions that would be cause for the taking of such actions under such section 4 with respect to a like article that is a product of Mexico; or

"(ii) bilateral emergency quantitative restriction actions of a kind described in section 5 of the Annex with respect to imports of any textile or apparel article described in subparagraph (B)(i) (I) and (II) if the importation of such article into the United States results in conditions that would be cause for the taking of such actions under such section 5 with respect to a like article that is a product of Mexico.

"(3) NAFTA TRANSITION PERIOD TREATMENT OF CERTAIN OTHER ARTICLES ORIGINATING IN BENEFICIARY COUNTRIES.—

"(A) EQUIVALENT TARIFF TREATMENT.—

"(i) IN GENERAL.—Subject to clause (ii), the tariff treatment accorded at any time during the transition period to any article referred to in any of subparagraphs (B) through (F) of paragraph (1) that originates in the territory of a beneficiary country shall be identical to the tariff treatment that is accorded during such time under Annex 302.2 of the NAFTA to a like article that originates in the territory of Mexico and is imported into the United States. Such articles shall be subject to the provisions for emergency action under chapter 8 of part two of the NAFTA to the same extent as if such articles were imported from Mexico.

"(ii) EXCEPTION.—Clause (i) does not apply to any article accorded duty-free treatment under U.S. Note 2(b) to subchapter II of chapter 98 of the HTS.

"(B) RELATIONSHIP TO SUBSECTION (h) DUTY REDUCTIONS.—If at any time during the transition period the rate of duty that would (but for action taken under subparagraph (A)(i)

in regard to such period) apply with respect to any article under subsection (h) is a rate of duty that is lower than the rate of duty resulting from such action, then such lower rate of duty shall be applied for the purposes of implementing such action.

"(4) CUSTOMS PROCEDURES.—The provisions of chapter 5 of part two of the NAFTA regarding customs procedures apply to importations under paragraphs (2) and (3) of articles from beneficiary countries.

"(5) DEFINITIONS.—For purposes of this subsection—

"(A) The term 'the Annex' means Annex 300–B of the NAFTA.

"(B) The term 'NAFTA' means the North American Free Trade Agreement entered into between the United States, Mexico, and Canada on December 17, 1992.

"(C) The term 'textile or apparel article' means any article referred to in paragraph (1)(A) that is a good listed in Appendix 1.1 of the Annex.

"(D) The term 'transition period' means, with respect to a beneficiary country, the period

that begins on the date of the enactment of the Caribbean Basin Trade Security Act and ends on the earlier of—

"(i) the date that is the 6th anniversary of such date of enactment; or

"(ii) the date on which—

"(I) the beneficiary country accedes to the NAFTA, or

"(II) there enters into force with respect to the United States a free trade agreement comparable to the NAFTA that makes substantial progress in achieving the negotiating objectives set forth in section 108(b)(5) of the North American Free Trade Agreement Implementation Act.

"(E) An article shall be treated as having originated in the territory of a beneficiary country if the article meets the rules of origin for a good set forth in chapter 4 of part two of the NAFTA or in Appendix 6.A of the Annex. In applying such chapter 4 or Appendix 6.A with respect to a beneficiary country for purposes of this subsection, no countries other than the

United States and beneficiary countries may be treated as being Parties to the NAFTA.".

(b) CONFORMING AMENDMENTS.—The Caribbean Basin Economic Recovery Act is further amended—

(1) by amending section 212(e)(1)(B) to read as follows:

"(B) withdraw, suspend, or limit the application of the duty-free treatment under this subtitle, and the tariff and preferential tariff treatment under section 213(b)(2) and (3), to any article of any country,"; and

(2) by inserting "and except as provided in section 213(b)(2) and (3)," after "Tax Reform Act of 1986," in section 213(a)(1).

SEC. 102. EFFECT OF NAFTA ON SUGAR IMPORTS FROM BENEFICIARY COUNTRIES.

The President shall monitor the effects, if any, that the implementation of the NAFTA has on the access of beneficiary countries under the Caribbean Basin Economic Recovery Act to the United States market for sugars, syrups, and molasses. If the President considers that the implementation of the NAFTA is affecting, or will likely affect, in an adverse manner the access of such countries to the United States market, the President shall promptly—

(1) take such actions, after consulting with interested parties and with the appropriate committees of the House of Representatives and the Senate, or

(2) propose to the Congress such legislative actions,

as may be necessary or appropriate to ameliorate such adverse effect.

SEC. 103. DUTY-FREE TREATMENT FOR CERTAIN BEVERAGES MADE WITH CARIBBEAN RUM.

Section 213(a) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(a)) is amended—

(1) in paragraph (5), by striking "chapter" and inserting "title"; and

(2) by adding at the end the following new paragraph:

"(6) Notwithstanding paragraph (1), the duty-free treatment provided under this title shall apply to liqueurs and spirituous beverages produced in the territory of Canada from rum if—

"(A) such rum is the growth, product, or manufacture of a beneficiary country or of the Virgin Islands of the United States;

"(B) such rum is imported directly from a beneficiary country or the Virgin Islands of the United States into the territory of Canada, and such li-

queurs and spirituous beverages are imported directly from the territory of Canada into the customs territory of the United States;

"(C) when imported into the customs territory of the United States, such liqueurs and spirituous beverages are classified in subheading 2208.90 or 2208.40 of the HTS; and

"(D) such rum accounts for at least 90 percent by volume of the alcoholic content of such liqueurs and spiritous beverages.".

TITLE II—RELATED PROVISIONS

SEC. 201. MEETINGS OF TRADE MINISTERS AND USTR.

(a) SCHEDULE OF MEETINGS.—The President shall take the necessary steps to convene a meeting with the trade ministers of the beneficiary countries in order to establish a schedule of regular meetings, to commence as soon as is practicable, of the trade ministers and the Trade Representative, for the purpose set forth in subsection (b).

(b) PURPOSE.—The purpose of the meetings scheduled under subsection (a) is to reach agreement between the United States and beneficiary countries on the likely timing and procedures for initiating negotiations for beneficiary countries to accede to the NAFTA, or to enter into mutually advantageous free trade agreements with the

United States that contain provisions comparable to those in the NAFTA and would make substantial progress in achieving the negotiating objectives set forth in section 108(b)(5) of the North American Free Trade Agreement Implementation Act (19 U.S.C. 3317(b)(5)).

SEC. 202. REPORT ON ECONOMIC DEVELOPMENT AND MARKET ORIENTED REFORMS IN THE CARIBBEAN.

(a) IN GENERAL.—The Trade Representative shall make an assessment of the economic development efforts and market oriented reforms in each beneficiary country and the ability of each such country, on the basis of such efforts and reforms, to undertake the obligations of the NAFTA. The Trade Representative shall, not later than July 1, 1996, submit to the President and to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives a report on that assessment.

(b) ACCESSION TO NAFTA.—

(1) ABILITY OF COUNTRIES TO IMPLEMENT NAFTA.—The Trade Representative shall include in the report under subsection (a) a discussion of possible timetables and procedures pursuant to which beneficiary countries can complete the economic reforms necessary to enable them to negotiate acces-

sion to the NAFTA. The Trade Representative shall also include an assessment of the potential phase-in periods that may be necessary for those beneficiary countries with less developed economies to implement the obligations of the NAFTA.

(2) FACTORS IN ASSESSING ABILITY TO IMPLEMENT NAFTA.—In assessing the ability of each beneficiary country to undertake the obligations of the NAFTA, the Trade Representative should consider, among other factors—

(A) whether the country has joined the WTO;

(B) the extent to which the country provides equitable access to the markets of that country;

(C) the degree to which the country uses export subsidies or imposes export performance requirements or local content requirements;

(D) macroeconomic reforms in the country such as the abolition of price controls on traded goods and fiscal discipline;

(E) progress the country has made in the protection of intellectual property rights;

(F) progress the country has made in the elimination of barriers to trade in services;

(G) whether the country provides national treatment to foreign direct investment;

(H) the level of tariffs bound by the country under the WTO (if the country is a WTO member);

(I) the extent to which the country has taken other trade liberalization measures; and

(J) the extent which the country works to accommodate market access objectives of the United States.

(c) PARITY REVIEW IN THE EVENT A NEW COUNTRY ACCEDES TO NAFTA.—If—

(1) a country or group of countries accedes to the NAFTA, or

(2) the United States negotiates a comparable free trade agreement with another country or group of countries,

the Trade Representative shall provide to the committees referred to in subsection (a) a separate report on the economic impact of the new trade relationship on beneficiary countries. The report shall include any measures the Trade Representative proposes to minimize the potential for the diversion of investment from beneficiary countries

to the new NAFTA member or free trade agreement partner.

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H.R. 553, THE CARIBBEAN BASIN TRADE SECURITY ACT

FRIDAY, FEBRUARY 10, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met, pursuant to call, at 11 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
January 31, 1995
No. TR-2

CONTACT: (202) 225-1721

CRANE ANNOUNCES HEARING ON H.R. 553, THE "CARIBBEAN BASIN TRADE SECURITY ACT"

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on H.R. 553, the "Caribbean Basin Trade Security Act." **The hearing will take place on Friday, February 10, 1995, in room B-318 of the Rayburn House Office Building, beginning at 11:00 a.m.**

Oral testimony at this hearing will be heard from both invited and public witnesses. Also, any individual or organization may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

H.R. 553 was introduced by Messrs. Crane, Rangel, Shaw and Gibbons to ensure that the Caribbean Basin is not adversely affected by implementation of the North American Free Trade Agreement (NAFTA), and to encourage the accession of these beneficiary countries to NAFTA at the earliest possible date.

H.R. 553 would grant tariff treatment equivalent to that accorded to members of NAFTA to Caribbean Basin beneficiary countries, for a six-year period, pending their accession to NAFTA. This bill would also direct the USTR to meet on a regular basis with trade ministers of countries in the Caribbean to discuss the likely timing and possible procedures for initiating negotiations for beneficiary countries to accede to NAFTA.

First proposed by the Reagan Administration in 1982 and passed by Congress in 1983, the Caribbean Basin Initiative (CBI) program is based on the understanding that it is in the national interest of the United States to encourage the development of strong democratic governments and healthy economies in Caribbean countries through the expansion of trade.

Made permanent in 1990, the CBI program extends duty-free treatment to a wide-range of products imported from beneficiary countries. The program has served as a text-book example of the job-creating effects of promoting increased trade. U.S. exports to the Carribean Basin grew from $5.8 billion in 1983 to $12.3 billion in 1993.

An unintended result of the passage of NAFTA is that some investment is being diverted from the Caribbean to Mexico. To ensure that the value of the CBI program is not eroded over time, the Caribbean Basin Security Act, H.R. 553, was introduced.

In announcing the hearing, Mr. Crane said: "As an ardent supporter of the goals of the CBI, I believe it is important for the Trade Subcommittee to examine the impact that NAFTA is having on investment and development in the Caribbean. If the consequences of NAFTA on the Caribbean are not addressed, the resulting economic instability in the region threatens the future of democratic governments there. I believe it is important that we begin to look at this problem with the goal of achieving full NAFTA accession for CBI countries."

FOCUS OF THE HEARING:

The focus of the hearing will be to evaluate the effects of NAFTA on CBI beneficiaries, review the mechanisms to achieve NAFTA parity and subsequent NAFTA accession, and address whether H.R. 553, as drafted, meets the objectives discussed above.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than the close of business, Friday, February 3, 1995. The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE MINUTE RULE WILL BE STRICTLY ENFORCED.** The full written statement of each witness will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than 1:00 p.m., Thursday, February 9, 1995. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement by the close of business, Friday, February 24, 1995, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

*****

Chairman CRANE. Folks, inasmuch as we are going to be interrupted on a routine basis for recorded votes on the floor of the House, I think it is important for us to get started. So I will invite Senator Graham to take his seat, and I think rather than playing tag with regard to our proceedings, that when those bells go off, whoever is in the middle of testimony, he will be able to complete his testimony and then we will recess for 10 minutes for Members to run over and vote and run right back.

Today, the Trade Subcommittee is holding a hearing on H.R. 553, the Caribbean Basin Trade Security Act, which I view as unfinished business from the North American Free Trade Agreement (NAFTA) and Uruguay Round implementing bills. H.R. 553 would grant tariff treatment equivalent to that accorded to members of the NAFTA to Caribbean Basin countries for a period of 6 years pending their accession to NAFTA.

For my colleagues new to the Trade Subcommittee, the Caribbean Basin Initiative (CBI) was written by the Ways and Means Committee in 1983 under the leadership of Sam Gibbons. It is based on the understanding that it is in the national security interest of the United States to encourage the development of strong Democratic governments and healthy economies in neighboring countries in the Caribbean and Central America through the expansion of trade.

On a bipartisan basis, the Congress passed and President Reagan signed the CBI, which extends duty-free treatment to a range of products imported from Caribbean countries. Since the CBI became law, U.S. trade policy has gone in other directions, such as the conclusion of NAFTA and the Uruguay Round, which were enormous accomplishments, but an unfortunate unintended consequence of the NAFTA is that investment is being diverted from the Caribbean to Mexico. The bill before us today, H.R. 553, would ensure that the value of our commitment to CBI countries made by this subcommittee in 1983 is not eroded over time.

In light of the decision at the Summit of the Americas to establish a free trade agreement of the Americas by the year 2050, the United States must articulate a trade policy which is cognizant of the economic development needs of Caribbean countries. The United States must establish a NAFTA parity program which is of tangible benefit to the region.

My purpose in pursuing H.R. 553 is to foster a policy whereby CBI countries receive the guidance and encouragement necessary for them to adopt market option reforms that will prepare them for joining NAFTA.

Finally, I would remind my colleagues that expanding trade with the Caribbean has been a huge success for U.S. business and workers. During the life of the CBI program, U.S. exports to the region grew from $5.8 billion in 1983 to over $12.3 billion in 1993. This represents a 112-percent increase, a rate three times the growth of U.S. exports to the world during the same time period.

In closing, I want to welcome the witnesses and apologize that we have only about 3 hours' work for today's hearing, so I would ask you please to summarize your comments and elaborate for the record, if you wish, and so if you could try to adhere in your sum-

mary to about 5 minutes of testimony, then we will get to Q and A.

With that, I would like to yield to my distinguished ranking minority member, Charlie Rangel, and while it is an exception to our rule, I would like to also yield after Mr. Rangel to Mr. Gibbons, since he is the original author of the CBI parity bill for comment.

Mr. RANGEL. Thank you, Mr. Chairman, and I am deeply appreciative of the fact that you will recognize Mr. Gibbons, who our Members so well remember first sponsored this legislation and visited so many of the islands. It was Mr. Gibbons that had the best legislative hearing I have ever seen.

All he did was go from island to island and saw where the goods were manufactured and every time he saw a city and town, he said who represents that city in the United States because it was abundantly clear our friends in the Caribbean were not only good partners, but they certainly were good buyers of our goods.

So now we move forward here and want to make certain that what we have done with the North American Free Trade Agreement does not adversely affect the agreement we made with our friends in the Caribbean, and we are very anxious to move on this because it was a part of the promise that we made to them. We have concerns about the American workers and our industries over here, but I think that it was Dan Rostenkowski that said friends do not forget friends.

So I would like to yield at this time to my distinguished friend, Sam Gibbons, who has provided leadership in this as well as so many other trade areas.

Mr. GIBBONS. Charlie, I thank you very much. I want to first welcome—and I always want to call him Governor Graham because he was such a distinguished Governor for 6 years—8 years, excuse me, and now U.S. Senator for some years, and he has been the chief proponent in the Senate of the Caribbean Initiative. He has been the sparkplug over there that has kept it moving when we needed a friend.

I also want to comment that we have had an unexpected result from the Caribbean Basin Initiative. The traditional thinking goes if you open your market, particularly if you open your market like we did in the Caribbean, unilaterally, to countries to trade with you, you are going to suffer a trade deficit. But just the opposite has occurred. I think as one of the best illustrations we have had in a long time of the benefits of free trade, while we unilaterally opened our markets to the Caribbean, or practically opened them, the trade balance moved from a negative balance against the United States to a very positive balance, and it has stayed that way over all the years.

The longer we keep our market open, the greater our trade balance grows with the Caribbean. That is remarkable further because our trade balance with the Caribbean started off negatively.

Well, the Caribbean needs our friendship and we need their friendship. We work together well. I am happy to have participated in all of this and have gotten such fine support from you, Mr. Rangel, Mr. Crane, and from the folks in the Caribbean, and from Governor-Senator Graham. Thank you, Mr. Chairman.

[The opening statement of Mr. Ramstad follows:]

OPENING STATEMENT OF HON. JIM RAMSTAD

Mr. Chairman, thank you for calling this hearing today to explore the impact of the North American Free Trade Agreement on our trading partners in the Caribbean Basin.

Clearly, it is important to maintain economic strength in the growing nations of the Caribbean Basin. The original intent of the Caribbean Basin Initiative (CBI) was to respond to the economic crisis in the Caribbean by encouraging industrial development through preferential access to the U.S. market.

Since its inception in 1984, we have witnessed the increasing political and social stability in this vital region. However, legitimate concerns have been raised about the impact of NAFTA on these nations.

It is entirely appropriate and important to consider the impact NAFTA has had on the economic potential of this area.

Mr. Chairman, thanks again for calling this hearing. I look forward to hearing Dr. Rivlin's testimony and to exploring in greater depth this important issue.

Chairman CRANE. Thank you very much and now Senator Graham, would you proceed with your testimony.

STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator GRAHAM. Mr. Chairman, members of the subcommittee, I am honored to address you today and to join with my colleagues from Florida, Mr. Gibbons and Mr. Shaw, in expressing my support for the Caribbean Basin Trade Security Act, H.R. 553. I would like to express my thanks to Congressman Crane and to the other Members of the House of Representatives who have added their support to this important legislation.

I am pleased to announce that I will be introducing similar legislation in the Senate in the very near future. With many of you, last December I attended the Summit of the Americas in Miami. At the summit, Vice President Gore pronounced the administration's firm commitment to Caribbean trade.

The Vice President stated, "The United States recognizes that free trade and enhanced investment flows are critical to sustainable development. We are seeking to further strengthen our commercial ties, including the earliest possible passage of the interim trade program * * *.

"President Clinton and I remain as committed to this key program as we were when I unveiled it to you last May in Tegucigalpa. As soon as the new Congress is seated in January, we pledge to press vigorously to win passage of the interim trade program as a stepping stone to full partnership in a free trade relationship." Mr. Chairman, the legislation which you have introduced takes a critical step toward that goal of laying the basis for eventual accession of the CBI countries to NAFTA.

Our Caribbean neighbors, whose economies are inexorably linked with North America, must be among the first to join the NAFTA. Your legislation calls for a 6-year program after which the CBI nations would be allowed the opportunity to negotiate accession to NAFTA or to enter into an independent free trade agreement with the United States. In the last decade, the United States has supported and encouraged the movement by the Caribbean and Central American nations toward democracy and trade and investment liberalization.

Today, democracy rules in all the nations of the Caribbean Basin with the notable exception of Cuba. There is probably no region in the world that has as many flourishing democracies as does the Caribbean Basin. This year alone eight nations in the region are holding free elections. For many nations, political stability is by no means guaranteed, and as we saw in the painful lesson of Haiti, economic and political instability in the Caribbean region can bear enormous cost to the United States.

It is in the vital interest of the United States to see the Caribbean Basin grow economically for several reasons: First, to maintain the political stability of the region; second, to improve the economic conditions, which will deter illegal immigration, which will deter political instability, and which will provide a bulwark against illegal drug trafficking. But at a time when economic growth is more important than ever, members of the Caribbean Basin Initiative have faced an unintended challenge. Excluded from the NAFTA, CBI nations find themselves at a disadvantage to Mexico.

I would refer the members of the subcommittee to the chart to my right, which is based on statistics developed by the U.S. Department of Commerce.

Before NAFTA, the growth rate for apparel imports from the CBI nations and Mexico were at 20 percent per annum. Since NAFTA, Mexico's growth rate has jumped from 20 to 45 percent. CBI nations have dropped from 20 to 10 percent. H.R. 553 addresses this situation by extending NAFTA benefits to CBI countries.

Mr. Chairman, in deference to your request as to brevity, I will ask that the balance of my remarks be submitted for the record and will summarize by saying that I believe that dealing as quickly as possible with this unintended consequence of the NAFTA, a consequence that has the potential of eroding much of the economic gain that has occurred in the Caribbean Basin over the last dozen years, is an urgent matter for the Congress.

I admire the leadership that you have taken. I appreciate the fact that the subcommittee is holding this hearing today and hope that at the earliest possible date, this subcommittee, the House of Representatives, and the Senate will be able to send to the President for his signature legislation that will establish parity between the CBI nations, Mexico, and a framework for the further economic integration of the Caribbean Basin and North America. Thank you.

[The prepared statement follows:]

STATEMENT OF SENATOR
BOB GRAHAM OF FLORIDA

Mr. Chairman, members of the Committee, I am honored to address you today and to join my colleagues from Florida, Mr. Gibbons and Mr. Shaw, in expressing my support for the Caribbean Basin Trade Security Act (H.R. 553). I would like to thank Congressman Crane and Congressman Gibbons for their longtime leadership on this important matter.

I am pleased to announce that I will be introducing a similar bill in the Senate in the near future.

I attended the Summit of the Americas in Miami this past December. At the summit, Vice President Gore pronounced the Administration's firm commitment to Caribbean trade. He said: "The United States recognizes that free trade and enhanced investment flows are critical to sustainable development. We are seeking to further strengthen our commercial ties, including the earliest possible passage of the Interim Trade Program...President Clinton and I remain as committed to this key program as we were when I unveiled it to you last May in Tegucigalpa. As soon as the new Congress is seated in January, we pledge to press vigorously to win passage of the Interim Trade program, as a stepping stone to full partnership in a free trade relationship."

The Crane/Gibbons bill takes a critical step towards that goal by laying the basis for the eventual accession of the CBI countries to NAFTA. Our Caribbean neighbors, whose economies are inextricably linked with North America, must be among the first to join NAFTA.

Crane/Gibbons calls for a six year program, after which the CBI nations would be allowed an opportunity to negotiate accession to the NAFTA or to enter into independent free trade agreements with the United States.

In the last decade, the United States has supported and encouraged movement by the Caribbean and Central American nations toward democracy and trade and investment liberalization. Today democracy rules in all of the nations of the Caribbean Basin, with the notable exception of Cuba. This year alone, eight nations in the region are holding free elections. For many nations political stability is by no means guaranteed, and as we saw in the painful lesson of Haiti, economic and political instability in the Caribbean region can bear enormous costs to America. It is of vital interest to America to see the Caribbean

Basin grow economically for several reasons. First, to maintain political stability in the region. Second, improving economic conditions will deter illegal immigration, which has been draining our resources and stoking the fires of resentment within American communities. Migration is also hurting our Southern neighbors - some of their youngest and brightest citizens are permanently leaving their shores. Third, economic stability in the Caribbean Basin would reduce illegal drug trafficking and allow greater cooperation between nations to enforce anti-drug policies.

But at a time when economic growth is more important than ever, Members of the Caribbean Basin Initiative (CBI) have faced an unintended challenge. Excluded from NAFTA, CBI nations find themselves at a disadvantage to Mexico. According to Department of Commerce statistics, before NAFTA the growth rate for apparel imports from CBI nations and Mexico were at 20%. Since NAFTA, Mexico's growth rate has jumped to 45%, while CBI nations have dropped to 10%. H.R. 553 addresses this situation by extending NAFTA benefits to CBI countries.

The Crane/Gibbons bill was crafted with special sensitivity to American jobs. The bill would extend coverage to all manufactured products which are granted preferential treatment under NAFTA. Currently, most American imports of these products come from Asia, with the Caribbean Basin only supplying a small percentage of these goods. There is little U.S. production of many of these products, meaning that efforts to promote CBI production would displace other imports, not U.S. jobs. In fact, U.S. companies and workers benefit from co-production with the region which allows them to compete against Asian imports while using U.S. components and machinery in production. These are the same competitive benefits that the U.S. sought in enacting the Caribbean Basin Initiative over a dozen years ago. It makes no sense that American companies earlier prompted by CBI to structure similar operations in the Caribbean Basin region should now be penalized.

The new bill provides equal coverage for all textiles and apparel as was provided for Mexico under NAFTA. This is a necessary remedy, as there is evidence that production is leaving the Caribbean Basin for Mexico because of differences in trade treatment, not for economic and efficiency factors.

The benefits of increased trade with the Caribbean Basin, whose

market is our tenth largest, far outweigh the potential costs from the reduction of tariffs. By promoting trade, we can discourage dependence on American aid. In addition, economic growth would give the people of the Caribbean Basin more buying power to purchase American goods.

The passage of a CBI parity bill is most pressing if we are to avoid upsetting the current stability and democracy in the region. I know that the sponsors and cosponsors of H.R. 553 are firmly committed to passing this important legislation with minimal delay. I am encouraged by the strong support we have received from both sides of the aisle for the Crane/Gibbons bill and for my proposed legislation, and I look forward to seeing this endeavor come to fruition. Thank you.

Chairman CRANE. Thank you very much, Senator Graham, and without objection any materials that any of the witnesses have will be submitted for the record.

Mr. Rangel.

Mr. RANGEL. Senator, I only wanted to thank you for the leadership that you have constantly provided in this area. You have certainly proven yourself to be a true friend of the Caribbean. I hope that soon we will be able to allow Cuba to enter into trade as well as become a Democratic society; and we can continue to work together for a world that is based not on ideology, but on freedom, free trade, and improving the quality of life for all in this hemisphere.

So thank you for the leadership that you have consistently provided. Thank you, Mr. Chairman.

Chairman CRANE. Mr. Hancock.

Mr. HANCOCK. I do not have any questions at this time. I think the Senator's explanation will answer my questions. Thank you very much.

Chairman CRANE. Mr. Gibbons.

Mr. GIBBONS. I have made my statement and I want to thank Senator Graham for coming again. I will continue to work with you, Senator.

Senator GRAHAM. Thank you.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman. Senator, nice to see you here. Just one question. Last year, I think we had a $2 billion or $1.8 billion trade surplus, to be exact, with the Caribbean Basin. How, in your judgment, would enactment of this legislation ensure that U.S. exports to the Caribbean remain at high levels?

Senator GRAHAM. In two ways. Immediately, by protecting the strong economic growth that has occurred in many of the CBI nations. The area of job creation, which has flourished the most, has been the apparel industry, which is the very industry that is now the most challenged by the absence of a level playing field as between Mexico and the CBI nations.

But, second, in a longer range, this legislation will lay out a 6-year road map for closer economic ties between the CBI nations and the United States and the other members of NAFTA, which will help to sustain and enhance the economic prosperity of the Caribbean and North America and our very strong cultural and political ties.

Mr. RAMSTAD. Well, thank you very much, Senator. I certainly agree the quicker we extend NAFTA parity to the Caribbean Basin, the better. Not only from an economic standpoint, from a self-serving standpoint, but also from a political standpoint in terms of the stabilization of the region.

Thank you very much, Mr. Chairman.

Senator GRAHAM. Thank you.

Chairman CRANE. Mr. Zimmer.

Mr. ZIMMER. I have no questions.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman. Thank you, Senator, for your testimony and for all the work you have done on this issue.

I come at this with a different perspective because I represent a district that has thousands of apparel workers in the southern part of Virginia. You have mentioned the challenges to the CBI apparel industry.

Certainly, we have challenges ourselves to our own industry and later today we will hear from Tom Mason, who owns one of the companies in my district, talking about those challenges.

One of the challenges, of course, for us, is that we are trying to strike the balance, the proper balance, between the public policy decisions that allow us to assist other nations around the world and the need to support the jobs we have here in our country.

To that extent, I think a good number of the exports that are moving to the CBI nations are due to the 807 and 807(a) programs. These programs allow companies to make and cut fabric here and send the pieces to the Caribbean nations. They in turn make apparel out of that and send it back to this country.

Much of the exporting that goes on is those raw materials, or those cut goods, that are sent to CBI nations. One of the concerns I have about this particular proposal is that there is the possibility that the CBI nations would have an exemption to what we call the yarn forward rule; and, in fact, might not use our fabrics, but could use fabrics from other countries, thereby diminishing the exports we are able to send. The bottom line is that more jobs in our own district would be lost.

I do not know if you have any comments or any thoughts about that provision. I guess it is called the TPL provision, and whether that would be a necessary part of this particular legislation.

Senator GRAHAM. First, as you have stated, Mr. Congressman, this relationship between the Caribbean Basin countries and the United States has been one of mutual benefit in terms of textile and apparel, because the vast amount of the work that is done in the CBI countries is done under a program in which the fabric has to be produced in the United States and cut in the United States. It is then sent to a CBI country for the labor-intensive sewing and then returned to the United States. So there are benefits in both places.

The reality is that the labor-intensive work, if it were not done in our neighboring countries in the Caribbean Basin, would most likely be done in some distant part of the world in which the United States would have none of the economic benefits. That was the basic premise that underlay the Caribbean Basin Initiative when it was adopted a dozen years ago.

The issue before us today is that NAFTA has granted to Mexico some benefits which are greater than those that had been granted to the CBI countries, and is having the unintended effect of drawing investment and jobs from the CBI countries to Mexico. This chart indicates the potential of that relocation.

This bill is predicated on the goal of creating parity as between the CBI countries and Mexico; therefore, provisions which are in this bill for the CBI countries are the provisions that were contained in NAFTA vis-a-vis Mexico. The fundamental issue is: Is it in our national interest to have a tilted playing field of economics, with Mexico having benefits that are greater than the CBI countries, or should we give to the CBI countries, for a 6-year period,

a level playing field, with parity in treatment, and during that period move toward a closer bilateral or multilateral grouping of economic relations between the Caribbean and the United States?

Mr. PAYNE. I think I agree with most everything you have said. I think in this instance, though, with TPLs, there may be a difference between what will go on in NAFTA and what we are proposing for the CBI. That is one of the things I want to ask the administration about.

But I see my time is up. Thank you very much, and I will comment later on some of these numbers. I think your chart is correct, but there are other numbers I would like to point out as well. Thank you Senator.

Senator GRAHAM. Thank you, Mr. Payne.

Chairman CRANE. Ms. Dunn.

Ms. DUNN. I have no questions, Mr. Chairman.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. No questions.

Chairman CRANE. Mr. Camp.

Mr. CAMP. No questions.

Chairman CRANE. Well, I want to thank you, Senator, for your testimony, and I concur wholeheartedly in your conclusion about bringing stability, prosperity, and democracy to the region. That is our 12th largest market, and it is vitally important to our mutual interest to guarantee we get passage as soon as possible. I look forward to working with you on the Senate side to achieve that goal. Thank you.

Senator GRAHAM. Thank you very much, Mr. Chairman, and I want to say I particularly appreciate your affording the opportunity for so many of the representatives of the Caribbean Basin countries to come and talk with you directly about how much this means to their future stability and prosperity at this and their relations with the United States. I think you are providing a very constructive opportunity for learning both in this country and in the Caribbean about how much we share in common.

Chairman CRANE. Thank you, Senator.

Our next panel is—no, wait, Congressman Deutsch is before our panel with the representatives of the administration.

STATEMENT OF HON. PETER DEUTSCH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. DEUTSCH. Thank you, Mr. Chairman. I appreciate the opportunity to just share a few thoughts with you this morning. I have some testimony that I would like to submit for the record.

As you are probably aware, my district is the district closest to the Caribbean. I represent south Florida, extreme south Florida and the Florida Keys. This is an issue which has a direct effect in terms of south Florida in many ways. It has a direct effect on the Nation as well, and I know Senator Graham highlighted some of that, and you have an excellent list of witnesses who, I believe, will be able to highlight it even better than I can. But if I can share a perspective I have from where I sit, what I see, I would like to do that in just a couple of seconds.

Specifically, before NAFTA, this was a trade relationship that was working incredibly well for both countries for all of the goals

that we have: free trade. In fact, really, in a sense, it was a true free trade agreement, in many ways even truer than what NAFTA is, and working well.

The effect from NAFTA is very real, and I have met with companies in south Florida that have seen entire facilities—because the facilities really are the equipment—leave the CBI countries and go to Mexico. Actually entire plants leave. That graph is really the key thing. This is a phenomenon that is not an anecdotal phenomenon. It is a real phenomenon that is happening.

Let me again emphasize that a little bit, though. We have just had the Miami summit, at this point a couple months ago in Miami, where we have seen one of the successes of our generation, of this century, in the democratization of the Western Hemisphere. It is a growing democracy. It is a young democracy throughout the hemisphere, but it is a fragile democracy.

To say differently would not be looking at the political realities. I think all of us understand that free markets, and really economic opportunity and growth, are essential components to the type of governments that we want to see continue to exist in the Caribbean Basin.

Without this legislation, my fear is really that the reality on the ground in these countries is getting less stable. That is a real phenomenon. I have had the opportunity to speak to some American ambassadors that serve in the region and, unfortunately, that is what they are saying; that is what they are seeing; that is what anyone who is visiting the region, talking to the leaders, talking to the businesspeople, talking to the elected officials in those countries are seeing.

We have the threat of the existence, the creation of narcotics governments again, some of the worst types of conditions that we can imagine returning, not just in the Caribbean but, potentially, to Central and South America as well. This is critical legislation for a much bigger picture than just south Florida.

I think we are talking at the level of freedom for this region, for the Western Hemisphere, and even, I would say, for the world. Thank you, Mr. Chairman.

[The prepared statement follows:]

PETER DEUTSCH
20TH DISTRICT, FLORIDA

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SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION REGULATION AND DEPOSIT INSURANCE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
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STATEMENT OF CONGRESSMAN PETER DEUTSCH
BEFORE THE WAYS AND MEANS TRADE SUBCOMMITTEE
FEBRUARY 10, 1995

Thank you Mr. Chairman for allowing me the opportunity to testify on HR 553, the Caribbean Basin Trade Security Act. It is without reservation that I come forward to support this desperately needed legislation which will level the playing field for the nations of the Caribbean Basin. This bill would grant NAFTA-like benefits to the CBI nations allowing them time and the opportunity to negotiate a bilateral free trade agreement with the United States.

Central American and Caribbean trade represents the only area in which the United States has maintained a trade surplus for 8 straight years, and yet, the United States has unintentionally handicapped one of its most loyal and lucrative trading partners through the passage of another trade agreement. As the nations of Central America and the Caribbean predicted, the passage of NAFTA did cause disinvestment in the region in favor of Mexico. While many industries moved to Mexico to take advantage of the duty and quota free access to the United States, some industries chose to stay recognizing they had a trained and stable work force.

Now, in the face of the peso's devaluation, Mexican labor costs are undercutting labor costs in the region to the extent that moving is nearly irresistible. This recent event has exacerbated an already horrible situation. Recognizing the effects of NAFTA on the Caribbean and Central America were unintentional, we are duty bound to remedy this regrettable problem. Implementing parity for the nations of Central America and the Caribbean now comes down to a basic issue of fairness. The United States has been a long time supporter of the Central American and Caribbean region, through programs like the CBI. It is important that we not fail in the last and most crucial step in helping the region to move toward negotiating a full free trade agreement with the U.S.

It is within Congress' ability to correct this situation, and I look forward to working with Congressmen Crane and Gibbons, two steadfast advocates for the region, to make this a reality. In the Senate, Senator Bob Graham (D-FL) is preparing to introduce similar parity legislation. Indeed, the Administration has also expressed on many occasions its support for parity creating the opportunity for a truly bipartisan effort.

Chairman CRANE. Thank you, Mr. Deutsch. I would like to yield now to our colleague, Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman, and thank you, Mr. Deutsch, for your testimony. I certainly think you are doing a good job of representing the southern part of Florida.

My own district, as I had just pointed out to Senator Graham, views this a little bit differently, and that is because we have a number of apparel facilities, a number of apparel workers. We have had these jobs for a long time, in our own district in southern Virginia, as we do in other parts of the South, in fact, all over the country, and we have some concerns about this as it relates to our own ability to compete.

What I would like to do is just talk about this chart for just a minute, since I did not have time to do that when the Senator was here. I think that chart is exactly right, but let me talk about some numbers behind that chart.

I think what is happening is, when you compare percentages, Mexico started with a very low base and the CBI countries started with a relatively higher base. In absolute dollars for the period of time that we can look at since NAFTA has passed, and that is the first 11 months of 1994, the apparel imports from the Caribbean nations were $4.1 billion. Mexico had $1.7 billion, so there are 2½ times as many imports, apparel imports, coming into this country now from the Caribbean nations as from Mexico.

It is also important to understand that last year, during the same period of time, the apparel imports from the Caribbean actually grew at a rate of 14 percent. So it is not that the CBI program is not continuing to work. It seems that this is a relationship that is continuing to work, and whether we need, then, to change and make this an even better deal, I think, is certainly questionable, given the fact that the growth rate, as NAFTA was in place, was some 14 percent.

My own concern, I guess, gets back to an industry that is an important industry. It is an industry that employs a disproportionate number of people who do not have high skills, therefore, it is difficult and somewhat expensive if these people lose their jobs in this particular industry and have to find other jobs.

Generally, and certainly in my district, the apparel concerns are in small rural communities where there are no other opportunities for people to find other jobs, and it is very difficult once these individuals lose their jobs.

I would say, too, that the apparel workers in my district, and we have thousands, in fact, tens of thousands of apparel workers, the loss of jobs impacts especially severely on women and minorities in our district.

So as we think about this and as we think about what is the right public policy decision for us as it relates to the Caribbean nations and for parts of our own country, I would hope certainly that we would consider parts of the country like the part that I represent as we try to strike the right balance.

I thank you very much for your testimony, and if you would like to respond to any of this, please do so.

Mr. DEUTSCH. Mr. Chairman, if I can respond. Clearly, your task is a balancing task, and what Mr. Payne mentioned is clearly a fac-

tor. I guess what I am doing is really highlighting some of the balance that I see in terms of the Caribbean countries and the country as a whole, particularly, again, south Florida and Florida. I think the balance was a little unglued by passage of NAFTA, both for the interests that you have and the interests I have as it affects the Caribbean countries.

The reality is, if we do not do this legislation, we should be aware of the consequences. The destabilization in that region of the world is a very real phenomenon. It is not an imaginary phenomenon. I think by the end of today you will hear direct testimony about that. Whether we will do direct aid to those regions of the world to try to help them, which I do not think there is much support for in the Congress, or a systematic policy of this Congress to try to foster competitive industries throughout the world—I mean, if we have learned anything in the United States of America, our economy, the jobs in your district, the jobs in my district, the lifestyle and the standard of living of everyone in this country is tied to a world economy.

If we do not have a strong world economy, this subcommittee and the leadership of you and Mr. Gibbons for a long time have really shown that this subcommittee has really been at the leadership of that. That is the lesson of world history; that we internalize. The country understands that we need to protect our individual concerns, but without this strong world economy, I think we will see severe adverse impacts of the lifestyle of everyone in this country.

Mr. PAYNE. I don't disagree with anything you have said, however, I do not think there is evidence to show that the policies we have in place today are destabilizing the Caribbean——

Mr. DEUTSCH. As I said, I think by the end of today your testimony will point out some of that as well, not through anecdotal, but I think the facts will support what I have said. Thank you, Mr. Chairman.

Chairman CRANE. We thank you for your testimony, Colleague Deutsch, and now I would like to welcome the administration witnesses: Ambassador Charlene Barshefsky, who is the Deputy United States Trade Representative; and she will be accompanied by Ambassador Jennifer Hillman, the chief textile negotiator, United States Trade Representative; and Anne Patterson, the Deputy Assistant Secretary for Central America, the State Department.

You may proceed when you are ready, Ambassador Barshefsky

STATEMENT OF HON. CHARLENE BARSHEFSKY, DEPUTY UNITED STATES TRADE REPRESENTATIVE, ACCOMPANIED BY HON. JENNIFER HILLMAN, CHIEF TEXTILE NEGOTIATOR, UNITED STATES TRADE REPRESENTATIVE; AND ANNE PATTERSON, DEPUTY ASSISTANT SECRETARY FOR CENTRAL AMERICA, STATE DEPARTMENT

Ms. BARSHEFSKY. Thank you very much, Mr. Chairman. It is a pleasure to appear, again, before you today. If I may ask my full statement be submitted for the record, I will simply summarize.

Chairman CRANE. So ordered.

Ms. BARSHEFSKY. The bipartisan support that Congress has given to the Caribbean Basin Initiative since its inception has helped U.S. efforts to promote economic development and democ-

racy in the Caribbean region. We are gratified that this bipartisan tradition is continuing with H.R. 553.

Let me say at the outset that the administration supports the goals and ideals of H.R. 553. We understand the NAFTA has had unintended effects on investment in the Caribbean region and that many of these nations are interested in eventual free trade agreements with the United States.

The administration remains convinced, however, that the best way to achieve our shared goals for Caribbean Basin trade and investment is through a step-by-step approach. We need to encourage the CBI countries to make improvements in their trade-in investment, in intellectual properties regimes— now in preparation for the broad set of obligations that later will be included in a full FTA.

Trade preferences for the CBI should be consistent with the direction of overall U.S. trade policy and exchange of mutual benefits and obligations. Before I outline the administration's position on H.R. 553, let me review briefly the CBI.

In 1984, the CBI provided the President with authority to proclaim duty-free treatment for all products except textiles and apparels subject to agreements, footwear, petroleum, categories of flat goods and gloves, leather apparel, canned tuna, and a minor category of watches to countries meeting the law's conditions.

In 1990, as you know, the CBI was made a permanent program, but products previously excluded remained excluded despite substantial efforts to broaden program benefits. CBI benefits are now granted to 24 nations.

The executive branch, in 1986, created the guaranteed access level, the GAL, quota program for CBI apparel exports. The CBI countries may ship virtually unlimited quantities of apparel and textile products made from U.S. cut and formed fabric. The CBI has benefited the Caribbean Basin and the United States.

Two-way trade between the United States and the region has risen from $15 billion in 1984 at the program's inception to $22 billion in 1993. U.S. imports of products entering under the CBI's provisions have tripled and our imports of apparel from the region have also increased sharply.

Our exports to the region have grown dramatically as well, turning the $2 billion trade deficit into about a $2 billion trade surplus. We want to build on this mutual success. Let me suggest ways in which we might do that.

As you know, following implementation of the NAFTA, the CBI countries became increasingly concerned that certain of their benefits under the CBI would be eroded and investment would be diverted to Mexico, principally in the textile and apparel sector. After analyzing closely the potential effects of NAFTA, the administration developed proposals to address the region's concerns and these proposals became known as the Interim Trade Program, or the ITP, which unfortunately, could not be enacted last year.

This program would have provided CBI countries the same tariff and quota treatment Mexico enjoys under the NAFTA for textiles and apparel products meeting the NAFTA rules of origin. We focused on textiles and apparel because it is the largest product category for the Caribbean, and plainly the most important.

The remaining categories that have traditionally been excluded from the CBI, including petroleum and other products, are already either of low duties or the Caribbean is substantially more competitive than Mexico or under the NAFTA tariff decreases would have taken between 10 and 15 years. In other words, there was little economic benefit there.

With respect to H.R. 553, the single most important objection that the administration has to the bill as currently drafted is that the bill provides benefits without corresponding obligations on the part of the Caribbean nations.

We believe that tariff proclamation authority for the President rather than legislated tariffs should be the way to proceed under this program for five reasons, and let me just mention those and then I will stop.

First of all, we believe it critical that the Caribbean improve its intellectual properties rights regime if it is to diversify its economy and attract higher technology investment. We believe it is also critical that the Caribbean protect U.S. investment that is there and encourage further private investment so as to eliminate the need for preference programs in the future. Tariff proclamation authority would help us accomplish those goals. The provisions of H.R. 553 would not.

Second, the administration believes that it should be negotiating FTAs with countries that are ready; that is, that are willing and able to undertake the very serious obligations of an FTA.

H.R. 553 and the NAFTA implementing law indicate that Congress wants the administration to negotiate only with countries that can effectively implement the agreement. The CBI nations must begin now to do more to get ready for free trade than they have done thus far.

Third, with a 6-year grace period under the bill, there may be a temptation to delay reforms in some CBI nations. The current government may see that as something for their successor to implement while they get the credit for additional preferences. That may well perpetuate benefits with no reforms.

Fourth, a 6-year grace period could also create an unfortunate precedent for future FTA negotiations. Countries of a lesser level of development, and there are many other than in the CBI, could believe they, too, should receive special benefits because of that difference in level of development without undertaking obligations.

Last, once the program has been in effect for 6 years, we are very concerned whether, in fact, program benefits could be withdrawn.

We know the CBI can adjust to the kinds of ITP conditions we had set forth in proposed legislation last year. Indeed, we were making progress with a number of the CBI nations on both bilateral investment treaties and intellectual property rights agreements last year. That progress came to an absolute halt once the ITP program was dropped from the Uruguay round implementing bill.

So, Mr. Chairman, let me say that we support very much the goals you have for the Caribbean region. We want to work with you and members of the subcommittee. There are a number of areas where we do have some suggestions in the bill as proposed and they are outlined in my testimony, but of particular concern is the

administration's view that this program should be balanced in terms of benefits and obligations.

Thank you very much, sir.

Chairman CRANE. Thank you, Madam Ambassador.

[The prepared statement follows:]

ADMINISTRATION STATEMENT
BY AMBASSADOR CHARLENE BARSHEFSKY ON H.R. 553
THE CARIBBEAN BASIN TRADE SECURITY ACT
BEFORE THE TRADE SUBCOMMITTEE

INTRODUCTION

Mr. Chairman, thank you for the opportunity to submit the Administration's comments on H.R. 553, the "Caribbean Basin Trade Security Act of 1995."

The bipartisan support Congress has given to the Caribbean Basin Initiative (CBI) since its inception has greatly assisted U.S. efforts to promote economic development and democracy in the region. The Administration appreciates that the sponsors of H.R. 553 are continuing this bipartisan tradition.

With almost all countries in the Caribbean Basin embracing open markets and free elections, the United States has a unique chance to help these countries achieve long-term prosperity. H.R. 553 can be a very constructive catalyst to this process. This bill recognizes that access to the U.S. market is a powerful stimulant to broadly based economic development.

Before I outline the Administration's position on H.R. 553, let me review briefly the status of the CBI. While you, Chairman Crane, Congressman Gibbons, Congressman Rangel and some of the other Members on this Subcommittee are well acquainted with the CBI, my summary might be particularly useful for new members. Also, we hope this presentation will put into perspective the Administration's subsequent comments on H.R. 553.

STATUS OF CBI LEGISLATION

CBI I and CBI II

The 1984 CBI provided the President the authority to proclaim duty-free treatment for all products except textiles/apparel subject to agreements, footwear, petroleum, categories of flat goods and gloves, leather apparel, canned tuna and a minor category of watches. Countries must meet the conditions, which are sufficiently flexible to provide the President considerable leverage to encourage reforms without forcing specific action. Only one country has ever been suspended from the CBI program, for failure to cooperate on narcotics matters. CBI benefits are now granted to 24 nations.

The Executive Branch in 1986 created the "Guaranteed Access Level" (GALs) quota program for CBI apparel exports. Under the GALs program, a Caribbean Basin country may ship "guaranteed"

levels -- virtually unlimited quantities -- of apparel and other textile products to the United States made from U.S. cut and formed fabric.

The previous Administration, working very closely with this Subcommittee, in 1989 sought legislation providing duty-free treatment for the excluded products. After nearly two years of effort, all of the products that were excluded from duty-free treatment in CBI I continued to be excluded in "CBI II." The 1990 CBI II was made a permanent program, which greatly improved the inducement to invest in the region.

The CBI has benefitted the Caribbean Basin and the United States. U.S. exports to the region jumped from $5.8 billion in 1983 to $12.2 billion in 1993. This increase of 112 percent represents a rate that is three times the growth of U.S. global exports during this period. A U.S. trade deficit with the region of $2.6 billion in 1984 turned into a surplus of about $2 billion last year.

Countries in the Caribbean Basin are very good customers of U.S. products. About half of their imports come from the United States, and some countries purchase over 70 percent of their goods from the United States

The CBI has, of course, also benefitted the Caribbean Basin. U.S. imports of products entering under the CBI's provisions have jumped by more than 100 percent during the past five years, which is twice the rate of growth of total imports from the region.

Textiles and apparel trade between the United States and the CBI region has shown tremendous growth rates. In 1994, we exported $2.5 billion of fabric and apparel to the CBI countries (annualized data). U.S. imports of apparel from the region have grown by an average of 20 percent per year since 1986.

These summary data illustrate why -- just in trade terms -- it is in the U.S. interest to enhance our relationship with countries in the Caribbean Basin. The United States also wants to promote economic prosperity and stable democracies in the region. And, this Administration has tried to do just that.

Interim Trade Program

Following the conclusion of the NAFTA, CBI countries became increasingly concerned that their trade benefits would be substantially eroded and that investment would be diverted out of their nations. Also, U.S. firms that had invested in the Caribbean Basin expressed their concern about their financial ability to remain in the region.

After analyzing closely the potential effects of NAFTA on the CBI, the Administration developed some proposals to address the region's legitimate concerns. Due to circumstances at the time, these proposals could not be presented as part of NAFTA implementing legislation.

These proposals, refined further to become the Interim Trade Program (ITP) in 1994, were prepared for submission in the Administration's Uruguay Round bill in Congress. In the end, however, on the basis of discussions with this Subcommittee and other Members of Congress, the ITP was not included in the Uruguay Round bill.

Key ITP provisions were inspired by Congressman Gibbons' 1993 proposals in H.R. 1403. The ITP would have included reciprocal commitments from beneficiaries within a specified period of time.

The ITP would have provided CBI countries the same tariff and quota treatment Mexico enjoys under the NAFTA for textiles and apparel products meeting the NAFTA's rules of origin. We focussed on textiles and apparel because our analysis showed this to be the sector most vulnerable to competition from the NAFTA and by far the largest, accounting for about $4 billion of U.S. imports from the region. Furthermore, U.S. manufacturers, which operate partnership production arrangements, have substantial investment in the region.

In addition, we wanted to fashion a bill that would pass quickly without controversy and that enjoyed industry support. We believe the ITP was such a bill.

The next largest imported product after textiles/apparel is petroleum, accounting for about $1 billion of U.S. imports from the region. With an average *ad valorem* duty of about 0.5 percent -- essentially duty-free -- and a long NAFTA phase-out period, we did not want possible opposition to CBI preferences for this

product to impede passage of the ITP.

The other excluded products have a history of political sensitivity in Congress. Footwear, in particular, has generated considerable debate, including attempts to repeal an existing provision of the CBI. None of the excluded products, other than textiles/apparel and petroleum, has been a significant Caribbean Basin export to the U.S. market. If textiles/apparel and petroleum were excluded from the calculation, about 99 percent of the value of the remaining CBI products have entered duty-free.

The ITP would have given the President authority to proclaim new trade preferences. The President would have used this grant of authority to push for additional economic reforms in Caribbean Basin countries. **Before granting ITP benefits**, the President would have required CBI countries to provide enhanced market access for U.S. textiles and apparel.

The ITP also would have required each country interested in receiving **new** benefits to agree in a letter to the U.S. Trade Representative to make **future** reforms. Any country not interested in making reforms would have retained CBI benefits.

The reforms the ITP would have encouraged were intended to improve the investment climate in the CBI countries. Within one year, we would have expected to resolve problems involving existing CBI criteria. We also would have sought improvements in the countries' investment and intellectual property rights (IPR) regimes -- including specific standards within one year and investment and IPR agreements within about three and a half years -- using as leverage the prospect of withdrawing benefits from countries which failed to make substantial progress on these reforms. The ITP also would have encouraged countries to join the GATT/WTO and would have explicitly extended worker rights criteria to the new program.

We selected the ITP's conditions to serve a dual function. They were supposed to help the CBI nations help themselves attract investment -- exactly what these countries wanted. They were also designed to enhance protection for U.S. investors and U.S. manufacturers of IPR-related products.

We believe the ITP would have been an excellent approach for both the United States and the Caribbean Basin. In exchange for accepting two chapters of the 22 chapter NAFTA within a little over three years and for providing some market access for U.S. goods, CBI beneficiaries would have received NAFTA benefits or better for almost all products.

We labeled this approach to be an "interim" program because we viewed the ITP as a step toward an eventual free trade agreement (FTA). We knew that many countries in the region wanted in the future to advance their commercial relationship with us beyond the ITP. But, we also recognized that neither the United States nor most other countries were ready for FTA negotiations. The ITP would have been a "building block" in that process.

Mr. Chairman, as you are aware, the ITP was discharged favorably by the Ways and Means Committee last year. Unfortunately, it had to be withdrawn from the final Uruguay Round implementing bill. Despite these setbacks, the President, Vice President and Ambassador Kantor continued to endorse rapid Congressional action on ITP-type legislation in the new Congress.

COMMENTS ON H.R. 553

Objectives

Thanks to this Subcommittee, we now have the opportunity to

try to pass legislation addressing the legitimate concerns of the Caribbean Basin.

I am very pleased to say that the Administration supports the ultimate goal of H.R. 553, which is to bring CBI nations into NAFTA-type trade agreements. This is the goal that hemisphere's leaders at the Summit of the Americas in December adopted for completing the negotiations of the "Free Trade Area of the Americas" by the year 2005. We welcome Congress' support for this outcome of the Summit, which several of you on this Subcommittee attended along with other Congressional colleagues.

The Administration also recognizes that achieving this objective will take time and will not be easy. We realize that during this process, investment in some sectors in the Caribbean Basin could be affected by the NAFTA. Addressing the potential impact of the NAFTA on the Caribbean Basin remains our focus in any new legislation providing trade preferences.

Product Coverage

Textiles/apparel

As I previously stated, the ITP would have covered all textiles/apparel products that meet the NAFTA rules of origin. Of the products still excluded from the CBI, the textile/apparel sector is the one most likely to be affected by the NAFTA.

With some technical changes to ensure that the bill correctly covers originating products and that tariffs are not inadvertently increased, we can support the provisions of Section 101 of H.R. 553 that provide NAFTA-equivalent treatment for such products.

The ITP would **not** have addressed textiles/apparel products that failed to conform to the NAFTA rules of origin. Mexico negotiated tariff preference levels (TPLs), which allow duty-free and quota-free access for goods that do **not** otherwise meet the rules of origin (i.e., typically goods made with foreign fabric).

There is little economic rationale for TPLs for the CBI countries. Mexico negotiated TPLs to grandfather certain of their established trade in non-originating products. To date, Mexico has exported almost **nothing** under its TPLs. The ITP did **not** include TPLs because there was no demonstrated need for them.

However, we can accept the provisions in H.R. 553, "(B) NAFTA transition period treatment of non-originating textile and apparel articles," giving the Administration authority to negotiate TPLs. Under such authority, we would conclude TPLs where a need exists and in conformity with the consultation requirements of that bill. We would like to offer some technical changes.

We believe the textiles and apparel provisions in this bill would initially cover around three-quarters of the $4 billion of CBI exports to us. And, as our experience under the NAFTA shows, there is considerable incentive for these countries to shift production from non-originating goods to products that qualify under the NAFTA rules of origin. Enacting such treatment would provide very generous benefits to the Caribbean Basin and address their legitimate concern about the potential impact of the NAFTA.

Other Excluded Products

The ITP also would not have included NAFTA-treatment for the other products currently excluded from the CBI. Our assessment when we developed the ITP was that the NAFTA would not adversely impact the Caribbean Basin's competitive ability to export these products to the United States.

Also, as I indicated previously, we saw very little in the way of potential economic benefits to be gained by attempting to provide NAFTA benefits for these products. In addition to the relatively small value of U.S. imports from the Caribbean Basin, the duty phase-out under the NAFTA is relatively long -- 15 years for most rubber footwear, 15 years on leather products, 15 years on canned tuna, 10 years on non-rubber footwear, 10 years on petroleum, and 10 years on leather products.

For these reasons, we would not want debate over including these sensitive products to delay or, worse, to sidetrack NAFTA-equivalent treatment for textiles and apparel. Obtaining NAFTA benefits in this sector alone would be viewed by the region as a major achievement.

While we can understand the rationale for covering all products, we believe that deleting subsection "(3), NAFTA transition period treatment of certain other articles originating in beneficiary nations," from H.R. 553 would expedite enactment of this bill.

Means of Achieving Objectives

Mr. Chairman, let me now turn to the means of providing these enhanced trade preferences for the Caribbean Basin, comparing the ITP to H.R. 553.

The ITP would give the President the authority to proclaim benefits. The President would then provide benefits to countries that are prepared to meet NAFTA-type conditions in a few areas. In principle, as long as a country is making progress toward meeting the conditions within a specified period of time, the country would retain its benefits during the transition period.

H.R. 553 would automatically provide benefits, not by proclamation but by law. While the President would have the authority to suspend benefits on the basis of current CBI criteria, no new conditions would be imposed. Benefits would expire in six years or when a country has concluded an FTA with the United States, whichever comes first.

Preference for ITP

Mr. Chairman, let me explain the reasons the Administration strongly prefers the ITP approach.

First, proclamation authority would allow the President to resolve outstanding trade difficulties by holding out a carrot -- new trade benefits -- instead of jabbing with a stick -- withdrawing new trade benefits. While the effect may be the same, the perception is quite different.

And, there are problems that need to be addressed. Indeed, some of these issues have generated Congressional interest. While most of these difficulties are not so substantial that we would want to withdraw CBI benefits, we believe they should be resolved before we provide new benefits.

Second, we believe the ITP would provide security for investors. While the ITP would require CBI nations to undertake NAFTA-type obligations in a few areas and in stages, no country would be compelled to enter a full FTA. Negotiations would occur on an FTA when the United States and the other nation were ready.

This security would particularly help the smaller CBI nations attract investment. For example, what investor would gamble that a small Caribbean nation would be prepared for FTA negotiations compared to a larger Central American country? We might witness investment flowing exclusively to a few CBI nations

that appear to be closest to being ready for FTA negotiations, possibly distorting investment flows. The ITP's obligations would be achievable by even the smaller nations, thus offering similar opportunities.

Third, the Administration believes strongly that we should negotiate FTAs only with "ready" countries -- those willing and able to undertake the serious obligations of an FTA. Enhancing the credibility of U.S. trade policy and maintaining the confidence of the American people in the value of open trade depend on well-conceived and properly executed trade agreements. International trade is in the U.S. economic interest; the American people deserve to see a proven track record of success from our trade agreements.

The Administration is developing criteria to assess when other nations might be "ready" to negotiate and to implement such a complex and comprehensive undertaking as a NAFTA-type agreement. The provisions in section 202 of H.R. 553, "factors in assessing ability to implement NAFTA," are very useful guidelines for the Administration's process.

These provisions also clearly indicate that Congress wants the Administration to negotiate FTAs **only** with countries that could effectively implement the terms of the Agreement. While a number of countries have been making great strides at opening their markets and reforming their economies, it is not clear that any CBI nation is now "ready" for a comprehensive FTA.

Mr. Chairman, the NAFTA implementing law provides additional guidance concerning Congressional goals for FTAs. Recognizing the considerable U.S. resources needed to negotiate and implement an FTA, Congress indicated that it wanted the President to consider those markets which would provide, "the greatest potential to increase United States exports." Congress with good reason is directing us to take into account U.S. commercial interests in setting our FTA priorities.

Fourth, with a six year grace period in H.R. 553, there may be a temptation to delay reforms in some CBI nations. For example, a current government may see this as something for their successor government to implement -- thus allowing them to take the glory of gaining the NAFTA benefits but postponing the NAFTA obligations for his/her successor to handle.

This prospect could lead us to a situation in which benefits are perpetuated with no little or no reforms in the CBI nations, which is not the direction we want to take U.S. trade policy. U.S. firms that invest in the region as a result of duty-free entry into the United States will argue strongly that such preferences must be continued. And, of course, the countries themselves will want to maintain these new trade preferences.

This six-year grace period would also establish an unfortunate precedent for any future FTA negotiations. Other countries would come to expect to receive full NAFTA benefits before beginning to assume NAFTA obligations.

CBI nations can adjust to ITP-type requirements. With just the prospect of the ITP last year, the Administration was making progress in negotiating bilateral investment treaties and IPR agreements in the Caribbean Basin. Jamaica and Trinidad and Tobago, for example, already concluded both of these agreements. Our investment negotiations were well underway in several other CBI countries.

But, when the ITP was deleted from the Uruguay Round bill, our negotiations stalled. And one country informed us that it was dropping provisions implementing the IPR reforms called for in the ITP from its own Uruguay Round legislation as a result.

Finally, we do not know what the U.S. Congress' attitude will be toward implementing new FTAs in the future. For example, H.R. 553 does not include new "fast-track" negotiating authority.

Given this uncertainty, we believe the ITP would be a preferable route.

ADMINISTRATION POSITION

The ITP Approach

Mr. Chairman, the Administration wants to work with you and the other members of this Subcommittee in as constructive a manner as possible. We share the same goals. Let's see how we can achieve them.

If you would like to work on the basis of the ITP -- i.e., providing the President proclamation authority -- we are prepared to submit quickly revisions to H.R. 553. We do not want to delay a bill going forward.

The basic approach of a revised bill would be that in order to receive benefits, CBI nations would demonstrate their interest in the ITP by committing to future actions. CBI nations would be required to implement and to enforce their commitments within specific periods after receiving benefits.

Additional Comments

I would also like to provide this Subcommittee the Administration's views on other sections of H.R. 553. That is, in addition to the change in the implementation process -- from the automatic approach in H.R. 553 to the proclamation procedure in the ITP -- we would like to see the following changes.

Section 2: Findings and Policy

We suggest amending some of the "Findings and Policy" to make them consistent with the approach we are suggesting. For example, in subparagraph (3), the trade benefits being offered would be in the textile/apparel sector. A similar change should be made in subsection (b) on "Policy."

Also, As I have indicated, the Administration supports the goal of creating the "Free Trade of the Americas" by the year 2005. While our preference is for this goal to be achieved by accession to the NAFTA, we would like to leave negotiating flexibility on the approach we ultimately use. For this reason, we suggest inserting the phrase included in Title II of H.R. 553, "or to enter into mutually advantageous free trade agreements," whenever the phrase "accession to the NAFTA," is used.

Title I

Regarding "Title I," I have already addressed the Administration's views on product coverage and providing benefits through proclamation authority. We would like to see these changes reflected in this bill.

The one other section in Title I we propose changing is subsection (4) (D), dealing with the transition period. We agree that the "transitional" trade benefits would end whenever the United States and another country enters a free trade agreement.

What needs to be worked out is the date the benefits would end even if a FTA is not achieved. H.R. 553 proposes that this be "the date that is the 6th anniversary of such date of enactment." The Administration's view is benefits should last at least until the year 2000 -- a date by which the Summit leaders agreed that significant progress would be achieved toward the

objective of concluding the "Free Trade Area of the Americas."

We are concerned about the possible implications of the sugar provisions in section 102, which directs the President to take action if the NAFTA is adversely affecting Caribbean Basin countries. Within the constraints of the existing domestic sugar program and our obligations under the NAFTA and the World Trade Organization (WTO), the President has very little discretion to increase sugar access levels or reallocate market shares. Our WTO obligations prevent the United States from discriminating among countries in allocating overall reductions in access to the U.S. market. We ask that this provision be reviewed in light of U.S. commitments.

Likewise, we ask that section 103, "duty-free treatment for certain beverages made with Caribbean rum," be reviewed to ensure that it does not create a precedent for the treatment of other products in the future.

We have no comments on the rest of Title I, with the exception of some technical corrections.

Title II

Our comments concerning Title II are intended to bring H.R. 553 into conformity with the Administration's overall trade policy. We are also asking Congress to recognize the resource limitations existing in the Executive Branch.

We view section 201 as being unnecessary. We already have meetings with countries in the region. For example, we have established Trade and Investment Councils with every nation in the hemisphere, except Cuba and Haiti. Under these fora, the U.S. Trade Representative and other agencies have held 40 meetings with signatory nations since mid-1990. We, of course, have periodic meetings with ministers outside these fora.

Furthermore, as a result of the Summit of the Americas, we have plans to hold meetings with countries in the hemisphere between now and June. And, in June, we will hold a ministerial session to assess progress toward the goal of constructing the "Free Trade Area of the Americas." This process will resume after the June meeting, leading up to a March 1996 ministerial.

We oppose Section 202 as it is currently proposed for three reasons. First, we question the need for more reports on the Caribbean Basin region. In accordance with the Caribbean Basin Economic Recovery Expansion Act, the Executive Branch is already required to submit four periodic reports on this region. In addition, the Trade Representative includes Caribbean Basin countries in our annual National Trade Estimates Report and in our Annual Report on the U.S. Trade Policy Agenda. The State Department is required by law to prepare annual economic trends reports on each of the Caribbean Basin countries.

These reports consume considerable interagency effort to produce, yet seem to generate little Congressional interest. The Administration is prepared to give any of you these reports, which we believe tells you almost, "Everything you ever wanted to know...," and I know none of you is afraid to ask.

Second, while we understand Congressional interest in obtaining an assessment of "readiness," the outcome might be counterproductive. We know this is not your intention, Mr. Chairman, so please allow me to explain.

Our recent experience highlights the difficulties of making public the Administration's views on countries' "readiness" for FTAs. Under the NAFTA law, the Administration was required to submit two reports, one in May 1994 and the other in July 1994.

These requirements for reports were similar to the section 202 of H.R. 553, except not quite as specific and on a global basis.

Mr. Chairman, I cannot adequately describe the intense anxiety these reports generated in Latin America and the Caribbean and, as a result, throughout the Administration. Ambassador Kantor received numerous letters from, and held a number of meetings with, other trade ministers, whose sole objective was to be listed favorably in these reports. We were told that political relations and investment flows depended on how these reports were worded.

We do not want to go through this experience again for a report which would be very difficult to adequately do.

This brings me to our third objection. H.R. 553 asks the Administration to include in the report a "discussion of possible timetables and procedures to which beneficiary countries can complete the economic reforms necessary..." to become ready for an FTA. For the reasons I have already presented in my statement -- mainly the considerable uncertainty existing in the process of initiating FTA negotiations -- this section cannot be done with any precision.

In addition to those reasons, the economic conditions in countries can change, often quite dramatically. For example, two respected economists, Gary Hufbauer and Jeffrey Schott, recently published a book listing countries' readiness for FTAs based on a range of economic criteria. At least one country highly rated in the book would have been stricken from the list had the book been published only a few months later.

However, we recognize Congress' interest in ensuring progress is made toward meeting the objectives of H.R. 553. With this in mind, we offer an alternative proposal.

We propose providing the Congress a report in five years on U.S. progress in bringing CBI beneficiary countries into the "Free Trade Area of the Americas," including Caribbean Basin countries' willingness to undertake "readiness" criteria. This report would serve as "mid-term review" of the Summit of the Americas trade agenda with respect to the Caribbean Basin. Since the President is already required to report on the CBI in 1999, he would combine the two mandates into one report.

CONCLUSIONS

In conclusion, Mr. Chairman, I would like to compliment you and the other members of this Trade Subcommittee on moving so quickly in this new Congress to propose legislation for the Caribbean Basin. By doing so, you clearly demonstrate the priority this Subcommittee assigns to strengthening further the U.S. relationship with the nations of the Caribbean Basin.

This Administration shares that commitment. We will work closely with you in crafting a bill that achieves our mutually held objectives. We want to construct a bill that helps the Caribbean Basin and is in the best interest of the United States. I hope the ideas presented today will assist in that effort.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. So, do you have suggested amendments that would be in the administration's interests that if they were attached to this bill, the administration could support?

Ms. BARSHEFSKY. Mr. Rangel, we do have a number of ideas and suggestions which we would be very pleased to provide to the subcommittee and if we can work together, I am quite certain we could devise a bill the administration would be very pleased to support, yes.

[The following was subsequently received:]

DEPUTY UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506

February 16, 1995

The Honorable Phil Crane
Chairman
SubCommittee on Trade
Ways and Means Committee
U.S. House of Representative
Washington, D.C. 20515

Dear Mr Chairman:

Let me repeat my appreciation for the opportunity to present the Administration's views to you on February 10 during hearings on the "Caribbean Basin Trade Security Act of 1995." At the conclusion of my statement, you requested the Administration's detailed comments on H.R. 553. I am transmitting these comments in the attached paper.

I would like to reiterate that the Administration supports the ultimate goal of H.R. 553, which is to bring Caribbean Basin Initiative (CBI) nations into NAFTA-type trade agreements. This is consistent with the goal that leaders at the Summit of the Americas adopted for completing the negotiations of the "Free Trade Area of the Americas" by the year 2005. We welcome Congress' support for this outcome of the Summit of the Americas.

The Administration recognizes that achieving this objective will take time and will not be easy. We also realize that during this process, investment in some sectors in the Caribbean Basin could be adversely affected by the NAFTA. Attempting to prevent a negative impact of the NAFTA on the Caribbean Basin remains the Administration's focus in any new legislation providing trade preferences.

The Administration is convinced that the best way to achieve our shared goals for Caribbean Basin trade and investment is through a step-by-step approach. We need to encourage the CBI countries to begin making improvements in their trade, investment, and intellectual property regimes now, in preparation for the broad set of obligations that are included in a comprehensive free trade agreement (FTA).

The approach outlined in the Administation's statement before the Trade Subcommittee would be a transitional program; it would be viewed as an interim step toward an eventual FTA. We understand that many countries in the region want in the future to advance their commercial relationship with us beyond CBI-type trade preferences, but we also recognize that most of these countries are not ready for comprehensive FTA negotiations. Our proposal would be a "building block" in that process.

We would propose providing the President the authority to put in place immediately certain trade benefits for CBI countries that make a commitment to the United States to undertake specific improvements in their trade, investment, and intellectual property rights regimes. We would not ask for all the changes up front; rather, we would seek clear commitments to work with us to achieve the improvements within a reasonable period of years.

I have attached a paper setting out in greater detail the key changes to H.R. 553 necessary to implement our proposed approach. In addition, we are suggesting technical revisions which should be addressed regardless of whether the bill is changed to follow our basic approach.

We would welcome the opportunity to work with you on developing a bill that both Congress and the Administration could strongly support.

Sincerely,

Charlene Barshefsky

Proposed Changes to H.R. 553

Background

This memorandum sets forth the key amendments to H.R. 553 needed to change its basic approach to one in which the President is authorized to proclaim NAFTA-equivalent benefits for CBI countries that take steps to meet certain eligibility criteria (such as protecting investment and intellectual property). This approach differs from the current H.R. 553 approach of providing benefits to CBI countries without such commitments, and taking benefits away if the countries have not acceded to the NAFTA or concluded a similar free trade agreement within six years.

In addition to the key revisions to the basic concept, several other technical changes would be necessary to adopt the Administration's approach. The paper also includes other technical proposals on H.R. 553 which should be made even if its basic approach is maintained.

Proposed Amendments

Sec. 2 Findings and Policy

(a) Findings.

page 2, line 15

- Insert "certain" between "to" and "products."

page 2, line 19

- Insert "or a free trade agreement comparable to the NAFTA" after "NAFTA" and before the comma.

page 3, line 6

- Insert "certain" between "to" and "products."

page 3, line 8

- Insert "or a free trade agreement comparable to the NAFTA" after "NAFTA".

page 3, line 9

- Insert "or a in free trade agreement comparable to the NAFTA" after "NAFTA".

Sec. 3. Definitions.

- This section should probably be within Title I, so that the reference in line 12 to "this title" clearly means Title I.

- Insert the following new definition:

"(5) CARIBBEAN BASIN TRADE SECURITY ACT BENEFICIARY COUNTRY.--The term 'Caribbean Basin Trade Security Act beneficiary country' means any beneficiary country with respect to which there is in effect a proclamation by the President designating such beneficiary country a Caribbean Basin Trade Security Act beneficiary country, in accordance with section (4)."

Page 4

- Insert new section 4:

"Sec. 4. Determinations by the President

"The President may determine that a beneficiary country is a Caribbean Basin Trade Security Act beneficiary country if the President finds that such beneficiary country has in effect, or has entered into an agreement with or otherwise made a commitment to the United States to put into effect within a reasonable period of time, measures which--

"(a) are equivalent to measures regarding exporters in Chapter 5 of the NAFTA (Customs Procedures) and which will contribute to the effective implementation and monitoring of the preferential tariff treatment and other benefits provided by this title;

"(b) protect against the false representation of textile and apparel goods as being goods of the beneficiary country in order to circumvent quantitative limitations or other measures applicable to imports into the United States of textile and apparel products from other countries;

"(c) provide, on a nondiscriminatory basis, appropriate market access for textile and apparel products;

"(d) provide adequate protection for intellectual property rights and investment, including where appropriate a bilateral intellectual property rights agreement and a bilateral investment treaty with the United States; and

"(e) meet any other criteria which are deemed by the President to be appropriate for Caribbean Basin Trade Security Act eligibility and to further the

objectives of subsection (c) of section 212 and the policy stated in section (2) of the Caribbean Basin Trade Security Act."

Title I.

Section 101

- Delete "temporary" from the descriptive title of section 101.

subsection (a)

- Replace descriptive title, "temporary provisions", with "TARIFF AND QUANTITATIVE LIMITS PROVISIONS".

paragraph (2)

- Amend as follows:

"(2) NAFTA ~~TRANSITION PERIOD~~ **EQUIVALENT** TREATMENT OF CERTAIN TEXTILE AND APPAREL ARTICLES.--

"(A) EQUIVALENT TARIFF AND QUOTA TREATMENT.-- ~~During the transition period~~--

"(i) ~~T~~the tariff treatment accorded at any time to any textile or apparel article that originates in the territory of **a Caribbean Basin Trade Security Act beneficiary country** ~~a beneficiary country~~ shall be identical to the tariff treatment that is accorded during such time under section 2 of the Annex to ~~a like article that~~ **an article described in the same 8-digit subheading of the HTSUS that is an originating good of Mexico** ~~originates in the territory of Mexico~~ and is imported into the United States.~~,~~

"(ii) ~~D~~**d**uty-free treatment under this title shall apply to any textile or apparel article ~~of a beneficiary country~~ that is imported into the United States **from a Caribbean Basin Trade Security Act beneficiary country** and that--

"(I) meets the same requirements ~~(other than assembly in Mexico)~~ as those specified in Appendix 2.4 of the Annex (relating to goods assembled from fabric wholly formed and cut in the United States) for the duty free entry of **an article described in the same 8-digit subheading of the HTSUS** ~~a like article~~ assembled in Mexico, **except that in applying**

the requirements of such Appendix 2.4 for purposes of this clause, the term "Caribbean Basin Trade Security Act beneficiary country" shall be substituted for "Mexico", or

"(II) is identified under subparagraph (C) as a handloomed, handmade, or folklore article of such country and is certified as such by the competent authority of such country.~~; and~~

"(iii) ~~N~~no quantitative restriction or consultation level may be applied to the importation into the United States of any textile or apparel article that--

"(I) originates in the territory of **a Caribbean Basin Trade Security Act beneficiary country** ~~a beneficiary country~~, **or**

~~"(II) meets the same requirements (other than assembly in Mexico) as those specified in Appendix 2.4 of the Annex (relating to goods assembled from fabric wholly formed and cut in the United States) for the exemption of a like article assembled in Mexico from United States quantitative restrictions or consultation levels, or~~

"~~(III)~~ **(II)** qualifies for duty-free treatment under clause (ii)**(I) or** (II).

"(B) NAFTA **EQUIVALENT** ~~TRANSITION PERIOD~~ TREATMENT OF NONORIGINATING TEXTILE AND APPAREL ARTICLES.--

"(i) Subject to clause (ii), the **President may proclaim** ~~United States Trade Representative may place in effect at any time during the transition period~~ with respect to any textile or apparel article that--

"(I) is a product of **a Caribbean Basin Trade Security Act beneficiary country** ~~a beneficiary country~~, but

"(II) does not qualify as a good that originates in the territory of **a Caribbean Basin Trade Security Act beneficiary country** ~~that country~~,

"tariff treatment that is identical to the **in-preference-level tariff treatment** ~~preferential tariff treatment that is~~ accorded during such time under Appendix 6.B of the Annex to **an article described in the same 8-digit subheading of the HTSUS** ~~a like article~~ that is a product of Mexico and imported into the United States. **For purposes of this clause, 'in-preference-level tariff treatment' for an article that is a product of Mexico means the rate of duty applied to the article when imported in quantities less than or equal to the quantities specified in Schedule 6.B.1, 6.B.2, or 6.B.3 of the Annex for imports of that article from Mexico into the United States.**

"(ii) **Before any proclamation is issued under clause (i), the President shall determine, after consultation as appropriate with representatives of the United States textile and apparel industry and other interested parties** ~~The United States Trade Representative may implement the preferential tariff treatment described in clause (i) only after consultation with representatives of the United States textile and apparel industry and other interested parties regarding~~--

"(I) the specific articles to which such **tariff** treatment will be extended,

"(II) **the annual quantities of such articles that may be imported at the preferential duty rates described in clause (i)** ~~the annual quantity levels to be applied under such treatment and any adjustment to such levels~~, **and**

"(III) the allocation of such annual quantities among **Caribbean Basin Trade Security Act beneficiary countries** ~~the beneficiary countries that export the articles concerned to the United States, and~~

~~"(IV) any other applicable provision.~~

~~"(iii) ADJUSTMENT OF CERTAIN BILATERAL TEXTILE AGREEMENTS.--The United States Trade Representative shall undertake negotiations for purposes of seeking appropriate reductions in the quantities of textile and apparel articles that are permitted to be imported into the United States under bilateral agreements with beneficiary countries in order to reflect the quantities of~~

~~textile and apparel articles of each respective country that are exempt from quota treatment by reason of paragraph (2)(A)(iii).~~

"(C) HANDLOOMED, HANDMADE, AND FOLKLORE ARTICLES.--For purposes of subparagraph (A), the United States Trade Representative, **following consultation as appropriate with Caribbean Basin Trade Security Act beneficiary countries, may identify** ~~shall consult with representatives of the beneficiary country for the purpose of identifying~~ particular textile and apparel goods ~~that are mutually agreed upon~~ as being handloomed, handmade, or folklore goods of a kind described in section 2.3(a), (b), or (c) ~~or~~ **of** Appendix 3.1.B.11 of the Annex.

"(D) BILATERAL EMERGENCY ACTIONS.--

"**(i)** The President may take-- ~~(i) bilateral~~ emergency tariff actions of a kind described in section 4 of the Annex with respect to any textile or apparel article imported from **a Caribbean Basin Trade Security Act beneficiary country** ~~a beneficiary country~~ if the application of tariff treatment under subparagraph (A) to such article results in conditions that would be cause for the taking of such actions under section 4 with respect to a like article **imported from** ~~that is a product of~~ Mexico.~~; or~~

"(ii) The requirement in paragraph (5) of section 4 of the Annex (relating to providing compensation) shall not be deemed to apply to a bilateral emergency action under clause (i).

~~"(ii) bilateral emergency quantitative restriction actions of a kind described in section 5 of the Annex with respect to imports of any textile or apparel article described in subparagraph (B)(i)(I) and (II) if the importation of such article into the United States results in conditions that would be cause for the taking of such actions under section 5 with respect to a like article that is a product of Mexico."~~

paragraph (3) (page 10)

- Delete this paragraph.

paragraph (4) (page 12)

- Delete this paragraph. (Note that the Administration's bi deals with NAFTA Chapter 5 customs procedures in the conditions for finding a country to be a Caribbean Basin Trade Security Act beneficiary country. See above; new section 4).

paragraph (5) (page 12)

- Delete subparagraph (D) (definition of "transition period"

- Insert the following new subparagraph (D):

> "(E) The term 'HTSUS' means the Harmonized Tarif Schedules of the United States."

- On page 13, amend subparagraph (E) as follows:

> "(E) An article shall be ~~treated as having originated~~ **deemed as originating** in the territory of **Caribbean Basin Trade Security Act beneficiary countr** ~~beneficiary country~~ if the article meets the rules of origin for the good set forth in chapter 4 of part tw of the NAFTA, **and, in the case of an article describe in Appendix 6.A of the Annex, the requirements stated in such Appendix 6.A for such article to be treated a if it were an originating good** ~~or in Appendix 6.A of the Annex~~. In applying such chapter 4 or Appendix 6. ~~with respect to beneficiary country~~ for purposes of this subsection, no countries other than the United States and **Caribbean Basin Trade Security Act beneficiary countries** ~~beneficiary countries~~ may be treated as being Parties to the NAFTA."

subsection (b)

- Delete subsection (b) and replace it with the following:

> "(b) TECHNICAL AND CONFORMING AMENDMENTS.--
>
> "(1) Section 212(e) of the Caribbean Basin Economic Recovery Act is amended--
>
> "(A) in paragraph (1), by striking 'paragra (2)' and inserting in lieu thereof 'paragraph (3)';
>
> "(B) by redesignating paragraph (2) as paragraph (3);
>
> "(C) by inserting after paragraph (1) the following:

"'(2)(A) The President may withdraw or suspend the designation of any beneficiary country as a Caribbean Basin Trade Security Act beneficiary country, or withdraw, suspend or limit the application of preferential duty or quota treatment under section 213(b) to any article of a country designated as a Caribbean Basin Trade Security Act beneficiary country if, after such designation, the President determines that as a result of changed circumstances, such country would be barred from designation as a Caribbean Basin Trade Security Act beneficiary country under section 213.

"'(B) Before taking action under subparagraph (A), the President shall--

"'(i) meet the requirements of paragraph (3),

"'(ii) notify the House of Representatives and the Senate at least 60 days before taking such action, and

"'(iii) notify such country of the President's intention to terminate such designation together with the considerations entering into such decision."; and

"(D) in subparagraph (A) of paragraph (3) (as redesignated by subparagraph (B)), by striking 'paragraph (1)' and inserting 'paragraphs (1) or (2)'.

"(2) Section 213(a)(1) of the Caribbean Basin Economic Recovery Act is amended by inserting 'and except as provided in section 213(b)(2),' after 'Tax Reform Act of 1986,'."

"(3) Subchapter II of chapter 98 of the Harmonized Tariff Schedule of the United States is amended--

"(A) by redesignating U.S. notes 3 through 6 as U.S. notes 4 through 7, respectively;

"(B) in U.S. note 2--

"(i) by striking paragraph (b), and

"(ii) by striking '(a) Except as provided in paragraph (b)' and inserti 'Except as provided in note 3'; and

(C) by inserting after U.S. note 2 the following:

"'3. An article described in subheading 9802.00. shall not be treated as a foreign article o as subject to duty, if neither the fabricat components, materials or ingredients, after exportation from the United States, nor the article itself, before importation into the United States, enters the commerce of any foreign country other than a beneficiary country enumerated in general note 7(a) to this schedule';

"(D) in subheadings 9802.00.40, 9802.00.50, and 9802.00.60 by striking 'note 3' each place it appears and inserting 'note 4';

"(E) in subheading 9802.00.60, by striking 'note 3(d)' and inserting 'note 4(d)';

"(F) in subheading 9802.00.80, by striking 'note 4' each place it appears and inserting 'note 5';

"(G) in subheading 9802.00.90, by striking '(see U.S. note 4 of this subchapter)'; and

"(H) by inserting in numerical sequence the following new subheading with the superior text for subheading 9802.00.84 having the same degree of indentation as the article description for subheading 9802.00.80:

	"'Articles assembled or processed in countries listed in general note 7(a) to this schedule:
9802.00.84	Articles (except a textile or apparel article, crude petroleum oils of heading 2709, or petroleum oils, other than crude, or any product derived therefrom, provided for in heading 2710) assembled or processed in whole of fabri-cated components that are a product of the United States, or processed

in whole of ingredients (other than water) that are a product of the United States..... Free (see U.S. note 3 of this subchapter)'"

subsection (c)

- Add new subsection (c) as follows:

"(c) The amendments made by this Act shall take effect with respect to goods that are entered, or withdrawn from warehouse for consumption, on or after ___, and shall terminate on December 31, 2000."

Section 102

- The Administration's view is that this section should be deleted.

Title II

- The Administration's view is that this Title should be deleted.

Mr. RANGEL. Do those provisions deal with the question of workers' rights?

Ms. BARSHEFSKY. As you know, under the CBI, as well as under our GSP program, countries must take steps toward internationally recognized worker rights. In the ITP program last year, we repeated the provision for consistency among all these preferential access programs. We would propose that that be included as well, yes.

Mr. RANGEL. How is that monitored?

Ms. BARSHEFSKY. I am sorry, sir, I could not hear you.

Mr. RANGEL. How are the workers' rights monitored by the United States?

Ms. BARSHEFSKY. The workers' rights issues? The United States receives reports quite often from countries. In addition to the extent workers' rights issues arise, U.S. entities can petition USTR under the current GSP law to take a look at workers' rights practices in those countries to assure that ILO-related standards are being met.

Mr. RANGEL. Who would be doing the investigations and writing the reports, and to whom would the reports be given?

Ms. BARSHEFSKY. Typically it is to USTR.

Mr. RANGEL. Thank you.

Chairman CRANE. Mr. Hancock.

Mr. HANCOCK. Thank you, Mr. Chairman. There has been a lot of concern pertaining to the Caribbean Basin as a result of what is happening in Mexico right now and tying that in with NAFTA. Are you willing to make any projections at all about the possibilities of job transfers into Mexico from the Caribbean Basin community because of the devaluation of the peso?

Ms. BARSHEFSKY. I am not in a position to make those kinds of estimates. We do appreciate the force of the chart that Senator Graham has used with respect to the quite sharp decrease in the growth of apparel and textile exports from the CBI to the United States in relation to Mexico. Indeed, if we look at total textile imports into the United States last year, we see that CBI imports rose by 10 percent, Mexican imports rose by 35 percent, so that the earlier ratios, to which Mr. Graham alluded in his testimony, have essentially been reversed between the countries. But with respect to jobs specifically, I am not in a position to comment.

Mr. HANCOCK. Thank you.

Chairman CRANE. Mr. Gibbons.

Mr. GIBBONS. Ambassador Barshefsky, you have some interesting points in your testimony, and I do not want to be cast in the role of picking a fight with you or the administration. I think your heart is in the right place and we want to work together. But we should have done this years ago, that is the problem.

We should have done it at the time we put the NAFTA agreement in position. I think we wanted to, but the NAFTA agreement became very controversial. We tried to drop out controversy, so we dropped this out.

We had another opportunity to do it with the Uruguay round and the Uruguay round seemed to get controversial. It did get controversial, and we dropped this out.

This time we need to do it. What we really need is from you, Ambassador Kantor and the President, a clear and unequivocal statement that we are going to do it this year. Then we will sit down and try to work with you and work out what makes the most sense. But that is what I think the Congress needs. We do not have any other big trade disputes that are on the table. We do not have any other big trade legislation, and we need to mutually set a goal that this is the year we will do equity between the NAFTA agreement and the Caribbean area.

These are poor countries that are friends and that need our help. Despite the fact that when we started on this we had a $2 billion trade deficit with this area, and I expected that deficit to get worse because we unilaterally opened our borders to their products, the converse has proved to be the truth. Our trade has gone from a deficit to a surplus and has remained in surplus. It has been a phenomenal fact of life that when you reach out to help someone, you really help yourself.

Now, I realize Mr. Payne has some problems, and he is working with them, but, generally speaking, the United States has profited from our act of unilateral graciousness. What we need from the administration is a clear, unequivocal statement that this is the year we are going to do it. Not attention to something that when it becomes controversial it gets dropped, but to do justice by this area. That is all the observations or even questions I have.

Ms. BARSHEFSKY. Mr. Gibbons, may I make a comment?

Mr. GIBBONS. Sure.

Ms. BARSHEFSKY. The administration wholeheartedly agrees with you that it is time to pass a program which will provide parity for the CBI, certainly on textile and apparel relative to the NAFTA. The Vice President, some months ago, in speaking before our Central American neighbors spoke very eloquently to the need and to strong administration support for a trade preference program. The President, likewise, spoke of this at the Miami summit, the Summit of the Americas, just this past December.

So we look forward to working with you on this. We do believe this is very, very important. It is certainly critical to the region. It is also, we believe, critical to our overall economic interests, and we would be pleased to sit down with Mr. Crane and Mr. Rangel, you, and the members of the subcommittee, Mr. Gibbons, and work out an acceptable bill.

Mr. GIBBONS. Thank you.

Chairman CRANE. Thank you.

Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman, Madam Ambassador, it is good to see you here. I would like to associate myself, Mr. Chairman, with the remarks of the ranking member as far as the need for imminent action on this, with one slight caveat, and I would like you to address this.

We both know, I think we all know there is a fundamental difference between NAFTA and the CBI, and that is the reciprocal nature of NAFTA. Mexico agreed to significant trade reforms, which is one of the reasons we were finally able to pass NAFTA, and I am just wondering, in your judgment, are CBI countries prepared to assume the obligations as well as the benefits of the NAFTA

agreement? Assuming they are, how long do you anticipate that will take?

Ms. BARSHEFSKY. Mr. Ramstad, I do not think that the CBI countries at this point are in a position to accept the level of obligation that is in the NAFTA. Bear in mind, the NAFTA is 22 chapters long, running the gamut from tariffs to customs, to services, to investment, to intellectual property rights and the like. The obligations are very high. Indeed, in most cases, higher than the Uruguay round agreements just negotiated and in some cases significantly higher than the Uruguay round agreements just negotiated.

We do think, though, that the Caribbean is in a very strong position to revise substantially their intellectual property rights regime, to revise substantially their investment regimes, to give greater certainty to U.S. higher technology companies that patents, copyrights, and trademarks will be enforced, to give greater assurance to U.S. investors that expropriation will no longer be a problem. In some countries expropriation remains a significant problem, as well as investment screening. We believe, based on the progress we were beginning to make last year, when the region believed the ITP might come into effect, that placing reasonable conditions on this potential grant of benefits would be an appropriate and desirable step.

In addition, as you may know, both investment and intellectual property rights are bedrocks; what we would consider to be NAFTA readiness. That is, if countries can undertake obligations in these two critical areas, as well as perhaps other obligations, including macroeconomic issues, countries would become readier for NAFTA, potentially earlier on in the process, benefiting those countries as well as the United States.

Mr. RAMSTAD. I am encouraged by your response, Ambassador. I certainly understand that these nations cannot accept the same quid pro quo that Mexico did in terms of NAFTA right away, but certainly your usage of the term, "substantial revisions," substantial reforms, I think, is significant. That is, we must obviously work toward the same end and elevate their standards, and I am encouraged by your response. Thank you very much for your work on this.

Thank you, Mr. Chairman.

Ms. BARSHEFSKY. Thank you.

Chairman CRANE. Thank you.

Mr. Zimmer.

Mr. ZIMMER. Thank you. In a related question to Mr. Ramstad's, how would you say, Ambassador, that H.R. 553 helps the countries in the Caribbean Basin prepare for NAFTA accession?

Ms. BARSHEFSKY. Certainly, to the extent the bill increases the economic dynamism of the region, and, hopefully, it would by ensuring that investment, particularly in textile and apparel that is already there, remains; and ensuring that future investment decisions which might go offshore could be considered equally between Mexico and the Caribbean, certainly that would help. That is to say, greater economic prosperity often allows countries to further open their markets, further reform their economies for yet greater prosperity.

But apart from that effect, which would be an effect, as well, under the administration's bill last year, we believe that the bill

does not do enough to encourage these countries to open their economies, to make the necessary trade reforms that will place them in a position where over time preferential treatment will no longer be necessary.

This administration's trade policy has moved very consistently through the NAFTA, through the Uruguay round, through our bilateral agreements that we have in the textile field which Ambassador Hillman has solely negotiated, as well as in other fields, moved very consistently toward a basis of greater reciprocity in our trading relationships.

Reciprocity is important among developed and developing countries, even where levels of development are very, very different. There is always something countries at a lesser level of development can do to further reform their regimes. We believe the carrot of future benefits in exchange for reform is a very nice twist on what has previously been a stick at many of these countries, threatening to withdraw benefits previously given in the absence of reform.

So, in our view, a bill that is carefully crafted, as we believe the administration's proposal was last year, that would provide benefits while countries agree to make certain reforms, particularly in the areas I have already noted, would be a very desirable formulation.

Mr. ZIMMER. Will you be proposing specific amendments to H.R. 553 to achieve those objectives?

Ms. BARSHEFSKY. Yes, we will be providing the subcommittee with rather detailed comments and specific suggestions. Yes.

Mr. ZIMMER. Thank you. Could you tell me what impact the devaluation of the Mexican peso is likely to have on manufacturers that are considering moving their facilities from the Caribbean Basin to Mexico?

Ms. BARSHEFSKY. I do not know if I have an answer for you. Some aspects of conventional wisdom are that investment opportunity in Mexico now is very attractive because of the devaluation. Others view the situation somewhat differently and would like to be sure that the economy of the region overall is stabilized somewhat. It is very difficult for me to comment on your question in any educated way.

Mr. ZIMMER. How mobile are the manufacturing facilities, for instance, textile manufacturing facilities, amongst the various Caribbean countries and between the Caribbean and Mexico?

Ms. BARSHEFSKY. With your permission, if I may ask our chief textile negotiator, Ambassador Hillman, to respond.

Mr. ZIMMER. Sure.

Ms. HILLMAN. I think, Congressman, the easiest answer is it depends on what the products are. As a general matter, if what is being done is largely a sewing operation, in which people are assembling cut pieces that have come from the United States, that arguably is fairly mobile in the sense that those factories can fairly easily be moved. The fact that we have seen such a large increase in imports from Mexico and a correspondingly lesser level of growth from the CBI countries is indicative that some of that movement has, in fact, occurred in terms of apparel operations moving.

On the other hand, there are a lot of American companies that have had fairly long and good relationships with operations in the CBI countries where they are comfortable with a trained work force that has produced a quality product over some period of years, and, therefore, there is some reluctance to pick up and move into a new situation.

If, on the other hand, you are talking about more capital-intensive things like fabric production, which requires a heavy degree of electricity and available water and a fairly significant capital investment, I think it is much harder and more time consuming and costly to move.

Mr. ZIMMER. Thank you.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman, and thank you, Madam Ambassador. You mentioned in your testimony that perhaps one of the most compelling reasons to enact CBI parity was the chart that is here. I wanted to point out certain facts so that we are all aware of the base from which we are starting.

First of all, last year the imports from the Caribbean nations, apparel imports from the Caribbean nations, increased at a rate of 14 percent, which is a pretty healthy rate of growth, I think most would agree.

Second, in terms of absolute dollars, there was more growth from the Caribbean nations than from Mexico. Not as a percentage, because we were working on a different basis, but in absolute dollars. Interestingly, the CBI growth was greater than the growth from China in the last year as well.

So I think what we are seeing is a situation which may not be working as well as it did several years ago, but certainly it seems to be working pretty well as it currently exists.

Let me, though, turn to a couple of the provisions in this proposal. Last year your ITP proposal did not include the negotiating authority for the tariff preference levels or the TPLs. What was it that led you last year to exclude those provisions and what position does the administration take concerning those in this particular legislation?

Ms. BARSHEFSKY. As you know, Mr. Payne, the TPL issue arises because Mexico had a substantial volume of nonconforming textiles and apparel when the NAFTA rules of origin came into effect. Mexico was quite insistent that TPLs form a part of the arrangement because of the large percentage of its nonconforming trade.

Mexico and the United States negotiated quite handsome TPL levels. The utilization rate on those TPLs has been zero in almost all categories and only minor utilization in wool. Our view last year, therefore, was that TPLs for the Caribbean, which has a very high percentage of conforming trade and a very low percentage of nonconforming trade, based on our Mexican experience, which had a high percentage of nonconforming trades and there was no utilization of the TPLs, suggested that TPLs were not necessary in any respect.

Now, H.R. 553 provides for authority for the administration to negotiate TPLs. We do not see a need for TPLs with respect to the Caribbean. We believe it is in our interest and in the interest of the various coproduction arrangements that exist for U.S. cut and

formed fabric to form the basis for exports that then enter the United States.

We do not object in principle to having authority to negotiate TPLs, but we do not see a need for TPLs.

Mr. PAYNE. Well, one of the concerns I think of the textile industry, because of the importance of the rule of origin in the NAFTA agreement, is that this particular provision may allow an opening for countries, then, to not have to comply with the same rule of origin that is now in effect for Mexico, Canada, and the United States. Consequently, they feel that it is not, as you say, an important nor is it a necessary part of this particular agreement or legislation.

Ms. BARSHEFSKY. May I say, sir, in that regard just so you are aware, both H.R. 553 and the Interim Trade Program that the administration had proposed last year have very strict rules on certificates of origin just as the NAFTA does, because there is always a concern about transshipments, the ability of other nonconforming goods to come in through the Caribbean or through Mexico into the United States.

Those kinds of limitations would, of course, be continued. But, if I may reiterate, and I think we are agreeing with each other, we do not see any need for TPLs for the Caribbean.

Mr. PAYNE. I see my time is up. My overriding concern, of course, is the impact that this particular provision would have on jobs that we have at home, and I will continue to talk about that as this hearing progresses.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you. We are in the middle of a vote right now and Mr. Houghton has run over there so that he can get back here and preside as quickly as possible. But I would like to yield to our ranking minority member, Mr. Rangel, who has another question for you before we all head out.

Mr. RANGEL. Ambassador, I am glad to hear you are prepared to cooperate with this subcommittee. It would seem to me that if we find that there is a drain in the economy of these Caribbean countries going to Mexico, that their fragile economies may not be able to wait until we get the legislation that we would want.

So I would hope that we keep that in consideration and perhaps you might want to bring a bill or something that the chairman can work with; but, it would seem to me that we made a promise with the NAFTA; we made a promise in Miami that we could do this and then move on with something else.

Ms. BARSHEFSKY. Mr. Rangel, there is no question this should be done. We should try to move as expeditiously as possible, and we will work with the subcommittee to do our best to ensure that that happens.

Mr. RANGEL. Thank you.

Chairman CRANE. Madam Ambassador, I know that our colleague, Mr. Houghton, has a question and if you do not mind, we will recess now until Mr. Houghton's return since he has the jump on the rest of us.

Ms. BARSHEFSKY. We would be very pleased to remain.

Chairman CRANE. Thank you very kindly.

Ms. BARSHEFSKY. Thank you.

[Recess.]

Mr. HOUGHTON [presiding]. Thank you very much. I am pinch hitting for Mr. Crane while he is voting. I did have a question I would like to ask of Ambassador Hillman. This is really for information only.

We are talking about parity between the CBI and Mexico, and the textile issue really involves apparel-produced materials. Is it true that some of the apparel that comes in comes in from countries who refuse to buy our fiber?

Ms. HILLMAN. I do not know that I know the answer to that question. In terms of the Caribbean countries, you would be purchasing fiber in order to then spin it into yarn and then weave it into fabric.

Mr. HOUGHTON. What is the origin of the fiber?

Ms. HILLMAN. It would depend—theoretically, if it is a man-made fiber, the United States would be a significant producer of man-made fibers, polyesters and things of that nature, or it could be wool and cotton and we would be significant producers of all of those.

Mr. HOUGHTON. Sure.

Ms. HILLMAN. However, the Caribbean itself is not a significant producer of yarns or fabrics. So it is unlikely that we would be shipping a lot of fiber down into the Caribbean regions, since they, themselves, do not have the capacity to do much in the way of yarn spinning or fabric production.

Mr. HOUGHTON. I understand that. The question is, what is the origin of it? One of the problems, of course, in the textile industry has been that the people who come into our market with fabrics are buying somebody else's fiber to do that and exclude our own fiber. I did not know who supplied it to the CBI.

Ms. HILLMAN. I am not aware of any specific item, any reason why fibers would be excluded other than perhaps tariffs.

Mr. HOUGHTON. Would you find out for me.

Ms. HILLMAN. I would certainly be happy to.

[The following was subsequently received:]

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

MAR 24 1995

The Honorable Amo Houghton
U.S. House of Representatives
Washington, D.C. 20515-3231

Dear Congressman Houghton:

During the hearing on H.R. 553, The "Caribbean Basin Trade Security Act," you asked about any impediments to exporting fibers and textile products generally to the CBI countries. I hope the following information answers your question.

U.S. exports to CBI countries in 1994 were valued at $2.5 billion, of which apparel accounted for slightly more than $2 billion, or 82 percent of the total. The majority of U.S. apparel exports to these countries are cut fabric pieces that are assembled and reexported as finished goods to the United States. U.S. exports of textile components (fibers, yarns and fabrics) to these countries are relatively low because of the general absence of yarn spinning and fabric weaving, finishing and cutting in the region.

In general, the major apparel exporting countries in the CBI region apply tariffs ranging between 5 and 40 percent on textiles and apparel imports. Most of the tariffs on fibers and yarns are at the lower end of this range. During the Uruguay Round, these countries committed to binding their textile and apparel tariffs at no higher than 35 to 45 percent.

You may note that Ambassador Barshefsky stated at the hearing that the Administration's preference was for the Interim Trade Program approach, which contained an up front requirement for enhanced access for U.S. textiles and apparel before duty-free, quota-free treatment was accorded to the CBI countries.

I hope this information is helpful to you.

Sincerely,

Jennifer Hillman

Jennifer A. Hillman
Ambassador
Chief Textile Negotiator

Mr. HOUGHTON. OK, any other questions? Panel dismissed. Thanks very much.

Ms. BARSHEFSKY. Thank you, sir.

Mr. HOUGHTON. OK, let us have the other panel come up.

I would like to welcome you. I thank you very much for being here. I know this is not the most convenient thing for you to do, to fly in, but I want to welcome, obviously, Ambassador Ariza, Dominican Republic, and Ambassador Sol, but also particularly like to thank Minister Mottley and Minister Castillo from Trinidad and Tobago and Guatemala, respectfully, and Anthony Hilton, who is the Parliamentary Secretary of the Government of Jamaica.

So, gentlemen, why don't you begin and, Ambassador Ariza, would you start the testimony.

STATEMENT OF HON. JOSÉ DEL CARMEN ARIZA, AMBASSADOR TO THE UNITED STATES, GOVERNMENT OF THE DOMINICAN REPUBLIC

Mr. ARIZA. Thank you, Mr. Chairman. Members of the subcommittee, honorable ambassadors and members of the diplomatic corps, ladies and gentlemen good morning. I am José del Carmen Ariza, Ambassador to the United States from the Dominican Republic. Mr. Chairman, on behalf of our government, I would like to thank you for the opportunity to appear before this subcommittee.

My country appreciates your wisdom and leadership, Chairman Crane, as well as that of your colleagues, Congressmen Sam Gibbons, Clay Shaw, Charles Rangel, and Congressman Towns in introducing and cosponsoring this measure to address the inadvertent adverse effects of the NAFTA on the CBI region, so clearly reflected in the Senator's chart. We publicly support the passage of NAFTA as a major step to regional and hemispheric free trade and, as one of the major trading partners of the United States in this hemisphere, we are asking for equivalent treatment.

Over the past 12 years, the CBI has been successful in fostering economic development in the countries of the region. In fact, the Dominican Republic is the primary beneficiary of the CBI program. We are the United States fifth most important trading partner in the hemisphere and the largest among the CBI countries.

Last year the Dominican Republic imported almost $2.8 billion in American products generating or maintaining 56,000 U.S. jobs. Bilateral trade has climbed to approximately $6 billion or 26 percent of the region's trade with the United States. Of all the nations comprising Latin America and the Caribbean, the Dominican Republic's trade with the United States is surpassed only by Mexico, Brazil, Venezuela, and Colombia.

The CBI has been instrumental in helping the Dominican Republic make significant progress in achieving many of its long-standing goals to diversify its economy, to develop new industries, create employment, improve working conditions, and maintain its position as a stable functioning democracy.

For example, as a result of CBI preferences, the Dominican Republic has experienced tremendous growth in its free zone operations.

Free zones are the fastest growing sector of the Dominican economy. At present, 476 companies operate in our country's 31 free

trade zones employing 176,311 workers. Most of the businesses are either subsidiaries of U.S. companies or affiliated with U.S. companies in one way or another.

Free zone companies account for approximately one-third of the Dominican Republic's exports and 96 percent of those exports come into the United States.

The major activities in the free zones are textiles and apparel, footwear, metalworking, jewelry, services, electronics, tobacco, pharmaceuticals, and sporting goods. Before the CBI went into effect, there were only 7,176 Dominicans employed in free zones.

Within 4 years of CBI's enactment, the number jumped dramatically to 32,000 in 1986. It had doubled to 68,000 in 1990 and it more than doubled again to 176,000 in 1994. Significantly, 57 percent of these jobs or 101,568 jobs are held by women.

To emphasize what I said earlier, the CBI benefits the United States as well as the "beneficiary" countries. In 1994 U.S. exports to the Dominican Republic helped support jobs for 56,000 U.S. workers. In addition, coproduction arrangements have helped U.S. businesses compete with low-wage production from Far Eastern countries. Almost 50 percent of the companies in the free zones are directly owned by U.S. businesses; 25 percent more are contractors for U.S. companies. Passage of H.R. 553 will help ensure that this favorable trend continues.

The Caribbean Basin Trade Security Act is designed to ensure the value of the CBI program is not eroded because of NAFTA. Although we have a few comments on the technical language, I want to say on behalf of the Government of the Dominican Republic that we strongly support the thrust of the bill and we hope for its prompt approval.

First, we believe the extension of parity treatment to products other than textiles is an important step and we recommend this approach. Second, the provisions related to NAFTA accession or negotiation of specific free trade agreements is a positive step toward fulfilling the Summit of the Americas commitment for a wider hemispheric free trade arrangement.

Third, the provisions in the bill concerning monitoring NAFTA sugar imports are a good step, but in light of the harmful effects to the Dominican economy that cuts in the sugar quota have had over the past 12 years, some technical changes need to be made to protect the Dominican Republics and other CBI countries' traditional levels of access to the U.S. market against further reduction over the long run and hopefully to restore the levels of access contemplated in the original CBI legislation. The Dominican Republics sugar industry will submit a separate statement addressing these technical issues.

Fourth, we believe it might be more convenient to take flexible approaches to the 6-year transition period envisaged section 101. This would accommodate unforeseen delays in the negotiation/accession process so long as good faith efforts were being made.

The recent developments and the recent devaluation of the Mexican peso makes timely action to have the bill passed more necessary for two main reasons: Over the short term, Mexican imports have become and will continue to be more attractive in dollar terms than before for U.S. purchasers. Two, over the long run, investors

are likely to avoid committing new capital anywhere in the region without a boost in confidence. H.R. 553, we believe, will provide that boost.

In conclusion, Mr. Chairman, we want to thank our friends in Congress and the administration for this farsighted measure that will enable us to continue restructuring and development of the Dominican economy to face international competition. We believe the passage of H.R. 553 will help us in achieving these vital objectives. Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Mr. Ambassador, and Madam Ambassador.

STATEMENT OF HON. ANA CRISTINA SOL, AMBASSADOR TO THE UNITED STATES, GOVERNMENT OF EL SALVADOR

Ms. SOL. Thank you for giving me the opportunity to express before the Trade Subcommittee the position of the Central American ambassadors regarding the proposed House Resolution 553.

I would like to begin by thanking you and the Members of Congress that have cosponsored this bill, Senator Graham and Congressman Gibbons, Congressman Shaw, Congressman Crane, and Congressman Rangel for introducing this bill that is for us very important. For Central America it is really urgent to avoid further trade and investment diversions since the implementation of NAFTA.

For the past 10 years, the Caribbean Basin region has benefited from the unilateral preferential tariff treatment from the United States through the CBI program. The United States has also benefited from this program since the demand for goods and services of the United States has grown significantly.

During the same decade, we have witnessed a strong commitment by the CBI nations to consolidate democracy and introduce economic reform and trade and investment liberalization. In Central America, there are notable examples of this. To mention the most recent, just a week ago President Armando Calderon Sol presented to the people of El Salvador the record and to the governments of Central America our new economic plan. This economic plan looks for further liberalization, including tariff reduction.

The Economic Council of Central America has expressed its support for this bill. Our countries continue to support NAFTA, Mr. Chairman. We see it as a first step toward hemispheric free trade, but unfortunately, and we are sure unintendedly, the passage of NAFTA without legislation like H.R. 553 has begun to show the consequences of trade and investment diversions from the CBI region.

For example, as Senator Graham mentioned, the growth rate of CBI textile and apparel exports to the United States has decreased significantly while that of Mexico has increased in almost the same proportion. This proves that strong trade diversion has begun.

Additionally, within the same sector, we are also facing investment diversion. We are observing the loss of potential investors, actual plants closing and relocating, and the loss of badly needed jobs. Here, Mr. Chairman, I would like to add to the comments

made by the administration on the mobility of the apparel industry.

Actually, the mobility of the apparel industry can be subject to an order coming from the United States and a phone call can change that order. It can go from Central America to any other part of the world, and that is how easy it is to move the apparel industry.

As the transition period in NAFTA continues, progressive reduction of tariffs and quotas for products excluded from the CBI and the GSP, such as footwear, leather products, and agricultural products, like sugar, will further reduce the CBI region's competitiveness in the U.S. market.

H.R. 553 has as its fundamental purpose to avoid the trade and investment diversion that was just noted and to allow our countries to have the opportunity to adhere to NAFTA and/or to sign a similar free trade agreement with the United States.

I am here to testify about what we consider to be excellent reasons for supporting this bill. First, NAFTA parity in the terms proposed by this bill will benefit both the U.S. and the CBI industries, the apparel, textile, and other industries, which need to maintain and improve their global competitiveness in relation to imports from other parts of the world, particularly Asia.

This legislation will also augment the purchasing power of the CBI countries, thus allowing them to import more goods from the United States and creating more jobs in the United States.

We should remember that approximately 70 percent of the value of goods produced in Central America return to the United States in the form of imports of raw material and others. Your bill, Mr. Crane, will further allow the CBI nations an orderly transition from unilateral preferential treatment toward reciprocal trade agreements. It will also contribute to prepare us for implementing the necessary institutional reforms to comply with the obligations of comprehensive trade agreements like NAFTA.

Additionally, parity will foster economic development and Democratic reform in the CBI region. Most importantly, by fostering economic development, H.R. 553 will allow us to offer better jobs and more opportunities to our people, thus helping to decrease the flow of illegal immigrants into the United States.

Mr. Chairman, Central America fully supports passage of the Caribbean Basin Trade Security Act. Its enactment will contribute significantly to strengthening social, political and economic development of the region, and it will enhance the commercial and political relations between the CBI countries and the United States of America.

Thank you, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY BY ANA CRISTINA SOL, AMBASSADOR FROM EL SALVADOR TO THE UNITED STATES OF AMERICA, ON BEHALF OF THE AMBASSADORS FROM THE REPUBLICS OF CENTRAL AMERICA, BEFORE THE HOUSE TRADE SUBCOMMITTEE

FEBRUARY 10, 1995

Thank you Mr. Chairman, for giving me this opportunity to express before the Trade Subcommittee our position regarding the proposed House Resolution 553, "The Caribbean Basin Trade Security Act".

I would like to begin by thanking the co-sponsors of this bill, Congressmen Crane, Gibbons, Shaw, and Rangel for introducing a bill that is urgently needed in Central America to avoid further trade and investment diversion since the implementation of NAFTA.

For the past 10 years, the Caribbean Basin Region has benefited from unilateral preferential tariff treatment from the U.S. by the "Caribbean Basin Economic Recovery Act", known as the CBI. The U.S. has also benefited greatly from this program, since demand for U.S. goods and services has grown significantly. [From 1990 to 1993, U.S. has had a favorable balance of trade with Central America, increase of 38%, and U.S. exports to Central America grew by 57%.] Furthermore, no U.S. trade program has stricter conditions for eligibility than CBI for issues such as: intellectual property rights, labor rights, investment protection, and market access opening.

During the same decade, we have witnessed a strong commitment by the CBI nations to consolidate democracy, and to introduce economic reforms and trade and investment liberalization. In Central America, there are notable examples this. To mention the most recent, just last week, President Armando Calderon Sol presented to the people of El Salvador and the Governments of Central America our new Economic Plan, which calls for further tariff reductions. The Economic Council of Central America has expressed its support for the Plan.

In this same spirit, our countries all supported and continue to support NAFTA, as a first step towards Hemispheric free trade. Unfortunately, the passage of NAFTA without legislation like H.R. 553 has begun to show the unintended consequences of trade and investment diversions from the CBI Region.

For example, the growth rate of CBI textile and apparel exports to the U.S. has decreased significantly (from 27% in 1993 to 12% in 1994); while that of Mexican textile and apparel exports has increased in almost the same proportion(from 22% in 1993 to 38% in 1994). This proves that strong trade diversion has begun, greatly affecting our commercial interest in the United States.

Additionally, within the same sector, we are also facing investment diversion. We are observing the loss of potential investors, actual plant closings and relocations, and the loss of badly needed jobs. This reinforces the findings of various studies prepared by international organizations as well as by the U.S International Trade Commission.

As the transition period in NAFTA continues, the progressive reduction of tariffs and quotas for products excluded from the CBI and GSP, such as footwear, leather products, and agricultural products like sugar, will further reduce the CBI region's competitiveness in the U.S. market.

H.R. 553 has as its fundamental purpose to avoid the trade and investment diversions noted above, and to allow our countries to have the opportunity to adhere to NAFTA or to sign a similar free trade agreement with the United States. On this occasion, I am here to testify about what we consider to be excellent reasons for decidedly supporting this bill.

- NAFTA parity, in the terms proposed in this bill, will benefit both the U.S. and CBI apparel, textile, and other industries, which need to maintain and improve their global competitiveness in relation to imports from other parts of the world, particularly Asia. This partnership will surely allow us to compete more efficiently with producers outside of the Hemisphere.

- This legislation will augment the purchasing power of the CBI countries, increasing imports of raw materials, capital goods and finished products from the United States, therefore creating more jobs. We should remember that approximately 70% of the value of goods produced in Central America returns to the United States in the form of imports of raw materials and others.

- Mr. Crane's Bill will allow CBI nations an orderly transition from unilateral preferential treatment towards reciprocal trade agreements, and will contribute to prepare us for implementing the necessary institutional reforms to comply with the obligations of comprehensive trade agreements such as NAFTA.

- Parity will stimulate economic modernization, commercial liberalization and regional integration efforts of the CBI, fostering economic development and democratic reforms.

- And most importantly, by fostering economic development, HR 553 will allow us to offer better jobs and opportunities for our people, thus decreasing the flow of illegal immigrants into the U.S.

Mr. Chairman, Central America fully supports the immediate passage of the "Caribbean Basin Trade Security Act". Its enactment will contribute significantly to strengthening the social, political, and economic development of the region and will greatly enhance the commercial and political relations with the United States of America.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Madam Ambassador. Now Minister Mottley.

STATEMENT OF HON. WENDELL A. MOTTLEY, MINISTER OF FINANCE, GOVERNMENT OF TRINIDAD AND TOBAGO

Mr. MOTTLEY. Thank you, Mr. Chairman, and members of this honorable subcommittee. My name is Wendell Mottley, the Minister of Finance of Trinidad and Tobago. It is most gratifying, Chairman Crane, to have the honor and privilege to testify before this subcommittee on your proposed and very welcomed Caribbean Trade Security Act. I wish to thank you and all of the Members of this House on this very welcome development.

H.R. 553 asserts important congressional commitment to the larger movement toward hemispheric integration by providing full NAFTA parity to the CBI countries. CARICOM countries, including my own, are encouraged by the comprehensive coverage proposed in this bill, particularly since the legislation would place exports like petroleum and textiles on an equal footing with exports from Mexico.

You see, NAFTA accession is important, and H.R. 553 addresses it by making it easy and transparent to understand what is required for NAFTA accession and how to prepare for it. There is great equity and fairness in this approach which demonstrates respect for CBI countries.

H.R. 553 addresses a series of factors which must be measured to evaluate the actual ability of countries to undertake NAFTA obligations. Several Caribbean countries, including Trinidad and Tobago, have signed and implemented bilateral investment treaties and intellectual property rights agreements with the United States, premised on the assumption that these were prerequisites for an equitable free trade agreement.

At this point, it is unclear whether these are, in fact, prerequisites for NAFTA accession since Chile, with whom the NAFTA partners have started negotiation for accession, has neither signed a BIT nor an IPRA. The ambiguity in U.S. policy that exists, I respectfully submit, should be remedied so that each country in the hemisphere can make an informed choice concerning negotiating accession.

For these reasons, I applaud the provisions of this legislation that set out clear criteria because they are helpful in charting our course for accession.

The 6-year transitional time period is a meaningful one. It provides sufficient time for countries with immediate interests in NAFTA accession to seriously prepare for the required negotiations. It provides reasonable incentives for other countries to accelerate economic reforms within a favorable context for assessing the rewards and responsibilities of free trade, and it offers those who do not negotiate NAFTA-type terms and conditions within that time a continuation of CBI II benefits.

The 6-year time period also reflects standard business forecasting and planning cycles and thus sets a reasonable limit on this temporary experiment with parity.

It is important to go behind the particulars of the legislation and understand the underlying motivation for the CBI's ardent desire

for parity now and for full inclusion and participation in the trade architecture that is emerging in the global environment.

The Caribbean countries need parity because of the potential for trade and investment diversion. Although hard figures are only now beginning to be compiled, since NAFTA went into effect there are initial indications that investments will move to Mexico from the Caribbean. On the trade side, the evidence is clearer. Trade is moving from the Caribbean to Mexico because exports from Mexico now enjoy superior access to the U.S. market.

Diverting trade and investment away from the Caribbean would begin to erode the very important gains that the Caribbean has achieved in its economic development and the important trade benefits being reaped by the United States. U.S. exports to the Caribbean have increased 63 percent between 1987 and 1993, from $7 billion to $11.7 billion.

Trinidad and Tobago alone, with its small population of 1.2 million, buys over half a billion dollars' worth of goods and services from the United States. We buy $100 million from each of the States of Texas and Florida. I further note that the commercial operations of U.S. companies in my country have allowed their products to be more competitive in global markets.

I would argue that levels of cross-border investment and levels of trade are the two main variables for the rationality and viability of creating a free trade area. Mr. Chairman, if you go to any of the Caribbean countries, visit the supermarkets or the drugstores, you will find U.S. goods. You will find in our petrochemical and petroleum industry hundreds of millions of dollars of imports from the States of Texas, Louisiana, et cetera.

In our tourism plant you will find toweling, fabric, et cetera, from the eastern United States, and most importantly, prominent U.S. companies are increasingly using the Caribbean as a platform for improving their overall productivity based on our own resources so that they can become more competitive globally.

These are powerful arguments that the Caribbean and the United States are economically integrated. These are facts already. A Caribbean region that is not integrated into the United States economically is an artificial construct. For all these reasons, therefore, Mr. Chairman, we strongly support this bill.

Mr. Chairman, this concludes my oral testimony and I cannot put this case more strongly. I thank you.

[The prepared statement and attachment follow:]

STATEMENT OF THE HONORABLE WENDELL A. MOTTLEY
MINISTER OF FINANCE OF TRINIDAD AND TOBAGO
BEFORE THE SUBCOMMITTEE ON TRADE
OF THE COMMITTEE ON WAYS AND MEANS
OF THE U.S. HOUSE OF REPRESENTATIVES

H.R. 553 - THE CARIBBEAN BASIN TRADE SECURITY ACT

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THIS HONORABLE COMMITTEE. MY NAME IS WENDELL MOTTLEY AND I AM CURRENTLY THE MINISTER OF FINANCE OF TRINIDAD AND TOBAGO.

IT IS MOST GRATIFYING, CHAIRMAN CRANE, TO HAVE THE HONOR AND PRIVILEGE TO TESTIFY BEFORE THIS COMMITTEE ON YOUR PROPOSED CARIBBEAN TRADE SECURITY ACT. I KNOW THAT MY TIME IS LIMITED, BUT I MUST TAKE A MOMENT TO EXPRESS THE SINCERE APPRECIATION, NOT ONLY OF MY GOVERNMENT, BUT OF ALL THE CBI BENEFICIARY COUNTRIES TO YOU AND YOUR COLLEAGUES -- CONGRESSMEN GIBBONS, RANGEL AND SHAW -- FOR SPONSORING THIS TIMELY LEGISLATIVE INITIATIVE, WHICH IS OF SUCH GREAT IMPORTANCE TO THE GROWTH, DEVELOPMENT AND ECONOMIC WELL-BEING OF THE CARIBBEAN REGION. WE APPRECIATE YOUR INTEREST AND CONCERN. IT IS MOST APPROPRIATE THAT H.R. 553 IS TITLED A TRADE SECURITY ACT, BECAUSE THIS TITLE IMPLICITLY RECOGNIZES THAT TRADE EXPANSION IS THE BASIS FOR SECURITY IN THE SMALL ECONOMIES OF THE CARIBBEAN.

H.R. 553 ASSERTS IMPORTANT CONGRESSIONAL COMMITMENT TO THE LARGER MOVEMENT TOWARDS HEMISPHERIC INTEGRATION, BY PROVIDING FULL NAFTA PARITY TO THE CBI COUNTRIES. CARICOM COUNTRIES, INCLUDING MY OWN, ARE ENCOURAGED BY THE COMPREHENSIVE COVERAGE PROPOSED IN THIS BILL, PARTICULARLY SINCE THIS LEGISLATION WOULD PLACE EXPORTS LIKE PETROLEUM AND TEXTILES ON AN EQUAL FOOTING WITH EXPORTS FROM MEXICO. PROVIDING EQUAL TREATMENT FOR CARIBBEAN EXPORTS, REFLECTS THE PRAGMATIC REALISM WITH WHICH WE ALL MUST APPROACH THE CREATION OF THE FREE TRADE AREA OF THE AMERICAS. BEFORE WE GET TO THE FTAA, HOWEVER, CLEAR RULES AND PROCEDURES NEED TO BE ESTABLISHED FOR NAFTA ACCESSION.

H.R. 553 ADDRESSES THIS ISSUE IN SOME DETAIL, MAKING IT EASY AND TRANSPARENT TO UNDERSTAND WHAT IS REQUIRED FOR NAFTA ACCESSION AND HOW TO PREPARE. THERE IS GREAT EQUITY AND FAIRNESS IN THIS APPROACH, WHICH DEMONSTRATES RESPECT FOR CBI COUNTRIES. H.R. 553 LISTS A SERIES OF FACTORS WHICH MUST BE MEASURED TO EVALUATE THE ACTUAL ABILITY OF COUNTRIES TO UNDERTAKE NAFTA OBLIGATIONS. SEVERAL CARIBBEAN COUNTRIES, INCLUDING TRINIDAD AND TOBAGO, HAVE SIGNED AND IMPLEMENTED BILATERAL INVESTMENT TREATIES AND INTELLECTUAL PROPERTY RIGHTS AGREEMENTS WITH THE U.S., PREMISED ON THE ASSUMPTION THAT THESE WERE PREREQUISITES FOR AN EQUITABLE FREE TRADE AGREEMENT. AT THIS POINT, IT IS UNCLEAR WHETHER THESE ARE, IN FACT, PREREQUISITES FOR NAFTA ACCESSION, SINCE CHILE, WITH WHOM THE NAFTA PARTNERS HAVE STARTED NEGOTIATIONS FOR ACCESSION, HAS SIGNED NEITHER A BIT NOR AN IPRA! **THE AMBIGUITY IN U.S. POLICY THAT CURRENTLY EXISTS, MUST BE REMEDIED** SO THAT EACH COUNTRY IN THE HEMISPHERE CAN MAKE AN INFORMED CHOICE

CONCERNING NEGOTIATING ACCESSION. FOR THESE REASONS, I APPLAUD THE PROVISIONS OF THIS LEGISLATION THAT SET OUT CLEAR CRITERIA, BECAUSE THEY ARE HELPFUL IN CHARTING OUR COURSE FOR ACCESSION.

THE SIX-YEAR TRANSITIONAL TIME PERIOD IS A MEANINGFUL ONE. IT PROVIDES SUFFICIENT TIME FOR COUNTRIES WITH IMMEDIATE INTEREST IN NAFTA ACCESSION TO SERIOUSLY PREPARE FOR THE REQUIRED NEGOTIATIONS. IT PROVIDES REASONABLE INCENTIVES FOR OTHER COUNTRIES TO ACCELERATE INTERNAL ECONOMIC REFORMS WITHIN A FAVORABLE CONTEXT FOR ASSESSING THE REWARDS AND RESPONSIBILITIES OF FREE TRADE; AND IT OFFERS THOSE WHO DO NOT NEGOTIATE NAFTA-TYPE TERMS AND CONDITIONS WITHIN THAT TIME A CONTINUATION OF CBI II BENEFITS. THE SIX-YEAR TIME PERIOD ALSO REFLECTS STANDARD BUSINESS FORECASTING AND PLANNING CYCLES AND THUS SETS A REASONABLE LIMIT ON THIS TEMPORARY EXPERIMENT WITH PARITY. THE TIME PERIOD WILL ALSO ALLOW ALL OF US TO COLLECT DATA AND INFORMATION ABOUT TRADE AND INVESTMENT THAT WILL SERVE AS A MORE ACCURATE BASIS FOR MOVING TOWARDS ACCESSION. CURRENTLY, THERE IS A DEARTH OF INFORMATION ON THE ACTUAL TRADE EXPANSION CREATED BY NAFTA AND THE POTENTIAL TRADE EXPANSION IN AN EXPANDED NAFTA.

IN SUM, THE MAJOR PROVISIONS OF H.R. 553 ARE CLEAR AND LOGICAL -- FULL PARITY FOR THE CBI FOR SIX YEARS, CRITERIA AND TIMETABLES FOR NAFTA ACCESSION AND A MEANINGFUL TRANSITION PERIOD -- AND ARGUE FORCEFULLY IN FAVOR OF THIS BILL BASED ON ITS SIMPLICITY AND CLARITY.

BUT IT IS IMPORTANT TO GO BEHIND THIS PARTICULAR LEGISLATION AND UNDERSTAND THE UNDERLYING MOTIVATION FOR THE CBI'S ARDENT DESIRE FOR PARITY NOW AND FOR FULL INCLUSION AND PARTICIPATION IN THE TRADE ARCHITECTURE THAT IS EMERGING IN THE GLOBAL ENVIRONMENT.

THE CARIBBEAN COUNTRIES NEED PARITY BECAUSE OF THE POTENTIAL FOR TRADE AND INVESTMENT DIVERSION. ALTHOUGH HARD FIGURES ARE ONLY NOW BEGINNING TO BE COMPILED, SINCE NAFTA WENT INTO EFFECT, THERE ARE INITIAL INDICATIONS THAT INVESTMENTS WILL MOVE TO MEXICO FROM THE CARIBBEAN. ON THE TRADE SIDE, THE EVIDENCE IS CLEARER -- TRADE IS MOVING FROM THE CARIBBEAN TO MEXICO BECAUSE EXPORTS FROM MEXICO NOW ENJOY SUPERIOR ACCESS TO THE U.S. MARKET OVER PRODUCTS FROM THE CARIBBEAN.

A RECENT WORLD BANK STUDY CONCLUDES THAT SOME CARIBBEAN COUNTRIES ARE FACING UP TO 60% EXPORT DISPLACEMENT DUE TO NAFTA; THIS SAME STUDY CONCLUDES THAT WHILE THERE IS COMPETITION IN PETROLEUM FROM BOTH MEXICO AND CANADA FOR TRINIDAD AND TOBAGO, THIS TRADE IS NOT AFFECTED BY NAFTA. THIS STUDY IS BASED ON A STATIC ECONOMIC MODEL AND DOES NOT TAKE INTO ACCOUNT THE MANY VARIABLES LIKE DEMAND, GROWTH RATES, INVESTMENT FLOWS AND CHANGES IN CAPACITY. IN THE CASE OF TRINIDAD AND TOBAGO, WE KNOW HOW LONG IT TAKES TO IMPLEMENT MAJOR PETROCHEMICAL PROJECTS -- FEASIBILITY AND ENGINEERING STUDIES CAN TAKE YEARS EVEN WHEN MOVING QUICKLY BECAUSE OF THE COMPLEXITY AND CAPITAL INTENSITY OF THE PROJECTS. NAFTA IS IMPORTANT TO US BECAUSE WE NEED TO HAVE PERMANENT LONG TERM TREATY COMMITMENTS THAT PARALLEL THE LONG TERM INVESTMENT HORIZONS THAT ARE NECESSARY TO MONETIZE OUR RESOURCES. IT IS EASY TO UNDERSTAND THAT COMPANIES THAT ARE MAKING INVESTMENT

DECISIONS IN THIS SECTOR WILL BE AFFECTED BY THE GREATER CERTAINTY THAT NAFTA PROVIDES TO CROSS BORDER INVESTORS. EVEN IF THEORETICALLY UNDER THE GATT, THE NAFTA PARTNERS CANNOT IMPOSE HIGHER TARIFF BARRIERS THAN CURRENTLY EXIST ON NON-NAFTA PARTNERS, THE REALITY IS THAT OVER TIME TRADE PREFERENCES WILL STRONGLY INFLUENCE INVESTMENT DECISIONS. AND THIS IS WHY TEMPORARY PARITY MUST PROVIDED WHILE DECISIONS ARE BEING MADE ABOUT NAFTA ACCESSION. THE LOWER TARIFFS, APPLICABLE TO MEXICO'S AND CANADA'S PETROLEUM PRODUCTS' EXPORTS TO THE U.S., DO CREATE AN ADVANTAGE FOR THEM WHICH IS A POTENTIALLY GREAT DANGER TO MY COUNTRY.

DIVERTING TRADE AND INVESTMENT AWAY FROM THE CARIBBEAN WOULD BEGIN TO ERODE THE VERY IMPORTANT GAINS THAT THE CARIBBEAN HAS ACHIEVED IN ITS ECONOMIC DEVELOPMENT AND THE IMPORTANT TRADE BENEFITS BEING REAPED BY THE U.S. U.S. EXPORTS TO THE CARIBBEAN HAVE INCREASED 63% BETWEEN 1987 AND 1993 FROM $7 BILLION TO $11.7 BILLION. TRINIDAD AND TOBAGO ALONE, WITH ITS SMALL POPULATION OF 1.2 MILLION, BUYS OVER A HALF A BILLION DOLLARS WORTH OF GOODS AND SERVICES FROM THE U.S. WE BUY $100 MILLION IN GOODS AND SERVICES FROM EACH OF THE STATES OF TEXAS AND FLORIDA. I FURTHER NOTE THAT THE COMMERCIAL OPERATIONS OF U.S. COMPANIES IN MY COUNTRY HAVE ALLOWED THEIR PRODUCTS TO BE MORE COMPETITIVE IN GLOBAL MARKETS.

LEVELS OF CROSS BORDER INVESTMENT AND LEVELS OF TRADE ARE THE TWO MAIN VARIABLES THAT WOULD ARGUE FOR THE RATIONALITY AND VIABILITY OF CREATING A FREE TRADE AREA. AFTER CANADA AND MEXICO, **THE CARIBBEAN ECONOMIES ARE THE NEXT MOST INTEGRATED IN THE NAFTA ECONOMY.** SIXTY-SIX PERCENT OF CARIBBEAN EXPORTS GO TO THE U.S., CANADA AND MEXICO. THE U.S. IS THE MOST IMPORTANT NAFTA TRADING PARTNER FOR MOST CARIBBEAN COUNTRIES, IMPORTING OVER $5 BILLION COMPARED WITH $262 MILLION FOR CANADA AND $55 MILLION FOR MEXICO. U.S. DIRECT INVESTMENT IN THE CARIBBEAN WAS $4.2 BILLION IN 1989, WHILE FOR MEXICO AND CENTRAL AMERICA COMBINED IT WAS ONLY $2.6 BILLION.

WHAT IS STRIKING AND CRITICAL FOR THE COMMITTEE TO UNDERSTAND, IS THAT TRADE BETWEEN CARIBBEAN COUNTRIES ACCOUNTS FOR A MERE 4% OF THEIR EXPORTS AND INVESTMENT BETWEEN THE COUNTRIES OF OUR REGION IS NEGLIGIBLE. TRINIDAD AND TOBAGO, PROVIDES MOST OF THE CURRENT INVESTMENT AND IS THE MAJOR CREDITOR IN THE REGION. WE HAVE BEEN COMMITTED TO BUILDING AND INTEGRATING THE CARICOM ECONOMIES, BUT OUR BUILDING BLOCKS ARE LIMITED IN SIZE AND QUANTITY. THE REALITY IS THAT OUR ECONOMIES ARE SMALL; DOMESTIC MARKETS AND EVEN INTRA-CARIBBEAN MARKETS ALONE, CANNOT ABSORB PRODUCTION AND THEREFORE CANNOT FOSTER MEANINGFUL TRADE EXPANSION. ***OUR FUTURE LIES IN CONTINUED INTEGRATION INTO THE NORTH AMERICAN MARKET.***

I CANNOT STRESS THIS LAST POINT ENOUGH. ALTHOUGH OUR ECONOMIES ARE SMALL RELATIVE TO OUR OTHER HEMISPHERIC NEIGHBORS, THERE IS STILL REMARKABLE DIVERSITY WITHIN OUR REGION. CARICOM TOOK NOTE OF THIS WHEN IT CONSIDERED THE QUESTION OF THE RELATIONSHIP WITH THE NAFTA PARTNERS AND AFFIRMED THAT INDIVIDUAL MEMBER STATES WOULD NEED DIFFERENT PROVISIONS AND TIMETABLES TO ACCOMMODATE PARTICULAR NATIONAL INTERESTS. SEVERAL OF THE MORE DEVELOPED ECONOMIES HAVE MADE REMARKABLE PROGRESS IN DISMANTLING TRADE BARRIERS, WHILE THE

SMALLER ECONOMIES HAVE HAD MORE DIFFICULTIES. NEVERTHELESS, THERE HAVE BEEN STRONGER GROWTH RATES IN SOME OF THE OECS COUNTRIES THAT HAVE STARTED TO WEAN THEMSELVES AWAY FROM MONOCULTURE DEPENDENCE.

OVER THE PAST DECADE, THE CARIBBEAN COUNTRIES HAVE DIVERSIFIED THEIR ECONOMIES AND THIS IS REFLECTED IN AN IMPRESSIVE INCREASE IN MANUFACTURED EXPORTS FROM $U.S. 1.6 BILLION IN 1980 TO $U.S. 4.5 BILLION IN 1992. DURING THIS SAME PERIOD AID FLOWS DECREASED SIGNIFICANTLY. U.S. LEGISLATION -- CBI I AND II, THE ENTERPRISE FOR THE AMERICAS, THE AVAILABILITY OF 936 FUNDS, ALL CONTRIBUTED TO A POLICY FRAMEWORK WHICH HAS BEEN A CRITICAL STIMULUS FOR ECONOMIC AND TRADE LIBERALIZATION. IT IS LARGELY BECAUSE THE U.S. POLICY IN FAVOR OF CARIBBEAN DEVELOPMENT HAS BEEN CONSISTENT, SUSTAINED AND BI-PARTISAN THAT THE RESULTS HAVE BEEN POSITIVE. THE EFFORT, HOWEVER, IS NOT YET COMPLETE AND H.R. 553 TAKES THE NEXT STEP REQUIRED IN PROVIDING SOME OF THE NECESSARY INCENTIVES FOR CONTINUED TRADE LIBERALIZATION.

THE VARIABLES THAT MUST BE CONSIDERED IN ORDER TO PROMOTE GROWTH IN THE GLOBAL ECONOMY ARE EVER MORE COMPLEX. WHILE THE URUGUAY ROUND HAS REDUCED TARIFFS, WHICH IN PRINCIPLE SHOULD HAVE A SALUTARY EFFECT ON CARIBBEAN TRADE, THE REALITY MAY BE OTHERWISE, GIVEN THAT TARIFF CUTS ERODE THE VALUE OF PREFERENCES UNDER CBI, CARIBCAN AND LOME. HOWEVER, THERE MUST BE FULL MFN TARIFF REDUCTIONS, ESPECIALLY WHERE THERE ARE HIGH TARIFFS IN THE DEVELOPED COUNTRIES, (I.E., TEXTILES) OR NON-TARIFF BARRIERS -- THE U.S. HAS NTB'S ON MANY CLASSES OF CLOTHING OF OVER 40% AND CONTINUES EXPORT SUBSIDIES ON SEVERAL AGRICULTURAL COMMODITIES, PARTICULARLY ON SUGAR. NAFTA PARITY AND ULTIMATELY ACCESSION ARE IMPORTANT BECAUSE A PERMANENT FRAMEWORK FOR ADDRESSING THESE NTB'S WILL BE AVAILABLE.

THE COMMON EXTERNAL TARIFF OR CET, TO WHICH ALL CARICOM MEMBERS HAVE AGREED, DEMONSTRATES THE WILLINGNESS OF THE REGION TO ENGAGE IN SIGNIFICANT TARIFF CUTTING OVER THE NEXT FIVE YEARS. TRINIDAD AND TOBAGO HAS ACCELERATED THE TARIFF REDUCTION SCHEDULE FOR ITSELF VOLUNTARILY. THIS MEANS THAT OUR MARKETS WILL BECOME EVEN MORE OPEN THAN THEY CURRENTLY ARE. OUR FOCUS IS TO MAKE SURE THAT THE MAJOR NORTH AMERICAN MARKETS FOR OUR PRODUCTS ARE EQUALLY OPEN. ADHERENCE TO NAFTA WILL SIGNIFICANTLY STRENGTHEN OUR ABILITY TO PROMOTE MARKET ACCESS AND BECOME MEANINGFUL PARTNERS IN THE CONSTRUCTION OF A FREE TRADE AREA THAT ENSURES THE SHARED PROSPERITY AND SECURITY THAT IS THE CORE MOTIVATION OF OUR COMBINED EFFORTS.

MR. CHAIRMAN, THIS CONCLUDES MY ORAL TESTIMONY, HOWEVER, BECAUSE MY GOVERNMENT HAS MADE DETERMINED EFFORTS TO CREATE A SOLID MACROECONOMIC CLIMATE AND BECAUSE THOSE EFFORTS HAVE FOSTERED PRIVATE SECTOR-LED EXPORT EXPANSION AND GROWTH IN THE ECONOMY, I AM SUBMITTING ADDITIONAL INFORMATION ON OUR SPECIFIC EXPERIENCE, WHICH I HOPE WILL BE HELPFUL FOR THE RECORD.

AGAIN, THANK YOU FOR THIS OPPORTUNITY.

[ADDITIONAL COMMENTS]

II.

AS I MENTIONED IN MY ORAL TESTIMONY ON H.R. 553, I BELIEVE THAT IT WILL BE USEFUL FOR THE COMMITTEE TO UNDERSTAND IN SOME ADDITIONAL DEPTH, THE DETERMINED COMMITMENT OF THE GOVERNMENT OF TRINIDAD AND TOBAGO TO FISCAL DISCIPLINE, MACROECONOMIC STABILITY AND TRADE LIBERALIZATION.

THE REFORMS UNDERTAKEN BY MY GOVERNMENT HAVE NOT BEEN EASY. THERE HAVE BEEN SOCIAL AND POLITICAL COSTS INVOLVED. WE HAVE PERSEVERED BECAUSE WE UNDERSTAND THAT OUR SURVIVAL DEPENDS ON OUR ABILITY TO TRADE WITH THE REST OF THE WORLD, BUT OUR PROSPERITY AND WELL-BEING DEPENDS ON OUR ABILITY TO STRUCTURE OUR TRADING RELATIONSHIPS SO THAT THE TALENTS AND LABOR OF OUR CITIZENS FULLY CONTRIBUTE TO OUR GROWTH; BUT MOST IMPORTANTLY THE STRUCTURE OF OUR NEW TRADING RELATIONSHIPS MUST BE CONSTRUCTIVE AND SUSTAINED, PROMOTING THE EXCELLENCE AND INNOVATION THAT WINS AND MAINTAINS MARKETS. OUR PARTNERSHIP WITH THE UNITED STATES MUST BE BUILT IN THIS SPIRIT.

MOVING OUR PRIVATE SECTOR OUT OF THE PROTECTIONIST ENVIRONMENT THAT INITIALLY FOSTERED INDUSTRIALIZATION AND MOVING THE GOVERNMENT OUT OF PRIVATE SECTOR ACTIVITIES, HAVE REQUIRED ATTITUDINAL AS WELL AS PRACTICAL ADJUSTMENTS. FORTUNATELY, THESE POLICY DECISIONS, RIGOROUSLY IMPLEMENTED, HAVE YIELDED MANY POSITIVE RESULTS AND CREATED ALLIES OUT OF MANY SKEPTICS IN OUR BUSINESS COMMUNITY. DESPITE OUR SUPPORT FOR HIGH LABOR STANDARDS AND PROTECTION OF WORKER'S RIGHTS AND DESPITE ACTUAL REDUCTIONS IN UNEMPLOYMENT (CURRENTLY ABOUT 18%), OUR MACRO-ECONOMIC REFORMS ALONE CANNOT REDUCE UNEMPLOYMENT TO ACCEPTABLE LEVELS. THIS IS YET ANOTHER REASON THAT H.R. 553 IS SUCH A WELCOME U.S. INITIATIVE: THE SECURITY CREATED BY THE SIX-YEAR TIME FRAME CREATES AN INCENTIVE FOR BOTH THE GOVERNMENT AND THE PRIVATE SECTOR, TO CREATE EXPORT-ORIENTED ENTERPRISES THAT TAKE ADVANTAGE OF THIS WINDOW OF OPPORTUNITY. THIS LEGISLATION PROVIDES CERTAIN PROOF TO OUR ECONOMIC ACTORS THAT THE U.S. IS SINCERE IN ITS STATED INTENTIONS TO ENSURE THAT NAFTA DOES NOT HAVE A DETRIMENTAL EFFECT ON THE CARIBBEAN AND THAT THERE ARE EVEN GREATER OPPORTUNITIES FOR TRADE BECAUSE THE PRODUCTS EXCLUDED FROM CBI CAN NOW BE EXPORTED TO THE NAFTA MARKET. THE MESSAGE OF H.R. 553 IS REASSURING AND MOTIVATING.

WE HAVE ENTRENCHED OUR MAJOR MACROECONOMIC REFORMS. OUR GOVERNMENT ACCOUNTS ARE NOW TRACTABLE. THE FISCAL DEFICIT, WHICH AVERAGED 7.2% OF GDP IN 1986-88, HAS BEEN REDUCED TO 1.7% OVER THE LAST FIVE YEARS. IN 1994, WE CLOSED THE YEAR WITH A SMALL FISCAL SURPLUS AND WE EXPECT A SIMILAR RESULT AGAIN IN 1995.

OUR BALANCE OF PAYMENTS HAS BEGUN TO DEMONSTRATE A NEW ROBUSTNESS. FOLLOWING ELEVEN YEARS OF CONTINUOUS DEFICIT, FOR THE PAST TWO YEARS THE EXTERNAL ACCOUNTS WERE IN SURPLUS. SUPPORTIVE MONETARY POLICY IS IN PLACE, AIMED AT RESTRAINING AGGREGATE DEMAND TO LEVELS CONSISTENT WITH LOW INFLATION AND THE NEED TO REBUILD OUR FOREIGN EXCHANGE RESERVES. AS A RESULT, INFLATION IS MODERATE AND FALLING. THE INFLATION RATE FROM SEPTEMBER 1993 TO SEPTEMBER 1994 WAS ONLY 6.4%.

WE FLOATED THE TRINIDAD DOLLAR IN 1993 AND HAVE NOW FULLY ABSORBED THE DEVALUATION OCCASIONED BY THAT FLOTATION AND OUR

EXCHANGE RATE HAS HELD REMARKABLY FIRM. CONSEQUENTLY, OUR INFLATION RATE IS EXPECTED TO FALL TO UNDER 5% THIS YEAR.

OUR EXTERNAL DEBT SERVICE PAYMENTS HAVE BEEN ONEROUS -- WE PAID WELL OVER A HALF A BILLION U.S. DOLLARS LAST YEAR. NEVERTHELESS, WE HAVE REDUCED OUR DEBT SIGNIFICANTLY AND IT NOW REPRESENTS BARELY 30% OF GDP -- THIS DOWN FROM 42% IN 1992.

WE HAVE INSTITUTED A MAJOR RESTRUCTURING AWAY FROM IMPORT SUBSTITUTION AND ARE VIGOROUSLY PURSUING A POLICY OF EXPORT LED GROWTH. PIVOTAL TO OUR NEW EXPORT THRUST IS OUR COMMITMENT TO TRADE LIBERALIZATION. ALMOST OVERNIGHT, THE OLD TARIFF STRUCTURE HAS BEEN DISMANTLED. IN 1991, 40% OF THE ITEMS WERE REMOVED THE IMPORT NEGATIVE LIST. IN 1992, VIRTUALLY ALL NON-OIL MANUFACTURED PRODUCTS WERE REMOVED FROM THIS LIST. IN 1995, THE TEMPORARY SURCHARGE IMPOSED SUBSEQUENT TO THE REMOVAL OF ITEMS FROM THE NEGATIVE LIST, WERE REDUCED TO ZERO. STAMP DUTIES ON IMPORTED GOODS WERE ELIMINATED.

IN 1994, THE MAJORITY OF AGRICULTURAL ITEMS WERE REMOVED FROM THE NEGATIVE LIST. NEVERTHELESS, TOTAL OUTPUT IN THIS SECTOR INCREASED BY ALMOST 12%. CONSISTENT WITH OUR OBLIGATIONS WITHIN CARICOM, OUR EXISTING MAXIMUM TARIFF OF 30% WILL BE PHASED DOWN TO 20% BY 1998. IT IS IMPORTANT TO NOTE, HOWEVER, THAT A MORE ACCURATE REFLECTION OF THE OPENNESS OF OUR TRADE REGIME IS THAT **AVERAGE TARIFF RATES ARE NOW LESS THAN 6%** FOR IMPORTS FROM THE U.S.

THE BEST PROOF OF OUR SUCCESS IN CREATING A FAVORABLE INVESTMENT CLIMATE, IS EVIDENCED BY THE SURGE OF DIRECT INVESTMENT. IN 1994, INVESTMENT FLOWS FROM THE U.S. REACHED ALMOST $US 700 MILLION AND FOR 1995, WE HAVE COMMITMENTS FROM YOUR COUNTRY FOR $US 1.2. BILLION. (THIS FIGURE DOES NOT COUNT FOREIGN DIRECT INVESTMENT FROM OTHER COUNTRIES.) AT OVER $US 1000 PER CAPITA, TRINIDAD AND TOBAGO WILL EASILY SURPASS ALL OTHER COUNTRIES IN THE HEMISPHERE IN ATTRACTING FOREIGN INVESTMENT.

OVER THE PAST THREE YEARS, NEW U.S. ENTRANTS TO TRINIDAD AND TOBAGO INCLUDE ENRON, NUCOR, ARCADIAN PARTNERS, SOUTHERN ELECTRIC, FARMLAND AND CABOT. AMOCO, ONE OF OUR LONGSTANDING U.S. CORPORATE NEIGHBORS, IS CURRENTLY WORKING WITH BRITISH GAS AND CABOT ON A NEW LIQUIFIED NATURAL GAS PROJECT THAT WILL BE THE FLAGSHIP OF OUR SECOND MAJOR INDUSTRIAL PARK.

TRINIDAD AND TOBAGO HAS HAD AN AGGRESSIVE PROGRAM OF DIVESTMENT OF PUBLIC HOLDINGS IN COMMERCIAL COMPANIES. FIFTEEN COMPANIES HAVE BEEN DIVESTED OVER THE PAST THREE YEARS, INCLUDING THE GENERATION DIVISION OF THE NATIONAL ELECTRIC COMPANY, THE NATIONAL AIRLINE AND THE IRON AND STEEL COMPANY. DIVESTMENT PROCEDURES ARE IN PROGRESS FOR ANOTHER THIRTEEN COMPANIES. FOURTEEN COMPANIES HAVE BEEN LIQUIDATED AND OTHER COMPANIES THAT WERE IN THE STATE'S PORTFOLIO HAVE BEEN MERGED OR RESTRUCTURED. THE PUBLICATION "LATIN AMERICAN FINANCE" HAS CHARACTERIZED OUR EFFORTS AS "ONE OF THE MOST ACTIVE DIVESTMENT PROGRAMS IN THE REGION".

OUR COUNTRY HAS ALSO BEEN FORTUNATE TO HAVE HAD THE ASSISTANCE OF U.S. CUSTOMS IN MODERNIZING OUR CUSTOMS OPERATIONS. WE HAVE INTRODUCED THE AUTOMATED SYSTEM FOR THE COLLECTION OF CUSTOMS DATA (ASYCUDA), WHICH IS NOW OPERATIONAL IN MOST OF THE COUNTRY. WE EXPECT THAT THIS CRITICAL ELEMENT IN

OUR ADMINISTRATIVE REFORM OF THE CUSTOMS DEPARTMENT, WILL BE EXTENDED TO TOBAGO AND TO THE INDUSTRIAL ESTATE AT POINT LISAS DURING 1995.

THE GOVERNMENT HAS COMMISSIONED COMPREHENSIVE STUDIES RELATED TO COMPETITION POLICIES, ANTI-DUMPING AND COUNTERVAILING DUTIES, AND UNFAIR TRADE PRACTICES. THE RECOMMENDATIONS FROM THESE STUDIES ARE BEING EVALUATED AND IMPLEMENTED AS APPROPRIATE, THROUGH BOTH LEGISLATIVE AND ADMINISTRATIVE REFORMS. ALL OF THESE EFFORTS ARE GEARED TOWARDS THE CREATION OF AN EFFICIENT AND MODERN BUSINESS ENVIRONMENT.

FINALLY, LET ME REITERATE THE GREAT UTILITY OF SECTION 202 (B)(2) OF H.R. 553 AS A GAUGE FOR OUR ECONOMIC REFORMS. TRINIDAD AND TOBAGO HAS CHARTED ITS EFFORTS AGAINST THIS YARDSTICK OF CRITERIA AND THE RESULTS MAY BE FOUND IN THE ATTACHED CHART.

MY GOVERNMENT STRONGLY ENDORSES THE APPROACH TO CARIBBEAN PARITY IN H.R. 553, BECAUSE IT INCLUDES PETROLEUM AND ITS DERIVATIVE PRODUCTS AND CLEARLY PLACES PARITY WITHIN THE CONTEXT OF NAFTA ACCESSION.

ACHIEVEMENT OF KEY NAFTA MILESTONES

A **WORLD TRADE ORGANISATION**

- In April, 1994 Trinidad and Tobago signed the Agreement establishing the World Trade Organisation

B **EQUITABLE MARKET ACCESS**

- Trinidad and Tobago provides most favoured nation treatment to all imported goods.

C **ABSENCE OF EXPORT SUBSIDIES**

- Trinidad and Tobago does not grant export subsidies nor impose performance export requirements nor local content requirements.

D **MACROECONOMIC REFORMS**

- Trinidad and Tobago has undergone extensive macroeconomics reform:

1994 Performance Highlights

• Fiscal surplus .	0.07% of GDP
• Inflation	8.6%
• Exchange Rate	0.9% depreciation
• Balance of Payments Surplus	3.1% of GDP
• Foreign Debt Fully Serviced	
• Foreign Exchange Reserves	2.6months import cover

ACHIEVEMENT OF KEY NAFTA MILESTONES

- Money supply growth 0.5%
- Price controls restricted to the following products:

  Sugar
  School books
  Pharmaceuticals

- Growth of GDP 4%

E **PROTECTION OF INTELECTUAL PROPERTY RIGHTS**

- Intellectual Property Rights Agre ment with the USA.

F **ELIMINATION OF BARRIERS TO TRADE IN SERVICES**

- Committed to liberalisation of trade in services consistent with Uruguay Round.
- Bilateral Investment Treaty with t e USA provides for fully liberalised trade in services with the exception of civ aviation, customs brokerage, gambling ,betting and lotteries

G **NATIONAL TREATMENT TO FOREGN INVESTMENT**

- Bilateral Investment Treaty commits Trinidad and Tobago to national treatment to foreign investment.

ACHIEVEMENT OF KEY NAFTA MILESTONES

H **URUGUAY ROUND TARIFF LEVELS**

- Trinidad and Tobago fully committed to Uruguay Round Tariff levels.

I **EXTENSIVE TRADE LIBERALISATION**

- Import Negative List restricted to items which have implications for national security, public health or for which Trinidad and Tobago has commitments under International Treaties.

- Trinidad and Tobago continues to honour its obligations under the WTO, such as National Treatment and Most Favoured National Treatment, and remains committed to the concept of Trade liberalisation.

J **CONSISTENCY WITH MARKET ACCESS OBJECTIVES OF THE UNITED STATES**

- Extensive programme of trade liberalisation and the Bilateral Investment Treaty commits Trinidad and Tobago to the market access objectives of the USA.

Chairman CRANE. Thank you, Minister Mottley.
Minister Castillo.

STATEMENT OF HON. EDUARDO GONZALEZ CASTILLO, MINISTER OF ECONOMY, GOVERNMENT OF GUATEMALA

Mr. CASTILLO. Good morning, Mr. Chairman. My name is Eduardo Gonzalez Castillo, Minister of Economy of Guatemala, and I appreciate the opportunity to appear before you today to testify on behalf of Central America in support of H.R. 553, the Caribbean Basin Trade Security Act of 1995.

Our countries welcome the introduction of this legislation as it addresses the key issue of CBI competitiveness in light of additional benefits obtained by Mexico under NAFTA, as well as setting the parameters for our region's participation in a broad free trade area.

After discussing this matter in detail, the Central American ministers of economy met in Guatemala and reached a consensus last Friday that we must act together to promote this initiative. As such, I am honored to have the region's representation bestowed on me to present a common point of view at this hearing.

At present, Central America is closer culturally to the United States than the Asians, African, and even European nations. We jog, we watch more than 50 channels of U.S. TV by cable and we are even giving up smoking. This special link between our region and the United States is exemplified by our trading relationship with a considerable flow of goods and services for decades.

In light of declining consistent levels for the past years, we are convinced trade will become the driving force that will determine our relations for years to come and welcome opportunities to open up markets and facilitate the exchange of products between our people.

The Caribbean Base Initiative, which took effect in 1984, has done a great deal to further commerce and brought about prosperity for all parties involved. The results speak for themselves. In 1983, before the CBI came into being, Central American exports to the United States were close to $2 billion, while imports of U.S. products equaled $2.3 billion.

In 1993, our exports to the United States reached $4.5 billion, while U.S. exports to Central America rose to $6.1 billion, with the CBI as the main driving force. These figures evidence a fact that is often overlooked. For every dollar that Central America exports to anyplace in the world, 70 to 75 cents goes directly to purchasing U.S. products, underscoring the point that a program's results should be viewed from the benefits it brings about rather than narrowly focusing on the access it provides.

The CBI has also generated considerable employment with over half a million new jobs in Central America since the program took effect. In the United States, the CBI has also created jobs. For example, many ports in the United States located in States like Florida, California, Texas, and Louisiana, through which our products enter, have reaped substantial benefits due to the rising trade, providing good paying jobs and countless opportunities for the service industry.

Internally the CBI has caused a diversification in our economies that lessens our dependency on traditional commodities subject to volatile swings in world prices. It had provided a window of opportunity for small and medium entrepreneurs that can now take advantage of their abilities and dedicate themselves to production for export under CBI.

In the agricultural sector, we are significant exporters of fruits and vegetables, cut flowers and ornamental plants, and seafood. Industrially, the textile and apparel industry has prospered tremendously and currently plays an important role in our economies despite not enjoying CBI duty-free treatment.

It has generated significant foreign exchange earnings and contributed to the generation of employment. In addition, programs like the guaranteed access levels, GALs, have resulted in tangible benefits not only for our apparel manufacturers, but for U.S. exports as well, which last year sold over $500 million in raw materials to this industry alone.

With NAFTA taking effect in 1994, Central America has suffered an impact that adversely affects many of these key sectors. As a result of additional benefits obtained by Mexico under NAFTA, the competitiveness of our exports to the United States has been eroded. In the textile and apparel sector, where our exports had been steadily increasing in comparison to Mexico, the impact is real.

In 1994, exports of our textile and apparel industry from Central America to the United States grew only by 9.9 percent after yearly averaging 35 percent, compared to Mexico's astonishing jump of 39.2 percent growth after averages of about 25 percent prior to NAFTA. This has resulted in the closing of over 100 plants in Central America and the loss of over 15,000 jobs in 1994 alone.

Some agricultural products have lost market share in the United States as a result of NAFTA, and investment has virtually come to a grinding halt as interest in our region fades. The impact of NAFTA will continue to detrimentally affect trade between Central America and the United States with consequences for various sectors that we have yet to pinpoint in this first year.

For these reasons, we were pleased to establish a constructive dialog with the U.S. Government during 1994, seeking options to restore CBI competitiveness and allowing for the progress made to date to continue and our region to prosper. Despite the unfortunate demise of the program, we were encouraged that the United States remain committed to addressing this issue as expressed by Vice President Gore at the Managua summit and categorically emphasized by President Clinton in Miami during the Summit of the Americas.

Now we have the golden opportunity to make our ideals a reality and take action consistent with the free trade principles agreed to by the entire hemisphere. This is why Central America staunchly supports the Caribbean Basin Trade Security Act as introduced in the Trade Subcommittee by Chairman Crane, and Congressmen Gibbons, Rangel, and Shaw.

The bill clearly addresses the CBI competitiveness by providing treatment equivalent to NAFTA for those products excluded from the CBI, which will mitigate the damage suffered to date and provide some just access to the U.S. markets. In addition, it paves the

way for Central America to commence negotiations conducive to its participation in NAFTA.

The provisions in the legislation recognize that concrete action is of paramount importance, establishing a mechanism such as the meeting between our trade ministers and the United States Trade Representative, which is the appropriate vehicle to examine how we can work together and make tangible progress.

Sectoral negotiations in areas such as investment, phytosanitary regulations, intellectual property rights, and customs procedures could begin immediately with the dual objectives of facilitating trade and removing barriers, as well as creating a momentum that permits us to tackle more complex issues. Central America is prepared to do its part in meeting the criteria necessary for proceeding with the free trade negotiations, as they are consistent with the economic liberalization process we strive to further in our region's participation in the World Trade Organization.

Time is of the essence, as the delaying action will only exacerbate the problems we are experiencing to date. We feel that this legislation has widespread bipartisan support in the U.S. Congress and deserves the full backing of the Clinton administration in accordance with the commitment made to our region, which can now be fulfilled by achieving swift passage and prompt implementation of H.R. 553.

The bill is vital to maintain the momentum for trade liberalization and warrants the effort of all those who genuinely care to foster growth and prosperity. As President De Leon Carpio of Guatemala stated in Miami, "Let it be clear that the political will to promote trade liberalization is there. Now is the time to abandon rhetoric and undertake action * * *."

Thank you for the opportunity to share these comments with you today, and I trust that you will back this initiative. I am in the best position to answer any questions that may enrich this productive dialog. Thank you very much, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY OF MR. EDUARDO GONZALES CASTILLO, MINISTER OF ECONOMY OF GUATEMALA, REPRESENTING CENTRAL AMERICA, IN SUPPORT OF "H.R. 553", THE CARIBBEAN BASIN TRADE SECURITY ACT, BEFORE THE TRADE SUBCOMMITTEE OF THE HOUSE WAYS & MEANS COMMITTEE

GOOD MORNING. MY NAME IS EDUARDO GONZALES CASTILLO, MINISTER OF ECONOMY OF GUATEMALA, AND I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO TESTIFY ON BEHALF OF CENTRAL AMERICA IN SUPPORT OF "H.R. 553", THE CARIBBEAN BASIN TRADE SECURITY ACT OF 1995". OUR COUNTRIES WELCOME THE INTRODUCTION OF THIS LEGISLATION AS IT ADDRESSES THE KEY ISSUE OF CBI COMPETITIVENESS IN LIGHT OF ADDITIONAL BENEFITS OBTAINED BY MEXICO UNDER NAFTA, AS WELL AS SETTING THE PARAMETERS FOR OUR REGION'S PARTICIPATION IN A BROAD FREE TRADE AREA. AFTER DISCUSSING THIS MATTER IN DETAIL, THE CENTRAL AMERICAN MINISTERS OF ECONOMY REACHED A CONSENSUS LAST FRIDAY THAT WE MUST ACT TOGETHER TO PROMOTE THIS INITIATIVE; AS SUCH, I'M HONORED TO HAVE THE REGION'S REPRESENTATION BESTOWED ON ME TO PRESENT A COMMON POINT OF VIEW AT THIS HEARING.

AFTER DECADES OF POLITICAL STRIFE, CENTRAL AMERICA IS EMERGING UNDER DEMOCRATICALLY-ELECTED GOVERNMENTS TO FACE THE CHALLENGE OF ACHIEVING SELF-SUSTAINED GROWTH, THEREBY PROMOTING THE PROSPERITY THAT OUR PEOPLE YEARN FOR AND CREATING THE CONDITIONS CONDUCIVE TO IMPROVING THEIR STANDARD OF LIVING. THE STRENGHTHENING OF DEMOCRATIC INSTITUTIONS AND THE IMPLEMENTATION OF PARTICIPATORY MECHANISMS THAT ALLOW FOR ALL SECTORS OF SOCIETY TO HAVE A VOICE HAVE ADVANCED SIGNIFICANTLY, LAYING THE GROUNDWORK TO CONTINUE OUR QUEST UNDER THE FIRM CONVICTION THAT BY WORKING TOGETHER WE CAN BEST ACHIEVE THE GOALS WE COMMONLY SHARE. WE FIRMLY BELIEVE THAT OUR SUCCESS DEPENDS ON TAPPING OUR RESOURCES AND TAKING ADVANTAGE OF OUR STRENGHTS, IN ADDITION TO CREATING AN INFRASTRUCTURE THAT RESPONDS TO THE CHALLENGES BEFORE US AND ALLOWS OUR NATIONS TO PARTICIPATE IN THE GLOBAL LIBERALIZATION PROCESS.

CENTRAL AMERICA, WHILE VERY QUIET AT PRESENT, IS A PART OF THE WORLD WHICH HAS OCCUPIED THE TIME OF THE U.S. LEGISLATIVE AND EXECUTIVE BRANCHES OFTEN IN THE PAST. WE BELIEVE THAT ONE OF THE BENEFITS OF THIS LEGISLATION IS THAT IT SHOULD HELP KEEP YOU FROM HAVING TO WORRY MUCH ABOUT US IN THE FUTURE. FOR EXAMPLE, U.S. ASSISTANCE TO OUR COUNTRIES, WHICH TOTALLED NEARLY ONE BILLION A YEAR IN THE 1980'S, WILL BE LESS THAN $200 MILLION THIS YEAR AND MUCH LESS IN FUTURE YEARS. WE ARE VERY PLEASED THAT TRADE IS REPLACING AID.

WHILE WE ARE SMALL COUNTRIES AND LOOK VERY SIMILAR ON THE MAP, WE RANGE FROM THE RELATIVELY LOW-LAND AND TROPICAL NICARAGUA TO MY COUNTRY IN WHICH OVER HALF OUR POPULATION LIVES IN HIGHLANDS OF OVER 5,000 FEET WHERE THEY ENJOY SPRINGLIKE WEATHER ALL YEAR ROUND. HONDURAS, COSTA RICA AND EL SALVADOR FALL SOMEWHERE BETWEEN THESE TWO EXTREMES. RACIALLY, WE RANGE FROM THE LARGELY EUROPEAN ORIGIN COSTA RICANS TO MY COUNTRY IN WHICH INDIANS COMPRISE ABOUT HALF OUR POPULATION. ALL OF OUR COUNTRIES HAVE SMALL POPULATIONS OF BLACKS ON THEIR CARIBBEAN COASTS.

THE MAYAN AND SPANISH EMPIRES OF THE PAST HAVE LEFT THEIR IMPACT ON THE PEOPLE OF OUR COUNTRIES, BUT CURRENTLY THE MOST IMPORTANT INFLUENCES ON US COME FROM THE U.S. OUR CULTURES ARE MUCH CLOSER TO THAT OF THE U.S. THAN ARE THOSE OF ALMOST ALL ASIAN, AFRICAN AND EVEN EUROPEAN COUNTRIES. WE JOG, ARE GIVING UP SMOKING AND WATCH UP TO 50 CHANNELS OF U.S. TELEVISION.

POLITICALLY, COSTA RICAS HAS A LONG HISTORY OF DEMOCRATIC GOVERNMENT, WHILE THE REST OF US HAVE BEEN GETTING PRETTY GOOD AT DEMOCRACY OVER THE PAST DECADE OR SO. ALL OF OUR COUNTRIES HAVE

SUCCESSFULLY COMPLETED THAT MOST DIFFICULT DEMOCRATIC PROCESSES; I.E. THE TRANSFER OF POWER TO AN OPPOSITION PARTY BY ELECTIONS. MEXICO AND OTHER DEMOCRACIES HAVE YET TO ACHIEVE THIS SORT OF TRANSFER.

ECONOMICALLY, WE USED TO RELY ON OUR NATURAL RESOURCES AND SHORT-SIGHTED, INWARD-LOOKING IMPORT SUSTITUTION . POLICIES. THESE POLICIES BROUGHT GOOD LIVES FOR A VERY SMALL PERCENTAGE OF OUR CITIZENS. IN RECENT YEARS, HELPED BY THE CBI PROGRAM (WHICH INITIATED IN THIS COMMITTEE), WE HAVE DECIDED THAT THE ONLY WAY TO BRING BETTER LIVES FOR ALL OF OUR CITIZENS IS TO INCORPORATE OUR COUNTRIES MORE FULLY INTO THE GLOBAL ECONOMY.

THIS LEGISLATION I AM TESTIFYING ON BEHALF OF TODAY WILL HELP OUR COUNTRIES BRING BETTER LIVES FOR ALL OUR CITIZENS. IT WILL ALSO CONTRIBUTE SOMEWHAT TO BETTER LINES FOR U.S. CITIZENS. CENTRAL AMERICA HAS A LONGSTANDING TRADITION OF TRADE, DATING BACK THOUSANDS OF YEARS TO THE MAYAN CULTURE THAT EXCELLED IN COMMERCE; WHEN THE SPANISH CAME TO OUR REGION, THEY FOUND A NATION OF MERCHANTS THAT SPECIALIZED IN THE EXCHANGE OF GOODS AND SERVICES, UNLIKE OTHER PLACES LIKE PERU AND MEXICO WHERE GOLD AND SILVER CONSTITUTED THE MAIN ATTRACTION. SINCE 1962, WHEN THE CENTRAL AMERICAN COMMON MARKET WAS FOUNDED, OUR REGION HAS SOUGHT TO FOSTER FREE TRADE BY FACILITATING THE MOVEMENT OF PRODUCTS BETWEEN OUR BORDERS. EMPHASIS HAS BEEN PLACED ON THE ELIMINATION OF TARIFF AND NON-TARIFF BARRIERS THAT IMPEDE AND DISTORT COMMERCE, INTRODUCING LEGISLATIVE AND ADMINISTRATIVE REFORMS THAT FACILITATE THE FREE FLOW OF GOODS AND SERVICES. IN ADDITION, WE HAVE SOUGHT TO HARMONIZE OUR LEGAL FRAMEWORKS AND UNIFY PROCEDURES THAT MAKE IT EASIER FOR PEOPLE TO CARRY OUT THEIR ACTIVITIES WIHOUT HAVING TO FACE A MYRIAD OF FORMS AND OTHER REQUIREMENTS. THE DECISION-MAKING PROCESS IS MORE AGILE WITH THE CONSTANT CONTACTS AND EXCHANGE OF VIEWPOINTS IN PERIODIC PRESIDENTIAL SUMMITS, WHICH ARE THEN FOLLOWED-UP BY THE MEETINGS OF OUR COUNTRIES' ECONOMIC CABINETS AND OTHER REGIONAL FORA DESIGNED TO STREGHTEN CONSENSUS AND REACH COMMON POSITIONS VIS-A-VIS THE MANY ISSUES BEFORE US. OUR GOVERNMENTS ARE COMMITTED TO THE CONSOLIDATION OF CENTRAL AMERICA AS A UNITY, RECOGNIZING OUR DIFFERENCES WHILE AT THE SAME TIME HIGHLIGHTING OUR SIMILARITIES. THE TASK IS NOT AN EASY ONE, BUT WE ARE AWARE THAT WE MUST CONSTRUCTIVELY TACKLE OUR PRIORITIES WITH THE VIEW OF MOVING FORWARD, WITHOUT LETTING ANY OBSTACLES DIMINISH OUR MOMENTUM AND SEEKING VIABLE SOLUTIONS THAT SATISFY THE CONCERNS OF ALL PARTIES INVOLVED. TRUST AND RESPECT ARE TWO KEY ELEMENTS IN THIS EQUATION, SINCE THEY REPRESENT THE FOUNDATION FOR PRODUCTIVE RELATIONS AND CREATE THE POSITIVE CLIMATE NECESSARY TO MAKE PROGRESS. WITH THESE PRINCIPLES IN HAND, OUR REGION SEEKS TO FOSTER INCREASED LINKS WITH OTHER NATIONS AND REGIONS, FORGING A PARTNERSHIP THAT LEADS TO GROWTH AND PROSPERITY.

FOCUSING ON TRADE, CENTRAL AMERICA HAS HAD A COMMON TARIFF SYSTEM FOR THE PAST DECADES; IN 1993, WE IMPLEMENTED CHANGES TO CONFORM TO INTERNATIONALLY RECOGNIZED STANDARDS BY ADOPTING THE "HARMONIZED TARIFF SCHEDULE" (HTS) SYSTEM. IN ADDITION, WE ARE IN THE PROCESS OF COMPLETING COMMON FRAMEWORKS IN AREAS SUCH AS "RULES OF ORIGIN", "DUMPING", "TECHNICAL STANDARDS", "DISPUTE-SETTLEMENT PROCEDURES" AND "FITOZOOSANITARY REGULATIONS", WHITH THE IDEA OF HAVING A SINGLE MECHANISM IN PLACE FOR THE ENTIRE ISTHMUS IN THE NEAR FUTURE THAT PROVIDES THE UNIFORMITY AND CONSISTENCY NECESSARY TO GROW AS A UNITY. THE CONTENT IN THE MAJORITY OF THESE AREAS IS BASED ON THE TREATMENT ESTABLISHED BY THE "NORTH-AMERICAN FREE TRADE AGREEMENT" (NAFTA), WHICH HAS SET THE GUIDELINES FOR THE SUBSTANCE AND FORM IN THESE FIELDS, AS WELL AS CONSISTENT WITH THE APPLICABLE PROVISIONS OF THE "WORLD TRADE ORGANIZATION" (WTO). INTERNALLY, THE NATIONS OF CENTRAL AMERICA HAVE TAKEN SIGNIFICANT STEPS TO LIBERALIZE THEIR TRADE AND INVESTMENT REGIMES BY SIMPLIFYING

PROCEDURES AND REMOVING IMPEDIMENTS THAT ONLY CURTAILED COMMERCE WITHOUT ANY TANGIBLE BENEFIT FOR THE LONG TERM. THESE MEASURES HAVE BENEFITTED BOTH LOCAL ENTREPRENEURS AS WELL AS FOREIGN BUSINESSES THAT NOW FIND IT EASIER TO OPERATE IN OUR REGION AS A RESULT OF THE ACTIONS TAKEN AND THE PROGRESSIVE ELIMINATION OF UNFAIR AND DISCRIMINATORY PRACTICES.

WITH THE "WORLD TRADE ORGANIZATION" (WTO) COMING TO LIFE IN 1995 AFTER THE SUCCESSFUL CONCLUSION OF THE "GATT-URUGUAY ROUND", CENTRAL AMERICA WILL SEEK TO PLAY AN ACTIVE ROLE IN TRADE LIBERALIZATION PROMOTING FAIRNESS AND TRANSPARENCY WITHING THIS CONTEXT. WE STRONGLY FEEL THAT A UNIFORM SET OF RULES IS VITAL FOR THE FREE FLOW OF GOODS AND SERVICES, IN WHICH COUNTRIES CAN TAP THEIR COMPETITIVE ADVANTAGES AND INCREASE THEIR EXPORTS IN CONSUMER MARKETS WORLDWIDE. WE ARE PLEASED THAT THE DIFFERENCES IN THE ECONOMIES OF NATIONS AROUND THE GLOBE ARE ADEQUATELY RECOGNIZED IN THE WTO, ALLOWING FOR TREATMENT CONGRUENT WITH A GIVEN COUNTRY'S LEVEL OF DEVELOPMENT, AND FEEL THAT WE CAN STILL MAKE GREATER PROGRESS. IN ORDER TO EFFECTIVELY PROMOTE GROWTH, ONE MUST TAKE INTO ACCOUNT THE SIZE AND SCOPE OF THE ECONOMIES AROUND THE GLOBE TO GENUINELY REFLECT THE NATURE OF THE TRADING RELATIONSHIPS THAT EXIST; OTHERWISE, ONE RUNS THE RISK OF CREATING EXPECTATIONS THAT FALL SHORT OF RESULTS AND UNDERMINE THE PROCESS OF TRADE LIBERALIZATION AND THE GOAL OF ECONOMIC WELL-BEING. CONFIDENT THAT THE WTO ENCOMPASSES THE VARIOUS TRADE DISCIPLINES IN A STRAIGHTFORWARD MANNER, WE ARE WORKING TO SPEEDILY COMPLETE OUR FULL ACCESION AND PARTICIPATE IN DELIBERATIONS OF INTEREST TO OUR ECONOMIES, CONSTRUCTIVELY ENGAGING WITH OUR TRADING PARTNERS TO FORGE A CONSENSUS THAT SOLIDIFIES ITS PRACTICAL VIABILITY. WE FEEL THAT THE SACRIFICES WE HAVE TO MAKE IN ORDER TO CONFORM TO THE NEW WORLD TRADE ORDER ARE WORTH THE BENEFITS WE WILL OBTAIN FROM AN OPEN ECONOMIC SYSTEM THAT REWARDS QUALITY IN BOTH GOODS AND SERVICES. GREATER EFFORTS SHOULD BE MADE TO ENSURE THAT MARKET ACCESS FOR DEVELOPING COUNTRIES' PRODUCTS IS AS FREE AS POSSIBLE, UTILISING THE WTO MECHANISMS TO GUARANTEE THEIR UNIMPEDED ENTRY INTO CONSUMER NATIONS AND AVOIDING THE USE OF RESTRICTIVE ACTIONS THAT RUN COUNTER TO THE GOALS AGREED TO UNDER THIS BODY.

THE UNITED STATES HAS TRADITIONALLY BEEN CENTRAL AMERICA'S MAIN TRADING PARTNER, WITH CONSIDERABLE FLOWS OF GOODS AND SERVICES FOR THE PAST DECADES; AS SUCH, WE FEEL A SPECIAL LINK TO THE UNITED STATES WHICH WE HOPE TO FURTHER STRENGHTHEN BY WORKING TOGETHER IN A SPIRIT OF TRUE PARTNERSHIP.

IN 1984, THE "CARIBBEAN BASIN INITIATIVE" (CBI) TOOK EFFECT GIVING THE MAJORITY OF PRODUCTS IN OUR REGION PREFERENTIAL ACCESS TO THE U.S. MARKET WITH THE GOAL OF PROMOTING ECONOMIC PROSPERITY THROUGH EXPORT-LEAD GROWTH. AFTER 10 YEARS, THE RESULTS SPEAK FOR THEMSELVES: TRADE BETWEEN US HAS GROWN SUBSTANTIALLY WITH TANGIBLE BENEFITS FOR ALL PARTIES INVOLVED. IN 1983, CENTRAL AMERICAN EXPORTS TO THE UNITED STATES TOTALLED $2 BILLION AND IMPORTS FROM THE UNITED STATES EQUALED $2.3 BILLION DOLLARS. IN 1993, WE SEE THAT OUR EXPORTS TO THE U.S. REACHED $4.5 BILLION, AND IMPORTS OF U.S. PRODUCTS TO OUR REGION CLIMBED TO $6.1 BILLION. THESE FIGURES UNDERSCORE A FACT THAT IS OFTEN OVERLOOKED: FOR EVERY DOLLAR CENTRAL AMERICA EARNS THROUGH EXPORTS TO THE ENTIRE WORLD APPROXIMATELY 70-75 CENTS GO TO PURCHASING U.S. PRODUCTS. THIS IS TRULY A "WIN-WIN" SITUATION THAT OPPONENTS OF FREE TRADE LOOK TO DOWNPLAY OR IGNORE, NARROWLY FOCUSING ON THE INILATERAL EXTENSION OF TRADE ACCESS WITHOUT TAKING NOTE OF THE FAVORABLE RESULTS PRODUCED. THE CBI HAS ALSO CONTRIBUTED TO THE GENERATION OF EMPLOYMENT, WITH MORE THAN HALF A MILLION JOBS CREATED IN CENTRAL AMERICA SINCE THE PROGRAM TOOK EFECT. IN THE UNITED STATES, THE INCREASE IN TRADE WITH CENTRAL AMERICA HAS ALSO CREATED EMPLOYMENT; FOR EXAMPLE, THE MANY PORTS IN THE UNITED STATES THROUGH WHICH OUR

PRODUCTS ENTER, HAVE REAPED SUBSTANTIAL BENEFITS DUE TO THE INCREASE IN TRADE, PROVIDING GOOD-PAYING JOBS AND COUNTLESS OPPORTUNITIES FOR THE SERVICE INDUSTRY.

FOR OUR REGION, THE CBI HAS ALSO PROMPTED A DIVERSIFICATION OF OUR ECONOMIES WHOSE BENEFITS WILL REACH INTO THE FUTURE; IN THE PAST, WE HAD DEPENDED ON A SMALL NUMBER OF TRADITIONAL PRODUCTS, SUCH AS COFFEE, SUGAR, BEEF AND COTTON, WHICH HINGED ON INTERNATIONAL WORLD MARKETS THAT ARE UNPREDICTABLE. WITH THE CBI, OUR PRODUCTION FOR EXPORT HAS SPAWNED A WIDE VARIETY OF NEW SECTORS WHICH CONTRIBUTE TO OUR ECONOMIES AND MITIGATE THE IMPACT OF ADVERSE PRICES IN OUR TRADITIONAL COMMODITIES. MANY OF OUR COUNTRIES HAVE BECOME IMPORTANT SUPPLIERS OF FRUITS & VEGETABLES, ORNAMENTAL PLANTS AND OTHER PRODUCTS, TAKING ADVANTAGE OF OUR ABUNDANT NATURAL RESOURCES AND FAVORABLE CLIMATE. IN THE INDUSTRIAL AREA, THE GROWTH IN THE TEXTILE & APPAREL INDUSTRY, AS WELL AS IN OTHER MANUFACTURED GOODS MADE FROM WOOD AND CERAMIC, HAVE GENERATED CONSIDERABLE EMPLOYMENT AND TANGIBLE BENEFITS THROUGHOUT OUR NATIONS. THE BROADENING OF OUR PRODUCTIVE CAPACITY UNDOUBTEDLY MAKES OUR ECONOMIES LESS DEPENDENT ON VOLATILE MARKETS FOR TRADITIONAL PRODUCTS, IN ADDTION TO PROVIDING A WINDOW OF OPPORTUNITY FOR MANY SMALL AND MEDIUM ENTREPRENEURS MANY OF WHICH WERE DEDICATED TO SUBSISTANCE AGRICULTURE PLANTING CORN AND BEANS. THE BOOM OF INDIGENOUS COOPERATIVES THAT PULL TOGETHER TO BETTER EXPORT THEIR PRODUCE HAS CONTRIBUTED TO IMPROVE THE STANDARD OF LIVING IN MANY AREAS WHERE HOPE WAS DIM WITH BETTER SALARIES THAN THOSE SECTORS PRODUCING COMMODITIES SUBJECT TO INTERNATIONAL PRICE FLUCTUATIONS. WITH THE CBI MADE PERMANENT IN 1990, THE ASSURANCE OF MARKET ACCESS HAS GENERATED CONFIDENCE AND MADE IT POSSIBLE FOR US TO CONTINUE FOSTERING EXPORTS THROUGH PROGRAMS DESIGNED TO ASSIST THEIR QUALITY AND THE SERVICES NECESSARY FOR THEM TO REACH CONSUMERS IN THE UNITED STATES. YOU WILL NOTICE THAT MANY OF THE FRESH PRODUCE YOU ENJOY DURING THE WINTER MONTHS COMES FROM CENTRAL AMERICA; FOR US IT'S A GREAT SOURCE OF PRIDE TO SEE DEMANDING CONSUMERS SAVORING OUR MELONS, BROCCOLI AND CAULIFLOWER IN A SEASON WHERE FRESHNESS HAS A NEW MEANING.

HOWEVER, WITH THE "NORTH-AMERICAN FREE TRADE AGREEMENT" (NAFTA) THAT TOOK EFFECT IN 1994, OUR COMPETITIVENESS IN MANY VITAL AREAS HAS BEEN ERODED DUE TO THE ADDITIONAL BENEFITS OBTAINED BY MEXICO IN THE NEGOTIATIONS. MANY SECTORS THAT HAD EXPERIENCED SOLID GROWTH ARE NOW IN A POSITION OF DISADVANTAGE AS A RESULT OF THE GREATER MARKET ACCESS ENJOYED BY MEXICO, WITH REPERCUSSIONS NOT ONLY FOR OUR ECONOMIES BUT SERIOUS CONSEQUENCES FOR THE UNITED STATES AS WELL.

PERHAPS THE SECTOR THAT HAS SUFFERED THE GREATEST IMPACT IS THE TEXTILES & APPAREL INDUSTRY, WHICH DESPITE NOT BEING SPECIFICALLY COVERED DUTY-WISE BY THE CBI HAS TAKEN ADVANTAGE OF ITS CAPACITY AND PROGRAMS SUCH AS THE "GUARANTEED-ACCESS LEVELS" (GALS). THIS PROGRAM, WHICH FAVORS THE USE OF U.S. FABRIC IN THE MANUFACTURE OF APPAREL BY GRANTING VIRTUALLY QUOTA-FREE ACCESS, HAS ALSO REPRESENTED A BOOM FOR THE U.S. TEXTILE INDUSTRY, WHICH LAST YEAR EXPORTED CLOSE TO $500 MILLION IN RAW MATERIALS TO CENTRAL AMERICA. LOOKING BACK, IN 1992 APPAREL IMPORTS FROM THE CBI REGION GREW BY 28.2%, COMPARED TO MEXICO'S 26.5%; IN 1993, CBI APPAREL EXPORTS TO THE UNITED STATES GREW BY 31.6% AND MEXICO'S BY 19.4%. IN THE 1994 WITH NAFTA IN PLACE, CBI APPAREL EXPORTS GREW BY A MEAGER 9.9%, COMPARED TO A HUGE INCREASE OF MEXICAN APPAREL EXPORTS TO THE UNITED STATES THAT CLIMBED TO 39.2%. THIS HAS PROMPTED A HALT TO NEW INVESTMENT IN THIS SECTOR AND THE CLOSING OF OVER 100 PLANTS IN OUR REGION DURING 1994 ALONE!! IN AN INDUSTRY THAT GENERATES SIGNIFICANT EMPLOYMENT, THE IMPACT HAS BEEN TREMENDOUS WITH OVER 15,000 WORKERS LOSING THEIR JOBS AS RESULT, A LOSS THAT OUR ECONOMIES CAN SCARCELY ABSORB AND WHOSE SOCIAL CONSEQUENCES

PRESSURE OUR DEMOCRACIES AND OUR CHANCES FOR PROSPERITY. THE U.S. TEXTILE INDUSTRY HAS ALSO FACED DECLINING ORDERS FROM CENTRAL AMERICA, WHICH WILL CONTINUE TO DIMINISH AS PRODUCTION FACILITIES CONTINUE TO CLOSE.

WE ARE ALSO EXPERIENCING THE IMPACT OF MEXICO'S ADDITIONAL BENEFITS UNDER NAFTA IN OTHER AREAS, WHERE THE TREATMENT GRANTED BY THE CBI HAS BEEN RENDERED INEFFECTIVE. MANY AGRICULTURAL PRODUCTS, SUCH AS VEGETABLES, FUITS, CUT FLOWERS AND OTHER ARE LOSING THEIR MARKET SHARE AS A RESULT OF MEXICO UNDER NAFTA. HERE, ONE MUST ALSO POINT OUT THAT, ALTHOUGH TARIFFS ARE IMPORTANT IN DETERMINING MARKET ACCESS, NON-TARIFF REGULATIONS CAN ALSO BE A FACTOR IN LIMITING ENTRY TO CONSUMER MARKETS. MANY EXPORTERS IN CENTRAL AMERICA ARE CURRENTLY SURPRISED THAT MEXICAN EXPORTS SEEM TO HAVE NO PROBLEM WITH CUSTOMS PROCEDURES, FITOSANITARY REGULATIONS AND QUALITY STANDARDS, WHEREAS OUR REGION'S PRODUCTS OFTEN FACE A NEVER-ENDING MAZE OF REQUIREMENTS AND INSPECTIONS. THIS IS ONE OF THE MAIN REASONS CENTRAL AMERICA WISHES TO ADVANCE IN NEGOTIATING ITS PARTICIPATION IN NAFTA, WHICH COULD COMMENCE BY SECTORIAL NEGOTIATIONS TO ADDRESS THESE AREAS AND ESTABLISH CLEAR, TRANSPARENT AND NON-DISCRIMINATORY GUIDELINES THAT ENCOURAGE AND FACILITATE TRADE. WE ARE PREPARED TO DO OUR PART AND ELIMINATE THE FEW MINUSCULE REMAINING OBSTACLES TO THE FREE ACCESS FOR U.S. GOODS AND SERVICES, CONSCIOUS THAT WE NEED TO ADVANCE ON A RECIPROCAL BASIS IN THESE FIELDS.

IN THE AREA OF INVESTMENT, NAFTA HAS PROMPTED A SHIFT IN THE ATTENTION OF INVESTORS DETRIMENTAL TO OUR REGION, WHICH HAS TAKEN CONCRETE STEPS TO FACILITE FOREIGN INVESTMENT. OUR COMMERCIAL OFFICES IN THE UNITED STATES CONSTANTLY REPORT DRASTIC DROPS IN INVESTOR INTEREST TO EXPLORE CENTRAL AMERICA AS AN OPTION. THIS POSES A SERIOUS QUANDRY FOR COUNTRIES GIVEN THE TIME AND EFFORT DEDICATED TO INVESTMENT PROMOTION, CONTRASTED WITH THE DAUNTING CHALLENGES WE FACE IN AREAS SUCH AS HEALTH, EDUCATION AND ENVIRONMENT WHICH DEMAND FOR CONSISTENT RESOURCE ALLOCATIONS. PEOPLE OFTEN QUESTION MEASURES ORIENTED TO ATTRACT INVESTMENT WHEN NO RESULTS ARE DERIVED, AND THE CURRENT SITUATION MAKES IT EXTREMELY DIFFICULT TO JUSTIFY ACTIONS. ANOTHER IMPORTANT THING TO KEEP IN MIND IS THAT, WITH INVESTMENT, COMES THE TRANSFER OF TECHNOLOGY ESSENTIAL FOR OUR REGION TO IMPROVE ITS RESOURCE UTILIZATION AND KEEP UP WITH THE LATEST INNOVATIONS. IN SECTORS LIKE AGRIBUSINESS, OUR COUNTRIES HAVE THE POTENTIAL TO TAKE THEIR FRESH PRODUCE ONE STEP FURTHER AND INCREASE THEIR EXPORTS OF PROCESSED FOODS TO MARKETS THAT SHOW AN ATTRACTIVE DEMAND. BUT FOR THIS, WE NEED TO HAVE ACCESS TO EQUIPMENT AND KNOW-HOW THAT COULD ENABLE US TO ADVANCE IN THIS DIVERSIFICATION OF OUR EXPORT SUPPLY AND TAKE ADVANTAGE OF MARKETS LIKE THE UNITED STATES AND EUROPE.

ONE CANNOT DENY THAT THE IMPACT OF NAFTA WILL CONTINUE TO BE FELT THROUGHOUT THE CARIBBEAN BASIN, PERHAPS EVEN AFFECTING AREAS WHICH WE HAVE YET TO PINPOINT; OUR REGION IS CONCERNED THAT THE MOMENTUM FOR PROGRESS THROUGH INCREASED TRADE WILL SUFFER A SERIOUS SETBACK THAT ENDANGERS MANY OF THE ACCOMPLISHMENTS WE'VE FOUGHT SO HARD FOR. FOR THIS REASON, WE WERE PLEASED TO ESTABLISH A CONSTRUCTIVE DIALOGUE WITH THE GOVERNMENT OF THE UNITED STATES DURING 1994, WORKING TOGETHER TO FIND ALTERNATIVES AND VIABLE OPTIONS THAT MAINTAIN THE COMPETITIVENESS OF THE CBI WHILE EXPLORING MECHANISMS FOR AN EVENTUAL FREE-TRADE NEGOTIATION. DESPITE THE UNFORTUNATE DEMISE OF THE "INTERIM TRADE PROGRAM" (ITP) LAST YEAR, WE WERE HAPPY TO LEARN FROM VICEPRESIDENT GORE AT THE MANAGUA SUMMIT THAT THE U.S. REMAINED COMMITTED TO PROMOTING THIS ISSUE AT THE EARLIEST POSSIBLE DATE. PRESIDENT CLINTON EMPHASIZED HIS ADMINISTRATION'S CONVICTION TO PUSH FOR CBI PARITY AT THE "SUMMIT OF THE AMERICAS" IN MIAMI AND PROMISED TO TAKE ACTION IN EARLY 1995, WORKING TOGETHER WITH THE U.S. CONGRESS TO ENSURE A SWIFT PASSAGE OF THE

LEGISLATION.
NOW WE HAVE THE OPPORTUNITY TO ACCOMPLISH THIS GOAL AND JOIN EFFORTS IN MAKING OUR IDEAS A REALITY, RE-ENFORCING THE TRADE PRINCIPLES THAT BOUND TOGETHER OUR HEMISPHERE AT THE MIAMI SUMMIT.

FOR THIS VERY REASON, CENTRAL AMERICA FULLY SUPPORTS "H.R. 553", THE "CARIBBEAN BASIN TRADE SECURITY ACT", AS INTRODUCED IN THE TRADE SUBCOMMITTEE OF THE HOUSE WAYS & MEANS COMMITTEE BY CHAIRMAN CRANE AND CONGRESSMEN GIBBONS, RANGEL AND SHAW. WE BELIEVE THAT THIS LEGISLATION ENJOYS WIDESPREAD BIPARTISAN SUPPORT IN THE U.S. CONGRESS, AND TRUST THAT THE CLINTON ADMINISTRATION WILL GIVE IT FAVORABLE CONSIDERATION IN ACCORDANCE WITH THE COMMITMENT MADE AND CONSISTENT WITH A SPIRIT OF TRUE PARTNERSHIP. WE MUST ACT NOW AND MOVE AHEAD WITH THIS BILL WHICH CARRIES TANGIBLE BENEFITS FOR ALL PARTIES INVOLVED, AS LETTING TIME PASS WILL ONLY HAMPER THE OBJECTIVES WE COMMONLY SHARE. SERIOUS ATTENTION SHOULD BE GIVEN TO THE POSITIVE EFFECT THAT THIS BILL WILL HAVE AND THE INCREASE IN TRADE IT WILL BRING ABOUT, WHICH WILL ABUNDANTLY COMPENSATE ANY SHORT-TERM IMPACT IT COULD CAUSE. PROMPT IMPLEMENTATION OF THIS LEGISLATION IS A MUST, REQUIRING A SERIOUS AND DILLIGENT EFFORT OF ALL WHO GENUINELY BELIEVE IN SUPPORTING TRADE GROWTH.

THE "CARIBBEAN BASIN TRADE SECUTIRY ACT" COMPREHENSIVELY ADDRESSES THE TWO MAIN ISSUES CURRENTLY RELEVANT TO TRADE BETWEEN THE UNITED STATES AND THE CARIBBEAN BASIN: 1) MITIGATE THE IMPACT OF NAFTA BY OFFERING EQUIVALENT BENEFITS TO CBI BENEFICIARIES, THEREBY MAINTAINING THEIR COMPETITIVENESS IN KEY SECTORS, AND, 2) ESTABLISHING THE GUIDELINES FOR THE REGION'S NEGOTIATION PROCESS THAT LEADS TO ITS PARTICIPATION IN NAFTA.

THE FINDINGS IN THE BILL REFLECT MANY OF THE COMMENTS MADE BEFORE AND REPRESENT THE DRIVING MOTIVE FOR THE LEGISLATION, DEMOSTRATING THAT WE SEE THINGS UNDER THE SAME PERSPECTIVE.

SECTION 101 DEALS WITH THE FIRST OF THE TWO ISSUES MENTIONED ABOVE BY PROVIDING EQUAL TREATMENT WITH NAFTA FOR THOSE PRODUCTS THAT ARE EXCLUDED FROM THE CBI PROGRAM DURING A TRANSITIONARY PERIOD OF TIME. OUR REGION STRONGLY BELIEVES THAT THIS WILL RESTORE THE COMPETITIVENESS OF KEY SECTORS IN OUR ECONOMIES AND BRING A HALT TO THE ADVERSE EFFECT PREVIOUSLY EXAMINED IN MY TESTIMONY. FOR EXAMPLE, OUR TEXTILE & APPAREL INDUSTRY WOULD BE GIVEN THE CHANCE TO COMPETE UNDER JUST TERMS BY ALLOWING THESE ITEMS TO HAVE EQUIVALENT TREATMENT WITH NAFTA AND ACCESS TO THE U.S. MARKET, CONTINUING TO PROVIDE EMPLOYMENT AND FOREIGN EXCHANGE EARNINGS THAT ARE CRUCIAL TO OUR NATIONS. AS STATED BEFORE, ITS BEEN THE HARDEST HIT BY NAFTA. WE ARE PREPARED TO MEET THE APPLICABLE REQUIREMENTS AND COMPLY WITH THE NAFTA RULES OF ORIGIN, AND ALSO WELCOME THE ESTABLISHMENT OF "TARIFF-PREFERENCE LEVELS" IN THOSE CASES WHERE THEY SERVE A PURPOSE AS IDENTIFIED BY THE LANGUAGE OF THE BILL. IMPLEMENTATION OF THIS PROVISION WOULD ALSO BENEFIT THE U.S. FABRIC INDUSTRY, WHICH COULD SEE INCREASES IN SALES TO THE REGION THAT COULD SURPASS $50 MILLION IN THE FIRST YEAR ACCORDING TO PRELIMINARY ESTIMATES, TAKING INTO CONSIDERATION THAT CENTRAL AMERICA'S HIGH USE OF U.S. COMPONENTS COMPARED TO OTHER REGIONS IN THE WORLD, LIKE ASIA, THAT HAVE A LOWER PROPENSITY TO IMPORT U.S. GOODS. SEVERAL COUNTRIES IN OUR REGION PRODUCE QUALITY FABRIC AND WOULD ALSO STAND TO GAIN FROM THIS BILL, EXPANDING THEIR EXPORTS AND CREATING THE PROSPERITY THAT COMES WITH IT. IN ADDITION, THE RECOGNITION FOR FOLKLORIC ARTICLES IS OF PARTICULAR IMPORTANCE TO NATIONS WHERE THE HANDICRAFTS INDUSTRY PROVIDES A LIVING FOR MANY PEOPLE THAT RELY ON THEIR SKILLS AND UNIQUENESS OF THEIR TRADITIONS. ITS IMPORTANT TO REALIZE THAT THEIR PRODUCTS WARRANT SPECIAL TREATMENT AS THEY DON'T COMPETE OR AFFECT COMMON APPAREL MADE IN THE UNITED STATES AND POSE NO THREAT OF MARKET DISRUPTION.

IN THE CASE OF FOOTWEAR, THE REGION HAS THE PRODUCTIVE CAPACITY TO INCREASE ITS EXPORTS PROVIDED IT HAS THE ASSURANCE OF MARKET ACCESS; IN TERMS OF U.S. IMPORTS, THE ENTIRE CBI WOULD PROBABLY NEVER EXCEED 3% OF THE MARKET AND DOES NOT REPRESENT A CONCERN THAT SHOULD ALARM ANYONE IN COMPARISON TO OTHER SUPPLIERS THAT HAVE FLOODED THE U.S. MARKET WITHOUT GRANTING RECIPROCAL ACCESS. FOR OTHER ITEMS, SUCH AS LEATHER ARTICLES, HANDBAGS, LUGGAGE AND FLAT GOODS, NAFTA-LIKE TREATMENT WOULD BE AN INCENTIVE TO OUR ENTREPRENEURS THAT WOULD UNDOUBTEDLY LEAD TO INCREASED PRODUCTION FOR EXPORT. IN THIS REGARD, WHAT MIGHT BE VIEWED AS MINOR IN DOLLAR TRADE VOLUME BY DEVELOPING NATIONS, REPRESENTS A BIG PLUS FOR OUR ECONOMIES AND CONTRIBUTES TO GROWTH OF MANY SMALL AND MEDIUM BUSINESSES.

GIVEN THE IMPORTANCE OF SUGAR EXPORTS FOR CENTRAL AMERICA, SECTION 102 ENSURES THAT CLOSE ATTENTION WILL BE PLACED ON THE IMPACT OF NAFTA ON THIS COMMODITY'S TRADE; ACCESS TO THE U.S. MARKET IS OF PARAMOUNT IMPORTANCE FOR US AND ITS EROSION WOULD CARRY SERIOUS CONSEQUENCES.

SECTIONS (201) AND (202) FOCUSES ON THE SECOND MAIN ISSUE OF SETTING THE GROUNDWORK TO COMMENCE NEGOTIATIONS BETWEEN THE UNITED STATES AND THE CARIBBEAN BASIN, CONDUCIVE TO ACCESION TO NAFTA. AS EXPRESSED BEFORE, CENTRAL AMERICA IS IN THE BEST DISPOSITION TO BEGIN THE DIALOGUE AND WILL CONTINUE TO PREPARE ITSELF TO MEET THIS CHALLENGE. IN THIS SENSE, THE MEETING BETWEEN OUR TRADE MINISTERS AND THE UNITED STATES TRADE REPRESENTATIVE IS AN APPROPRIATE MECHANISM TO CONDUCT CONSULTATIONS ON THE RELEVANT ISSUES AND DRAFT A PLAN OF ACTION THAT RESPONDS TO THE REALISTIC POSSIBILITIES OF MAKING TANGIBLE PROGRESS. WITHING THIS FRAMEWORK, OUR COUNTRIES WISH TO EXPLORE ADVANCING WITH SECTORIAL NEGOCIATIONS IN AREAS SUCH AS INVESTMENT, CUSTOMS PROCEDURES, INTELLECTUAL PROPERTY RIGHTS, AND FITOZOOSANITARY REGULATIONS, WHERE WE ARE READY TO MOVE AHEAD THEREBY STRENGTHENING THE IMPETUS TO TACKLE MORE COMPLEX MATTERS. WE BELIEVE THAT THIS TYPE OF AGREEMENTS, WITH PROVISIONS COMPARABLE TO NAFTA, WOULD PROMOTE INCREASED TRADE INMEDIATELY, AS WELL AS PAVING THE WAY FOR THE FUTURE BY REMOVING ANY DISTORTING ELEMENTS THAT IMPEDE THE FREE FLOW OF GOODS AND SERVICES. THERE IS A LOT WE CAN DO WHILE WE BUILD THE EDIFICE FOR A FULL-SCALE PACT AND ITS OUR OBLIGATION TO ADVANCE WHEREVER POSSIBLE.

THE CRITERIA CONTAINED IN SECTION (202) ARE CONSISTENT WITH THE FACTORS REQUIRED UNDER WTO FOR ANY GIVEN PARTY'S MEMBERSHIP AND PARTICIPATION. CENTRAL AMERICA MEETS MANY OF THEM AND WILL DO EVERYTHING POSSIBLE TO ATTAIN COMPLIANCE WITH THE OTHERS, AS THEY FORM PART OF THE ECONOMIC LIBERALIZATION WE SEEK TO FURTHER.

GENTLEMEN, THE "CARIBBEAN BASIN TRADE SECURITY ACT" CONSTITUTES A UNIQUE OPPORTUNITY FOR US TO JOIN TOGETHER IN FOSTERING TRADE AND CREATING JOBS. CENTRAL AMERICA STAUNCHLY SUPPORTS THE BILL AND IS READY TO DO ITS PART, UNDERTAKING ANY ACTIONS CONDUCIVE TO ITS PASSAGE BY THE U.S. CONGRESS. I THANK YOU FOR GIVING ME THE CHANCE TO SHARE OUR VIEWPOINTS WITH YOU AND TRUST THAT YOU WILL BACK THIS INITIATIVE.

Chairman CRANE. Thank you, Minister Castillo. Mr. Hylton, if you can keep your remarks under 5 minutes, we have another vote in progress, I would prefer to hear your testimony before we temporarily recess. But if you think you are going to be possibly pushing it, we can reserve that until we come back from this vote.

Mr. HYLTON. Well, I will try, Representative Crane, to be very close.

Chairman CRANE. All right, very good.

STATEMENT OF ANTHONY HYLTON, PARLIAMENTARY SECRETARY, MINISTRY OF FOREIGN AFFAIRS, GOVERNMENT OF JAMAICA

Mr. HYLTON. Mr. Chairman and members of this subcommittee, thank you for providing me this opportunity to appear before you on a matter of critical importance to Jamaica, to Caribbean countries, and to the entire Caribbean Basin. I will take this opportunity to publicly thank you and Representatives Rangel and Shaw for introducing the Caribbean Base Trade Act within the first 100 days of this Congress.

May I ask that a full and lengthier submission be accepted for the record before I summarize.

The Caribbean Basin is faced with two fundamental, yet conflicting trade trends. On the one hand, NAFTA has emerged as an immediate challenge to the viability of the U.S.-Caribbean trading relationship. On the other hand, NAFTA represents the first step in the establishment of a hemispheric free trade area, which we absolutely support.

It is in this context that I appear before you with two simple objectives. First, I wish to explain why passage of the Caribbean Basin Trade Security Act is urgently needed as a short-term remedy to the trade and investment diversion caused by NAFTA. Second, I will highlight how this measure will act as a transitional mechanism to attain the long-term goal of hemispheric integration.

Through its combination of trade, investment, and tax policies, the CBI legislation has progressively established a framework that has facilitated mutually beneficial U.S.-Caribbean economic links. In turn, Jamaica and other Caribbean countries have launched their own trade and investment economic reform programs. Together, the United States and Caribbean countries have a trade partnership worth over $20 billion a year, employing hundreds of thousands of workers throughout the region and in the United States itself. This strengthened trade and commercial links between the United States and the Caribbean to which CBI has made a contribution and has also created a sound basis for cooperation in other areas such as environmental protection, counternarcotics activities, the promotion of democracy, and regional security measures.

Although the CBI program provides for duty-free treatment for a vast number of products, it statutorily excludes a few items, such as textile, apparel, footwear, tuna, and petroleum that are among the Caribbean Basin's most valuable exports. According to a recent study by the Association of American Chambers of Commerce in Latin America, at least 37 percent of Jamaica's exports to the Unit-

ed States are not covered by either the CBI or GSP. Moreover, some of these products also face quotas in addition to these duties.

In the 12 months since NAFTA was implemented, we are beginning to see signs that 12 years of the CBI could be undermined. The American Apparel Manufacturers Association reports that the growth rate of U.S. apparel imports from the CBI region dropped by 60 percent from 1993 to 1994. During that same period, the growth rate of apparel imports from Mexico nearly doubled.

As this trend continues, we could witness a broad diversion of American demand for supplies in CBI countries for firms in Mexico, thus reducing CBI exports and income. Already, a related industry, shipping, has been adversely affected by these developments.

Another consequence of NAFTA's implementation has been the diversion of new investment. One of the primary indicators has been the fact that in the last 2 years there has been a pause in investment in the region as investors waited to evaluate the NAFTA provisions.

It is in this context, therefore, that we see H.R. 553 as a timely solution. If passed, H.R. 553, very simply, will restore equity between Mexico and the Caribbean Basin countries. It will provide for nondiscriminatory access in the U.S. market for those products on which NAFTA gives Mexico an advantage. H.R. 553 is also a cost-effective way for the United States to conduct foreign trade and economic policy in the region, especially in this era of budget cutbacks.

The gains of trade liberalization and economic growth should generate alternative sources of revenue for the U.S. Government to offset any revenue losses.

H.R. 553 both explicitly and implicitly recognizes a greater goal of bringing the Caribbean Basin countries into a free trade area. In this regard, H.R. 553 furthers the agenda developed at the Miami summit with one critical difference. While much of the attention was focused on linking the large economies of South America with that of the NAFTA, H.R. 553 puts forth a tangible framework to determine how the Caribbean economies will be joined in this free trade arrangement as well.

Specifically, H.R. 553 provides for a 6-year period during which full parity with Mexico will be provided for Caribbean countries. Six years is both appropriate and realistic to provide Caribbean Basin countries an opportunity to complete the trade liberalization and economic reform steps necessary for full accession to a free trade agreement with the United States.

Importantly, the bill also initiates dialog between the administration and the Caribbean Basin countries on ways to preserve and strengthen this U.S.-Caribbean trading relationship. In addition, the bill requires the administration to perform a series of studies and reports on the U.S.-Caribbean trade relationship.

In a sense, H.R. 553 asks the administration to continually ask the question: What will be the impact of the specific policy change on the Caribbean? Such a question should have been asked as NAFTA was considered. We believe this emphasis is appropriate, partly because of the close trade relationship between the United States and the Caribbean. In addition, H.R. 553 will ensure that

eventual free trade negotiation in the hemisphere fully includes Caribbean Basin countries.

Jamaica is deeply committed to a multilateral trading system which we believe is a stimulant to economic growth. Jamaica subscribes to, and its policy has been fully consistent with, the principles and disciplines of the GATT.

Chairman CRANE. Mr. Hylton, I apologize for this, but we are down to under 5 minutes to make this vote. If you would temporarily sustain, but please stay here because there are a couple of questions I have and I think Mr. Payne does too. We will be back right after this vote. The subcommittee stands in temporary recess.

[Recess.]

Chairman CRANE. Again, we apologize for the interruption, and if you will complete your statement, Mr. Hylton, we will get to questions.

Mr. HYLTON. Thank you very much, Congressman. I ended at a point where I was saying Jamaica is deeply committed to an open, multilateral trading system, which we believe is a stimulant to economic growth. Jamaica subscribes to, and its policies have always been fully consistent with, for instance, the principles and disciplines of the GATT. Jamaica ratified the agreement establishing the World Trade Organization only 2 weeks ago on January 31, 1995.

Jamaica's domestic economic policies have for several years focused on economic reform, stabilization, and structural adjustment in an attempt to create an environment conducive to a private sector-led, market-driven, outward-looking growth strategy.

An important aspect has been a comprehensive program of trade liberalization involving substantially reduced tariffs and the elimination of quantitative trade restrictions. This has been complemented by the abolition of price and exchange controls and a vigorously implemented campaign of privatization and fiscal and monetary discipline. A market-determined exchange rate system is operating successfully. Jamaica's privatization program is one of the most extensive and successful anywhere in the developing world.

Jamaica sees a CBI program as a springboard to greater hemispheric trade liberalization and we have taken steps to accelerate this process. In the past year, for example, Jamaica signed both a Bilateral Investment Treaty and an intellectual property rights agreement with the United States. We were also concerned with fair trade and were the first country to include strengthened and anti-circumvention language in our bilateral textile agreement with the United States.

In conclusion, let me emphasize that the potential for NAFTA to divert trade and investment from the Caribbean was widely recognized from the outset and is now being confirmed. Within the Congress this problem has also been recognized, and I would like to note and thank those members of this subcommittee who have been among the leaders in working to legislate a solution.

We recall that last year Congress came close to adopting measures to address the problem by considering the administration's Interim Trade Program. Although the ITP did not fully address the

issue of NAFTA parity, it heightened the awareness of this problem and the need to resolve it quickly.

As we look for ways to keep the U.S.-Caribbean partnership healthy and build a framework to make a free trade spirit of Miami a reality, the Caribbean needs a comprehensive transitional mechanism to alleviate the adverse effects of NAFTA and CBI countries and to help the region move purposefully toward hemispheric free trade.

I thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF
MR. ANTHONY HYLTON
PARLIAMENTARY SECRETARY
IN THE MINISTRY OF FOREIGN AFFAIRS
OF JAMAICA
BEFORE THE
HOUSE WAYS AND MEANS TRADE SUBCOMMITTEE
FEBRUARY 10, 1995 ON THE
CARIBBEAN BASIN TRADE SECURITY ACT (HR 553)

Mr. Chairman and members of your Committee, thank you for providing me this opportunity to appear before you on a matter of critical importance to Jamaica, to Caricom countries and to the entire Caribbean Basin.

Let me take the opportunity to publicly thank you and Representatives Gibbons, Rangel, and Shaw for introducing the Caribbean Basin Trade Security Act (HR 553) within the first one hundred days of this Congress.

The Caribbean Basin is faced with two fundamental, yet conflicting trade trends. On the one hand, NAFTA has emerged as an immediate challenge to the viability of the US/Caribbean trading relationship.

On the other hand, NAFTA represents the first step in the establishment of a hemispheric free trade area which we welcome.

It is in this context that I appear before you today with two simple objectives. First, I wish to explain why passage of the Caribbean Basin Trade Security Act is urgently needed as a short term remedy to the trade and investment diversion caused by NAFTA. Second, I will highlight how this measure will act as a transitional mechanism to attain the long term goal of hemispheric integration.

A. The Caribbean Basin Initiative at Twelve

In 1995, the Caribbean Basin Initiative (CBI) marks its 12th anniversary. In the dozen years since it has been enacted, the CBI has emerged as an important stimulus of economic development in the Caribbean Basin and of trade linkages throughout the region. The effect has been felt -- not only in Kingston and Montego Bay -- but also in Miami, Baltimore, New Orleans, and hundreds of other communities throughout the United States. In many ways, the CBI has exceeded the expectations of the drafters of the CBI legislation who wrote in 1990 that:

> "The Congress finds that...a stable political and economic climate in the Caribbean region is necessary for the development of the countries in the region and for the security and economic interests of the United States."[1]

Through its combination of trade, investment, and tax policies, the CBI legislation has progressively established a framework that has facilitated mutually beneficial, U.S./Caribbean economic links. In turn, Jamaica and other Caribbean countries have launched their own trade and investment economic reform programs. Together, the United States and Caribbean countries have created a trade partnership worth more than $20 billion a year, employing hundreds of thousands of workers throughout the region and in the United States itself.

Since the mid-1980's, U.S. overall exports to the Caribbean have expanded by over 100 percent and Caribbean exports to the United States have climbed by roughly 50 percent. The Caribbean Basin now comprises the tenth largest market for the United States, and is one of the few regions where the United States consistently posts a trade surplus. In Jamaica's case, over 60 percent of our trade, takes place with the United States. One of the highest levels in the hemisphere.

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[1] Section 202 of the Caribbean Basin Economic Recovery Expansion Act of 1990 [19 usc 2701nt; PL 101-382; Title II]

Roughly 60 cents of every dollar Jamaica earns from exports to your country, is spent in the United States buying American-made consumer goods, food products, industry inputs, and capital equipment. This, when compared with each dollar of Asian imports, which only generates about 10 cents worth of subsequent U.S. purchases, makes trade with the Caribbean, both in relative and absolute terms a significant contributor to U.S. employment and income.

The strengthened trade and commercial links between the U.S. and the Caribbean, to which the CBI has made a major contribution, have also created a sound basis for cooperation in other areas such as environmental protection, counter-narcotics activities, the promotion of democracy, and regional security measures.

B. The Impact of NAFTA on CBI Trade

Although the CBI program provides for duty free treatment for a vast number of products, it statutorily excludes a few items -- such as textiles and apparel, footwear, luggage, tuna, and petroleum -- that are among the Caribbean Basin's most valuable exports. According to a recent study by the Association of American Chambers of Commerce in Latin America, at least 37% of Jamaica's exports to the U.S. are not covered by either the CBI or GSP. Moreover, some of these products also face quotas in addition to these duties.

NAFTA, on the other hand, eliminates the duty and quota treatment for these same articles, either immediately or over a phase-out period. To be sure, NAFTA also phases out the duties on the products for which the CBI currently enjoys duty free treatment.

But the result is far from even.

In the twelve months since NAFTA was implemented, we are beginning to see signs that the twelve years of the CBI could be undermined:

It has been established that the elimination of quota and phase-out of tariffs on Mexican products will remove or at least reduce the advantage enjoyed by CBI exports to the U.S. market. The American Apparel Manufacturer's Association reports that the growth rate of US apparel imports from the CBI region dropped by 60 percent from 1993 to 1994. During that same period, the growth rate of apparel imports from Mexico nearly doubled. As this trend continues, we could witness a broad diversion of American demand from suppliers in CBI countries to firms in Mexico, thus reducing CBI exports and income. Already, a related industry, shipping, has been adversely affected by these developments.

Another consequence of NAFTA'S implementation has been the diversion of new investment. One of the primary indicators has been the fact that in the last 2 years there has been a pause in investment in the region, as investors waited to evaluate the NAFTA provisions.

C. HR 553 - A Timely Solution

It is in this context, therefore, that we see HR 553 as a timely solution. If passed, HR 553 very simply will restore equity between Mexico and the Caribbean Basin countries. It will provide for non-discriminatory access into the US market for those products on which NAFTA gives Mexico an advantage.

HR 553 builds on the existing CBI program and legislation. It does not establish a new set of criteria by which countries can become eligible for the benefits, but rather links the enhanced benefits to the existing program criteria. In this way, HR 553 recognizes that many Caribbean countries -- through trade liberalization and economic reform measures -- have already undertaken steps that exceed the criteria outlined in the original legislation.

HR 553 is also a cost-effective way for the United States to conduct foreign trade and economic policy in the region, especially in this era of budget cutbacks.

The gains of trade liberalization and economic growth should generate alternative sources of revenue for the US Government to offset any tariff revenue losses.

D. HR 553 as the First Step towards a wider Hemispheric Free Trade Area

HR 553 -- both explicitly and implicitly -- recognizes a greater goal of bringing the Caribbean Basin countries into a hemispheric free trade area. In this regard, HR 553 furthers the agenda developed at the Miami Summit with one critical difference. While much of the attention has focused on linking the larger economies of South America with that of the NAFTA, HR 553 puts forth a tangible framework to determine how the Caribbean economies will be joined in this free trade arrangement as well.

Specifically, HR 553 provides for a six year period during which full parity with Mexico will be provided for Caribbean countries. Six years is both appropriate and realistic to provide Caribbean Basin countries an opportunity to complete the trade liberalization and economic reform steps necessary for accession to a free trade agreement with the United States. While some countries -- such as Jamaica -- are now ready to negotiate a free trade agreement with the United States, others may need the full six year period outlined in HR 553.

The six year period will also create a viable time frame that will help restore "confidence" in the Caribbean, confidence that has been eroded as previous parity bills have been proposed and not enacted. As investors and traders see that time period, they will be able to grasp a tangible
expression of the US commitment to its trade relationship with CBI countries.

Importantly, also, the bill initiates a dialogue between the Administration and the Caribbean Basin countries on ways to preserve and strengthen the US/Caribbean trading relationship. Even in the absence of specific trade negotiating authority, such a dialogue is important to help maintain the momentum of the Miami Summit.

In addition, the bill requires the Administration to perform a series of studies and reports on the US/Caribbean trade relationship. In a sense, HR 553 asks the Administration to continually ask the question: "What will be the impact of a specific policy change on the Caribbean." Such a question should have been asked as NAFTA was considered. We believe this emphasis is appropriate, partly because of the close trade relationship between the United States and the Caribbean. In addition, HR 553 will ensure that eventual free trade negotiations in the hemisphere fully includes Caribbean Basin countries.

E. Jamaica's Commitment to Free Trade

Jamaica is deeply committed to an open multilateral trading system which, we believe, is a stimulant to economic growth.

Jamaica subscribes to, and its policy has always been fully consistent with, the principles and disciplines of the GATT. Jamaica ratified the Agreement establishing the World Trade Organization two weeks ago on January 31, 1995.

Jamaica's domestic economic policies, has for several years now, focused on economic reform, stabilization, and structural adjustment in an attempt to create an environment conducive to a private sector-led, market-driven, outward-looking growth strategy. An important aspect has been a comprehensive programme of trade liberalization involving substantially reduced tariffs and the elimination of quantitative trade restrictions. This has been complemented by the abolition of price and exchange controls and a vigorously implemented campaign of privatization and fiscal and monetary discipline. A market-

determined exchange rate system is operating successfully. Jamaica's privatisation programme is one of the most extensive and successful anywhere in the developing world.

Jamaica sees the CBI program as a springboard to greater hemispheric trade liberalization. And we have taken steps to accelerate this process. In the past year, for example, Jamaica signed both a Bilateral Investment Treaty (BIT) and an Intellectual Property Rights (IPR) Agreement with the United States. We were also concerned with fair trade and were the first country to include strengthened anti-circumvention language in our bilateral textile agreement with the United States.

Jamaica is ready and has a demonstrated commitment to enter the next stage of trade liberalization with the United States and other hemispheric partners.

F. Conclusion

In conclusion, let me emphasize that the potential for NAFTA to divert trade and investment from the Caribbean was widely recognized from the outset and is now being confirmed.

Within the Congress, this problem has also been recognized and I would like to note and thank those members of this Sub-Committee who have been among the leaders in working to legislate a solution. We recall that last year, Congress came close to adopting measures to address this problem by considering the Administration's Interim Trade Program (ITP). Although the ITP did not fully address the issue of Nafta Parity, it heightened the awareness of this problem and the need to resolve it quickly.

As we look for ways to keep the US/Caribbean partnership healthy and build the framework to make the free trade spirit of Miami a reality, the Caribbean needs a comprehensive transitional mechanism to alleviate the adverse effects of Nafta on CBI Countries and to help the region move purposefully towards Hemispheric Free Trade.

Chairman CRANE. Thank you, Mr. Hylton.

Minister Castillo, I had the privilege of being in your country in 1979 to deliver a commencement address in which Francisco Marroquin and Manuel Ayau conferred upon me an honorary doctorate of political science. Is Manuel, out of curiosity, still in Guatemala?

Mr. CASTILLO. Yes, he is in Guatemala and very active. In fact, he is working with our government now. He has been named chief, responsible for privatization in Guatemala.

Chairman CRANE. That is encouraging to hear because he was a devoted disciple, as was I, of Milton Friedman, Friedrich Von Idayek, and George Stigler. I am happy to hear he is still active and involved and please convey my very best to him.

Mr. CASTILLO. I will certainly do that. Thank you.

Chairman CRANE. Let me ask you a question, though, and this has to do with restrictions on foreign ownership and repatriation of profits and lack of intellectual property rights which have the effect of putting a damper on investment flows. I was wondering, in both Guatemala and Ambassador Sol in El Salvador, are these problems that are being addressed at the present time in both El Salvador and Guatemala?

Mr. CASTILLO. Please, ladies first.

Ms. SOL. Mr. Chairman, I know in El Salvador we are at this moment working on a bilateral intellectual property right agreement with the United States. So I believe that all this will be taken care of with this treaty.

Chairman CRANE. Very good.

Mr. CASTILLO. In the case of Guatemala, we do have a comprehensive package that we are presenting to Congress about the month of April that is part of the negotiation with the Inter-American Development Bank and a compromise to pursue legislation that would give absolute same and equal treatment to foreign investment and to products going out of the country, and free flow of capital, yes.

Chairman CRANE. Very good. That is most encouraging, and we have the intention of trying to push this legislation through at least the committee, hopefully, before the end of March, and the sooner the better in terms of my perspective and the interests, not only of the Caribbean, but of the United States, too. I thank you for your testimony.

Mr. Rangel.

Mr. RANGEL. Thank you. You have heard the administration's testimony and perhaps we would not have to go through this amendment process. It appears from those members of the Caribbean community that many of the objections that they raise are not objections in terms of workers' rights, protection of investment, and intellectual property. So exactly what country has received complaints from any representative from the United States as it concerns intellectual property rights?

What commodity would be the problem, that you know of, that we are insisting on protecting? Do you know? What agreement is it that you are signing? What intellectual property do we have that is being threatened by any one of your countries, do you know?

Mr. MOTTLEY. Congressman, I think the United States is concerned about pirating of television transmission and things of this nature. So some of it does exist, but certainly both Jamaica and Trinidad and Tobago have signed intellectual property rights agreements with the United States and are proceeding to enforce them.

Mr. RANGEL. I don't know how it is done diplomatically, but I would hope it could be done more speedily than what we have to do legislatively. I am just encouraging you to try to work out those differences with our country as it relates to the protection of American investors.

I think you have a history of doing that because of the close proximity and the friendships that have been enjoyed historically between the countries and, of course, immigration between the United States and all of the countries before us.

Of course, the major problem, as it relates to labor in the United States, is the protection of the workers' rights, and I think that all of the countries agree that you want to improve the quality of protection for your own people even more so than we would want.

As I understand it, this piece of legislation would not adversely affect jobs; but what it intends to do is to stop the hemorrhage of the jobs going to Mexico through the North American Free Trade Agreement and to bring some equity to the commitment we made initially to the Caribbean Basin Initiative. Is that your understanding?

Mr. HYLTON. That is absolutely correct, Congressman. I would like to point out that certainly with respect to the labor concerns, that, as you are well aware, Jamaica and other Caribbean countries have consistently—not only have we adopted most of the, if not all of the 11 conventions on the international labor standards, but that we have consistently enforced them. Environmental and other issues are consistently enforced. So we feel certainly in Jamaica that we are ready to undertake the NAFTA obligation if and when that is made available to us.

Mr. RANGEL. Well, I would encourage you to have our trade representatives' fears allayed by whatever diplomatic causes you have at your disposal so that we can move swiftly on this legislation with assurances that we are all reading from the same page. Thank you so much for your testimony, your friendship, and your support over the years.

Ms. SOL. Congressman, excuse me. I would like to say that intellectual property rights legislation in El Salvador—we have an intellectual property rights legislation, and we are enforcing it. We are working now on an agreement, intellectual property agreement, with the United States. The labor rights El Salvador just passed, well, several months ago, a new labor code has been recognized by the ILO as one of the most advanced in Latin America. So I would like to leave that for the record.

Mr. RANGEL. Well, send a note to the State Department and the Trade Administration and maybe that would help them in their thinking about working with us. Thank you.

Chairman CRANE. Thank you.

Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman, and I also want to welcome all of you and appreciate very much your testimony. It has been very helpful and I have learned from it.

As you may have heard from the previous witnesses, my perspective is a little bit different in that I represent an area that has quite a few apparel workers at the present time. Ambassador Sol was commenting on how easy it is to move the apparel industry. It just takes one telephone call and it is moved, and I must tell you that no one knows that any better than I and the people in my district do.

The textile and apparel industry in this country has lost about a half million jobs over the last 10 years, and just last year, in the apparel industry, we lost some 13,000 jobs in our country. In my own district, this is a very important industry. We do not have a lot of alternative industries if people are not employed in the apparel industry. So I think you might understand my perspective, or certainly I would hope so.

Let me just ask one question. We have another vote and I have a limited amount of time, and this is really from the written testimony of Minister Castillo. It talks about the tariff preference level, and you mention that you also welcome the establishment of these tariff preference levels in those cases where they serve a purpose identified by the language of the bill. My concern about the tariff preference levels is that they would undo some of what was done in NAFTA in terms of the rule of origin.

Would you comment on exactly what you might expect in Guatemala and perhaps other CBI nations as it relates to the TPLs and what you might be seeking under that provision.

Mr. CASTILLO. Sure. I think the comments in the written statement are pointing to the fact that the legislation proposed in H.R. 553 is a comprehensive piece of legislation that is asking for full parity in every sense of the word. If the TPLs are given to Mexico and they do not use them, well, we welcome that they will be given to Central America.

Maybe we will not use them either, but the purpose of the legislation was to propose absolute parity and the same conditions as Mexico.

Mr. PAYNE. You do not anticipate any particular need at this time or any necessity of the TPLs as you envision this legislation being enacted?

Mr. CASTILLO. I think we could not tell at this time. It will depend, of course, on the economic forces whether they will start utilizing them or not. But my comment in the written statement was toward this line of argument.

Mr. PAYNE. I also wanted to express my appreciation to Minister Mottley who tried very hard to come by and see me yesterday. We had schedules that did not quite work out, but you were very kind to offer to visit, and I appreciate the telephone call and hope to see you on another trip to Washington. Thank you very much.

Mr. CASTILLO. Mr. Chairman, I would just say that we understand, Mr. Payne, your situation and the situation of your district. Our countries have 40 percent unemployment. This has created a lot of jobs for us and we are losing 15,000 jobs also this year. So

we feel a lot the same way you do and we understand your situation and your position. We understand.

Mr. PAYNE. I also understand that there was a rate of growth last year, some 14 percent in terms of the apparel industry throughout the Caribbean. You mentioned 9.9 percent in Guatemala and that is a good rate of growth and should be sustained even under the existing CBI program. Thank you.

Mr. CASTILLO. I am glad you brought that up. The problem is that was in the first year. You are right, maybe 9 percent or 14 percent for the whole Caribbean sounds like a good growth rate, but that is only the first year effect of NAFTA. It continues giving more and more benefits to Mexico for the next 2 years. So if the full impact is measured by the end of those 2 years that are still left, it will be completely gone. This is the impact only of the first reduction, and the reductions in textile and apparel for Mexico are 3 years. So there is still more to come.

Mr. PAYNE. As Ambassador Sol said, this is an industry that can move very quickly. In fact NAFTA has been in place now for over 1 year and you are still seeing positive growth and not negative growth, which was the concern 1 year ago. It seems to me, in fact, the initiative in place now is continuing to work, although certainly NAFTA parity would work better for the Caribbean nations.

Mr. CASTILLO. However, some of the investment—in fact, the hundred companies that left, left mostly the last 2 months of the year. Most of them stayed the months before because we were counting on the interim trade program. In those 2 months where the interim trade program did not go through, that created a tremendous deception and a lot of people that had not made the decision to go, did leave the country.

So we hope that this—just the presentation of this legislation will stop the movement of capitals and of companies and, of course, the passage will absolutely halt it.

Mr. HYLTON. Mr. Chairman, let me just associate myself with the remarks of the representative from Guatemala in making the point that while the 14 percent growth last year Caribbean-wide is commendable, or is certainly noteworthy, we do share the concerns that it is just the first. It is the opening salvo, and that, indeed, as this legislation moves through the Congress, a number of investors are waiting to see just exactly what will happen.

The same thing occurred on the interim program last year. Everyone was hopeful that we would have had some positive results under that, but I think if we were to both interminably delay this legislation or if it were not to pass, then I think you will see a continued quickening slide of those numbers.

Ms. SOL. Mr. Chairman, may I just add one little thing?

Mr. Payne, we see this as a partnership between Latin America and the Caribbean region and the United States. We see it as a partnership that will make us more effective and more efficient against imports from other parts of the world. So we understand your problems and we have the same problems, but we think that we can work a partnership to make it better, to make it a win-win situation, like Mr. Crane said earlier. Thank you.

Chairman CRANE. I want to thank all the members of this panel for their participation and can only applaud the fact that you are

in the textile industry because you had to bundle up to come up here to testify. We would all infinitely prefer to be down in the Caribbean.

Let me also encourage you, we are confident that we can make forward steps on this issue sooner rather than later. I have to apologize now to our next panel before they come up here. This is a motion to recommit, which will be followed by a final passage vote, so there will be a little break for anyone that wants to go get coffee. We stand in temporary recess.

[Recess.]

Chairman CRANE. Are the representatives of the apparel industry manufacturers and the importers and exporters ready? Will all of you folks please take a seat here on the panel.

Ms. Hughes, Mr. Vine, Mr. Ermatinger.

All right. While we are waiting, we will proceed with our first panelist, Mr. Martin.

STATEMENT OF LARRY MARTIN, PRESIDENT, AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Mr. MARTIN. Thank you, Mr. Chairman.

I am Larry Martin, President of the American Apparel Manufacturers Association. We are the central trade association for American producers of garments. Our members are responsible for about 70 percent of domestic production.

Many of them also operate in Mexico under NAFTA and in the Caribbean and Central American under the 807 program. Some import garments from other parts of the world.

Mr. Chairman, I would like to take this opportunity to commend you, Mr. Gibbons, Mr. Rangel, and Mr. Shaw, for introducing H.R. 553, the Caribbean Basin Security Act. We have supported the idea of CBI parity since before the NAFTA negotiation was completed. We believe parity should have been made part of the NAFTA-enabling legislation.

We believe it should have been made part of the Uruguay round enabling legislation. We regard CBI parity as leftover work from the previous Congress, and we hope this Congress will approve it at the earliest possible date.

Historically, the CBI region and Mexico have been treated alike in terms of apparel trade. Both had the advantage of section 807 under which garments sewn in Mexico or the Caribbean can be returned to the United States with duty paid only on the value added by the sewing.

When the 807 aid program was created in 1986, it essentially made many classes of apparel quota free from the Caribbean. That program immediately was extended to Mexico where it was called the Special Regime. NAFTA, however, tipped the scale dramatically in favor of Mexico.

Under NAFTA, most garments now enter the United States duty and quota free. This amounts to an 8- to 10-percent cost advantage for Mexico, a very significant advantage in an industry with historically low profit margins. That advantage has been increased with the devaluation of the Mexican peso.

CBI parity is good for both the Caribbean region and for the U.S. apparel industry. U.S. apparel companies have contributed thou-

sands of jobs to the region, contributing significantly to economic development and the acceptance of democratic principles.

But our industry is not in business to move jobs offshore. The production that had gone to the Caribbean was no longer viable in the United States. If it had not gone to the CBI or Mexico, it would have gone to the Far East where there would be very little American participation in the manufacturing process.

We estimate that every 100 jobs in the CBI produces 15 apparel jobs in the United States in design, cutting, marketing, and distribution. In addition, it preserves many jobs in the textile and other supplies industries.

More importantly, the coproduction in Mexico or the Caribbean allows U.S. companies to lower their overall costs, compete in the world market, and maintain very large volumes of employment in the United States.

Mr. Chairman, the U.S. apparel industry very much stands at a crossroads today. Because of the Uruguay round, we face for the first time since the late 1960s, a future without benefit of quotas on imported apparel. We believe the U.S. industry has the strength to compete because of two very important advantages: The first is our proximity to our market and our commitment to quick response programs which allow us to replenish retail shelves in a fraction of the time it takes from the Far East.

The second is our ability to share some production with Mexico, Central America, and the Caribbean. If we exploit these two advantages, and we fully intend to, we can remain a major factor in the global apparel marketplace and can continue to provide good jobs to many thousands of Americans.

I thank you for the opportunity to be here today, and I would be pleased to respond to your questions.

Chairman CRANE. Thank you, Mr. Martin.

[The prepared statement and attachment follow:]

TESTIMONY OF LARRY MARTIN
AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Mr. Chairman, my name is Larry Martin, I am President of the American Apparel Manufacturers Association (AAMA). AAMA is the primary trade association of the U.S. apparel industry, representing approximately 70 percent of the U.S. production. Our members make everything from socks to caps, from underwear to shirts and sweaters, to suits and overcoats. While the industry is large, most of the companies are relatively small. Three-fourths of our members have sales under $20 million and more than half have sales under $10 million. Our members are the source of more than 700,000 manufacturing jobs. In total there are approximately 1,000,000 apparel manufacturing jobs in the U.S. and almost every state has some apparel employment. Ninteen states have more than 10,000 apparel jobs and eight of those have more than 50,000 jobs. Approximately 40% of American apparel workers are minorities and 90% are women.

AAMA supports the maintenance of a large and viable U.S. apparel manufacturing industry. American apparel companies are not in the business to move jobs offshore. However, we must compete with low-wage imports which have taken over half of our market. In order to compete with low-wage imports, many U.S. companies opened production in Mexico and the CBI countries. Firms often found sourcing from the CBI countries best fit their operations, even though apparel was specifically excluded from the CBI program.

This exclusion was partially offset by the 807 program which gives us lower average costs, makes U.S. companies more competitive and allows us to maintain significant employment in the U.S. Under 807, a $10.00 garment usually has $6.00 in U.S. components and about $4.00 in value-added by offshore assembly. The duty is assessed on only the value-added. That duty is usually about 20%, which on $4.00 is 80 cents. This is equivalent to 8% on the value of the entire garment. With wholesale and retail markups, a garment from the CBI region carries a penalty of approximately $3.00, as compared to the same garment coming from Mexico.

In 1986, 807 was modified by the creation of the 807-A program. Under it, duty still was paid, but only on the value-added in the region. However, the creation of Guaranteed Access Levels (GALs) essentially made many products from the region quota-free. 807-A was duplicated for the Mexican industry and named the Special Regime.

It is important to realize the production moved was no longer viable in the U.S. Without the incentives of 807-A, NAFTA and hopefully CBI parity, that production would go to the Far East where there would be little U.S. involvement in the manufacturing process.

With the implementation of NAFTA, which AAMA strongly supported, apparel assembled in Mexico of U.S. formed fabric enters our market quota and tariff-free. However, duties are still charged on the value added to imports from the CBI countries. This places the CBI countries at a great competitive disadvantage vis-a-vis Mexico, and the progress the U.S. fostered in the Caribbean Basin will, in large part, be reversed. Competition from Mexico will force many local and U.S. firms out of business or to move their investments from the CBI countries to Mexico.

With the elimination of tariffs under NAFTA, this 8% cost no longer is added to the price of garments coming from Mexico. Couple this with slightly easier and cheaper transportation between Mexico and the U.S. vs. that between the Caribbean and the U.S. and Mexico has a significant advantage. Eight percent may not appear to be a significant savings, but the average profitability of an apparel firm in the U.S. is much less than that.

Historically, Mexico and the CBI region played on a level playing field. The implementation of NAFTA tilted the field sharply in favor of Mexico. As this chart demonstrates, traditionally, the growth rate of imports from the CBI region and Mexico were at approximately 20%. For the first nine months of 1994, since NAFTA's implementation, the growth rate for Mexico soared to more than 45% and

the CBI's growth rate fell to 10%. And that tilt, undoubtedly, was steepened by the devaluation of the peso.

807 production created thousands of good jobs in Mexico and the Caribbean Basin. We estimate 15 apparel jobs in the U.S. are created by every 100 jobs in 807 production in the region. This is in addition to the thousands of U.S. jobs it maintains in the textile, transportation and other industries. These jobs in Caribbean Basin, the related U.S. apparel jobs and the jobs in ancillary industries will not come to the U.S. if the Caribbean should be shut down. They will migrate to the Far East.

Parity makes good foreign policy. It is clearly in the best interests of the U.S. to have stable, democratic governments in our hemisphere, and the jobs available in the apparel industry contribute considerably to that stability. Enacting legislation affording NAFTA parity for the CBI region, the U.S. will continue to encourage CBI countries to assume their full obligations under a free trade agreement and to further open their markets to U.S. products, services and investment.

The continued economic health of the CBI region is tied inextricably to the growth of the region's apparel assembly. Export revenues generated by apparel assembly encourages Caribbean Basin governments to increase and accelerate economic reform, including investment liberalization, protection of intellectual property rights and market access. Job creation in the region would have been stagnant without the demand for apparel assembly workers. Improving economic conditions contribute to political stability, deter illegal immigration, and create an alternative to the production and trafficking of illegal drugs.

We commend you, Mr. Chairman, as well as Congressmen Gibbons, Rangel and Shaw for introducing H.R. 553 and urge you to move quickly to adopt the legislation. We believe parity should be provided immediately and permanently. At this time, we are not going to comment on specific provisions of the legislation except to say we are studying carefully the textile and apparel provisions. We are working closely with our members and other associations, such as ATMI and USAIC, on those provisions and hope we will have an opportunity to meet with Subcommittee staff in the near future to discuss technical aspects regarding certain provisions.

In addition, we believe, after 6 years of parity, USTR should review each country individually, assessing the progress of each country in fulfilling the factors you listed in your legislation as necessary for accession to NAFTA. USTR should have the authority to suspend parity benefits to an individual country, until such time USTR determines the country made progress in the areas enumerated in the legislation as necessary for accession to NAFTA.

In summary, there is a strong and consistent movement by countries of the CBI region towards democracy, economic reform and trade and investment liberalization. During the past few years, countries of the Caribbean Basin initiated significant economic restructuring and trade liberalization and continue to do so as part of their move to NAFTA accession.

Programs such as CBI and 807 contributed significantly to the political stability and economic growth in the region. Progress in the region enhances each country's political security, as well as the United States'.

Passage of NAFTA adversely affected the competitiveness of the CBI region by diverting existing and potential investment from the region in favor of Mexico. Parity assures a level playing field will exist between the CBI region and Mexico. Without parity, U.S. companies already in the region, competitively disadvantaged by the

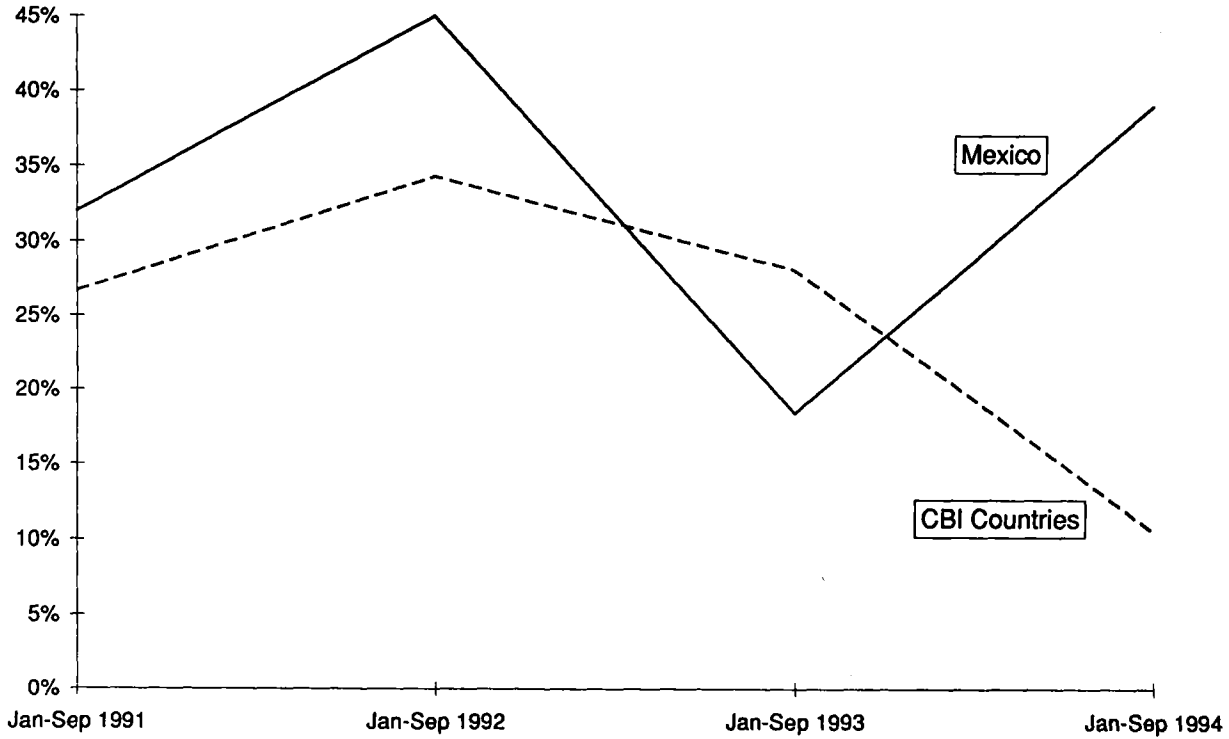
elimination of Mexican duty rates and quotas, will disinvest existing manufacturing facilities, destabilizing the economies of the region.

A reversal in the investment climate will have serious consequences for the social, economic and political stability of the CBI region. Economic stability have much to do with how effectively longstanding political issues -- terrorism, drug trafficking, immigration, democracy and human rights -- are addressed. Economic stability in the region is the key to keeping the flow of drug trade and its transshipment to a minimum.

The GATT Agreement which went into effect on January 1, 1995, presents a new challenge to the U.S. apparel industry. For the first time since the late 1960s, we see a future where quotas on imported apparel will cease to exist. The U.S. apparel industry is determined to meet this new global competition, and to do it while maintaining a large domestic work force. We believe a combination of NAFTA, CBI Parity and quick response to our domestic markets will enable us to compete with other parts of the world and maintain large domestic employment.

Growth of U.S. Exports of Cut Parts to Mexico and the CBI

Percent Changes for January-September 1991-1994



Chairman CRANE. Mr. Moore.

STATEMENT OF CARLOS MOORE, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. MOORE. Thank you, Mr. Chairman.

My name is Carlos Moore, and I am executive vice president of the American Textile Manufacturers Institute, which is the national trade association for the domestic textile industry. Our member companies account for approximately 80 percent of all textile fibers consumed by mills in the United States.

Mr. Chairman, ATMI strongly supported NAFTA and worked hard for its passage because we believe that Canada, Mexico, the Caribbean, and all of Latin America should become part of a hemispheric trading block with the United States. We, therefore, support the concept that the countries of the Caribbean Basin should become full NAFTA partners as soon as they can.

Until they do, we also support the concept of extending certain benefits to them so that Caribbean garment-making operations are not put at a comparative disadvantage before becoming NAFTA's signatories. Last year, ATMI supported the interim trade program to grant the Caribbean countries access to our market equivalent with that of Mexico for apparel and other textile products which follow a NAFTA rule of origin.

One reason for doing that is that we believe the region should remain a growing major market for U.S. textiles. In 1994, the United States exported 2.25 billion dollars' worth of textiles to the Caribbean, either as cut pieces or as fabrics or yarns. The region ranked first ahead of even Canada and Mexico, among the U.S. textile industry's top export markets for fabrics and yarns.

We are concerned that if NAFTA-type access is not provided quickly, garment production will begin to shift from the Caribbean to other countries. In fact, growth in that trade is already starting to slow.

For these reasons, we were enthusiastic about the interim trade program last year and greatly appreciate your introducing H.R. 553 this year. ATMI support for these efforts is based on three key points: The legislation should be based on the NAFTA yarn-forward rule of origin; it should include NAFTA provisions concerning Customs enforcement; and there should be no exemptions or exceptions to the rule of origin unless and until the country signs on to the entire NAFTA agreement.

We are pleased that H.R. 553 does include the first two of our objectives. However, we are concerned that the bill provides for exceptions to the rule of origin, known as tariff preference levels, or TPLs.

TPLs do nothing more than permit countries to circumvent the rule of origin up to a specific quantity each year and are totally unjustified in this instance. The NAFTA itself does include TPLs, but the NAFTA is a fully reciprocal trade agreement whereby each country provides unrestricted access to its market and makes many other commitments to facilitate two-way free trade.

Neither the interim program nor H.R. 553 provides for full, nor are they intended to provide, for full NAFTA reciprocal concessions.

Instead, both are unilateral grants of access to the U.S. market if certain conditions are met.

We strongly believe that TPLs are inappropriate in this instance and should not be part of one-way special access programs. We urge that TPLs not be authorized until the countries in the region do become full-fledged NAFTA partners and are signatories to a completed agreement, as we have with Mexico and Canada.

Thank you.

Chairman CRANE. Thank you, Mr. Moore.

[The prepared statement follows:]

TESTIMONY OF CARLOS MOORE
AMERICAN TEXTILE MANUFACTURERS INSTITUTE

My name is Carlos Moore. I am Executive Vice President of the American Textile Manufacturers Institute (ATMI), the national trade association for the domestic textile industry. Our member companies operate in more than 30 states and account for approximately 80 percent of all textile fibers consumed by mills in the United States. The textile industry in this country employs 670,000 workers and contributes approximately $21.7 billion to our country's gross domestic product.

Mr. Chairman, we welcome the opportunity to testify before the Trade Subcommittee about H.R. 553, the "Caribbean Basin Trade Security Act" which would extend benefits under NAFTA to the countries of the Caribbean. Some ATMI member companies have invested in the region, but we also export each year hundreds of millions of yards of fabric which is sewn into garments in the Caribbean countries. The region has become one of our largest and fastest growing export markets and in 1994 accounted for almost nine percent of our industry's fabric exports and six percent of our yarn exports.

ATMI strongly supported NAFTA and worked hard for its passage because we believe that Mexico, the Caribbean and all of Latin America should become part of a hemispheric trading bloc with the U.S. We therefore support the concept that the countries of the Caribbean Basin should become full NAFTA partners as soon as they can. Until they do, we also support the concept of extending those benefits to them so that they are not harmed during the interim. Last year ATMI supported the "Interim Trade Program" (ITP) to grant the CBI countries access to our market equivalent with that of Mexico for apparel and other textile products which follow a NAFTA rule of origin.

The ITP was a one-way grant of access by the U.S. that served several very important purposes. First, by granting Caribbean exports of certain textile products access to the U.S. on terms equivalent to similar shipments from Mexico, jobs and investments in the CBI region would not move to Mexico or other locations.

Second, the region would remain a growing and major market for U.S. textiles. In 1994, the U.S. exported $2.25 billion worth of textiles to the Caribbean -- either as cut pieces or as fabrics or yarns. The region ranked first, ahead of even Canada and Mexico, among the United States' top export markets for fabrics and yarns. We are concerned that if NAFTA-type access is not provided quickly, garment production will begin to shift from the Caribbean to other countries -- in fact, growth in fabric and garment trade with that region to the U.S. is already starting to slow.

For these reasons, we were enthusiastic about the Interim Trade Program last year and greatly appreciate your introducing H.R. 553 this year, Mr. Chairman.

ATMI's support for these efforts is based on three key points: the legislation should include the NAFTA yarn-forward rule of origin; it should include NAFTA provisions concerning customs enforcement; and there should be no exemptions or exceptions to the rule of origin unless and until the country signs on to the entire NAFTA agreement. We are pleased that H.R. 553 does include the first two of our objectives. However, we are concerned that the bill provides for exceptions to the rule of origin, known as tariff preference levels, or TPL's.

TPL's permit countries to circumvent the rule of origin up to a specific quantity each year and are totally unjustified in this instance. The NAFTA does include TPL's, but the NAFTA is a fully-reciprocal free trade agreement whereby each country provides unrestricted access to its market and makes many other commitments to facilitate two-way free trade.

Neither the interim program nor H.R. 553 provides for full-NAFTA reciprocal concessions. Instead, both are unilateral grants of access to the U.S. market if certain conditions are met.

We strongly believe that TPL's are inappropriate in this instance and should not be part of one-way special access programs. We urge that TPL's not be authorized until the countries in the region become full-fledged NAFTA partners and are signatories to a completed agreement as we have with Mexico and Canada.

Chairman CRANE. Mr. Ermatinger.

STATEMENT OF JOHN ERMATINGER, VICE PRESIDENT, NORTH AMERICAN OPERATIONS & SOURCING, LEVI STRAUSS & CO.

Mr. ERMATINGER. Mr. Crane, Mr. Payne, good afternoon. My name is John Ermatinger and I represent the real world of manufacturing. I am the vice president, Operations & Sourcing, for Levi Strauss & Co., North America.

I am responsible for 41 U.S. facilities and 25,000 American workers, as well as our sourcing strategies in Asia, Mexico, Central America, South America, and the Caribbean. As a result, I come here today with a perspective from our factory floors in places like Powell, Tenn., El Paso, Tex., Fayetteville, Ark., and yes, Mr. Payne, Warsaw, Va.; and as a global company that must compete around the world in order to survive.

Levi Strauss & Co. supports H.R. 553 for the following reasons: Like many industries today, the textile and apparel sector is undergoing dramatic changes. These changes are a result of, one, new consumer demands and associate retailer demands; and two, increasing foreign competition, especially from the Asian countries.

Today's sophisticated, value-conscious consumers want more variety; they want higher quality, and they want reasonable prices. They have come—and they have more choices about where to find it. To meet these demands, retailers are seeking higher quality, faster delivery times, superior service, and customized ready-to-sell products.

Doing business in the Caribbean and in Central America is one solution to this challenge. They provide the following: proximity to the U.S. customer base. Reducing lead times from 126 weeks to 30 days, we need the logistics these countries provide; second, skills in garment assembly; and third, and a very important aspect, a willingness to play a key role in building a strong, hemispheric partnership which is good, frankly, for all of us.

Levi Strauss & Co. is also facing increasingly fierce competition from abroad. With the phaseout of import quotas under the GATT agreement during the next 10 years, the major textile and apparel exporting nations like China, India, Pakistan, and Indonesia will be gearing up their industries and could potentially dominate the textile and apparel trade worldwide.

To meet this new challenge, U.S. manufacturers need freer trade policies in our own backyard and in this hemisphere. Our industry must be ready to use every available tool and competitive advantage if we have any hope to be successful against the Asian producers. The Caribbean offers one such advantage, and that is right on our doorstep.

To compete successfully in the new global marketplace, we need long-term sourcing strategies and more stable relationships with suppliers and contractors. These relationships can have not only a positive influence on our business, but can also influence responsible business practices in the areas such as environment, ethics, worker health and safety, and employment practices.

Levi Strauss & Co. has already begun to examine how we need to structure ourselves for the future. One way has been to invest in our own U.S. employees and manufacturing facilities. We have

invested more than $165 million in training and new equipment to convert all of our U.S. factories from piece-rate systems to team manufacturing. In addition, we spent another $500 million to improve our customer service and competitiveness.

We have formed an unprecedented partnership with our major union, the Amalgamated Clothing and Textile Workers, that will improve our manufacturing performance. We have developed goals and will reduce the time it takes to move products from the design stage to the retail store, from 18 months to 30 days.

We are even linking our consumers, many like yourselves, directly to our manufacturing sites. Technology now allows consumers to send their personalized measurements electronically to our manufacturing facility in Mountain City, Tenn., where a team of employees cut, assemble, and finish made-to-order jeans.

Another part of the solution is to make use of trade partnerships in the Caribbean under a fair parity plan. We look forward to working with the Trade Subcommittee on the details of this critical issue.

We wholeheartedly encourage the Trade Subcommittee in Congress to approve this legislation expeditiously in a forum that provides U.S. companies with a valuable and flexible competitive advantage. In so doing, you will be creating an important tool that helps Levi Strauss & Co. and our employees meet the challenges of a constantly changing and increasingly competitive international marketplace.

The bottom line, gentlemen, we are not looking for special treatment. We just want to be competitive, and producing in the Caribbean and Central American countries will help us to do that. Our sourcing strategy has a role for all areas of the world, including the Caribbean and Latin American countries.

If the legislation is not approved, we have no plans to leave these areas. We are already there. But it will cause us to reevaluate, which may include investment elsewhere in order to protect our competitive advantage.

I have been with Levi Strauss & Co. 20 years. I have been in positions ranging from sales, to merchandizing, to marketing, and now operations. I have been face-to-face with consumers, retailers, and now production workers from all over the world.

I have seen apparel companies come and I have seen them go, and I know one thing. The consumer will be the final arbiter as to whether we remain in business or we fail.

On behalf of Levi Strauss & Co., I want to thank you, Mr. Chairman, Mr. Rangel, Mr. Payne, and especially Mr. Gibbons for your leadership in these issues.

Chairman CRANE. Thank you, Mr. Ermatinger.

[The prepared statement follows:]

TESTIMONY OF JOHN ERMATINGER
LEVI STRAUSS & CO.

My name is John Ermatinger and I am Vice President for North American Operations and Sourcing at Levi Strauss & Co. Our company appreciates the opportunity to express its support for freer trade policies in the Caribbean Basin region and for H.R. 553, "The Caribbean Basin Economic Security Act."

Levi Strauss & Co. supports H.R. 553 because we believe an equitable parity plan for the Caribbean must be comprehensive in scope and flexible in meeting new competitive circumstances. "The Caribbean Basin Trade Security Act" will help us keep U.S. production competitive globally, meet quick-response goals in a changing marketplace, expand our export capabilities to foreign markets, and provide the tools to meet unforeseen business challenges into the next decade. By including a provision for tariff preference levels (TPLs) for fabrics in short supply, not available or not formed in the United States, the legislation takes into account the capabilities of the Caribbean region and the practical needs of U.S. manufacturers.

Levi Strauss & Co. is the world's largest apparel manufacturer. We produce and market jeans, jeans-related products, and casual sportswear under the Levi's®, Dockers®, and Brittania® brands in the United States and more than 60 other countries. Our sales in 1994 exceeded $6 billion.

Although a global company, Levi Strauss & Co. remains firmly committed to its U.S. manufacturing roots. Of the approximately 36,000 Levi Strauss & Co. workers worldwide, more than 25,000 are employed in the United States. We operate 41 factories, finishing centers, and customer service centers in 20 states.

Levi Strauss & Co. and the Caribbean Basin:

Our company's experience with expanded trade and closer cooperation with the Caribbean Basin region has benefited Levi Strauss & Co.'s own U.S. manufacturing base, the American textile and apparel sectors, and the United States. For these benefits to continue -- and for Levi Strauss & Co. to remain competitive in the face of dramatic industry changes and increasing imports over the next 10 years -- it is critical that the Caribbean countries receive the equivalent tariff and quota treatment that exists under the North American Free Trade Agreement.

Levi Strauss & Co. has strong ties with Caribbean and Latin American nations. Shortly after Congress enacted the original Caribbean Basin Initiative (CBI) in 1983, our company responded to the call for private sector involvement in the region. Today, some of our key business partners are sewing and laundry contractors in Guatemala, the Dominican Republic, Honduras and Costa Rica, who help us produce garments for sale around the world. Most of these goods are made from U.S. fabric. In addition, the majority of the products assembled in the Caribbean are cut and finished in the United States by American workers.

U.S. Apparel Industry Faces New Competitive Pressures:

As a global company, we have had to examine ways in which Levi Strauss & Co. can remain one of the most competitive, well-positioned apparel manufacturers today -- and in the future.

Like many industries today, the textile and apparel sector is undergoing dramatic changes. These changes are being driven by: 1) new consumer demands and, in turn, our customers' needs; and 2) increased foreign competition.

Today's sophisticated, value-conscious consumers are seeking greater variety, high quality and reasonable prices -- and they have more choices about where to find it. To meet the demands of these consumers, our competitive retailers are seeking higher quality, faster delivery, superior service and customized, ready-to-sell products.

Against this backdrop of industry changes and challenges, Levi Strauss & Co. is also facing increasingly fierce competition from abroad. With the phase-out of import quotas under the Multi-Fiber Arrangement (MFA) during the next ten years, competitive pressure from major textile and apparel exporting nations in Asia will increase dramatically. To face this new challenge, U.S. manufacturers require freer trade policies "in our own backyard" -- in the Caribbean and in this Hemisphere. During the next decade, our industry must be prepared to meet this evolving foreign competition. To be successful, we will need to employ every available tool and competitive advantage.

Levi Strauss & Co. has already begun to examine how we need to be structured for the marketplace of the future. One way has been to invest in our own U.S. employees and manufacturing facilities. We have redesigned how we do business -- from the way work is organized in our factories to how we deliver products to our customers and consumers. For example:

- We have invested more than $300 million in training and new equipment to convert all of our U.S. factories from piece-rate production to team-manufacturing. An additional $500 million is being dedicated to improve our customer service and competitiveness.

- We have developed customer service goals that will reduce the total time it takes to move products from the design stage to the retail store from 18 months or more to 30 days.

- We are working toward a goal of delivering 95 percent of our orders within 72 hours of the request -- and on the day and hour specified by our customers.

- We will deliver floor-ready products that the customer can make available immediately to consumers. This means folded or on hangers, with customized tags, labels and packaging.

- We are even linking consumers directly to our manufacturing sites. Today, four of our Original Levi's® Stores are using technology that allows consumers to send their personalized measurements electronically to our manufacturing facility in Mountain City, Tennessee, where a team of employees cut, assemble and finish made-to-order jeans, and deliver them to the consumer within three weeks.

While lower costs will continue to be important to the textile and apparel industry, other issues will become even more critical for our continued success. Increasingly, it will be important to manufacture near our customers. Because products will be introduced more quickly and changed more frequently, manufacturers will need quick access to a variety of fabrics. Overnight deliveries will become the rule. High quality standards, geographic proximity and the ability to meet quick turnaround deadlines will become dominant competitive factors. Caribbean Basin parity as defined by H.R. 553 is essential to meeting these new business realities.

The Need for CBI Parity:

U.S. manufacturers, like Levi Strauss & Co., need to utilize new free trade arrangements, like CBI parity, to help keep high-value, higher-wage manufacturing jobs in the United States, while maintaining competitive prices that will enable us to take advantage of strategic market access abroad.

To compete successfully in the new global marketplace, we need long-term sourcing strategies and more stable relationships with suppliers and contractors. These strategies and relationships depend on flexible, sound trade policies and agreements that take into account the varying opportunities and challenges in individual countries

as well as the competitive needs of the U.S. textile and apparel industry. "The Caribbean Basin Trade Security Act" provides such sound policy and the framework for a permanent, but flexible agreement.

For Levi Strauss & Co., the benefits of CBI parity are as essential to our future success as the changes we are adopting in our own company. H.R. 553 will:

- Reduce tariffs on goods produced under "807" and "807A" programs, making them more competitive;

- Shorten the production cycle by making our production processes more vertically integrated so that sewing, finishing and packaging operations can be consolidated at a single location; and

- Create a new export platform from which we can sell more products abroad.

Faced with aggressive competition from China, India, Pakistan, Indonesia, and other major apparel exporting countries, U.S. manufacturers like Levi Strauss & Co. need to have the ability to obtain fabrics not available or in short supply from overseas sources. Likewise, if the small and undiversified economies of the Caribbean Basin are to remain our economic partners, they must be allowed to source globally without losing favorable access to the U.S. market.

Inclusion of tariff preference levels in the CBI parity plan and assurances that quota and tariff treatment for the Caribbean will be equal to that under NAFTA will provide U.S. apparel companies with the necessary flexibility to meet future competitive needs. Such flexibility will ensure that the Caribbean region remains an important business partner for American firms and that American manufacturers, like Levi Strauss & Co. can compete successfully once the MFA quotas have been phased-out.

In addition, "The Caribbean Basin Economic Security Act" will require that Caribbean nations assume greater responsibilities as members of the world trading system. This will benefit both the region and the United States. Protection of trademarks and intellectual property rights, as well as more rigorous enforcement of anti-counterfeiting and transshipment rules are especially important to Levi Strauss & Co. and the apparel industry. The Caribbean nations will also need to invest in modernizing their own infrastructures and in developing the skills of their work forces. Such efforts will help make the region more competitive internationally, ensure economic growth and stability, and encourage a more effective economic partner for the United States.

Promoting Responsible Business Practices:

More modern infrastructures and up-to-date production processes often accompany responsible business practices. Recently, greater attention has been focused on non-trade issues such as labor practices and environmental issues in the Caribbean Basin, in Latin America and around the world. Levi Strauss & Co. and other socially responsible companies have been recognized as leaders in promoting ethical business practices among our partners and suppliers.

At Levi Strauss & Co., we have put in place policies called Global Sourcing Guidelines. For contractors who do business with our company, quality, cost and on-time delivery are as important as environmental concerns, ethics, legal requirements, worker health and safety, and employment practices. Our Global Sourcing Guidelines are designed to serve as an early warning system and a tool for addressing problems before they adversely affect our business and our reputation. We have committed considerable human and financial resources toward working with our contractors to help them understand and meet these guidelines.

Voluntary efforts like ours should be used to highlight American companies' contributions toward achieving improvements through trade and investments. They should not become weapons that are used against well-intentioned companies by opponents of freer trade or by governments that want to legislate codes of business conduct. In fact, attempts to link business principles and trade agreements can raise resentments, create misunderstandings, and ultimately be counter-productive. Based upon our experience, we believe voluntary efforts that reflect individual companies' own values, choices and business conditions have the greatest chance for success.

We do not profess to have all the answers to responsible business practices. However, Levi Strauss & Co. is learning new lessons everyday. If these lessons can be useful to others in promoting voluntary, private sector solutions to these issues, we are pleased to be a resource.

Market forces can convey lessons as well, and help bring about some of this new accountability. Recent studies confirm that companies with strong corporate reputations and principles are better able to influence consumers' purchasing decisions, foster greater retailer and consumer loyalty, and enjoy higher sales and profits. By working with partners whose values and practices are similar to ours, Levi Strauss & Co. also ensures partnerships with the world's best contractors -- an essential component to be successful around the world. We believe that promoting responsible business practices is good business.

Conclusion:

Levi Strauss & Co. supports passage of H.R. 533, "The Caribbean Basin Trade Security Act," and we look forward to working with the Trade Subcommittee on this critical issue. This legislation will benefit the United States by protecting a carefully cultivated trade relationship that has achieved positive results for our country and the Caribbean. Protecting and strengthening this relationship will ensure continued economic and democratic growth in the region and cooperative trade that supports American jobs.

We urge the Trade Subcommittee and Congress to approve this legislation in a form that provides U.S. companies with a valuable and flexible competitive advantage. In so doing, you will be creating an important tool that helps Levi Strauss & Co. and other manufacturers meet the challenges of a constantly changing and increasingly competitive international marketplace.

Chairman CRANE. Mr. Vine.

STATEMENT OF HOWARD A. VINE, UNITED STATES REPRESENTATIVE, CENTRAL AMERICAN AND CARIBBEAN TEXTILE AND APPAREL COUNCIL

Mr. VINE. Thank you, Mr. Chairman.

I am Howard Vine, managing partner of the Washington office of the Miami law firm Greenberg Traurig. I appear here today as the United States Representative for the Central American and Caribbean Textile and Apparel Council, commonly known was CACTAC. CACTAC is the coordinating body for the representation of the textile and apparel industries located in the 24 countries that now form the CBI.

It is a great privilege for me to be here today to express CACTAC's strong endorsement for your bill, Mr. Crane, Mr. Rangel, Mr. Shaw, and Mr. Gibbons, the Caribbean Basin Trade Security Act, H.R. 553. I would like to begin by thanking the chairman and the ranking minority member, as well as Congressman Shaw and Congressman Rangel, in your dedication to the economic and political development of the Caribbean Basin region. Your continued sensitivity and support to the economic and trade concerns of Central America and the Caribbean is deeply appreciated, and we thank you for holding this hearing.

Mr. Chairman, we, the United States and the countries of the CBI, have long recognized the importance improved economic conditions play on fundamental political issues: human rights, terrorism, drug trafficking, democracy, and immigration. Despite our support for NAFTA, our members previously expressed to you our fears that passage of NAFTA, without accommodation for the CACTAC countries, would adversely affect our competitiveness by drawing existing and potential investment from our region to Mexico, particularly in the textile and apparel sectors. We all know well that in the final moments of both the NAFTA, and more recently, the GATT implementing legislation, the need to address the basin concerns was deferred to some future date.

Mr. Chairman, sometimes the worst thing in life is to be right. Unfortunately, today as we appear before you, we find ourselves before the subcommittee again armed with the proof that our predictions about the effects of NAFTA, without parity, were entirely correct. Since the implementation of NAFTA in 1993, CBI textile and apparel trade growth, which had been on the rise, began a serious decline. Indeed, the growth of Mexican textile and apparel exports to the United States matched, nearly dollar for dollar, the decline in exports in the CBI nations since NAFTA was implemented.

One may merely look to Guatemala as an indicator. In the past 6 months, 72 factories have closed, with approximately 25,000 people now unemployed. To add insult to injury, the devaluation of the Mexican peso has given manufacturers an even larger incentive to move operations to Mexico.

Mexico now has a triple threat. The unique advantage with regard to unrestricted quotas and tariffs, proximity to the United States with transportation cost advantages, and now devalued, discounted production costs. I should point out that the impact can be felt immediately as has been discussed earlier.

Our industry is highly portable. Apparel operations can be closed, moved, and reopened in a matter of 6 to 7 weeks.

Mr. Chairman, without parity, U.S. companies already in the region, competitively disadvantaged by the elimination of Mexican duty rates and quotas, and now the peso devaluation, will be forced to consider relocating existing manufacturing facilities. At the very least, they will likely avoid any future investment in the region. Such a reversal in the investment climate of the region will have tragic consequences for the social, economic, and political stability of the region.

Over the last decade, largely as a result of CBI, we have witnessed a strong and consistent movement by the Central American and Caribbean nations toward democracy, economic reforms, and trade and investment liberalization. The growth has occurred with the help of the CBI programs that Congress has instilled and installed. The United States has maintained a larger, more consistent job-creating trade surplus for the CBI than any other region in the world, and the Central American Panamanian Federation of Private Entities indicates in a report that 60 percent of the CBI region's income goes to buy American products.

The report also states that 45 percent of raw material, machinery and equipment imports of Central American and Caribbean Basin countries comes from the United States. Thus, we have the truest elements of symbiotic trade—mutuality of interest and benefit.

For every 100 jobs created in the CBI, 15 new jobs are created in the United States; in contrast to the Pacific Rim, where for every trade job created there, every two jobs, only two U.S. jobs are created for every 100 jobs created in the Pacific Rim.

U.S. exports to the CBI region are expanding at a rate three times the rate of exports to the world as a whole. If Central America and the Caribbean should be shut down, the thousands of jobs in the region and the related U.S. textile apparel and ancillary jobs will not come to the United States, they will migrate back to the Far East.

H.R. 553 protects the interests of the U.S. companies in the region, especially in the textile and apparel industry. Many U.S. firms have invested in the region in order to compete, as we have heard from Levi Strauss and others, with low-cost Asian textile and apparel manufacturers while still maintaining facilities in the United States.

Failure to provide NAFTA-like access would punish U.S. firms who took the risk and invested in the Caribbean region at the urging of our government and at the convincing of our government that this was a region to be preserved, secured, and grown with the support of our government. More importantly, it would also harm American workers in the mill and apparel sectors reliant on co-production with the region.

H.R. 553 continues the progressive thinking that has the textile and apparel industry working hand in hand in the United States, Central America, and the Caribbean. H.R. 553 also necessitates that the nations of the CBI enter into reciprocal free trade agreements with the United States, thus laying the groundwork for Central America and the Caribbean to become part of the perma-

nent economic integration of the entire Western Hemisphere. We strongly urge its adoption.

Thank you, Mr. Chairman, for the opportunity to testify on this issue of great urgency. We look forward to a favorable outcome.

Chairman CRANE. Thank you, Mr. Vine.

[The prepared statement follows:]

Testimony of Howard A. Vine
United States Representative
The Central American and Caribbean Textile and Apparel Council
Before the Subcommittee on Trade
House Ways and Means Committee
February 10, 1995

Thank you, Mr. Chairman, I am Howard Vine, managing partner of the Washington office of Greenberg, Traurig, Hoffman, Lipoff, Rosen and Quentel, one of Florida's oldest and largest law firms. I appear here today as the United States Representative for the Central American and Caribbean Textile and Apparel Council, commonly know as CACTAC. CACTAC is the coordinating body for the representation of the textile and apparel industries located in 24 countries in the Caribbean and Central America. In these countries, several hundred U.S. companies, employing tens of thousands of people, have responded to the U.S. support for the CBI by building facilities to process textiles and apparel, making these U.S. companies globally competitive.

It is a great honor and pleasure to appear before your subcommittee today to express CACTAC's strong support for the Caribbean Basin Trade Security Act, HR 553. Mr. Chairman, I would like to begin by thanking you and the Ranking Minority Member, Mr. Gibbons, for your dedication to the cause of economic and political development in the Caribbean Basin region. Your continued sensitivity and support to the economic and trade concerns of Central America and the Caribbean is deeply appreciated. I would also like to thank you for introducing H.R. 553 and for holding this hearing.

On September 23, 1993, in testimony submitted to this committee, CACTAC went on record as supporting the completion and passage of NAFTA. At that time NAFTA stood as, and remains, the next logical step in the economic restructuring and market openings that Mexico, Latin America and the Caribbean had recently undertaken. In part, our support grew from the realization that the improvement of economic relations in the region had a positive impact on long-standing political issues - human rights, terrorism, drug trafficking, democracy, and immigration. At the same time, our members were extremely concerned the passage of NAFTA would adversely affect the competitiveness of the Central American and Caribbean region by drawing existing and potential investment from the region to Mexico, particularly in the textile and apparel sectors.

So while supporting NAFTA, we worked toward the passage of free standing parity legislation and/or the inclusion of language in NAFTA granting limited parity to the nations of Central America and the Caribbean to mitigate some of the harsh effects we predicted would be caused by the lopsided benefits NAFTA would bestow on Mexico. Unfortunately this language was dropped from the bill's final version, and instead the region was promised its opportunity to blunt NAFTA's unintended, disadvantaging consequences would come in the GATT Uruguay Round implementing legislation.

The Interim Trade Program, the Administration's version of limited parity, was first included in the draft version of the Uruguay Round legislation. However, as a result of concern over "extraneous" provisions causing added controversy on an already controversial measure, the provision was jettisoned from the GATT in the final hours of the negotiations prior to the bill's introduction.

Unfortunately, today we find ourselves before this subcommittee armed with proof that our predictions about the effects of NAFTA, without parity, were entirely correct. Since the implementation of NAFTA in 1993, CBI textile and apparel trade, which had been on the rise, began a serious decline. Indeed, the growth of Mexican textile and apparel exports to the U.S. matched, nearly dollar for dollar, the decline in exports from the CBI nations since NAFTA was implemented (see Appendix A). In the past 6 months, 74 factories have closed in Guatemala.

To add insult to injury, the devaluation of the Mexican peso has given manufacturer's an even larger incentive to move operations to Mexico. Where as under NAFTA, Mexico has a unique advantage with regard to unrestricted quotas and tariffs, it now is able to undercut the nations of the CBI with regard

to labor costs. This represents a grave situation for textile and apparel manufacturers in the region who find themselves unable to compete with Mexican products in a highly portable industry. CACTAC estimates that these textile and apparel operations can be closed, moved and reopened in a matter of 6-7 weeks.

Without parity, U.S. companies already in the region, competitively disadvantaged by the elimination of Mexican duty rates and quotas and now the peso devaluation, will be forced to consider relocating existing manufacturing facilities. At the very least, they will likely avoid any future investment in the region. Such a reversal in the investment climate will have tragic consequences for the social, economic and political stability of the region. The passage of H.R. 553 would reassure both established and future investors that a level playing field will continue to exist between the Central American and Caribbean region and Mexico in textile and apparel.

The Caribbean Basin Initiatives to date have over the past 10 years contributed significantly to the economic growth and political stability in this nearby, strategically important region. Clearly, any progress our neighbors to the South make enhances our own country's political security. In fact over the last decade, largely as a result of CBI, we have witnessed a strong and consistent movement by the Central American and Caribbean nations towards democracy, economic reforms and trade and investment liberalization.

This growth and development has occurred with the help of an economic base stimulated by our Congress' CBIs and, as a result, the demand for U.S. goods and services has grown. The U.S. has maintained a larger and more consistent job-creating trade surplus (on a per capita basis) with Central America and the Caribbean than with any other region in the world (Appendix B). The Central American Panamanian Federation of Private Entities indicated in a report that "60% of the Caribbean and Central American region's income goes to buy American products". The report also stated "45% of raw material, machinery and equipment imports of Central America and Caribbean Basin countries comes from the United States." Thus, we have the truest elements of symbiotic trade ... mutuality of interest and benefit.

For every 100 jobs created in Central America and the Caribbean, 15 new jobs are created in the U.S. In contrast, the Pacific Rim apparel trade creates only 2 jobs in the U.S. for every 100 jobs dedicated to apparel production in that region. And, U.S. exports to the Central American and Caribbean Basin region are expanding at a rate three times the rate of exports to the world as a whole. If Central America and the Caribbean should be shut down, the thousands of jobs in the region and the related U.S. textile and apparel jobs and the jobs in the ancillary industries they support, will not come to the United States; they will migrate back to the Far East.

A large number of the textile and apparel producers that make up CACTAC use U.S. cut and formed fabric. Over 77 percent of Central American and Caribbean textile and apparel exports to the U.S. are assembled, in whole or in part, from U.S. components. This fabric is shipped from the U.S. to Central America and the Caribbean and assembled. This two way process provides numerous benefits for both Central America and the Caribbean and the United States with the most important benefits being investment, jobs, and trade.

These imports from Central America and the Caribbean displace imports from Asia which contain little, if any, U.S. content. Jobs are thus protected in the United States that would otherwise go offshore. In fact, the textile and apparel jobs that are being created in Central America and the Caribbean were lost to East Asia long ago. Indeed, the decline in textile and apparel exports from Asia has a direct correlation to increases from the CBI region.

As a practical matter, parity is essential to products such as textile and apparel. These products account for nearly 50 percent of total U.S. imports for Central America and the Caribbean. These products are currently ineligible for CBI duty-free treatment, they carry the highest rates in the U.S. tariff schedule. Free access for Mexico's exports of these products gives the Mexican exporter anywhere between an 8 to 25 percent cost advantage over his competitors in the Central American and Caribbean beneficiary countries.

H.R. 553 protects the interests of U.S. companies in the region especially in the textile and apparel

industry. Many U.S. firms invested in the region in order to compete with low cost Asian textile and apparel manufacturers while still maintaining facilities in the U.S. Failure to provide NAFTA-like access for Central American and Caribbean nations would punish U.S. firms who at the encouragement of the U.S. Government took the risk and invested in Central America and the Caribbean. More importantly, it would also harm American workers in the mill and apparel sectors reliant on co-production with the region.

From a broader perspective a combination of NAFTA and Central American and Caribbean parity would help create a regional trading area which will allow the United States to compete more effectively compete with the European trading block and to counter competition from the Pacific Rim countries. Over the past 10 years, the combination of private U.S. investment and foreign and economic policy has been instrumental in the establishment of the textile and apparel industry in Central America and the Caribbean. This industry has contributed to the democratic stability and economic growth in the region. H.R. 553 continues the progressive thinking that has the textile and apparel industry working hand-in-hand in the U.S. and Central America and the Caribbean. H.R. 553 also necessitates that the nations of the CBI region enter into reciprocal free-trade agreements with the United States thus laying the groundwork for Central American and the Caribbean to become part of the permanent economic integration of the entire Western Hemisphere. We strongly urge the adoption of H.R. 553.

Thank you Mr. Chairman for providing CACTAC the opportunity to testify on this issue of great urgency. I will gladly answer any questions.

Chairman CRANE. Ms. Hughes.

STATEMENT OF JULIA K. HUGHES, CHAIRMAN OF THE BOARD, UNITED STATES ASSOCIATION OF IMPORTERS OF TEXTILES AND APPAREL

Ms. HUGHES. Thank you, Mr. Chairman.

I am pleased to have the opportunity to speak today in favor of H.R. 553. I am speaking as chairman of the United States Association of Importers of Textiles and Apparel, USA–ITA. USA–ITA member companies source textile and apparel products domestically and overseas. Our members include apparel manufacturers, retailers, importers, service companies, and distributors. We account for more than $40 billion in U.S. sales annually, and employ more than 1 million workers in the United States.

USA–ITA strongly supports the goals of H.R. 553, and we commend the sponsors. This is the first CBI parity bill to offer access to the U.S. market for the broad range of products that have heretofore been considered import sensitive. We also applaud your decision to include tariff preference levels and make them available to those textile products that do not meet NAFTA rules of origin. This is especially important to USA–ITA and our members.

Without the availability of TPLs for goods that do not meet the NAFTA's very tough rules of origin, many of our members will not have a basis for expanding sourcing from the Caribbean region. To meet the demands of our customers, we need to have the flexibility to periodically use non-NAFTA originating yarns and fabrics. TPLs will preserve that essential flexibility.

I think it is important to note, although it is not in my official testimony, that we have some comments about why Mexico is not using the TPLs. We think that Mexico is not using them predominantly because their business qualifies as NAFTA-originating.

When you look at the trade statistics for the first 11 months of NAFTA, 91.5 percent of the imports to the United States from Mexico were NAFTA-originating. Ninety-six percent of the total were 807 products, which means they were at least cut in the United States, even if the component fabric might have been of foreign origin. This is quite different than the situation in the Caribbean.

In addition, the TPLs impose a paperwork burden that thus far in the process tends to overwhelm the duty cuts that you have already seen. Combine with that the Mexican decision to allocate TPLs based on an auction system, which also added a cost to using TPLs and, of course, now the peso devaluation. We see that it is very unlikely that any foreign fabrics are going to become part of the mix in Mexico.

We think it is not appropriate to say that what Mexico is doing should necessarily affect the Caribbean Basin. We think the use of TPLs will work in the Caribbean and it will be an important addition to maintaining their parity and flexibility with the NAFTA with Mexico and Canada.

We also have some technical recommendations regarding the use of TPLs that we want to mention. We believe that the bill should have the language revised to instruct the United States Trade Representative to establish TPLs, not merely give them the authority. From this morning's testimony, it is apparent that the administra-

tion is not really interested in using the TPL process to enhance the trade in the region.

Second, we believe the legislation should instruct the United States Trade Representative to establish TPLs that more closely correspond to the categories of goods already subject to quota.

Third, we propose that the TPL provision also instruct the administration to establish specific, short-supply provisions to permit quota levels to be increased when consumer demand outstrips production. This is a proposal that was also included in NAFTA, but because the administrative procedures have not been decided by the administration, it is impossible for us to use this provision.

USA–ITA has one other concern. One provision of the bill instructs the United States Trade Representative to undertake negotiations for purposes of seeking appropriate reductions in existing quotas to compensate for products that would be available for NAFTA parity and for the TPLs. USA–ITA opposes this provision. We believe it is inappropriate in the bill because it would potentially take away the rights of Caribbean countries that they already have to ship products to the United States.

At a sourcing conference earlier this week in El Salvador, many participants expressed their concern that this provision could potentially put them at a competitive disadvantage. Instead of reducing CBI quotas, we believe that the United States should be avoiding the establishment of quotas on CBI products entirely.

We believe that during the transition period to a MFA-type quota free world, it would be an appropriate start toward liberalization to exclude the CBI countries from the safeguard mechanism establishing new quotas.

Mr. Chairman, members of the subcommittee, we appreciate the opportunity to meet with you and staff to further discuss these and other proposals, and hope to work with you toward passage of H.R. 553.

Thank you.

Chairman CRANE. Thank you very much, Ms. Hughes.

[The prepared statement follows:]

STATEMENT OF JULIA K. HUGHES
CHAIRMAN OF THE BOARD,
UNITED STATES ASSOCIATION OF IMPORTERS OF TEXTILES AND APPAREL

ON H.R. 553,
THE CARIBBEAN BASIN TRADE SECURITY ACT

Before the Committee on Ways and Means
Subcommittee on Trade

February 10, 1995

On behalf of the United States Association of Importers of Textiles and Apparel, USA-ITA, a seven-year-old association of more than 150 companies involved in the textile and apparel business, I am pleased to have the opportunity to speak today in favor of H.R. 553, the Caribbean Basin Trade Security Act.

USA-ITA member companies source textile and apparel products domestically and overseas. Our members include manufacturers, distributors, retailers, and related service providers, such as shipping lines and customs brokers. We account for over $40 billion in U.S. sales annually and employ more than one million American workers.

To meet the needs of our customers, USA-ITA members necessarily take a global approach to doing business. We look for the quality product that offers the best value for our customers. Part of the equation, however, is the availability of merchandise. The U.S. quota program substantially limits the availability of affordable quality goods. The quota program adds to our costs in a number of ways, but most significantly through 1) the premium we must pay for goods whose quantity is limited and 2) the added costs and overhead involved in meeting the additional paperwork and management burdens of handling restricted goods.

Because of the special relationship between the United States and the Caribbean, there are currently fewer restrictive quotas on textile and apparel products made in the Caribbean. Thus, the Caribbean Basin countries are among the sources that can best meet our objective of obtaining affordable quality merchandise for our customers. And the U.S. is helping these economies develop by providing these benefits. Nevertheless, because of the implementation of the North American Free Trade Agreement (NAFTA), Caribbean Basin countries are currently operating at a disadvantage vis-a-vis Mexico. No sensitive products are eligible for duty-free entry into the United States, and the threat of new quotas on textile and apparel products remains very real, making new investment more risky.

USA-ITA strongly supports the goals of H.R. 553 and we commend the sponsors. This is the first CBI "parity" bill to offer access to the U.S. market for a broad range of products that have heretofore been considered "import sensitive."

With respect to textile and apparel products in particular, we are pleased to see that Section 101 would provide duty-free access to any products that originate in a CBI country, to any products that are assembled in a CBI country from U.S.-formed and -cut fabric, and to any handloomed, hand-made or folklore article.

We also applaud your decision to make tariff preference levels available to products that do not meet the NAFTA rules of origin. This provision is especially important to USA-ITA. Allow me to take a moment to explain the reasons why.

First, as you know, tariff preference levels, or TPLs, as described in the NAFTA, permit a limited number of goods that do not meet the stringent NAFTA "yarn-forward" rules of origin to nevertheless enter the U.S. at the preferential NAFTA duty rate. While this is not duty-free entry, at least not yet, it does permit

products that meet the "normal" rules of origin to be competitive with NAFTA's duty-free products and that competitive edge provides an incentive for further investment in the Caribbean.

Without the availability of TPLs for goods that do not meet the NAFTA's very tough, hard-to-meet rules of origin, many of our members will not have a basis for expanding sourcing from the Caribbean. To meet the demands of our customers we need to have the flexibility to use non-NAFTA originating yarns and fabrics. TPLs preserve that essential flexibility.

The fact that Mexico is not using the TPLs should not be a factor here. TPLs are much more important for the future of the CBI than they were to Mexico during the NAFTA debate. Mexico has the added advantage of lower cost over-land shipping. Sourcing from the Caribbean means that we must deal with sea and air shipping, which is generally more expensive, and that additional cost must be passed on to the consumer. Preferential duties for CBI goods will help CBI countries address that cost differential and be competitive with Mexico.

Given the importance of TPLs to USA-ITA, we have given the issue a great deal of thought and have carefully studied the language of H.R. 553. For that reason, we have some technical recommendations that we believe will enhance the goal of promoting the growth of free enterprise and economic opportunity in the CBI region.

First, we believe that the bill should instruct the U.S. Trade Representative to establish TPLs, instead of merely authorizing the U.S. Trade Representative to do so.

Second, we believe that the legislation should instruct the U.S. Trade Representative to establish TPLs that correspond directly to the categories of goods subject to quotas. This suggestion is based upon our experience with NAFTA. As you know, each of the NAFTA TPLs covers a broad grouping of products. For example, there is one TPL for "cotton and man-made fiber apparel" and another TPL for "wool apparel." That means that a variety of products are eligible for each of those TPLs. Each of these products also may be subject to a particular category quota. As a result, companies hoping to take advantage of a TPL must keep track of both the individual quota and the TPL. It is entirely possible that a quota will fill before a TPL fills, or vice-versa. This headache and uncertainty that acts as a dis-incentive to even bother with TPLs could be eliminated if the TPLs and the quotas were synonymous. In fact, we propose that all CBI textile and apparel products subject to quotas be provided preferential duty treatment equivalent to the NAFTA preferential duty rate.

Third, we propose that the TPL provision also instruct the Administration to establish short-supply procedures, to permit the levels to be increased when consumer demand outstrips available domestic production. Again, this proposal is borne out of our experience with the NAFTA. The NAFTA contains a short supply provision, but the Administration has yet to establish any administrative procedures or mechanisms for determining whether a product is in short supply domestically. With no procedures to follow, we have been unable to seek any short supply reviews. H.R. 553 presents an opportunity to rectify this situation.

USA-ITA has one other concern. One provision of the bill instructs the U.S. Trade Representative to "undertake negotiations for purposes of seeking appropriate reductions" in existing quotas, to compensate for the quantities of goods that become exempt from quota by reason of meeting the NAFTA rules of origin or by being assembled in the Caribbean from U.S.-formed and -cut fabric. USA-ITA opposes this provision because it could serve to restrict the Caribbean's access to the U.S. market, and undercut the benefits that should accrue to the CBI under the Uruguay Round's Agreement

on Textiles and Clothing. At a sourcing conference in El Salvador earlier this week, many participants also expressed their concern that quota cuts would put CBI countries at a competitive disadvantage.

As an initial matter, apparel products that are assembled in the Caribbean from U.S.-formed and -cut fabric are already subject to levels separate from the regular quotas. When these "guaranteed access levels" were established, existing quota levels were reduced to compensate for the trade that was supposedly transferred to the guaranteed access levels. There should not be further reductions in the quotas now.

Further, Caribbean nations are already worried about the impact that liberalization of the quota program under the Uruguay Round will have on their ability to compete with major low cost producers. To address this situation, the U.S. has provided the CBI countries, and other small suppliers, with higher growth rates than those available to the major suppliers. These higher growth rates, typically 6 percent, should provide the CBI with an advantage during the Uruguay Round Agreement's 10 year phase-out of the quota program, thereby encouraging U.S. importers and retailers to increase their sourcing from the Caribbean. However, that advantage will be dramatically reduced if the base quotas upon which the growth rates are applied are cut back. Clearly, this will not help our Caribbean neighbors position themselves to compete in a post-quota world.

Instead of reducing CBI quotas, the U.S. should be avoiding the establishment of quotas on CBI products. Toward that end, USA-ITA proposes that a provision be included in H.R. 553 precluding the creation of new quotas limiting textile and products from the Caribbean throughout the Uruguay Round's 10 year transition period.

Mr. Chairman, we greatly appreciate the opportunity to present our views and suggestions to you and look forward to working with you to quickly enact H.R. 553 into law. Thank you.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. No questions. Thank you so much for your testimony.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman.

I just wanted to follow up briefly on the TPL issue that you have just brought up. As I understand it, in the testimony you just said that the use of the TPLs would come about because you felt that the rules of origin within the NAFTA agreement would be more restrictive than would be desirable for the Caribbean Basin area; is that correct?

Ms. HUGHES. Well, we believe that the yarn-forward rule of origin that has been a part of the NAFTA agreement is a very restrictive rule, and because of those restrictions to be an originating product, we believe that the tariff preference levels are an appropriate mechanism in those cases where foreign fabrics that don't meet the criteria would be used.

Mr. PAYNE. But to the extent that we are trying to achieve parity with the NAFTA, and to the extent that the yarn-forward rule is a part of the NAFTA, then wouldn't it apply that the yarn-forward rule ought to apply to the Caribbean as well, or unless you are seeking something in addition to parity with NAFTA?

Ms. HUGHES. We are seeking parity, which would include the tariff preference levels. We believe that that would meet the criteria of enabling our business to have the flexibility we need to have to continue to improve investment and sourcing opportunities in the region.

Mr. PAYNE. To some extent, though, that refutes the argument I think of some of our friends from the Caribbean who were saying that there is a symbiotic relationship here among those who produce textiles and apparels, in that producing textile goods in this country and having apparels made in other countries was a good relationship. Now what we are saying is why not have the textiles made in China or India, or somewhere else, and have those made into apparel items in the Caribbean, and then send them into this country duty free; is that what you are suggesting?

Ms. HUGHES. We are advocating that when products meet the appropriate rule of origin. We do support the use of U.S. fabric, but it is not always available in the quantities needed for the goods that we are supplying to U.S. retailers and to U.S. consumers. In those situations, we would like to have the flexibility, as Mexico does in NAFTA, to use a foreign fabric, not products that are cut overseas, but merely a foreign fabric, to make the apparel in the Caribbean region and then ship it to the United States with the tariff benefit levels that are available in the NAFTA agreement.

Mr. PAYNE. Mr. Ermatinger, you mentioned—in fact, I heard on National Public Radio the other day a discussion concerning how apparel companies are restructuring in this country in order to be able to be more responsive and more able to comply with just-in-time inventory situations, and that sort of thing. They mentioned your company as a leader in this area, the work that you are doing with the unions, and so forth, in terms of team construction as opposed to the linear kind of work that has been typical in the apparel industry.

Do you think that that change is one that makes the U.S. apparel industry more competitive, and that there are niches then in the market where the U.S. industry may be competitive, more competitive than they currently are?

Mr. ERMATINGER. Well, team manufacturing, Mr. Payne, is just the beginning. It is not only team configurations, but it is also the insertion of the proper amount of automation and mechanization in the way we conduct our work. We think that the investment that we have seen thus far, by empowering our employees and enabling them to participate in the business environment through training and education, is a competitive advantage anywhere in the world. That, coupled with the fact that they are closest to the American consumer base, we think there is a significant role for our factories and our workers here in America, and a role that they can play in satisfying the ultimate consumer base.

Mr. PAYNE. I see my time is about up.

Mr. Moore, I think you adequately in your testimony talked about the concern of the textile manufacturers as it relates to TPLs, and so I won't get into that, in view of the time.

But thank you all very much for your testimony, and thanks, Mr. Chairman.

Chairman CRANE. Well, I want to thank you all too, and especially Ms. Hughes, for the additional information. If any of you have additional information, either for the record or for our deliberations, please forward it.

Thank you again.

Our next panel is Dr. Herman Starobin, Mitchell J. Cooper, Thomas Mason, Robert Hall, and William Isaac.

All right.

Dr. Starobin, if you will open up for us.

STATEMENT OF JAY MAZUR, PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AS PRESENTED BY HERMAN STAROBIN, PH.D., RESEARCH DIRECTOR, INTERNATIONAL LADIES' GARMENT WORKERS' UNION

Mr. STAROBIN. Thank you, Mr. Chairman.

I am presenting this testimony on behalf of Jay Mazur, president of the International Ladies' Garment Workers' Union. I want to summarize the rather lengthy testimony submitted to you in the hope that you will have the opportunity to review it with some care. It tries to cover most every aspect of the problem as we see it.

Chairman CRANE. Well, Dr. Starobin, let me say to all, that if you can try and condense to 5 minutes or less, but all of your statements will be a part of the record and any additional material that any of you want to forward to us on the subcommittee, please feel welcome.

Thank you.

Mr. STAROBIN. Thank you, Mr. Chairman.

To summarize our thinking on the CBI bill, H.R. 553, to us this bill is essentially an apparel preference bill that we firmly believe will result in further job loss of U.S.-based jobs. We represent workers in a job entry, domestic industry, which currently still employs about 800,000 production workers.

Almost half of these workers are minorities: Hispanic, black, and Asian. In the last 20 years, 500,000 production worker jobs have been lost, largely as a result of the import policy followed by successive administrations.

This bill, H.R. 553, further hastens the loss of U.S. apparel jobs in a domestic industry that has already been marked for extinction in 10 years as a result of the GATT-Uruguay round. The workers in our industry will have enormous difficulty finding new jobs. Many may, therefore, become public charges.

I don't say this for any but the most obvious reasons. Reported imports of assembled apparel from the CBI have doubled in the last 4 years, and now total over $4 billion. Using the widely accepted formula, to which I shall likely return at a later point in this brief testimony, this means that 80,000 U.S. apparel jobs have been lost as a result of the CBI program.

At the same time, no program has been set in process to create or help to create jobs for those workers who lose their jobs as a result of the CBI program and trade policy in general. The bill, most importantly, omits from consideration worker rights and labor standards and child labor.

Even the weak provisions in the NAFTA side agreements recognize the need to deal with these issues. At the very least, this subcommittee should seek to interdict at the border products that are made with child labor in the Caribbean, most notably throughout Central America.

The issue of worker rights and labor standards and child labor have obvious social connotations, but they also have economic connotations. In economic terms, the experience of our own country has shown that workers will buy products, including imports from the United States, only if they have the money to do so.

The bill strangely omits reference to intellectual property, a make or break question in our government's trade relations with China. On TPLs, Korea, many of whose companies play a major role in the CBI apparel production and practice among the worst labor and human relations, will be among the primary beneficiaries.

Data used to promote trade policy and trade legislation, through no fault of this subcommittee or of the Congress, are wrong for the following reasons: The formulas used focus only on exports and ignore the effect of imports on jobs in this country. Exports are not fairly counted, as the ILGWU testimony shows in detail. They ignore the turnaround of the parts that were assembled abroad and shipped back to the United States.

Julius Katz, the principal U.S. NAFTA negotiator in the Bush administration, has publicly stated that the job creation numbers used to justify NAFTA are, to use his word, "phoney." Yet they continue to be used in trade discussions and in justification of trade legislation.

A study we have made shows that 65 percent of our alleged $5 billion in apparel exports are, in fact, parts and not exports of apparel; they never enter the market of the countries where they are assembled but are returned to the United States. The General Accounting Office 18 months ago questioned the methodology used in

reporting trade figures. They continue to be used and used incorrectly.

To make trade policy, this subcommittee and the Congress should require honesty in dealing with data. I could identify other instances where "phoney" data are used. They are included in the submitted testimony.

This is not a new issue, Mr. Chairman. We have been presenting it to the appropriate agencies and to congressional committees for the last 5 years, all to no avail. We and the majority on this subcommittee and the Congress may end up disagreeing on policy, but at least as far as data are concerned, we should all sing out of the same hymn book. This subcommittee should not be asked to propose legislation based on false data.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Dr. Starobin.

[The prepared statement follows:]

Before the Subcommittee on Trade
Committee on Ways and Means
U. S. House of Representatives
February 10, 1995

TESTIMONY OF
JAY MAZUR, PRESIDENT
INTERNATIONAL LADIES' GARMENT WORKERS' UNION
ON H. R. 553
THE CARIBBEAN BASIN TRADE SECURITY ACT

I appreciate this opportunity to testify on H. R. 553, the Caribbean Basin Trade Security Act, on behalf of the 160,000 members of the International Ladies' Garment Workers' Union who are employed in the production of women's and children's apparel and accessories. Our members live and work in all parts of our country. They are a cross section of the U. S. workforce: native born, minorities and new Americans who have come to our shores from just about every country in the world.

Apparel plants are located in the central cities and in small towns throughout the nation. Since its inception around the turn of the century, the apparel industry has been a job entry industry and it still is. Minorities make up almost half of the industry's roughly 800,000 production workers who are roughly equally divided between the women's and the men's clothing industries. Twenty-two percent of the workforce are of Hispanic origin, 18 percent are Afro-Americans and 5 percent have their origins in Asia. Eighty-five percent of the workers in the industry are women, many the sole supports of their families.

The ILGWU is not new to the Caribbean scene. Many of our members came to the United States from the Caribbean countries. Many maintain close contact with the region, have family living there and visit the lands of their birth. And so we, too, feel a special obligation to assist the peoples of these countries to improve their economic circumstances. We do not gainsay the importance of the region to our nation's well-being.

We do not believe, however, that the provisions of H. R. 553 meet the needs of the people of the Caribbean. They are poorly designed to accomplish the task of promoting economic development in the region. They do not really address the problems besetting the region -- and our country as well. They do not, to use the latest trade language, lift all boats.

This is the fourth attempt, I believe, to end apparel tariffs and quotas for the CBI countries. When our views were solicited on previous occasions, we proposed that quotas be taken away from major Asian suppliers and given to the CBI so that U. S. apparel workers would not suffer job losses. Given the high apparel import penetration level, we sought to help workers in the Caribbean, while at the same time not jeopardize further U. S.-based jobs. I testified to this effect before this Committee as far back as March 30, 1989. Our proposal was not accepted.

The bill was introduced almost coincidentally with the financial collapse in Mexico, although I believe that it would have been introduced even without regard to the Mexican events. The argument in its favor is that because of the elimination of tariffs and quotas for Mexico as a result of the North American Free Trade Agreement, the CBI will be less competitive and U. S. investment will flow out of the CBI and into Mexico. Now it will also be argued that Mexico's devaluation creates an even greater competitive threat to CBI production.

Such arguments skirt the real issue. The economies of the CBI countries -- and Mexico -- can only be bolstered if their people, including their workers, truly share in economic development and

truly benefit from it. This requires that workers have a voice in their own and in their nations' destinies.

My comments on H. R. 553 and the issues involved in the CBI and other developing nations are neither arbitrary nor do they reflect protectionist thinking. I have had the opportunity to visit these countries, as have some of my colleagues. We have witnessed the conditions that prevail there at first hand. Our concern is first and foremost for the workers in the CBI countries -- and for workers in Mexico and everywhere.

My most critical comment, one that I shall deal with first, is the question of worker rights and labor standards, its importance in both human and economic terms and the fact that it is ignored in the proposed legislation and in trade policy decisions in general. Support for the rights of workers to protect themselves and share in a nation's prosperity are basic to any help we can give to the people of the Caribbean to improve their lot and to help them to create stable democratic societies.

I will also suggest to you how false and incomplete data have been used to promote the CBI and the current legislation, who have been principal beneficiaries of the CBI and who will benefit from this bill. The fact is that Caribbean Basin programs put in place by administrations of both parties have not improved living standards in the region, but have resulted in the most frightful degradation of workers.

The CBI, we were told, would benefit the people of the region. But it has not worked. Nor has trickle down worked. Nor has the U. S. consumer benefitted from lower labor costs to importers. Aside from U. S. apparel companies and other importers, the principal beneficiaries have been a small elite in the Caribbean and some Asian companies, many from South Korea, who have set up apparel factories in the CBI which export to the U. S. market.

The bill before you aims "to encourage the development of strong democratic governments and healthy economies in the Caribbean countries through the expansion of trade." Although the CBI was adopted by the Congress in 1983, such aspirations are far from having been accomplished. Brutal governments continue to exist in many Caribbean lands, democracy as we see it is still a distant hope, poverty is universal and the reported expansion of trade raises more questions than it answers. Unless it is revised to take care of some serious omissions, H. R. 553 will not help the people of the Caribbean realize the aspirations cited in the bill.

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The abysmal exploitation of workers in almost every CBI country has been fully documented, in testimony before committees of the Congress by workers from CBI nations, by government investigators and in petitions filed with the office of the United States Trade Representative. The extensive and continued use of child labor in the CBI, perhaps the most heinous practice of all, has also been fully documented. Frightful working conditions in Honduras, for example, and the most vicious forms of sexual harassment have been testified to in hearings held by congressional committees. Honduras is not alone. Nor is Guatemala, where a labor leader was thrown out of a helicopter for attempting to organize workers.

Many CBI countries have elaborate and extensive labor codes, some even more advanced than those in our own country. They guarantee workers the right to organize and to bargain collectively with their employers on working conditions and wages. They establish standards that protect the health and physical well-being of workers in their countries. They create labor courts for workers to appeal injustices directed at them. Some endorse the conventions of the International Labor Organization on worker

rights, labor standards and child labor -- something our own country has not done, although we accept them.

Just about every CBI country honors such codes in the breach. Child labor is prevalent in the apparel plants of the CBI countries as even the most casual observer will testify. Workers are effectively denied the right to form unions. USTR has investigated cases of abuses of worker rights in the CBI, making use of the worker rights provisions of the General System of Preferences. This has resulted in some improvements, especially in the Dominican Republic and in its free trade zone factories. It remains to be seen how consistently our government will enforce the GSP labor provisions, a most potent weapon, but prone to be limited by other policy considerations.

GSP was renewed for a few months when the Congress passed the Uruguay Round implementing legislation. It comes up for renewal in June. Hopefully, this Committee will come help to develop a renewal bill that will strengthen worker rights and labor standards as key criteria for countries receiving GSP benefits.

H. R. 553 does not deal with the issues I have raised. Aside from human concerns that have always won resonance in our country, there is reason to question whether we are really helping to create "emerging market economies" in these countries. Reciprocal trade would have meaning if trade between the U. S. and the CBI countries led to the creation of good and well-paying jobs in both countries -- and, in the words of this Committee, "encourage the development of strong democratic governments and healthy economies" in the CBI.

This desire can only work if the economics work. Otherwise, it becomes a fiction, one in which the beneficiaries are merely a small group in each country. The living standard we enjoy, somewhat tarnished in recent years, did not come about by keeping wages low and maintaining terrible working conditions. Yes, there were struggles, but gains for working people were possible. The extent of the maldistribution of income in the CBI nations -- and, if I may add a very current observation, in Mexico -- did not obtain in the U. S.

Leading figures in our industrial and economic development also recognized that workers who are paid low wages and who work in misery will not be able to purchase the products they produce. Henry Ford, certainly no friend of organized labor, saw this clearly when he set wage rates at a level whose purpose, he said, was to permit his workers to buy his automobiles.

Reciprocal market opening can only help to improve living standards and provide jobs for workers in countries that trade with each other, including the U. S. and the CBI countries, if there is sufficient demand in both countries and this demand can be realized by people having enough purchasing power. This is a simple truism. Trickle down economics has not worked anywhere.

H. R. 553 does not address the economic circumstance in which the mass of Caribbean people live and work, nor does it show how a market for U. S. products will develop. There is no magic in the economics of expanding mass markets: either people have the wherewithal to purchase or they don't. Either we pursue policies in the CBI to increase the ability of people to buy our products or we are saying that we don't really care, that we are engaged in a facade to benefit an elite in the CBI and U. S. importers.

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Before dealing with how CBI, NAFTA, and trade policy in general have affected U. S. apparel jobs and how misleading data are used to justify such policies, I would like to say a few words about some of the specific provisions of H. R. 553. As I read the bill,

it goes beyond NAFTA parity in some areas. This makes me wonder if the bill's sponsors are seeking differing trade programs in the hemisphere, rather than building on NAFTA and the Enterprise for the Americas Initiative and, if so, why?

As I understand the bill, its provisions are both identical with the provisions enjoyed by Mexico under NAFTA and ones that are different. In some areas, it also goes beyond the proposals made last year by the Clinton Administration, but which were withdrawn from the GATT implementing legislation because they were considered to be too controversial and threatened passage of the legislation.

Identical provisions include giving the CBI the same quota-free and duty-free treatment as imports from Mexico under NAFTA for six years during which time the U. S. and the CBI nations would negotiate possible accession to NAFTA or a comparable agreement. The bill goes further than the Administration proposal by establishing Tariff Preference Levels (TPLs) for the CBI, similar to those in NAFTA. The TPL provision would permit the import into the U. S. of apparel made from specified amounts of non-CBI and non-U. S. origin fabric as if they were the product of the agreement countries. The same NAFTA provision is also called non-originating apparel imports.

The reasoning behind this provision had some basis in the NAFTA negotiations, but I fail to see how it relates to the CBI, except as I will indicate below. The NAFTA negotiators agreed that both Mexico and Canada should have the use of TPLs because neither country produced sufficient amounts and varieties of fabric and a concern that U. S. fabric producers would dominate the NAFTA fabric market. The U. S. also received a minimum amount of TPLs.

In the case of the CBI countries, however, none are serious fabric producers. Is this aspect of H. R. 553 aimed at creating fabric-producing facilities in the CBI or moving U. S. factories there? Why is this provision included in the bill? For reasons indicated below, it would assist and encourage increased use of the CBI countries by South Korea and others as a way of selling into the U. S. market without quota or tariff restrictions on exports from South Korea itself.

H. R. 553 covers all products exported from the CBI, including apparel. The 1983 CBI legislation exempted apparel from duty-free and quota-free treatment because the industry and its jobs were considered to be very import sensitive. For more than thirty years successive U. S. administrations, regardless of party, have treated apparel as import sensitive.

The bill differs from last year's Administration bill in that it does not require the coupling of increased CBI access to U. S. markets with requirements that the CBI commit on intellectual property, investment and even the highly limited NAFTA side agreement on worker rights and the environment.

Omission of a provision to protect the intellectual property rights of U. S. companies raises yet another question. This omission comes at a time when our trade negotiators have insisted that other trading partners, most notably China, commit on such protection and enforce their commitments. Last week, USTR announced imposition of trade sanctions on China for violating U. S.-owned intellectual property rights. Could the sponsors of the legislation explain why such a provision was not included in the bill?

H. R. 553 also makes no provision for finding revenue offsets to compensate for expected tariff losses, despite the House budget resolution. Compensating for revenue loss, it will be recalled, proved to be a major stumbling block when the Senate voted on the GATT implementing legislation last December. What has happened to the budget resolution of the House? Is it no longer a House rule

or is the loss of tariff revenue no longer germane? Do the sponsors expect the bill to sail through the Congress if the Senate's ten-year budget rule is brought up again?

Earlier in this testimony I expressed my concern about the omission in H. R. 553 of provisions on worker rights and labor standards. I want to repeat and emphasize that concern once again. Even though the NAFTA side agreement on labor has no teeth, it at least reflects a recognition that the issues involved are important to Americans. Are the bill's sponsors saying that they are being selective in accepting parts of NAFTA and rejecting other parts?

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I also want to call to the attention of this Committee a concern about how questionable government data have been and are being used to justify trade policy and trade agreements. This has happened regardless of which party has been in the Executive Branch.

One serious distortion relates to the assertion that every $1 billion in exports creates 20,000 jobs. The other has to do with a misclassification of export data. In the latter case, exports of apparel parts for assembly and return of the finished product to the U. S. under Item 9802 of the Harmonized Tariff Code are treated as the export of finished product.

Given the tremendous increase in outward processing in recent years, this methodology has resulted in distorting U. S. export data. These distorted data, in turn, have been used to justify various apparel trade agreements and trade policy in general. Policy is being made on the basis of data that are patently wrong.

Our analysis of the use of incorrect data, presented to the appropriate agencies over the last five years, has been underlined in a study by the General Accounting Office, entitled U. S.-Mexico Trade. The study was released eighteen months ago, in the midst of the NAFTA debate. While it does not deal specifically with apparel, its methodological comments relate to reported apparel exports as well as to other trade between the U. S. and Mexico. These comments also pertain to the use of data on U. S.-CBI trade.

The report stated that Mexican trade data differed from U. S. data because Mexico excluded from its import figures shipments used in maquiladora operations (and presumably free trade zones as well) because the products assembled there did not enter the Mexican market. U. S. data, on the other hand, do not distinguish between parts sent to Mexico (or anywhere abroad, including the CBI) for assembly and return to the U.S. The GAO recommended that U. S. export data be revised. Unfortunately, this has not been done by the appropriate agencies and false data continue to be used, including U. S.-CBI trade.

Before detailing this argument, I would like to deal briefly with the assertions about export-led job creation because they also relate to trade with the CBI.

It is asserted that every billion dollars in exports creates 20,000 jobs -- good and high paying jobs at that. The argument was developed in support of NAFTA. It was used to promote GATT, to justify the Mexican bailout and is now being used to promote expansion of the CBI program.

What may have been meant was that each billion dollars of the surplus of exports over imports created 20,000 jobs. But that's not the way it has been put because if each billion dollars in exports creates 20,000 jobs, each billion dollars in imports should result in the loss of 20,000 jobs. Given our negative trade balance, more jobs would have been lost than created.

The Department of Commerce developed the formula during the Bush Administration. It later "perfected" the number to 17,600 jobs per billion dollars in exports. However, the earlier figure continues to be used, perhaps because it is a round number and is, therefore, easier to deal with.

The government official for whom the formula was developed, Julius Katz, the principal NAFTA negotiator during the Bush presidency, now says, "The job numbers are totally phony numbers." (The Wall Street Journal, January 4, 1995.) Katz goes on to say, "My great regret is we got trapped into that argument." Katz comment has been ignored; the use of "totally phony numbers" continues.

Using Bureau of the Census data, the ILGWU Research Department has found that of the reported exports of domestic apparel (net of reexports of foreign apparel) of $4.8 billion in 1993, $3.1 billion or 65.2 percent were exports of parts for assembly abroad under the provisions of Item 9802. Yet, the $4.8 billion figure is used to show how rapidly apparel exports are growing and that reciprocal market opening works.

It is also of interest that, of the remaining $1.7 billion in reported apparel exports, 95.4 percent went to Canada, the European Union and Japan. This left a total of slightly under $77 million in apparel exports to the rest of the world, including the CBI -- and Mexico -- far from the massive apparel exports reportedly exported to these countries.

This is a very different picture than the one used by those who favored NAFTA and other trade programs and now support an expanded CBI. Current data on our apparel trade with the CBI present an even more devastating picture. I would like to give you some figures that bear this out and would be pleased to expand upon them if the Committee so desires. The data are somewhat complex, but I will try to hit the high points and their implications.

In the year ending September 1994, the latest date for which Item 9802 data are available (Office of Textiles and Apparel, U. S. Department of Commerce), the U. S. imported $4.2 billion worth of apparel from the CBI. Of this total, $3.4 billion or 80 percent were imports of apparel assembled under the "regular 807" program, the former classification for Item 9802, and the CBI program.

Under "Regular 807", imports assembled in the CBI or elsewhere of U. S. components reenter the U. S. duty free. Duty is paid only on the added value of (lowcost) labor. Components shipped abroad for assembly can be made in the U. S. or can consist wholly or in part of foreign materials. Imported fabric cut into parts in the U. S., is treated as a U. S. component because it is cut in the U. S.

The Special Access program for the CBI, announced by President Reagan in February 1986, provides that the garment exported from the CBI to the U. S. must be assembled from fabric that is both made and cut in the U. S. in order to enjoy special treatment. This program differs from "regular 807" in that the fabric must not only be cut in the U. S., but it must be formed here as well.

The special program provides that any CBI member can negotiate an agreement to create Guaranteed Access Levels for apparel products subject to quota restraints. Since GAL quotas are essentially open-ended, GALs are more attractive to CBI assemblers than "regular 807". Many "regular 807" suppliers, especially those using foreign fabric for price and other reasons, including South Korean and U. S. firms, are major players in the CBI.

To get back to the numbers: of the $3.4 billion in combined "regular 807" and Special Access U. S. apparel imports from the CBI, $2.2 billion or almost two-thirds were "regular 807". The

Special Access program accounted for $1.1 billion in apparel imports, roughly only 26 percent.

One final number should be mentioned, reported U. S. apparel exports to the CBI, distorted as they are for reasons mentioned earlier. In the year ending September 1994, U. S. apparel exports were reported to be just under $2 billion. This figure should be increased by about 20 percent to account for the CBI assembly labor, bringing the total $2.3 billion, $1 billion less than total of CBI apparel exports to the U. S. under the two programs.

Given the lack of hard government data, it is a reasonable approximation to say that at least the $1 billion in CBI apparel exports came from South Korean and other non-hemisphere companies. South Korean companies play a major role in the Caribbean apparel industry. They are also major beneficiaries of the program. How much fraud, which would further increase the Korean share, is involved in mislabelling and misreporting is difficult to say. We know from Customs testimony before committees of the Congress that apparel fraud is among the most prevalent.

Reported U. S. apparel imports from the CBI as a whole in the year ending November 1994, the latest month for which data are available, were larger than that from any single apparel exporting nation, including China.

Assembly operations, as I have stressed throughout this testimony, take place under the most difficult circumstances for CBI workers. If the proposed legislation passes the Congress without provision for worker rights and labor standards, the conditions of CBI workers will not improve. A small native elite and U. S. and South Korean companies will be the primary beneficiaries.

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Hundreds and thousands of U. S. apparel production jobs have been lost as a result of trade policy. Using the Department of Commerce formula, a $31 billion imbalance in apparel trade in 1994 should result in a loss of 620,000 U. S. apparel jobs. The figure would be 60,000 higher if U. S. apparel export data were corrected.

Department of Labor data on apparel production jobs are almost a half million less than in the 1973 peak year, despite a more than 20 percent increase in population. Workers in the Caribbean and elsewhere have not benefitted from the U. S. job loss. Their wage levels remain abysmal as do their conditions of work.

We do not seek to compete for jobs with these workers. We seek, as I have said throughout this testimony and elsewhere, a trade policy that would truly lift all boats, a trade policy with as much concern for worker rights and labor standards as for profits.

At issue is not how to benefit elites in the CBI and U. S. -- and Korean -- companies. It is how working people in the CBI and the U. S. can improve their conditions of work and enhance their living standards. This goes to the heart of the Committee's concern, one I wholeheartedly share, "that it is in the national interest of the United States to encourage the development of strong democratic governments and healthy economies in Caribbean countries."

Chairman CRANE. Next, Mr. Cooper.

STATEMENT OF MITCHELL J. COOPER, COUNSEL, RUBBER & PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

Mr. COOPER. Thank you, sir.

Mr. Chairman, the Rubber & Plastic Footwear Manufacturers Association is the spokesman for manufacturers of most of the waterproof footwear, rubber sole fabric-upper footwear and slippers produced in this country. The short answer to the issues set forth in the subcommittee's announcement of this hearing is that so far as the rubber footwear and slipper industry is concerned, NAFTA has had absolutely no effect on CBI-beneficiary countries, nor is it likely to have any effect in the foreseeable future.

For the year 1990, the last year when footwear with domestic components was exempt from CBI duty-free treatment, imports from the Caribbean of fabric-upper footwear with plastic or rubber soles totaled 273,000 pairs. In 1991, the first year of duty-free treatment, the volume more than doubled to 561,000, and in 1992, imports of such footwear surged to 2,593,000, or by about 421 percent.

For the first 9 months of 1994 alone, imports of this footwear from the Caribbean amounted to 6,546,000 pairs, of which 6,540,000 came from the Dominican Republic. In short, when we speak of the CBI and its impact on domestic rubber footwear and slipper production, we are speaking about one country, the Dominican Republic.

When one recognizes that most rubber footwear duties range from 20 percent to in excess of 60 percent, it is no wonder that the granting of duty-free treatment to the Dominican Republic, where there are several well-established rubber footwear plants, has had a devastating effect. It was, incidentally, shortly after rubber footwear duties were removed from CBI exports to this country that Carter Footwear, a reputable and highly successful manufacturer of low-end casual footwear, closed its factory in Jasper, Ga., fired its approximately 200 employees, and expanded its operations in the Dominican Republic.

The average unit value of fabric-upper, rubber sole footwear from the Dominican Republic for the first 9 months of 1994 was $2.19, which will give you some idea of the kind of competition faced by domestic manufacturers of low-end rubber footwear.

In each of the past 3 years, legislation was introduced in both Houses which would reinstate dutiable treatment on all footwear from the Caribbean. In each of those years, this subcommittee declined to hold a hearing, but such legislation was nonetheless passed by both Houses at the end of the 1992 congressional session and was included as part of that year's tax bill. President Bush, however, then vetoed that tax bill.

To put this matter in perspective, you should be aware of the facts that this labor-intensive, import-sensitive industry did not have its duties cut in the Kennedy or Tokyo rounds of multilateral negotiations, had but minimal cuts in the Uruguay round, was one of the very few industries granted a 15-year phaseout from NAFTA, and is exempt from GSP duty-free treatment. Despite its relatively high duties, imports of fabric-upper footwear with rubber

or plastic soles took 83 percent of our domestic market in 1993, and imports of waterproof footwear took 36 percent.

We recognize the difficulty of turning the clock back. We do ask that you give the kind of serious consideration to the import problems of this industry that has been given for the past 30 years by both Republican and Democratic administrations in an effort to help the survival of what is left of domestic rubber footwear and slipper production.

If you really want to have NAFTA parity between the Caribbean and Mexico, you will amend H.R. 553 so as to restore duties on all rubber footwear from the Caribbean and then commence a 15-year phaseout of such duties. In the alternative, we would ask that you permit the continuation of duty-free treatment on the current volume of rubber footwear imports from the Caribbean, but that you restore the full duty on all rubber footwear in excess of that volume.

We prefer to believe that it is not the policy of this subcommittee to increase employment in the Dominican Republic at the direct expense of employment in domestic rubber footwear and slipper plants. I regret to say, however, that if H.R. 553 passes in its present form, that is likely to be the consequence so far as this industry is concerned.

Chairman CRANE. Thank you, Mr. Cooper.

[The prepared statement and attachments follow:]

TESTIMONY OF MITCHELL J. COOPER
RUBBER & PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

The Rubber and Plastic Footwear Manufacturers Association (RPFMA) is the spokesman for manufacturers of most of the waterproof footwear, rubber sole fabric-upper footwear and slippers produced in this country. The names and addresses of the Association's members appear on Appendix I.

The short answer to the issue set forth in the Committee's announcement of this hearing is that, so far as the rubber footwear and slipper industry is concerned, NAFTA has had absolutely no effect on CBI beneficiary countries, nor is it likely to have any effect in the foreseeable future.

For the year 1990, the last year when footwear with domestic components was exempt from CBI duty-free treatment, imports from the Caribbean of fabric upper footwear with plastic or rubber soles totalled 273,000 pairs. In 1991 the first year of duty-free treatment, the volume more than doubled to 561,000 and in 1992, imports of such footwear surged to 2,593,000 or by about 421%. For the first nine months of 1994 alone, imports of this footwear from the Caribbean amounted to 6,546,000 pairs, of which 6,540,000 came from the Dominican Republic. In short, when we speak of the CBI and its impact on domestic rubber footwear and slipper production, we are speaking about one country - the Dominican Republic.

When one recognizes that most rubber footwear duties range from 20% to in excess of 60%, it is no wonder that the granting of duty-free treatment to the Dominican Republic, where there are several well-established rubber footwear plants, has had such a devastating effect. It was, incidentally, shortly after rubber footwear duties were removed from CBI exports to this country that Carter Footwear, a reputable and highly successful manufacturer of low-end, casual footwear, closed its factory in Jasper, Georgia, fired its approximately 200 employees and expanded its operations in the Dominican Republic.

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In each of the past three years, legislation was introduced in both Houses which would reinstate dutiable treatment on all footwear from the Caribbean. In each of those years, this Committee declined to hold a hearing, but such legislation was nonetheless passed by both Houses at the end of the 1992 Congressional session and was included as part of that year's tax bill. President Bush, however, then vetoed that tax bill.

To put this matter in perspective, you should be aware of the facts that this labor-intensive, import-sensitive industry did not have its duties cut in the Kennedy or Tokyo Rounds of multilateral negotiations, had but minimal cuts in the Uruguay Round, was one of the very few industries granted a fifteen-year phaseout from NAFTA and is exempt from GSP duty-free treatment. Despite its relatively high duties, imports of fabric upper footwear with rubber or plastic soles took 83% of our domestic market in 1993 and imports of waterproof footwear took 36%.

We recognize the difficulty of turning the clock back. We do ask that you give the kind of serious consideration to the import problems of this industry that has been given for the past 30 years by both Republican and Democratic Administrations in an effort to help the survival of what is left of domestic rubber footwear and slipper production.

If you really want to have NAFTA parity between the Caribbean and Mexico, you will amend HR.553 so as to restore duties on all rubber footwear from the Caribbean and then commence a fifteen-year phaseout of such duties. In the alternative, we would ask that you permit the continuation of

imports from the Caribbean but that you restore the full duty on all rubber footwear and slipper imports from the Caribbean in excess of that volume.

We prefer to believe that it is not the policy of this Committee to increase employment in the Dominican Republic at the direct expense of employment in domestic rubber footwear and slipper plants. I regret to say, however, that if HR.553 passes in its present form, that is likely to be the consequence so far as this industry is concerned.

APPENDIX I

RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION
(February 10, 1994)

American Steel Toe Co.
P.O. Box 959
S. Lynnfield, MA 01940-0959

Converse, Inc.
One Fordham Road
North Reading, MA 01864

Draper Knitting Co., Inc.
28 Draper Lane
Canton, MA 02134

Frank C. Meyer Co.
585 South Union Street
Lawrence, MA 01843

Genfoot America, Inc.
The Old South Building
11th Floor
294 Washington Street
Boston, MA 20108-4675

Gitto Global Corp.
140 Leominster-Shirley Road
Gianna Park
P.O. Box 318
Lunenburg, MA 01462

Hudson Machinery Worldwide
Hudson Industrial Park
P.O. Box 831
Haverhill, MA 01831

Kaufman Footwear Corporation
700 Alicott Street
Batavia, NY 14020

Kaumagraph, Inc.
P.O. Box 632
525 W. South Street
Kennett Square, PA 19348

LaCrosse Footwear, Inc.
P.O. Box 1328
LaCrosse, WI 54602-1328

New Balance Athletic Shoe, Inc
38 Everett Street
Allston, MA 02134

Norcross Footwear, Inc.
9300 Shelbyville Road
Suite 300
Louisville, KY 40222

S. Goldberg & Co., Inc.
20 East Broadway
Hackensack, NJ 07601-6892

Spartech Franklin
113 Passaic Avenue
Kearney, NJ 07032

Supreme Slipper Manufacturing
Company, Inc.
P.O. Box 1376
Lewiston, ME 04240

Tingley Rubber Corporation
P.O. Box 100
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APPENDIX II

Fabric upper footwear with rubber or plastic soles.
U.S. imports for consumption by principal sources.
Jan.-Sept. 1992-94; July-Sept. 1992-94; annual 1992-94

Source	Jan.-Sept.-- 1992	1993	1994	Percentage change, Jan.-Sept 1994 from Jan.-Sept 1993	July-Sept.-- 1992	1993	1994	Percentage change, July-Sept 1994 from July-Sept 1993	1992	1993	Percentage change, 1993 from 1992
					Quantity (1,000 pairs)						
China	132,323	142,814	170,789	19.6	24,801	26,950	37,679	39.8	162,972	176,266	8.2
Korea	24,543	18,796	12,813	- 31.8	6,797	5,244	2,958	- 43.6	32,519	23,339	- 28.2
Indonesia	6,514	8,980	13,082	45.7	2,168	3,466	3,824	10.3	8,875	10,821	21.9
Taiwan	7,743	6,033	4,977	- 17.5	2,255	1,639	1,418	- 13.5	9,555	7,390	- 22.7
Thailand	7,622	8,308	7,472	- 10.1	1,641	2,358	2,038	- 13.6	10,023	10,036	0.1
Mexico	14,539	14,355	14,609	1.8	5,171	4,830	5,594	15.8	19,477	18,717	- 3.9
Dominican Rep	1,690	2,910	6,540	124.7	849	1,398	2,572	84.0	2,953	4,495	52.2
Philippines	1,032	2,646	2,351	- 11.1	414	1,616	1,019	- 36.9	1,442	3,015	109.1
Hong Kong	5,171	1,975	2,237	13.3	631	399	644	61.4	6,372	2,522	- 60.4
Italy	124	157	308	96.2	31	64	59	- 7.8	143	221	54.5
Israel	624	646	562	- 13.0	127	195	181	- 7.2	726	781	7.6
Malaysia	234	183	485	165.0	55	22	165	650.0	279	249	- 10.8
Brazil	600	732	1,101	50.4	152	185	186	0.5	769	794	3.3
Spain	98	177	578	226.6	50	49	80	63.3	116	243	109.5
Germany	211	56	65	16.1	6	22	27	22.7	235	82	- 65.1
Canada	77	164	147	- 10.4	37	111	51	- 54.1	122	258	111.5
Portugal	16	20	62	210.0	0	9	25	177.8	18	30	66.7
Austria	5	1	25	400.0	1	0	15	0.0	5	12	140.0
France	46	60	100	66.7	8	16	11	- 31.3	50	79	58.0
Japan	55	68	69	1.5	1	18	34	88.9	64	74	15.6
All Other	139	432	268	- 38.0	39	234	59	- 74.8	253	550	117.4
Total	283,814	209,523	234,627	13.9	45,242	48,834	58,849	20.1	256,978	259,984	1.2
CBI total	1,692	2,919	6,546	124.3	650	1,401	2,576	83.9	2,955	4,555	54.1
European Union tot	505	493	1,127	128.6	103	163	210	28.8	580	680	17.2
					Value (1,000 dollars)						
China	245,211	410,406	530,448	29.2	54,400	112,804	147,895	31.1	328,400	518,311	57.8
Korea	302,772	305,341	204,440	- 33.0	96,439	92,404	49,967	- 45.9	415,935	382,642	- 8.0
Indonesia	36,403	85,804	116,957	36.3	13,570	39,361	41,202	4.7	55,095	106,467	93.2
Taiwan	85,247	93,162	85,808	- 7.9	31,817	29,738	25,394	- 14.6	111,623	117,338	5.1
Thailand	28,675	42,967	61,376	42.8	7,838	15,645	16,979	8.5	37,358	57,137	52.9
Mexico	26,349	27,472	27,299	- 0.6	10,745	10,423	10,904	4.6	35,006	36,974	5.6
Dominican Rep	4,188	5,448	14,337	163.2	1,774	2,720	6,073	123.3	7,165	8,478	18.3
Philippines	4,112	8,728	8,234	- 5.6	1,382	4,439	3,555	- 19.9	5,684	10,289	81.0
Hong Kong	7,752	8,465	12,259	44.8	1,317	2,540	3,199	25.0	10,908	11,302	3.6
Italy	2,640	4,115	6,725	63.4	735	2,099	1,848	- 12.0	3,270	5,597	71.2
Israel	2,846	3,754	3,797	1.1	710	1,383	1,335	- 3.5	3,327	4,754	42.9
Malaysia	954	1,367	3,165	131.5	270	241	1,125	366.8	1,211	1,804	49.0
Brazil	1,313	1,952	4,078	108.9	453	523	929	77.6	1,841	2,087	13.4
Spain	711	1,545	5,193	236.1	186	367	847	130.8	955	2,362	147.3
Germany	589	1,281	1,563	22.0	252	488	565	15.8	1,018	1,857	82.4
Canada	713	948	956	0.8	362	509	389	- 23.6	1,090	1,534	40.7
Portugal	148	213	712	234.3	0	84	307	265.5	168	304	81.0
Austria	324	137	874	538.0	135	42	280	566.7	324	343	5.9
France	974	1,929	2,515	30.4	128	534	255	- 52.2	1,177	2,636	124.0
Japan	257	348	533	53.2	15	69	250	262.3	308	453	47.1
All Other	1,163	2,520	2,098	- 16.7	596	1,001	455	- 54.5	2,168	3,299	52.2
Total	753,354	1,007,912	1,093,379	8.5	223,135	317,443	313,764	- 1.2	1,024,039	1,275,977	24.6
CBI total	4,199	5,491	14,350	161.3	1,777	2,744	6,081	121.6	7,176	8,667	20.8
European Union tot	5,335	9,211	16,910	83.6	1,487	3,604	3,903	8.3	6,987	12,900	84.6
					Unit value (per pair)						
China	$1.85	$2.87	$3.10	8.0	$2.19	$4.18	$3.92	- 6.2	$2.01	$2.94	46.3
Korea	12.33	16.24	15.95	- 1.8	14.18	17.62	16.89	- 4.1	12.79	16.39	28.1
Indonesia	5.58	9.55	8.94	- 6.4	6.25	11.35	10.77	- 5.1	6.20	9.83	58.5
Taiwan	11.00	15.44	17.24	11.7	14.10	18.14	17.90	- 1.3	11.68	15.87	35.9
Thailand	3.76	5.17	8.21	58.8	4.77	6.63	8.33	25.6	3.72	5.69	53.0
Mexico	1.81	1.91	1.86	- 2.6	2.07	2.15	1.94	- 9.8	1.79	1.97	10.1
Dominican Rep	2.47	1.87	2.19	17.1	2.08	1.94	2.36	21.6	2.42	1.88	- 22.3
Philippines	3.98	3.29	3.50	6.4	3.33	2.74	3.48	27.0	3.94	3.41	- 13.5
Hong Kong	1.49	4.28	5.48	28.0	2.08	6.41	4.96	- 22.6	1.71	4.48	162.0
Italy	21.29	26.21	21.83	- 16.7	23.70	32.79	31.32	- 4.5	22.86	25.32	10.8
Israel	4.56	5.81	6.75	16.2	5.59	7.09	7.37	3.9	4.58	6.08	32.8
Malaysia	4.07	7.46	6.52	- 12.6	4.90	10.95	6.81	- 37.8	4.34	7.24	66.8
Brazil	2.18	2.66	3.70	39.1	2.98	2.82	4.99	77.0	2.39	2.62	9.6
Spain	7.25	8.72	8.98	3.0	3.72	7.48	10.58	41.4	8.23	9.72	18.1
Germany	2.79	22.87	24.04	5.1	42.00	22.18	20.92	- 5.7	4.33	22.64	422.9
Canada	9.25	5.78	6.50	12.5	9.78	4.58	7.62	66.4	8.93	5.94	- 33.5
Portugal	9.25	10.65	11.48	7.8	.00	9.33	12.28	31.6	9.33	10.13	8.6
Austria	64.80	37.00	34.96	- 5.5	35.00	.00	18.66	0.0	64.80	28.58	- 55.9
France	21.17	32.15	25.15	- 21.8	16.00	33.37	23.18	- 30.5	23.54	33.36	41.7
Japan	4.67	5.11	7.72	51.1	15.00	3.83	7.35	91.9	4.81	6.12	27.2
All Other	8.36	5.83	7.82	34.1	15.33	4.27	7.71	80.6	8.56	5.99	- 30.0
Total	2.65	4.81	4.66	- 4.8	4.93	6.50	5.34	- 17.8	3.98	4.90	23.1
CBI total	2.48	1.88	2.19	16.5	2.09	1.95	2.36	21.0	2.42	1.90	- 21.5
European Union tot	10.56	18.68	15.00	- 19.7	14.43	22.11	18.58	- 16.0	12.04	18.97	57.6

SOURCE: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX III

Rubber footwear: U.S. production, imports for consumption, exports of domestic merchandise, and apparent consumption. 1989-93 and by quarters, 1993-94

Table 4
Rubber footwear: U.S. production, imports for consumption, exports of domestic merchandise, and apparent consumption, 1989-93 and by quarters, 1993-94

Period	Production	Imports	Exports	Apparent consumption	Ratio of imports to consumption1/	Change from year-earlier period1/ Production	Imports	Exports	Apparent consumption
	Quantity (million pairs)				Percent				
Fabric-upper footwear with rubber or plastic soles:									
1989.....	76.8	190.1	10.0	256.9	74	0	21	2/1 13	10
1990.....	89.7	199.2	8.7	280.3	71	17	5	13	9
1991.....	97.5	213.4	9.7	301.2	71	9	7	11	7
1992.....	92.7	257.0	9.5	340.2	76	-5	20	-2	13
1993.....	62.5	260.0	9.2	313.3	83	-33	1	-3	-8
1993:									
Jan.-Mar...	21.2	89.4	2.8	107.8	83	-31	4	-2	-5
Apr.-Jun...	17.1	71.3	2.2	86.2	83	-37	-2	-6	-12
Jul.-Sep...	11.5	48.8	2.1	58.2	84	-27	8	8	-1
Oct.-Dec...	12.9	50.5	2.2	61.1	83	-34	-5	11	-13
1994: 3/									
Jan.-Mar...	18.1	93.0	2.4	108.7	86	-14	4	11	1
Apr.-Jun...	16.3	87.0	2.3	101.0	86	-4	22	5	17
Jul.-Sep...	11.6	58.6	2.2	68.1	86	2	20	6	17
	Quantity (million pairs)				Percent				
Protective footwear:									
1989.....	14.1	8.2	0.6	21.6	38	2	-8	10	-2
1990.....	16.0	8.7	0.8	23.9	37	13	-7	24	11
1991.....	15.6	8.0	0.9	22.7	35	-2	-8	17	-5
1992.....	16.1	7.7	0.8	23.1	34	3	-3	16	2
1993.....	18.1	9.7	0.7	27.0	36	12	25	-2	17
1993:									
Jan.-Mar...	4.0	1.5	0.2	5.4	28	-14	16	35	-6
Apr.-Jun...	4.9	2.0	0.2	6.7	30	-2	-7	9	-4
Jul.-Sep...	4.2	3.2	0.2	7.2	44	7	30	43	15
Oct.-Dec...	4.7	3.0	0.2	7.5	40	11	65	-8	28
1994: 3/									
Jan.-Mar...	4.7	1.8	0.1	6.4	28	17	15	12	18
Apr.-Jun...	4.8	2.5	0.2	7.2	35	-0	25	4	7
Jul.-Sep...	4.2	4.3	0.1	8.3	51	-1	34	37	16

1/ Percentages based on unrounded data.
2/ This increase probably reflects the change in export classification from the Schedule B to the HT-, and not necessarily an actual increase in export volume.
3/ Preliminary.

Note.--Because of rounding, figures may not add to totals shown.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

APPENDIX IV

PRODUCTION EMPLOYMENT
(in thousands)

RUBBER AND PLASTIC FOOTWEAR

1973	26.3	1984	14.0
1974	25.3	1985	10.9
1975	22.3	1986	9.2
1976	21.6	1987	9.3
1977	20.9	1988	9.7
1978	21.0	1989	9.2
1979	19.9	1990	8.9
1980	19.8	1991	8.8
1981	19.0	1992	8.9
1982	16.2	1993	8.9
1983	14.1		

PRODUCTION EMPLOYMENT
(in thousands)

SLIPPERS

1973	10.2	1984	6.0
1974	9.7	1985	5.1
1975	7.8	1986	4.4
1976	7.2	1987	4.7
1977	7.2	1988	4.6
1978	7.5	1989	4.2
1979	7.1	1990	3.7
1980	7.5	1991	3.5
1981	8.2	1992	3.2
1982	7.5	1993	2.6
1983	6.5		

Chairman CRANE. Mr. Mason, before you speak, I would like to defer to our distinguished colleague from your neck of the woods, Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman.

I wanted to introduce my constituent, Tom Mason. Tom and his dad, Sid, have built a business in Rocky Mount, Va., the Virginia Apparel Corp. It is a well-run business, I have been there several times. Not only does it make good products for their customers, but they do a really good job for the people who work there, providing wages and benefits, including health insurance, to more than 250 people, mostly women and minorities, in their area of my district and in rural Virginia.

There are few, if any, opportunities for these folks in the event that Virginia Apparel is not successful, and Tom has been fighting a good fight.

I am pleased that you are here with us today to tell us about your company.

STATEMENT OF THOMAS W. MASON, PRESIDENT AND CEO, VIRGINIA APPAREL CORP., ROCKY MOUNT, VA.

Mr. MASON. Thank you.

Thank you, Mr. Chairman, thank you, Congressman Payne. I have been sitting here since 11 o'clock this morning trying to figure out what makes me different from everybody else that has testified here today. Aside from the fact that as an opponent, complete opponent of H.R. 553, I don't have a whole lot of allies. But in looking at the list, most everybody here today represents a trade association or a union or a government entity. The biggest single difference between them and me is they have never been personally responsible and accountable for meeting a payroll, and the failure to meet a payroll.

Prefacing that, I would like to start and tell you a little bit about Virginia Apparel. We are an apparel contractor, and we are located in Franklin County, Va., which is a rural agricultural area of southwest Virginia. This company was started in 1971 by my father, and I have been with him for over 20 years.

Ninety percent of our employees are women, and 50 percent of these women are the sole source of income for their families. Between 20 percent of our employees are African-Americans and 3 percent are of other ethnic origins.

Our average hourly pay is over $7.50 an hour, but with the bonus programs and the additional group incentives that we have, we have many employees that earn over $9 an hour, considerably more than the minimum wage with which our industry is most often associated.

At our company, we also pay for vacations, holidays, health insurance, life insurance, and retirement plans. In fact, our wage and benefit package is equal to or better than anyone else in our area. We also spend hundreds of thousands of dollars each year to cover the cost of social security, workmen's compensation, unemployment taxes, and many other programs that our competitors in the Caribbean Basin and Latin America do not have to worry about.

Yet in the advisory that was sent to me regarding H.R. 553, it states, if the consequences of NAFTA on the Caribbean are not ad-

dressed, the resulting economic instability in the region threatens the future of democratic governments there. What has happened to the concern for the resulting economic instability put on the displaced American apparel worker when their jobs are gone?

This bill to me appears to be no more than a foreign aid package that is being funded by American apparel workers. This bill will cost jobs. It will cost thousands of jobs, and this subcommittee cannot guarantee that the thousands of dislocated workers will find comparable employment, if they find employment at all.

American apparel contractors and their employees are already at a competitive disadvantage to the Caribbean Basin and Latin American countries due to 807 and 807(a). These programs, plus guaranteed access levels, which offer unlimited quotas of goods made of U.S. fabric, contribute to this competitive disadvantage. Additionally, under H.R. 553, CBI nations will have substantial exceptions for apparel made with imported fabric.

As I see it, putting the mechanisms in place that would allow CBI beneficiaries to achieve NAFTA parity and subsequent NAFTA accession would raise the current competitive disadvantage we face to an insurmountable level. This bill is essentially a unilateral gift of American jobs. Even for the countries that could possibly absorb some of our products, there is not the slightest benefit of reciprocal considerations for the United States.

I have been in the Dominican Republic and I have had conversations with retailers in Central America, and there are minimal markets there at best. In all seriousness, how much product do we really think we can sell to Haiti, Belize, and the Grenadians as far as quality apparel is concerned?

But let's suppose for a moment that some of these countries did develop a middle class capable of purchasing American-made products. This bill, in its present form, gives these countries the right to control, even cut off, all exports from the United States, while maintaining full access to U.S. markets. It just does not make sense to pass legislation that has so little protection for the jobs and well-being of the workers in America.

The American apparel industry is disappearing and our government seems intent on making sure that it does. But please think on this: The U.S. textile and apparel industry is second only to steel in importance to national defense. It provides some 10,000 items for military use.

For Operation Desert Storm alone, it produced and provided 5.2 million pairs of pants, 5.2 million coats, 750,000 camouflage helmet covers, 400,000 field jackets, in addition to thousands of tents and sandbags, to name only a portion of the items required by the U.S. military.

Of the 5.2 million pairs of pants provided for Desert Storm, 10 percent or 500,000 were produced by my company. The plant that produced those pants located in Blackstone, Va., employed 200 people. Over 70 percent of them were minorities. That plant is now closed due to defense cuts and increased competition from CBI and Latin American countries.

I am here representing 260 people of Virginia Apparel Corp. These people are motivated, productive, and proud. All they want is the opportunity to keep the opportunities that we have provided

for them. They want the security of knowing that their job is not going to be taken away from them.

Even if our employees could be retained to be productive in southwest Virginia, it would be virtually impossible to relocate 260 people in any industry. I ask you to look at that; I ask you to consider them, and I thank you for the great privilege that I have had here today.

Chairman CRANE. Thank you, Mr. Mason.

[The prepared statement follows:]

Thomas W. Mason
Testimony Before The
House Ways & Means Subcommittee on Trade
Re: HR533 Caribbean Basin Trade Security Act
February 10, 1995

My name is Thomas Mason and I am President & CEO of Virginia Apparel Corp. in Rocky Mount, Virginia. I sincerely appreciate the opportunity to submit my testimony to the House of Representatives Ways and Means Subcommittee on Trade, regarding the Caribbean Basin Trade Security Act or HR553. To actually be a part of the process of government is a privilege that comes from the very essence of what makes America the greatest country in the world and a privilege for which I am truly grateful.

Virginia Apparel Corp. is a family owned apparel contractor employing 260 people in a rural area of southwest, Virginia. In 1971 my father, Sid Mason, left the security of a high profile, high paying job with a large multinational corporation to pursue the "American Dream"; the dream of being an entrepreneur, risking it all because he believed that there was a better way and that he could make a difference. He did make a difference and when he retired in 1993 he retired a wealthy man - not in a monetary sense, for when he retired he was drawing the same salary as he drew in 1971. My father's wealth was a result of the lives he touched, the people he helped, the jobs he provided.

I have spent twenty years helping my father. With his retirement it became my responsibility and my desire to continue the pursuit of that dream. But, this government, with its current position on trade, is taking that dream away. The very focus of this hearing demonstrates the attitude this government has on the American dream and American jobs. According to Advisory No. TR-2 from the Committee on Ways and Means, Subcommittee on Trade, H.R. 553 was introduced to "ensure that the Caribbean Basin is not adversely affected by implementation of NAFTA..." What about seeing that American jobs are not adversely affected by the "Caribbean Basin Security Act"? American apparel contractors are already at a competitive disadvantage to Caribbean Basin and Central American countries due to 807 and 807(A). These programs already give CBI countries generous access to domestic apparel markets, especially the "gals" or guaranteed access levels which offer unlimited quota to goods made of U.S. produced fabric.

Additionally, under HR553, CBI nations have substantial exceptions for apparel made with imported fabric. In fact, under current law, and especially with the addition of this bill, it would be more economically advantageous for Virginia Apparel Corp. and me, as its owner, to have all of its product made in the Dominican Republic or Honduras or Costa Rica or Barbados. What about the 260 employees, most of whom would lose their job if I followed through with that logic? Who will look after them? Who will provide them with jobs? Will anyone on this committee come to Virginia, look my people in the eye and guarantee them a comparable job in the event I move my production operation to Latin America? Most domestic apparel contractors are not large enough to be able to take advantage of the Caribbean as a production source, even if they wanted to. They will be thrown into competition with larger companies and with foreign companies operating in the Caribbean which will further erode domestic production, especially at the smaller company level. **Putting the mechanisms in place that would allow CBI beneficiaries to achieve NAFTA parity and subsequent NAFTA accession would raise the current competitive disadvantage we face to an insurmountable level. I believe that this legislation, in combination with NAFTA and GATT, will mean certain death for the American apparel contractor.**

Perhaps, I should explain the difference between apparel manufacturer and contractor. The manufacturer is someone who sells a finished product to an

end user, such as a retailer. They are the brand names, the big labels such as Polo, Guess, Liz Claiborne and Dockers. The contractor is someone who sells labor to the manufacturer and does the actual making of the garments. Manufacturers compete against each other for space in the retailer's store. American contractors compete against contractors all over the world for the chance to make product for the manufacturer. The manufacturer's competitors force him to sell his product for the lowest price he can, and since labor can account for up to 40% of his costs, he is compelled to look for the cheapest source of labor he can find. A careful examination of wage and benefit costs in most Caribbean and Latin American countries compared to wage and benefit costs in the U.S. make an obvious case against having apparel made in this country. Even manufacturers that own their own plants, such as Levi Straus and Lee Apparel, are moving production south of the border and off shore at the expense of their own domestic facilities.

Virginia Apparel is located in Franklin County a rural, agricultural area of southwest Virginia. 90% of our employees are women and 50% of these women are either the primary or only source of income for their family. 20% of our employees are black and 3% are of other ethnic origin. Our base rate of pay is $5.60 per hour. It is driven by healthy competition for labor between the industries in our area. However, we add individual incentives and group incentives on top of base pay which makes our average hourly pay $7.58 per hour. With our bonus program, we have many employees that earn over $9.00 per hour, considerably more than minimum wage with which we are associated with most of the time. We also pay for vacations, holidays, health insurance, life insurance, and retirement plans. This wage and benefit package is equal to or better than anyone else in the area. We try very hard to make sure that our employees are given every opportunity to earn a decent living and are taken care of. We also spend hundreds of thousands of dollars each year to cover the cost of Social Security, workman's compensation, unemployment taxes and many other programs for which our competitors in the Caribbean and Latin America have no concern at all. Yet the advisory states, "If the consequences of NAFTA on the Caribbean are not addressed, the resulting economic instability in the region threatens the future of democratic governments there." **Dear God! What has happened to the concern for the resulting economic instability put on displaced American apparel worker when their jobs are gone?** This bill appears to be no more than a foreign aid package that is being funded by American apparel workers. Why not simply send money and save domestic dislocation costs? **This bill will cost jobs - thousands of them! And not one of you on this subcommittee can guarantee that the thousands of dislocated workers will find comparable employment, if they find employment at all.**

Advisory No. TR-2 also states that, since its inception in 1990, the CBI Program has, "served as a textbook example of the job-creating effects of promoting increased trade. U.S. exports to the Caribbean Basin grew from $5.8 billion in 1983 to $12.3 billion in 1993." If you examine these figures more closely, I believe that you will find that, at least, two-thirds of apparel exports to the Caribbean and Latin American countries were cut parts that were then sewn together and then imported back into the U.S. Additionally, during 1990 and early 1991, a total of 56 textile plants and 45 apparel facilities in the U.S. were closed. **In fact, 560,100 jobs have been lost in the U.S. textile and apparel sectors since 1979 for a net decrease of 26%. This number also accounts for 20.1% of <u>all</u> manufacturing jobs were lost during that time. That is an average of 35,000 jobs per year!"** Over 800 apparel jobs were lost in 1994 in my own Congressional District. Of those, over 700 were lost because the company could no longer compete in the product line produced in those plants. **Looking at these figures, how can anyone possibly believe the CBI program has been, "a textbook example of the job-creating effects of promoting trade?" Whose jobs are we talking about?**

This bill is essentially a unilateral gift of American jobs. Even for the countries that could possibly absorb some of our products there is not the slightest benefit of reciprocal concessions for the U.S. I have been to the Dominican Republic and I have had conversations with retailers in Central America and there are minimal markets there, at best. And in all seriousness, how much product do we really think we will sell to Haiti, Belize, and the Grenadines? Let's suppose, for a moment, that some of these countries did develop a middle class capable of purchasing American made products. This bill, in its present form, gives these countries the right to control, even cut off, all exports from the U.S. while maintaining full access to U.S. markets. It just doesn't make sense to pass any legislation that has so little protection for the jobs and well-being of the workers of America.

The American apparel industry is disappearing and our government seems intent on making sure that it does. But, please, think on this: the U.S. textile and apparel industry is second only to steel in importance to national defense. It provides some 10,000 items for military use. For "Operation Desert Storm," it provided 5.2 million pair of pants, 5.2 million coats, 750,000 camouflage helmet covers and 400,000 field jackets in addition to thousands of tents and sand bags, to name only a portion of the items ordered by the U.S. military .* Of those 5.2 million pairs of pants, 500,000, almost 10%, were produced by my company. The plant that produced those pants employed 200 people. It is now closed because of defense cuts and increased competition from CBI and Latin American countries.

Part of the logic behind NAFTA was that, because of the size of Mexican and Canadian markets far more jobs would be created in the U.S. than lost. I do not agree with that argument but I admit that there is reason to think that it could be true. **But, that is <u>not</u> the case here.** Ladies and gentlemen, I implore you to carefully consider the ramifications of what you are about to do. **HR553 is wrong!** Yes, it is about jobs. But, jobs can not be considered in terms of numbers. **Jobs are people!** This is about people.

Look at me! I am a simple businessman who, like my father before me, has worked all of my adult life trying to run a business that produces the finest quality apparel in the world and provides good employment opportunities for the people of Franklin County, Virginia. I am here representing the 260 employees of Virginia Apparel Corp. But, I am also here representing the thousands of apparel workers all over America. They are my people, they are **<u>your</u>** people. They are human beings with families and needs. Many of them have never worked in any other type of job, nor do they wish to. Many have spent their entire working life in the apparel industry, which in many cases has been with us. Most do not want to be retrained for some other type of job because it may mean taking a pay cut while they are learning or they may be forced into a job they do not like. Many, due to age and ability, could not be trained to do something else. These are motivated, productive and proud people. All they want is to keep the opportunities they have and the security of knowing that their job is not going to be taken away from them. Even if all of our employees could be retrained to be productive, in southwest Virginia it would be impossible to relocate 260 people in any industry!

Please, stop looking at the effect your decisions will have on the people of other countries and focus on the effect your decisions will have on the individuals and families right here in America. If you do, then I am sure that you will see that this bill, HR553, is wrong!

Thank you again, for the privilege that you have given me today!

*Provided by Crafted With Pride and the U.S.A. Council

Chairman CRANE. Mr. Hall.

STATEMENT OF ROBERT P. HALL III, VICE PRESIDENT, GOVERNMENT AFFAIRS COUNSEL, NATIONAL RETAIL FEDERATION

Mr. HALL. Good afternoon, Mr. Chairman and Mr. Payne. I am Robert Hall, vice president, Government Affairs Counsel of the National Retail Federation, and I am pleased to have the opportunity today to testify in support of H.R. 553, the Caribbean Basin Economic Security Act.

The Federation is the Nation's largest trade group which speaks for the retail industry. We represent the entire spectrum of retailing from mass merchandisers, to specialty stores, to discount stores, to department stores, to mom and pop small, independent retailers. Our Federation represents over 30 national retail associations and all 50 State retail associations. Our membership represents over 1.5 million retail establishments, employs 20 million Americans, and registered sales in excess of $2 trillion in 1994.

Mr. Chairman, the Federation supports H.R. 553 because it offers a significant opportunity to correct the deficiencies of both the Caribbean Basin Initiative (CBI) program and also the NAFTA textile apparel provisions. We also support your legislation because it includes TPL preferences.

History has shown us that past efforts to liberalize world trade have been crippled by restrictive rules of origin, particularly in regard to the NAFTA and to last year's implementation of the GATT agreement. A rule of origin that is not commercially useful is of no benefit to American retailers and importers and the consumers we serve.

With increasing frequency, the United States has set out to liberalize world trade and to reduce trade barriers only to see those benefits evaporate, and the details are drafted, particularly, the rules of origin that define which products will qualify for trade liberalization. Restrictive rules of origin have narrowed, complicated, or even erased the benefits of trade agreements affecting apparel trade, including the NAFTA, and most recently, the Uruguay round agreement.

In the case of the NAFTA, we originally expected that the NAFTA tariff and quota reductions would provide sufficient incentive for U.S. importers to shift sourcing to the region from countries outside North America. But negotiators subsequently devised a very complicated yarn-forward rule of origin to prescribe which textile and apparel products would receive NAFTA's tariff and quota benefits.

This rule of origin generally requires the beneficiary apparel products to be made both of yarn and fabric that was made in North America. In many cases, the yarn and fabric required is not available from U.S. or North American suppliers and importers, therefore, must continue to source that apparel product from non-North American suppliers.

Had the rule of origin been less restrictive, importers could have arranged the requisite fabric to be shipped to Mexico for fabrication and import to the United States, allowing the apparel product to qualify as a NAFTA product. Alternately, U.S. importers could

have brought the foreign fabric into the United States for manufacture and exportation to Canada.

Moreover, we have seen as a rule of origin becomes more complicated, the greater the recordkeeping requirements for retailers, importers, and manufacturers. At some point, the burden becomes too great, both in terms of expense and risk of error. NAFTA then is no longer a commercially viable benefit and sourcing from non-NAFTA suppliers continues.

Most recently, Congress approved legislation to implement the Uruguay round agreement, which will gradually phase out long-standing U.S. quotas on textile and apparel products. However, included in the implementing legislation is a change in the current rules of origin which becomes effective after the quota phaseout process has begun. This rule of origin change will disrupt apparel trade, which was clearly the intent of advocates, and will render numerous apparel product levels inadequate.

It will complicate apparel sourcing and increase the cost of importing, and erase one clear benefit of the agreement's textile and apparel provisions: more flexible sourcing alternatives and, consequently, it will lower prices for consumers.

With this legislation, Mr. Chairman, you have clearly made an effort to draft a parity bill that will be genuinely useful to CBI countries. Your bill offers an important avenue to incorporate a commercially useful rule of origin and will provide benefits to the CBI countries and to U.S. consumers and retailers.

We look forward to working with you and the members of this subcommittee to ensure that this legislation incorporates such a rule of origin.

Chairman CRANE. Thank you, Mr. Hall.

[The prepared statement follows:]

NATIONAL RETAIL FEDERATION

STATEMENT OF ROBERT HALL, VICE PRESIDENT
GOVERNMENT AFFAIRS COUNSEL

Good morning, Mr. Chairman, I am Robert Hall, Vice President, Government Affairs Counsel, at the National Retail Federation (the "Federation"). I am pleased to have the opportunity to appear before you today in support of H.R. 553, The Caribbean Basin Economic Security Act.

The Federation is the nation's largest trade group which speaks for the retail industry. It represents the entire spectrum of retailing, from mass merchandisers and specialty stores to department stores and "mom and pop" small, independent retailers. The Federation also represents over 30 national retail associations and all 50 state retail associations. Our membership represents an industry that encompasses over 1.5 million retail establishments, employs more than 20 million people, and registered sales in excess of $2 trillion in 1994.

Mr. Chairman, the Federation supports H.R. 553 because it offers a significant opportunity to correct the deficiencies of both the Caribbean Basin Initiative (CBI) and the North American Free Trade Agreement's (NAFTA) textile and apparel provisions.

History has shown us that past efforts to liberalize world trade have been crippled by restrictive rules of origin, particularly in regard to the NAFTA and last year's implementation of the GATT Agreement. A rule of origin that is not commercially useful is of no benefit to American retailers and importers and the consumers we serve.

With increasing frequency, the United States has set out to liberalize world trade and reduce trade barriers only to see those benefits evaporate as the details of that liberalization are drafted, particularly the rules of origin that define which products will qualify for trade liberalization. Restrictive rules of origin have narrowed, complicated, or even erased the benefits of trade agreements affecting apparel trade, including the NAFTA and, most recently, the Uruguay Round Agreement.

In the case of the NAFTA, we originally expected that NAFTA's tariff and quota reductions would provide sufficient incentive for U.S. importers to shift sourcing to the region from countries outside North America. But negotiators subsequently devised a complicated "yarn forward" rule of origin to prescribe which

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textile and apparel products would receive NAFTA's tariff and quota benefits. This rule of origin generally requires the beneficiary apparel products to be made from both yarn and fabric that was made in North America. In many cases, the yarn or fabric required to make an apparel product is not available from North American suppliers, so U.S. importers must continue to source that apparel product from non-North American suppliers. Had the rule of origin been less restrictive, importers could have arranged for the requisite fabric to be shipped to Mexico for fabrication and eventual exportation into the United States, allowing the apparel product to qualify as a NAFTA product. Alternatively, U.S. importers could have brought the foreign fabric into the United States for manufacture and exportation to Canada.

Moreover, as the rule of origin becomes more complicated, the greater the record-keeping requirements for importers and manufacturers. At some point, the burden becomes too great, both in terms of expense and risk of error. NAFTA then is no longer a commercially viable benefit and sourcing from non-NAFTA suppliers continues.

Most recently, Congress approved legislation to implement the Uruguay Round Agreement, which will gradually phase out longstanding U.S. quotas on textile and apparel products. However, included in the implementing legislation is a change in the current rules of origin which becomes effective after the quota phase-out process has begun. This rule of origin change will disrupt apparel trade -- clearly the intent of its advocates -- and render numerous apparel product quota levels inadequate.[1] It will complicate apparel sourcing, increase the costs of importing, and erase the one clear benefit of the Agreement's textile and apparel provisions: more flexible sourcing alternatives and, consequently, lower prices for consumers.

With your legislation Mr. Chairman, you have clearly made an effort to draft a parity bill that will be genuinely useful to CBI countries. Your bill offers an important avenue to incorporate a commercially useful rule of origin that will provide benefits to the CBI countries and to U.S. consumers and retailers. We look forward to working with you and members of the committee to ensure that this legislation incorporates such a rule of origin.

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1 Current U.S. quota levels are based on trade patterns that prevailed in 1994, when U.S. rules of origin generally dictated that the country of origin is the country in which the apparel product was cut. The new rule of origin for apparel will generally dictate that the country of origin is that country where the apparel product is assembled. Therefore, many quota levels for particular countries will be too small after the United States adopts the new rule of origin.

Chairman CRANE. Mr. Isaac.

STATEMENT OF CHANDRI NAVARRO-BOWMAN, EXECUTIVE DIRECTOR, UNITED STATES APPAREL INDUSTRY COUNCIL, AS PRESENTED BY BILL ISAAC, PRESIDENT, TEXAS APPAREL COMPANY, DIVISION OF SALANT CORPORATION; MEMBER, UNITED STATES APPAREL INDUSTRY COUNCIL

Mr. ISAAC. Mr. Chairman, Mr. Payne, my name is Bill Isaac, I am the president of Texas Apparel Company, a division of Salant Corporation, a multinational apparel company with substantial U.S. and CBI production operations. I am here today as an executive board member of the United States Apparel Industry Council, also known as USAIC.

USAIC wholeheartedly supports H.R. 553, the Caribbean Basin Trade Security Act, and urges you to promptly approve this bill.

USAIC is a national trade association representing the major U.S. apparel companies importing apparel from Central America, Mexico, and the Caribbean. USAIC was formed in June of 1986 to address the concerns of American multinational apparel companies involved in twin-plant apparel production, which involves the offshore assembly of U.S. components. USAIC-member companies include Haggar, Levi Strauss, Sara Lee, Oxford, Salant, Wrangler, Bend and Stretch, Colonial, Greenwood Mills, OshKosh B Gosh, Phillip Van Heusen, Tropical Garment, Umbro USA, among others.

USAIC supports H.R. 553's CBI parity provisions. This bill will restore tariff equalization between CBI and Mexican apparel operations. Moreover, the provisions of this legislation would act as a bridge to the conclusion of free trade agreements with the CBI countries.

The CBI represents a permanent commitment by the United States to the countries of the region to encourage U.S. investment and U.S.-CBI trade. As a result of the quota preferences according CBI countries, U.S. apparel companies have expanded investment in assembly operations in these countries.

This has lowered average costs and enabled the U.S. apparel industry to compete more effectively with foreign competition while providing a source of stability in the CBI region.

I, too, have to make a payroll, and I can tell you that were it not for NAFTA and the CBI, we would be losing jobs today to the Far East. The CBI and NAFTA have allowed us to do cost averaging, whereby we were able to save jobs in the United States and keep these people working.

However, the tariff benefits gained by Mexico under the NAFTA threaten to derail the progress made by the CBI program. Trade figures since the implementation of NAFTA for the first 11 months of 1994 show that NAFTA creates a disincentive to new and expanded investment in the CBI region.

Growth in Mexican apparel imports has far outpaced the growth in CBI apparel imports in 1994. This provides a marked change from the trade figures for the last 8 years.

U.S. companies have increased their operations in Mexico to the detriment of plans to increase production in their long-established CBI operations. This trend will only speed up as further tariff reductions take place in the near future under NAFTA, placing in

jeopardy U.S. apparel operations in the CBI, and in turn, the stability of the region's economies. USAIC believes that the U.S. commitment to CBI countries and U.S. operations in these countries should be preserved.

The NAFTA provides preferential access to the North American market for products that originate in the NAFTA region. Under NAFTA, tariffs on originating textile and apparel products will be eliminated over 10 years. Quotas were eliminated for originating products on January 1, 1994, and will be completely eliminated in 10 years for nonoriginating goods. Also, on January 1, 1994, the United States eliminated duties and quotas on apparel made from U.S. formed and cut fabrics.

As the above demonstrates, there are certain benefits that NAFTA provides to Mexican textile and apparel products which have encouraged increased sourcing from and investing in Mexico at the expense of the CBI. Providing equal treatment to CBI textile and apparel imports made principally from U.S. yarn and fabric would allow U.S. companies to remain competitive, without disrupting U.S. apparel operations in the CBI, and excessively diverting trade and investment to Mexico.

H.R. 553 provides a short-term solution by providing tariff and quota treatment equal to that given to Mexico, and thereby, protecting the CBI region from disruptive shifts in trade and foreign investments, resulting from the implementation of NAFTA. It provides U.S. and local apparel companies incentives to continue investing in apparel operations in the region, which provide an important alternative to drug trafficking and a disincentive to immigration to the United States.

H.R. 553 will encourage countries in the region to accelerate their internal reforms and move to ready themselves to negotiate free trade agreements with the United States. USAIC believes it imperative that NAFTA-like benefits be immediately accorded to textile products assembled in the region. This is necessary to minimize the potential impact of NAFTA on the apparel industries in the United States and throughout the region.

It will allow U.S. companies to continue to compete effectively in the U.S. market and to maintain a viable U.S. apparel industry. In so doing, the countries of the region will benefit from continued investment, furthering economic development and political stability.

In addition, in light of the passage of the GATT Uruguay round agreement, which calls for the elimination of long-standing quotas on textile imports, U.S. apparel companies face a future with increased competition from low-cost imports, primarily from the Far East. H.R. 553 would permit U.S. companies to have production both in the United States and in the CBI, lowering their average costs and allowing them to better compete with the Far East imports. Further, production in the CBI contributes to U.S. employment in textile mills, cutting facilities, trim suppliers, transportation, and other sectors which service these operations. USAIC urges the Congress to promptly approve H.R. 553 and place U.S. apparel operations in the CBI on an equal footing, vis-a-vis Mexico.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Mr. Isaac.

[The prepared statement follows:]

STATEMENT OF CHANDRI NAVARRO-BOWMAN
EXECUTIVE DIRECTOR, UNITED STATES APPAREL INDUSTRY COUNCIL
AS PRESENTED BY WILLIAM ISAAC, PRESIDENT,
TEXAS APPAREL COMPANY, A DIVISION OF SALANT CORPORATION
MEMBER, UNITED STATES APPAREL INDUSTRY COUNCIL

The United States Apparel Industry Council (USAIC) wholeheartedly supports H.R. 553, the "Caribbean Basin Trade Security Act", introduced on January 18, 1995 by Rep. Philip M. Crane (R-IL). USAIC urges prompt passage of H.R. 553 which provides for the application of NAFTA tariff and quota treatment to U.S. textile and apparel imports from CBI beneficiary countries.

USAIC is a national trade association representing the major U.S. apparel companies importing apparel from Central America, Mexico and the Caribbean under subheading 9802.00.80 of the Harmonized Tariff Schedule of the U.S.-HTSUS (formerly known as item 807 TSUS). USAIC was formed in June of 1986 to address the concerns of American multinational apparel companies involved in twin-plant apparel production, involving the offshore assembly of U.S. components. USAIC member companies include Haggar Apparel Co., Levi Strauss & Co., Sara Lee Knit Products, Oxford Industries, Salant Corp., Wrangler, Inc., Bend'n Stretch, Inc., Colonial Corp., Greenwood Mills, OshKosh B'Gosh, Phillips-Van Heusen Corp., Tropical Garment Manufacturing Co., Umbro-USA among others.

USAIC supports H.R. 553's enhancement of the Caribbean Basin Initiative (CBI). This bill will restore tariff equalization between CBI and Mexican apparel operations. Moreover, the provisions of this legislation would act as a bridge to the conclusion of free trade agreements with these countries.

The CBI represents a permanent commitment by the U.S. to the countries of the region to encourage U.S. investment and U.S.-CBI trade. In order to provide economic and political stability to the region, and to expand trade and prosperity throughout the Americas, the United States provides preferential treatment to imports from Caribbean and Central American countries. As a result of the quota preferences accorded CBI countries, U.S. apparel companies have expanded investment in assembly operations in these countries. This has lowered average costs and enabled the U.S. apparel industry to compete more effectively with foreign competition, while providing a source of stability in the CBI region.

However, the tariff benefits gained by Mexico under the NAFTA threaten to derail the progress made by the CBI program. Trade figures since the implementation of NAFTA, for the first eleven months of 1994, show that the NAFTA creates a disincentive to new and expanded investment in the CBI region. Growth in Mexican apparel imports has far outpaced the growth in CBI apparel imports in 1994. This provides a marked change from the trade figures for the last eight years which show growth in CBI apparel imports at a par or above Mexican apparel import growth levels.

U.S. apparel companies with operations in the CBI have had to reconsider their production plans. These companies have increased their operations in Mexico to the detriment of plans to increase production in their long-established CBI operations. This trend will only speed up, as further tariff reductions take place in the near future under the NAFTA, placing in jeopardy U.S. apparel operations in the CBI, and in turn the stability of the region's economies. USAIC believes that the U.S. commitment to CBI countries and U.S. operations in those countries should be preserved.

The NAFTA provides preferential access to the North American market for products that originate in the NAFTA region. Under NAFTA, tariffs on originating textile and apparel products will be eliminated over a maximum transition period of ten (10) years. Quotas were eliminated for originating products on January 1, 1994, and will be completely eliminated in ten (10) years for non-originating goods.

NAFTA benefits apply to textile products that, under the rules of origin set forth in Annex 401 to the Agreement, "originate" in one of the three countries. For a garment to be considered originating, it must satisfy the rule of origin for that specific product. For textile and

apparel products, a "yarn forward" rule of origin generally applies. This means that finished textile and apparel products must be made from the yarn stage forward in North America. The fibers from which the yarn is made may be imported; however, the yarn must be produced, the fabric made and the garment cut and sewn in North America.

Textile and apparel products traded among the NAFTA countries that do not conform to the rule of origin (i.e., non-originating apparel) can receive NAFTA tariff preferences, up to a certain limit known as a Tariff Preference Level (TPL). Once imports have reached the TPL limit, regular tariffs will apply to any additional imports. For Mexican exports to the U.S. there are two types of TPL. The first is for apparel which is cut and sewn in North America but is manufactured of non-originating fabrics. The second TPL is limited to 9802 (807) merchandise manufactured from fourth-country yarn or fabric, cut in the U.S. and assembled in Mexico. Certain non-originating apparel cannot qualify for entry under the TPL and must always pay full duty, including apparel made from blue denim and oxford cloth, men's and boys' and women's and girl's cotton and man-made fiber under pants and briefs made from circular knit fabrics, and others. All import duties on textile products traded between the U.S. and Mexico are to be reduced to zero in three phases: January 1994; staged reductions for 6 years; or, staged reductions for 10 years depending on the type of garment.

Upon implementation of the NAFTA, the U.S. eliminated duties and quotas on textile and apparel products that qualified for an amended Special Regime status, i.e., goods assembled in Mexico from fabrics wholly formed and cut in the U.S., even if they do not meet the yarn-forward or fiber-forward rule of origin. These products enter the U.S. free of duty under U.S. tariff item 9802.00.9000. This duty preference will be maintained even if such products have been subject to certain finishing operations in Mexico, including stonewashing, acidwashing, bleaching, garment dyeing, or permapressing before being reimported into the U.S. All quota and visa restrictions for eligible textile products were similarly eliminated. To qualify for this benefit, the fabric must be woven, knit or otherwise formed in the U.S. The U.S. formed fabric must be cut in the U.S. before exportation to Mexico for assembly.

As the above demonstrates, there are certain benefits that NAFTA provides to Mexican textile and apparel products which have encouraged increased sourcing from and investing in Mexico, at the expense of the CBI. Providing equal treatment to CBI textile and apparel imports made principally from U.S. yarn and fabric would allow U.S. companies to remain competitive without disrupting U.S. apparel operations in the CBI and excessively diverting trade and investment to Mexico.

H.R. 553 provides a short-term solution by providing tariff and quota treatment equal to that given to Mexico, and thereby protecting the CBI region from disruptive shifts in trade and foreign investment, resulting from the implementation of the NAFTA. It provides U.S. and local apparel companies incentives to continue investing in apparel operations in the region, which provide an important alternative to drug trafficking and a disincentive to immigration to the U.S.

H.R. 553 will encourage countries in the region to accelerate their internal reforms and move to ready themselves to negotiate free trade agreements with the U.S. USAIC believes it imperative that NAFTA-like benefits be immediately accorded to textile products assembled in the region. This is necessary to minimize the potential impact of NAFTA on the apparel industries in the United States and throughout the region. It will allow U.S. companies to continue to compete effectively in the U.S. market and to maintain a viable U.S. apparel industry. In so doing, the countries of the region will benefit from continued investment, furthering economic development and political stability.

In addition, in light of the passage of the GATT Uruguay Round Agreement which calls for the elimination of long-standing quotas on textile imports, U.S. apparel companies face a future with increased competition from low-cost imports, primarily from the Far East. H.R. 553 would permit U.S. companies to have production both in the U.S. and in the CBI, lowering their average costs and allowing them to better compete with Far East imports. Further, production in the CBI contributes to U.S. employment in textile mills, cutting facilities, trim suppliers, transportation and other sectors which service these operations. USAIC urges the Congress to promptly approve H.R. 553 and place U.S. apparel operations in the CBI on an equal footing vis-a-vis Mexico.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman.

I don't have any questions.

I would like to ask unanimous consent to have a letter entered into the record, which is a letter that Congressman Spratt—and had sent to you, Mr. Chairman, earlier this week.

Chairman CRANE. Without objection.

[The information follows:]

Congress of the United States
Washington, DC 20515

February 9, 1995

The Honorable Philip M. Crane
Chairman
Subcommittee on Trade
House Ways and Means Committee
Washington, D.C. 20515

Dear Mr. Chairman:

We are writing to express our strong opposition to H.R. 553, the Caribbean Basin Initiative (CBI) Parity measure, which you recently introduced.

Like you, we support the goal of promoting economic stability and the development of strong democracies in the Caribbean. However, we believe that H.R. 553 is the wrong way to accomplish this goal. The goals of the bill are more appropriate for a foreign aid bill than for a one-way trade bill that will cost many American textile and apparel workers their jobs.

We voted for the North American Free Trade Agreement (NAFTA) because we believed it would lead to more American textile and apparel jobs. By contrast, we believe H.R. 553 will cost American jobs by encouraging apparel companies to relocate from the United States to the Caribbean.

We find the Tariff Preference Level (TPL) provision in H.R. 553 particularly objectionable because we believe it would eviscerate NAFTA's yarn-forward rule of origin. It should be noted that the Administration wisely decided not to include TPL in its CBI bill last year. H.R. 553 grants USTR the authority to permit Caribbean apparel imports into our country at low NAFTA tariff rates even if the apparel fails to meet the NAFTA yarn forward rule of origin. This means that Caribbean manufacturers can sell their products in the United States at low tariff rates even when the products are made with Chinese or Korean fabric. The bill merely requires USTR to "consult" with domestic industry before it grants the TPL. But the measure neither establishes any conditions before USTR grants TPL nor specifies which products are eligible. As a result, the Caribbean countries can flood our market with our most import sensitive products and put thousands of Americans out of work.

Even without the TPL, we strongly oppose this bill for several reasons.

First, it will lead to a sharp increase in Caribbean textile imports entering the United States. The first eleven months of

1994 saw apparel imports from CBI nations grow by 27% over the same period in 1993, without NAFTA parity or a TPL. Over the last five years, CBI imports of textile and apparel products have more than doubled. In view of the growth of CBI imports, there is simply no reason for the U.S. to grant unconditioned, non-reciprocated access for CBI textile and apparel products. To cite an example of its impact on just one product line, CBI parity will result in the loss of those Americans who produce the fabric used for brassiere since Caribbean brassiere will not need to meet the yarn forward rule. CBI parity will not only cause the loss of American jobs, it will also encourage manufacturers to shut Mexican apparel plants and move them to those Caribbean countries where wages are generally lower. At a time when our nation is guaranteeing billions of dollars in Mexican debt and the Mexican economy has experienced a free-fall, it makes no sense to approve a measure which will hurt not just our economy, but Mexico's as well.

Second, this bill is really closer to "CBI disparity" than CBI parity. While the United States would entirely eliminate U.S. tariffs on qualified CBI apparel, CBI nations will still have the right to impose tariffs on U.S.-made fabric. By contrast, NAFTA required Mexico, Canada and the U.S. to eliminate all tariffs on NAFTA-origin products. Similarly, NAFTA required Canada and Mexico to eliminate all non-tariff barriers on U.S. textile products. CBI parity lacks similar requirements. Why are we now accepting an agreement lacking the reciprocity which was so important for NAFTA?

Third, we believe that this initiative will make our current transhipment problem significantly worse. Each year, foreign companies and countries smuggle as much as $4 billion in transshipped textile and apparel products across our border. By extending duty-free treatment for textiles to 24 additional countries, we are creating 24 new platforms for transshippers to smuggle goods into our country. How will Customs be able to police this new agreement when its manpower and resources are insufficient to enforce existing trade agreements? While H.R. 553 states that the same "customs procedures" will apply to CBI and NAFTA countries, does that mean the same transshipment provisions will be required before we grant CBI nations parity status?

Fourth, CBI parity will cost U.S. taxpayers approximately $772 million over five years in a loss of tariff revenue. That figure does not include the loss of tax revenue because of textile/apparel jobs which will flow to the Caribbean. At a time when the Congress must find over $1 trillion in budget cuts to balance the budget by 2002, it makes no sense for the House to pass a trade bill which will force us to find an extra $1 billion in spending.

Finally, CBI, unlike NAFTA, does not open a large new consumer market for American products. The per capita income in most CBI nations is even lower than Mexico's which is a fraction of our own. This low per capita income suggests that few Caribbean consumers earn the disposable income necessary to purchase American products. Moreover, as we mentioned before, CBI parity, unlike NAFTA, does not require CBI nations to open their markets to U.S. products.

In conclusion, we believe CBI parity is a serious mistake for our country and we urge your committee to reject it. We would be happy to discuss with you different approaches to promote economic development and democratic reform in the Caribbean so long as they do not come at the expense of American jobs.

Sincerely yours,

L. F. Payne Jr.
Member of Congres

John M. Spratt, Jr.
Member of Congress

Mr. PAYNE. I would like just for the record to say concerning the rule of origin on the GATT, and I was one of the proponents of that, I think what we did there was bring the rule of origin that the United States uses into conformance with the European Community and Canada, and I felt at that time, and still do, that that was an important thing for us to do.

Mr. Mason, I want to thank you again very much for coming and testifying. I think that it was a very important part of the record and I appreciate very much your being here with us today.

Mr. MASON. I appreciate the opportunity.

Mr. PAYNE. I look forward to working with you in the future.

Chairman CRANE. I want to thank all of the panelists for their participation. If you have further communication above and beyond submissions for the record at this time, please forward them.

Thank you.

Our next panel is Peter Johnson, Forrest Hoglund, Dr. Anthony Bryan, and Gilbert Sandler.

If you gentlemen will please come to the table.

Folks, they just sounded the bells here, so before your panel starts, if you will excuse us for about 5 to 10 minutes, we will run over and make this vote, and I think this is it for the day, and then we can start without interruption.

Thank you.

[Recess.]

Chairman CRANE. I apologize, gentlemen, for this interruption.

I would like to welcome you all to the subcommittee. I want to pay tribute to Peter Johnson, who is the executive director of Caribbean/Latin American Action (CLAA). I am on the board of CLAA, along with some other colleagues, and have worked very closely with Peter through the years in trying to advance the Caribbean Basin Initiative and expand it.

So I am happy to see you here, Peter. We are sorry you guys are so late on the dais, or on the program, but we welcome your testimony.

Fire away, Peter.

STATEMENT OF PETER B. JOHNSON, EXECUTIVE DIRECTOR, CARIBBEAN/LATIN AMERICAN ACTION

Mr. JOHNSON. Thanks, Mr. Chairman, and thank you for the compliment.

My name is Peter Johnson, executive director of this nonprofit organization called Caribbean/Latin American Action, which is comprised of some 120 American companies involved in the Caribbean and Central America and in Latin America. In fact, the man on my right—an Enron executive—is one of them.

Beyond submitting my testimony for the record, I would like to make maybe three very informal points, that will probably only take 3 minutes. One is that it is very exciting for us to see the quality of your bill, H.R. 553, which embraces all of the concepts that we all believe in with respect to the relationship between the United States and the Caribbean Basin.

Frankly, I would say that I am not sure that our colleagues in the administration have really correctly assessed the depth and breadth of the interest in the Congress as we move into 1995 for

this kind of legislation and the qualitative relationships with these countries.

The second point, Mr. Chairman, that I would like to make has to do with the section of the 6-year period for working out the reciprocity with these countries. I don't think there are any of us in those countries or those associations or groups that relate to them, that would not wish to see reciprocity, both in our interests and in theirs, as quickly as we can do it.

However, as a matter of approach, I would like to see this reciprocity process as more of a graduation than a matriculation. I say this because we are really speaking of countries which are very, very different, ranging from populations of 100,000 people, up to sophisticated societies and economies of 6 or 7 million. All of those differences, and that unevenness, really requires a much more careful approach, rather than insisting up front that the full measure of reciprocity across the board, IPR, market access, and so on, be required before any further steps are taken. I think that is an important consideration to get on the record.

The penultimate point I would make is one that has been made so many times during the past several hours. The numbers are just overwhelmingly persuasive, that the time has come for this kind of legislation. Whether it is $12 billion in exports, a $2 billion trade surplus, or 60 or 70 or 75 cents returning to the United States, or 250,000 jobs created in the United States, and on, and on, the numbers are simply there. We have to respond to that sooner or later.

Finally, in reference to some comments made earlier—and I will stop here—from the organized labor sector. There have indeed been some problems in the Caribbean Basin with the labor abuse issue. I think we ought to face that head-on.

One of the reasons, among others, I believe, that the 1994 interim parity bill went down, was the fact that there were some obvious labor abuses, very few, but there nonetheless were some in the region. There are some in Los Angeles, there are some in New York. This happens. I think the exciting thing is, however, that not withstanding the quality of emerging governmental measures, in the area of labor law, more important is that the companies themselves are following the lead from what the American firms are doing here and have done here in the United States. They are informally tying themselves together in such a way that they are examining themselves, picking out those bad apples, exposing them, and asking for sanctions against them.

There is a clear move afoot in the region to deal with these few labor abuse situations, and when those cases are brought to the Congress to view, I hope that the countries will be in a condition to bring and show to this Congress, and to this subcommittee, that the workers' conditions in the Central American and Caribbean region are as good as anyplace in the world, if not better.

I wish you the best of luck, and we pledge all of our support to passing this bill with you.

Thank you.

Chairman CRANE. Thank you very much, Peter.

[The prepared statement follows:]

Testimony of
Peter B. Johnson
Executive Director, Caribbean/Latin American Action

Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
February 10, 1995

Mr. Chairman, Members of the Committee:

My name is Peter Johnson. I am Executive Director of Caribbean/Latin American Action, a private, non-profit group dedicated to promoting economic development in the Caribbean and Latin America. C/LAA is familiar to many of you, since we have worked together frequently over the years on issues pertaining to the Caribbean Basin, but I would like to state for the record that Caribbean/Latin American Action was founded to help people in Caribbean Basin countries become more prosperous through the growth of trade, investment and other business activities reflecting vigorous and progressive private sectors and supportive public policies.

I am here on behalf of the board of trustees of C/LAA to testify in support of H.R. 553, the Caribbean Basin Trade Security Act. This is a soundly conceived and appropriately crafted measure urgently needed to insure that countries of the Caribbean Basin do not suffer diversion of trade and investment as a result of the implementation of NAFTA.

My testimony will make three basic points about the Crane Bill. First, doing what the bill aims to do is good U.S. policy. Second, its provisions are exactly what is needed to accomplish its purpose. And third, implementing it will not only be good for the Caribbean and Central America but will be very good for the U.S. economy.

Caribbean Basin Must Not be Harmed by NAFTA

First, the soundness of the bill's purpose.

As many of you may recall, C/LAA strongly supported NAFTA, and we continue to welcome it as a first step toward the goal of Hemispheric free trade recently endorsed by all the nations of the Americas except Cuba. At the same time, we pointed out at the time of the NAFTA debate, and have continued to press with growing urgency, the need to enact simultaneous provisions extending NAFTA-equivalent trade access to the beneficiary countries of the Caribbean Basin Initiative. To do so would not break new policy ground but merely conform U.S. trade practice in the NAFTA era to the policy expressed in the Caribbean Basin Initiative--a commitment that Congress chose to extend indefinitely and which therefore remains United States policy toward these nations. That commitment is to boost their economic opportunity by giving them preferential access to the U.S. market--that is, access on better terms than their competitors.

The effect of NAFTA is to leapfrog Mexico ahead of the Caribbean and Central America in terms of access for a number of the region's key export products either not included, or not treated as advantageously, in the CBI as they are in NAFTA. The most critical of these are apparel products; other key areas include footwear, leather goods, and petroleum.

The CBI countries lack preferential access under the CBI for footwear, certain leather goods, petroleum, and a few other products. They do have important special access arrangements for some apparel products, but only those made from U.S. fabric already cut in the U.S.. Even on these, Mexico's terms are more advantageous. Under the 807A program, garments assembled in the Caribbean Basin from U.S. inputs can re-enter the U.S. free of duties on the value of the U.S. components, and free of quotas. But the counterpart Mexican products have those quota advantages and are free of duties on the Mexican value-added portion as well. Unlike the CBI, NAFTA also provides reduced or eliminated duties for apparel cut in Mexico, or made from fabric that can be of Mexican, Canadian or U.S.-origin.

Finally, Mexico has an important concession for apparel products that do not qualify for NAFTA origin: It provides Tariff Preference Levels (TPL's), a form of tariff-rate quota, for products containing fabric from outside NAFTA. The TPL's would allow a certain amount of imports to enter the U.S. at NAFTA duty rates annually, before applying the MFN tariff to any amounts above quota. CBI countries face these higher MFN tariff levels on all apparel products made of non-U.S. materials. This can be an important consideration since many popular fabrics are unavailable or in short supply in the United States, and many U.S. manufacturers and retailers procure at least some fabric from Asian sources.

The relative advantage enjoyed by Mexico threatens to divert trade and investment from what has become one of the Caribbean Basin's more important and most promising sectors. Since 1988, textiles and apparel have been the leading category of CBI ineligible U.S. imports from the CBI countries. Imports of textiles and apparel doubled from $1.5 billion in 1988 to $3 billion in 1992. By 1993 they reached $4 billion--eight times their value in 1984 when the CBI began.

During this time Mexico has been subject to relatively high import duties on textiles and apparel, as well to the indirect costs arising from the quantitative limits of U.S. quotas. But now under NAFTA, import duties were removed immediately on a very high proportion--probably more than 80 percent--of Mexican apparel exports to the U.S. The remaining 20 percent will benefit from an accelerated implementation of free trade, with annual duty cuts and quota liberalization which began on January 1, 1994 and will end by the year 2000.

The adverse impact on Caribbean and Central American exporters is more than a concern for the future; it is happening already. Trade figures for the first nine months of 1994 show that U.S. apparel imports from the CBI countries grew by only ten percent over the first nine months of 1993, while apparel imports from Mexico during that period jumped by 45 percent.

The Caribbean Basin faces not only loss of trade but loss of investment. Mexico's duty-free access for 807 goods gives it a critical advantage over the CBI countries in the intense competition for plant sites in the assembly industry. At the same time, the U.S. manufacturer's option to include foreign fabric in goods produced in Mexico places the Caribbean and Central America at a disadvantage in their efforts to develop their apparel sectors beyond assembly into more integrated production creating higher-paying and more secure jobs. But whether a prospective investor contemplates an 807 assembly plant in a free zone, a yarn or fabric plant using indigenous cotton, or an fully-integrated garment manufacturing facility, attracting that investor to the Caribbean Basin has become a much harder task in the NAFTA era. Mexico's ability to offer a higher rate of return, or a lower more competitive cost to the consumer, has become a powerful incentive to divert investment from the CBI country to Mexico, especially in combination with the free access to Mexico's large domestic market that apparel firms operating there also enjoy under NAFTA.

Other ineligible CBI products have also become important export earners for the region, and are now threatened. Despite the absence of preferential access, CBI countries have been able to compete effectively for the U.S. market in leather products and footwear, subject to the same high tariff paid by all their competitors. Footwear exports from the Caribbean Basin to the United States grew from $10 million in 1984 to almost $46 million in 1992. In the same period, exports of certain leather apparel goods increased from $2 million to over $17 million in 1992. Now the Caribbean exporters who have built up their industry despite intense global competition must survive in a competitive environment in which Mexico has been given a major advantage.

The exclusion of products like apparel and footwear from the original CBI was intended by Congress to protect U.S. workers and businesses from possible competition in the region. It was never intended to put the Caribbean at a disadvantage vis a vis other developing nations. The passage of NAFTA indicates that Congress has since concluded--correctly, we believe--that the U.S. apparel sector will not be adversely affected by encouraging this type of production in Mexico. The same is true of the Caribbean. Helping Mexico or the Caribbean attract production that is otherwise going to be done not in North America but in Asia cannot hurt but only help U.S. manufacturers, exporters and consumers. At the same time, no U.S. interest stands to gain by limiting those nearby sites

to Mexico. NAFTA without CBI parity has tilted the playing field so drastically as to risk driving Caribbean and Central American nations out of the game. This would seriously undermine the U.S. policy goals underlying the CBI.

The CBI reflected the conviction that having politically healthy and economically prosperous nations in the immediate vicinity of the United States is important to this nation's long-term security, for a wide variety of reasons eloquently expressed in the preamble to that legislation. None of those reasons have changed. The end of the Cold War has removed some of the immediacy about military security concerns both near and far, but has not made peace and prosperity on our borders less important. Economic collapse, social upheaval, political chaos in any country of the Caribbean Basin would represent a serious problem for the United States--in terms of loss of trade, security of American citizens and property in the country, refugee problems, possible disruption of shipping, and pressure for political or military intervention. We need look no farther than Haiti to be reminded that trouble in the Western Hemisphere--trouble in the Caribbean Basin--does not require Soviet sponsorship.

But U.S. policy is, and must be, based on more than just heading off trouble. The Summit of the Americas reflected the spirit of confidence and positive engagement of today's challenges that make for effective U.S. leadership in a changing world. We recognize that freer trade and closer economic cooperation with our neighbors is the road to maintaining and building the vitality of the U.S. economy as well as U.S. political leadership in the region. The economic health of the Caribbean Basin is an important part of that equation. It is therefore both appropriate and urgently important for this Subcommittee to be seeking ways of redressing the harm to this region inadvertently caused by the implementation of NAFTA.

Positive Features of the Bill

That brings me to my second point. The Crane Bill meets this need in every important respect, and should be passed.

I would like to point out the ways in which this bill closes the important gaps in trade access between Mexico and the CBI countries, and also the ways in which it serves as an appropriate transition mechanism to the future of reciprocal trade and economic cooperation we all seek.

In the short term, the important question is whether a bill intended to give CBI countries relief from disadvantages caused by NAFTA in fact closes all or almost all of the gaps. This one does. Unlike some of the measures considered in the last session, the Crane bill equalizes the playing field not just in the first but in all of the three most important areas of disadvantage:

* first, equivalent duty-free treatment of value added to 807 apparel;

* second, TPL's giving quotas of reduced-duty access for apparel made of foreign fabric; and

* third, equivalent duty-free access for other non-CBI products, including leather goods and footwear.

The legislation before this Subcommittee covers all those bases. We urge you to keep that comprehensive character intact, and to resist any recommendations to recast it in a narrower vein. This relief is needed in all affected sectors, and needed immediately.

Looking at the longer term, the bill also contains important provisions relating not just to the content of the relief given but to the process it establishes. This legislation is intended strictly as a temporary transition measure. The bill as drafted recognizes that fact and deals with it in an appropriate manner.

It recognizes that the new benefits being granted unilaterally (like the CBI itself) are part of a passing world. The spirit of the Summit committed all the nations of the Hemisphere to fully reciprocal free trade by the year 2005. The type of free trade agreements of which NAFTA is a prototype, which are currently being negotiated between

and among many nations of the Americas, and which is contemplated for the entire Hemisphere in just ten years, go far beyond the traditional pattern of mutually reduced import barriers. They include close cooperation and reciprocal commitments on a wide range of issues relating to business and economic life--investment codes, intellectual property rights, labor standards, environmental standards, economic and monetary reform.

Many of these areas require major changes in laws, regulations, and administrative capabilities that cannot be achieved overnight. Throughout the Hemisphere, progress varies greatly from issue to issue and country to country. But these are processes to which the Caribbean and Central American countries are committed in principle, in some cases are quite advanced in practice, and in more difficult cases are making significant progress. These are directions they themselves have chosen, realizing that economic reform and trade liberalization will not only ease their way politically into the North American market, but will serve their own economic interest in dynamic economies and healthy private sectors.

The Crane Bill recognizes the commitment and progress of the CBI countries toward economic reform and trade liberalization, and contemplates their readiness within six years to assume full reciprocal obligations, either by acceding to NAFTA or by entering equivalent Free Trade Agreements with the United States. At that point the provisions of this bill would be unnecessary, and would in fact cease to exist.

This bill, unlike some other versions of temporary "NAFTA Parity" legislation you have considered in the past, makes several important concessions to the realities of the transition process:

* Recognizing the relief it grants as an emergency and temporary measure, it looks at reciprocal conditions on the part of beneficiary countries not as admission requirements at the front end but as graduation expectations out the back end. If these countries were ready to assume NAFTA-style reciprocal obligations now, then emergency transition measures like these would not be needed. The sooner this temporary relief is set in place, allowing them to hold on to precarious markets and skittish investors, the sooner they will have the strength and confidence to move forward to the next stage.

* The bill, however, does not merely grant the grace period during which progress toward being able to meet reciprocal conditions and obligations might occur on its own. It provides a framework to move the process along.

    -- It creates the expectation of NAFTA accession or NAFTA-equivalent FTA's in the near term--itself an important incentive.

    -- It mandates a process in which the U.S. will be meeting with CBI country trade ministers to plan the transition, and for the President to assess progress on the part of the CBI countries toward readiness to assume NAFTA-style obligations.

    -- It places the process in the context of global trade developments by making the country's participation in the World Trade Organization the first criterion in evaluating its NAFTA readiness.

    -- By specifying a comprehensive range of standards and areas for reciprocal agreement, it will recognize and support the process already underway in the U.S. Trade Representative's Office to encourage the countries of the region to move forward with liberalized access to their markets and with economic, labor, environmental and other needed reforms.

    -- By helping the countries meet the standards all of us recognize as appropriate and just, and ascertaining their progress toward compliance in advance, this approach will pre-empt the need to build express conditions into later legislation.

* Finally, the bill takes a realistic approach to the transition process by allowing six

years, as compared, for instance, with the 3-year period proposed by one of the bills last year. The security of the longer period gives companies time to plan, gives the countries the confidence they need to move forward on liberalization and reform measures, and gives the U.S. Government the flexibility it needs. We know, after all, that the readiness of the CBI countries is not the only factor driving this timetable. Congress may not be ready to provide the necessary negotiating authority. The U.S. Government may want to resolve other pending issues with specific countries before tackling NAFTA readiness with the Caribbean Basin across the board. USTR has its own priorities and manpower limitations, other countries in and out of the Hemisphere have trade matters under discussion with the United States, and it may not be possible to begin and conclude discussions on free trade agreements or NAFTA accession, with time for the countries to be advised of and to meet any reciprocal conditions, all in a 3-year period. The economies of these countries should not be put at risk for timing factors beyond their control. This bill provides a comfortable six-year period while allowing its temporarily provisions to be overtaken at any time for those countries reaching the next stage sooner.

All these factors--the comprehensive coverage including all apparel categories and all the other sectors, the adequate transition period, and the dynamic transition process--make this legislation a sound and desirable vehicle for remedying the problem before us--the threat to Caribbean Basin economies from the implementation of NAFTA.

It's Good for the U.S. Economy

The final point I would like to leave with you is this: Granting these trade concessions to the countries of the Caribbean Basin is not only good for U.S. policy objectives and good for the economies of the countries--it is good for the U.S. economy as well. It would be a mistake to see trade and investment growth as a zero-sum game, where greater exports from the CBI countries necessarily translates into fewer for Mexico, or into less production or fewer jobs in the United States. In fact, experience shows that prosperity in the Caribbean and Central America translates directly into more business, income and jobs for the United States.

The Caribbean Basin is one of the few regions of the world with which the United States enjoys a trade surplus--amounting to $2.1 billion in 1993. Since the CBI began in 1983, U.S. exports to the region have doubled, making the Caribbean Basin the 11th-largest export market for U.S. goods. In 1993, that translated into $11.9 billion of U.S. exports, supporting some 200,000 American jobs. During that decade, U.S. exports increased in all major product categories as Caribbean diversification and modernization generated greater foreign exchange earnings and additional demand for U.S. products, particularly manufactured goods.

The ties between the U.S. and Caribbean economies are strong and complex. It is estimated that for every dollar earned in the Caribbean Basin, 60 cents are used to buy American products, compared to Asia which spends only 10 cents of every dollar in the U.S. CBI industries have a strong propensity to purchase American raw materials, machinery and equipment. On average, over 45 percent of all CBI imports are sourced from the U.S., the highest percentage in Latin America. Most of the construction and procurement for 936 loan sourcing is from the United States. Most of every tourism dollar earned in the Caribbean finds its way into the United States.

As personal incomes in the region rise, demand for U.S. consumer goods--from food products to computers and software--also rises and is expected to do so even more as these economies take off. Major U.S. apparel manufacturers have noted that the growth market for U.S. producers, given population and income trends, is in the developing world. The Caribbean Basin, with its proximity to U.S. suppliers, its relatively high levels of education and income, is a particularly promising part of that new growth market.

Manufacturing in the Caribbean Basin is an important market for U.S. industrial equipment. At the same time, Caribbean inputs to U.S. production help keep our own manufacturing competitive in the global arena, especially in intensely competitive sectors. This is clearly the case in the apparel assembly industry, where coproduction in the Caribbean Basin has given U.S. firms an alternative to sourcing the entire product overseas. The U.S. footwear industry has also turned increasingly to Caribbean Basin countries--

primarily the Dominican Republic, recently joined by Honduras and Costa Rica--as a low-cost source of inputs. U.S. imports of footwear uppers from the Caribbean Basin reached $200 million in 1993, a 32% increase over the previous year. By contrast, U.S. imports of the uppers from all other countries rose by 16 percent to $127 million.

The U.S. agribusiness sector has been a major beneficiary of the growing Caribbean and Central American economies. The U.S. is the primary source of inputs, machinery, feeds, etc. used in the region's own agricultural industry, as well as a major source of consumer food products, especially those used in the tourism sector. Even subsectors that are large-scale export industries for the Caribbean Basin have stimulated new growth for U.S. businesses. An example is in horticultural trade, where CBI exports of $880 million to the U.S. in 1993 represented a 2% growth over the previous year, while U.S. exports of horticultural products to the CBI countries--while lower at $260 million--had grown by 21 percent during the same year.

The U.S. economic benefit from Caribbean prosperity goes far beyond those industries directly involved in imports, exports or coproduction. U.S. financial institutions have benefited as demand has increased for trade and investment financing, the countries' financing requirements have gotten more sophisticated, their dependency on aid has decreased, and their ability to access international capital markets has grown stronger.

Development of telecommunications in the Caribbean Basin offers major opportunities for U.S. business growth. U.S. suppliers of telecommunications equipment and services are benefiting as the sector in the region has opened to greater competition. As the region connects to the global superhighway, it will also translate into more business for U.S. computer, data and software firms. Better communication will give U.S. sellers access to a whole new spectrum of end-users, from small to large in size, while giving U.S. buyers deeper and broader access to competitive sources of the products they need.

As the region's economies grow, demand in the transportation sector will also benefit U.S. firms. Firms which now provide surface and air shipping, to those that supply equipment, packaging, and port services.

The direct benefits to U.S. workers, businesses and investors that will result from the stimulation to Caribbean trade and investment this bill provides will be enormous, and will more than offset the number of workers displaced or tariff revenues foregone.

Matters of Timing

There is no question that this legislation is beneficial to all parties, is needed urgently, and is needed now. I would like to close on a note regarding timing.

We at C/LAA urge you to report this bill as written. That does not mean that we are asking you to send it to the floor next week or next month if, in the view of the chairman and members, the timing would not be propitious. We realize there is much on Congress's agenda now, and that an offsetting revenue source must be found. We are saying, however, that we need this bill enacted into law this year, and with its major provisions intact.

This is not something that can wait indefinitely. Delay only makes the problem worse. This year, Mexican exports do not yet reflect the advantage NAFTA gives, for instance, to apparel products of non-NAFTA-originating fabric. That does not mean the disadvantage to the CBI countries is negligible. We have been told by one of the top three U.S. apparel firms that the critical point for taking advantage of this provision would not come until the second year or later. Now is the time that the Caribbean and Central American producers must position themselves to be competitive. This bill must pass this year.

For those of you on the Committee who share our conviction about the desirability and urgency of this legislation, the challenge is not just going on record in its favor in committee, but helping to build the constituency among your colleagues that will move it through floor debate and into law, and planning a strategy and timing that will maximize the chance of that happening.

On our part, we pledge to use the time between now and the time final action is likely to be taken to do our part, too, to maximize the chance of a favorable outcome. We will work to build understanding and support among your colleagues in the public sector, and also among the American public and business community. At the same time, we will work with public and private-sector leaders in the region to encourage their own efforts to meet in advance, to the extent possible, the kind of standards and conditions they would be working to meet as they move toward NAFTA readiness. One way, for example, that CBI countries could improve their reciprocity and at the same time become more attractive to new investment would be to eliminate restrictions on the amount of product that U.S. manufacturers in their free zones can sell into their domestic markets.

I cannot emphasize enough that the reform process is already underway. Among the modernizing reforms for which the Caribbean private sector should be given special recognition is in their imaginative and progressive new approaches to workers' protections. Local exporting firms are learning from their American connections how to apply practical management tools for assuring the health, safety, and economic rights of the workforce. This is enabling them to live up not only to the letter of national labor laws--all of which have been, or are undergoing modernization and are fully consistent with international standards--but to bind together as a network of socially responsible businesses.

C/LAA is working now with its related companies in the region to expand and formalize this network, and is looking at an ongoing experiment involving the creation of a three-sided monitoring body, which is empowered to discipline exporting firms through the denial of certain trade privileges. Under this system, those few obvious and habitual violators of internationally recognized workers' rights would no longer be able to depend on the cumbersome and drawn-out reviews embodied in formal labor or trade law to shield them from sanctions. Through a self-policing approach, social justice would be realized by those most immediately affected, who understand best the global challenges being confronted by small, developing economies.

This is the type of experiment that U.S. policy should be encouraging. This means that Washington should resist the temptation to reach beyond our borders to punish a limited number of commercial "bad apples" whose actions offend our national sense of fair play.

As the countries of the region continue to make substantial and visible progress across a whole array of trade-sensitive issues, we expect that support and appreciation for the value of this legislation now before you to grow as well. There are no objections to it that cannot readily be answered today. There is much to be lost--by the countries, and by U.S. business, U.S. workers, and the future of U.S. policy goals in this Hemisphere--in allowing the economies of the Caribbean and Central American nations to continue to be jeopardized, when the remedy is so readily at hand.

I urge you to give this bill your most favorable consideration.

Thank you.

Chairman CRANE. Mr. Hoglund.

STATEMENT OF FORREST E. HOGLUND, CHAIRMAN AND CEO, ENRON OIL & GAS COMPANY, HOUSTON, TEX.

Mr. HOGLUND. My name is Forrest Hoglund, Mr. Chairman. I am chairman and CEO of Enron Oil & Gas Company, one of the largest independent oil and gas companies in the United States. I am testifying today in favor of extending the NAFTA-like benefits to the Caribbean Basin countries as provided in this bill. Specifically, by using our experience in Trinidad and Tobago as an example, I hope to demonstrate the importance of extending NAFTA parity to these countries, and I think it will definitely further U.S. economic, political, and national security interests.

If you look at Trinidad and Tobago, their gross domestic product is over $5 billion, and the United States is its largest investment partner. According to the U.S. Department of Commerce, U.S. direct investments since 1990 have been about $500 million a year and were probably $700 million last year.

Now, the economic policies and performance of the country place it in a strong position to attract additional investment and trade dollars. Under their policies, Trinidad has obtained a balance of payment surplus of about $150 million for 1994. They had real GNP growth of about 4 percent, and inflation next year is expected to be under 5 percent. So it is a very, very strong kind of economic situation.

I think it shows their commitment to sound economic policies that have been very effective in creating this attractive investment climate. The two States, Florida and Texas, where I am headquartered, are the two largest exporter States to Trinidad, and these include a lot of things such as machinery parts, steel pipe, computers, software, oil products, lube oil, rice, corn, wheat, and soybeans. Texas and Florida export goods valued at about $200 million, and $80 million a year respectively, to customers in Trinidad, and there are a wide number of U.S. companies that are operating there.

If you look at the energy sector, that represents the greatest amount of foreign investment in Trinidad. Enron, Amoco, Texaco have been engaged in oil and gas development there since about 1971. Trinidad has large gas reserves, and also in 1994, the United States imported about 80,000 barrels a day of crude oil and products, about 1 percent of our Nation's imports, and a value of about $500 million.

They are also the second largest exporter of ammonia fertilizer, and about one-third of our imports in the United States come from Trinidad. Again, a value of about $240 million per year.

They are seeking to expand the role of foreign investment in the domestic energy sector. They are looking at an LNG, a liquid natural gas project, a new one, and encouraging other types of investments.

But I really wanted to talk about our experience in the country. We are investing $250 million over 5 years to develop gas fields and produce natural gas and condensate offshore Trinidad. We currently are producing 150 million cubic feet per day, or about 23 percent of the demand in Trinidad.

What got us there was a favorable investment climate, good gas reserve potential, and a very favorable operating and regulatory climate. Our people in Trinidad report that the political, the business, and the social environment are all especially suitable to what we are trying to accomplish. A low-cost, fast track operation in the oil and gas business.

As the above evidence shows, Trinidad is continuing its development of a competitive and efficient private sector that relies heavily on the United States as a market for its exports. A lot of progress has been made in that country. They have already made unilateral and bilateral commitments to liberalize trade policies and enhance the environment for foreign investment.

For instance, they have taken action beyond GATT in eliminating domestic subsidies and will under NAFTA maintain U.S. environmental health, safety, and workplace standards. Its government procurement provisions guarantee U.S. firms the ability to compete for government contracts to supply goods and services to Federal Government agencies. Tariffs on over two-thirds of the U.S. exports have been eliminated in the following sectors: computers, oil refining equipment, special industrial machinery, pharmaceuticals, telecommunications equipment, and photographic equipment.

They have already signed both a bilateral investment treaty and an agreement on intellectual property rights with the United States. In 1995, the Government of Trinidad and Tobago reduced the corporate tax rate from 45 percent to 38 percent.

We support the extension of NAFTA benefits to the Caribbean region, as well as early accession to NAFTA for Trinidad and Tobago. We believe that accomplishing these goals represents a firm step in the direction of Western Hemisphere economic integration. Because countries such as Trinidad have made substantial commitments on their own and with such positive results, we feel it is very important, and in the U.S. interest, to extend NAFTA-type parity to these countries.

Thank you.

Chairman CRANE. Thank you, Mr. Hoglund.

[The prepared statement follows:]

REMARKS OF FORREST E. HOGLUND
CHAIRMAN AND CEO OF ENRON OIL & GAS COMPANY
HOUSTON, TEXAS
BEFORE THE SUBCOMMITTEE ON TRADE
OF THE HOUSE COMMITTEE ON WAYS AND MEANS
FEBRUARY 10, 1995

My name is Forrest E. Hoglund and I am Chairman and CEO of Enron Oil & Gas Company. Enron Oil & Gas is one of the largest independent (non-integrated) oil and gas companies in the United States in terms of domestic proved reserves. The company's reserves base is 86 percent North American and 90 percent natural gas.

Oil and gas development and extraction has been underway in Trinidad by U.S. companies, including Enron, Amoco and Texaco, since about 1971. EOG is investing $250 million dollars over 5 years to develop gas fields and produce natural gas and condensates offshore Trinidad.

These wells are currently producing 150 MMCFD or 23 percent of Trinidad's natural gas demand. A favorable investment climate, good gas reserve potential, low finding costs and low operating costs are among the favorable conditions EOG finds in operating in Trinidad. Trinidad represents almost 20 percent of EOG's 1995 estimated gas production volumes.

Enron completed the development of the Kiskadee Gas Field within budget and ahead of a very aggressive schedule. Agreements were signed in November 1992 and first gas production was achieved less than one year later, a remarkable achievement.

Trinidad is in a strong position to attract additional investment and trade dollars. Trinidad will show for 1994, for the second consecutive year, a balance of payments surplus of about $150 million, which shows their economic policies are working. 1994 real GNP growth was at 4 percent, double their earlier expectations. In 1995, inflation is expected to be under 5 percent.

Their exchange rate, consequently, has held firm. Their natural gas reserves, at 10.6 trillion cubic feet, represents a 45 years reserves life index.

The U.S. currently imports 80 MBD of crude oil and petroleum products from Trinidad and Tobago valued at over $500 million dollars a year in 1994, or 1 percent of our nation's oil imports.

Trinidad is the world's second largest exporter of nitrogenous ammonia fertilizer, a natural gas by-product, (i.e. the Former Soviet Union is the largest). One-third of the United States 3 million tons of ammonia imports annually come from Trinidad, valued at $240 million dollars in 1994, according to the U.S. Department of Commerce. This equates to about 5 percent of U.S. ammonia fertilizer usage annually.

An LNG (or liquefied natural gas) export project is being planned for siting in Trinidad by the Government together with its partners, which include Amoco, at La Brea, on a new industrial site in southwest Trinidad. The end-use markets being considered for this LNG include Cabot LNG of Massachusetts and, Puerto Rico, where Enron Development Corporation is developing plans for an electric power plant project.

Among new U.S. companies to enter into business in Trinidad is Unocal, which has signed an agreement to explore for oil off the east coast, as part of a $411 million oil recovery program. Texaco (with U.K.'s British Gas) also aims to develop gas reserves to help supply the LNG export project. Other new entrants into Trinidad, in addition to EOG, are NUCOR, Chevron, Mobil, Exxon, Arcadian, Southern Electric and Farmland.

Enron Gas and Oil Trinidad, Limited reports that the political, business and social environment of Trinidad and Tobago is especially suitable for the low cost, fast track approach which is the hallmark of Enron's success.

ECONOMY, INVESTMENT AND TRADE

The gross domestic product (GDP) of Trinidad and Tobago is over $5 billion dollars annually. A top local government agenda item is to reduce the high 18.8 percent unemployment rate in the country, which has just over 1.2 million citizens. The U.S. is its largest investment partner, and through investment, free trade status can benefit the two countries--on both sides of business transactions--by creating valuable jobs in the energy

and trade sectors, and in related support service industries, like ports, shipping and trade finance. U.S. direct investments in the economy of Trinidad and Tobago have been averaging a half billion dollars a year since 1990, reports the U.S. Department of Commerce. The 1994 investment is estimated at $700 million dollars. With an expanded NAFTA trade agreement with Trinidad as a member, these investments can be expected to increase.

The State of Texas, where EOG is headquartered, and Florida are the two largest exporter states of goods to Trinidad and Tobago, which include machinery parts, steel pipes, computers and software, oil products and lube oils, rice, corn, wheat and soybeans. Texas and Florida export goods valued at $200 million and $80 million dollars a year, respectively, to customers in Trinidad and Tobago. Other U.S. businesses which have been active in Trinidad and Tobago include: Citibank, 3M Company of Minnesota, IBM, Johnson and Johnson and Hilton International.

BENEFITS OF FREE TRADE

Opportunities for growth and investment for companies here in the U.S. and in Trinidad and Tobago are increasing. The turnaround in the Trinidad oil and gas industry is underway. Trinidad presents very good expansion opportunities for U.S. firms interested in doing business in the Caribbean and in working with Trinidad as a nexus for trade with South America and the Pacific

Rim through the Panama Canal. Trinidad has gone beyond GATT in eliminating domestic subsidies.

Trinidad and Tobago will, under NAFTA, maintain U.S. environmental, health and safety and workplace standards. Its government procurement provisions guarantee U.S. firms the ability to compete for government contracts to supply goods and services to federal government agencies. Tariffs on over two thirds of U.S. exports are eliminated in these sectors: computers, oil refining equipment, special industrial machinery, pharmaceuticals, telecommunications equipment and photographic equipment. Trinidad has already signed both a Bilateral Investment Treaty and an Agreement on Intellectual Property Rights with the U.S. In 1995, the Government of Trinidad and Tobago reduced the corporate tax rate from 45 percent to 38 percent to improve the financial environment for foreign investors.

At Enron, we support the early accession to NAFTA for Trinidad and Tobago and see its accomplishment as a firm step in the direction of Western Hemisphere economic integration. We feel it is very important to let countries such as Trinidad and Tobago join in NAFTA, since they have met their requirements on their own and with such positive results.

Thank you.

Chairman CRANE. Dr. Bryan.

STATEMENT OF ANTHONY T. BRYAN, PH.D., DIRECTOR OF CARIBBEAN STUDIES PROGRAM, NORTH-SOUTH CENTER, THE UNIVERSITY OF MIAMI, CORAL GABLES, FLA.

Mr. BRYAN. Thank you very much, Mr. Chairman.

I am pleased and honored at the invitation to appear before this subcommittee. I am a member of an academic research institution, namely, the North-South Center of the University of Miami, which has emphasized trade and the economic integration of the Americas in its research agenda since the announcement of the Enterprise for the Americas Initiative and the beginning of NAFTA negotiations in 1990.

The center's study, "Miami Report III," conducted during 1990 and 1991, and published early in 1992, indicated then the concern of CBI beneficiary countries as to the possibility of harm to them by NAFTA through investment diversion. Our study done at the center promotes the idea that the logical path toward hemispheric integration for the CBI-beneficiary countries is accession into NAFTA. The ideal legislation would offer trade benefits to protect these countries from a deterioration in their economic circumstances and offer a strong incentive to take the necessary measures for NAFTA integration as soon as is feasible.

I would like to avoid repetition of many of the points made today, but I want to place emphasis on several. First of all, the global emerging economic trends seem to have adverse implications for much of the Caribbean. Four of the Caribbean's largest countries have seen a tremendous increase in their poverty index. So in this very new economic environment, I think that U.S. exports to the Caribbean Basin and the merchandise trade that goes on between the two regions is extremely important.

Realistically, a lot of these jobs are attributable to joint production in the textile and apparel industry; but there are indications that the electronics assembly industry is also growing in the Caribbean region. The Caribbean Basin is still one of the few regions of the world in which the United States runs a trade surplus.

Second, NAFTA is only 1 year old, and there is as yet no massive quantitative evidence of the effect of NAFTA on the Caribbean Basin countries. But I think research coming out of the North-South Center and other agencies indicates that in a short time, without parity legislation, NAFTA will have a detrimental effect on the Caribbean Basin economies and that the statistical implications of that effect will soon be very obvious.

Third, I would like to stress that while absolute reciprocity may be the ultimate goal of hemispheric trade legislation, some small Caribbean countries simply cannot compete with other countries having more development structures and a range of available technologies. They cannot offer absolute reciprocity to industrialized countries, at least in the short run, and some compromise on the part of the developed trade partners may be appropriate.

Fourth, the recent decision to establish a free trade area of the Americas by 2005, strengthens the case for the provisions contained in H.R. 553. If tariff barriers continue to fall in the Western Hemisphere, the relative advantage of the Caribbean Basin Initia-

tive diminishes. But provided that the necessary transition mechanisms are in place, the accession of the CBI beneficiary countries to NAFTA at the earliest possible date would be accomplished smoothly.

There is a very strong rationale for Caribbean countries to enter NAFTA, either individually or through the Caribbean community, or other groupings. But interim arrangements are necessary for those countries unable to undertake even the present NAFTA discipline.

I think it is clear that as the estimates of the impact of NAFTA on Caribbean countries indicate, without parity, the agreement will have a strong impact on some of the countries with export concentrations on North America.

In summary, Mr. Chairman, there are reasons which I have listed in my statement as to why H.R. 553 is important, and the one I would simply like to stress in conclusion is that the legislation will encourage beneficiary countries to assume full obligations under the NAFTA discipline and prepare themselves for eventual accession into NAFTA.

In this regard, it is expected that there will be clear criteria for negotiating for NAFTA accession. I would reemphasize that some countries of the region are ready now for NAFTA accession, so that this diversity must be respected.

I congratulate the bill's sponsor, the chairman and the cosponsors, Representatives Clay Shaw, Sam Gibbons, and Charles Rangel for introducing this bill, and we look forward to its passage.

Thank you very much, Mr. Chairman.

Chairman CRANE. Thank you, Dr. Bryan.

[The prepared statement follows:]

TESTIMONY OF ANTHONY T. BRYAN
DIRECTOR OF THE CARIBBEAN STUDIES PROGRAM
NORTH SOUTH CENTER
UNIVERSITY OF MIAMI
CORAL GABLES, FLORIDA
FOR THE SUBCOMMITTEE ON TRADE
OF THE COMMITTEE ON WAYS AND MEANS

Mr. Chairman:

I am pleased and honored at the invitation to appear before the Subcommittee on Trade of the Committee on Ways and Means at the Hearing on H.R. 553, the "Caribbean Basin Trade Security Act." I come in my personal capacity to offer my support for this important piece of legislation.

I am currently the Director of the Caribbean Studies Program at the North South Center of the University of Miami. The North-South Center has emphasized trade and the economic integration of the Americas in its research agenda since the announcement of the Enterprise for the Americas Initiative and the beginning of NAFTA negotiations in 1990. The potential impact of NAFTA on the CBI countries was an item of early priority. The Center s study, Miami Report III, conducted during 1991 and published early in 1992, stated, as a key recommendation,

Trade preferences gained by Mexico in NAFTA not currently available in CBI should be extended unilaterally to CBI-beneficiary countries, but on a temporary basis for a defined period of time, to preserve CBI s benefits for the region but also to provide an incentive for CBI-beneficiary countries to collaborate in negotiating entry into NAFTA before or when these new benefits expire.

In subsequent years and particularly looking forward to the Summit of the Americas, the Center has participated in a number of trade-related studies and has published numerous policy-related books and reports on the subject. The concern of CBI-beneficiary countries as to the possibility of harm by NAFTA through investment diversion and trade diversion is consistent with the Center s studies. Similarly consistent is the view that the logical path toward Hemispheric integration for the CBI-beneficiary countries is accession into NAFTA. The ideal legislation would offer trade benefits to protect these countries from a deterioration in their economic circumstances and offer a strong incentive to take the necessary measures for NAFTA integration as soon as is feasible.

Background

The rapidly changing international environment presents uncertain territory for Caribbean countries. They are vulnerable economically, they no longer command geopolitical attention, and they must respond to increased competition in trade and investment as well as the demand for higher regional levels of human development. The implementation of the North American Free Trade Agreement (NAFTA) on January 1, 1994 is the nucleus of a free trade system that may eventually incorporate every nation in the Americas. Caribbean countries have to respond to the more dynamic hemispheric trade and business environment encouraged by the NAFTA and by the onset of a more competitive, bargaining-based approach to international economic relations. This prospect raises questions about the longevity and even relevance of non-reciprocal relationships of the type to which many Caribbean countries have become accustomed.

The CBI: Benefits to the USA and the Caribbean.

Since the global emerging economic trends may seem to have adverse implications for much of the Caribbean, the region's relationship with the U.S. in this new economic environment is important. US exports to the Caribbean Basin were $12.6 billion in 1993, an increase of 35% in the past five years. Using US

Department of Commerce estimates, these exports support over one quarter of a million jobs in the USA (252,000). Realistically, however, US jobs that depend on the Caribbean Basin are even higher because so many are attributable to the joint-production apparel assembly industry whereby garments cut in the US are exported to certain countries for sewing, and subsequent reimportation into the US. There are also indications that the electronics assembly industry is also growing in the Basin. The Caribbean Basin is still one of the few regions of the world in which the United States runs a trade surplus.

NAFTA's Impact on the Caribbean

In the short term it is the potential impact of NAFTA on all Caribbean economies which will be critical. Under the CBI, Caribbean Basin countries enjoy one-way preferential treatment for import access to the U.S. market. With the NAFTA, competition based upon market factors will weigh strongly in Mexico's favor. The major economic effects of the NAFTA on the Caribbean region are: trade and investment diversion, relocation of production capacity, and contraction of domestic economic activity.

Since NAFTA is only one year old, there is very little quantitative evidence of the effect of NAFTA on the Caribbean Basin countries. As a group, Caribbean economies appear to have performed no better or no worse than Latin America in the past year. There are as yet no statistics of significance to indicate general trade or investment diversion to Mexico. But I believe that in time, without parity legislation, NAFTA will have a detrimental effect on the Caribbean Basin economies, and that the statistical implications of that effect will be displayed in a few more years. The one area in which the trade figures already suggest a trend is in apparel. US apparel imports from the CBI in the first nine months of 1994 were only 10 percent greater that imports in the first nine months of 1993, whereas US apparel imports from Mexico over that period jumped by 45 percent.

All together, these NAFTA benefits will dramatically tilt the playing field in Mexico s favor. In other words, the Caribbean Basin find themselves with an overriding and immediate threat of trade and investment diversion due to NAFTA. NAFTA provides a reduced rate and generous quota for Mexican apparel made from Asian fabric, for which CBI countries have no preferential access. Furthermore, in critical competition in the assembly industry for 807A goods-garments assembled from US cut pieces of US origin fabric-Mexican exports will be entering duty free while CBI exports will still pay duty on their value added portion.

In sum, while absolute reciprocity may be the ultimate goal of hemispheric trade liberalization, some smaller Caribbean economies simply cannot compete with countries having more developed productive structures and a range of available technologies. They cannot offer absolute reciprocity to industrialized countries, at least in the short run, and some compromise on the part of the developed trade partners is essential.

The Caribbean Basin Trade Security Act

On January 19, 1995, Trade Subcommittee Chairman Philip Crane introduced the "Caribbean Basin Trade Security" Act extending NAFTA like treatment to all CBI products for six years. The Crane bill has the support of Rep. Sam Gibbons (D-FL), Rep. Charles Rangel (D-NY) and Rep. Clay Shaw (R-FL).

H.R. 553 declares that it is the policy of the United States to offer to the products of the Caribbean Basin beneficiary countries tariff and quota treatment equivalent to that accorded to products of NAFTA countries, and to seek the accession of these beneficiary countries to NAFTA at the earliest possible date, and in any case, no later than January 1, 2005.

Furthermore:

1. It covers the full spectrum of CBI products rather than just apparel.

2. It doesn't require reciprocity by the CBI in the areas of market access, intellectual property, and investment codes.

3. It allows for full parity in the textile and apparel sector.

4. It grants CBI countries NAFTA parity temporarily for six years instead of three years as stipulated in the "Interim Trade Program for the Caribbean Basin" (ITP) proposed in May 1994.

The recent decision to establish a Free Trade Area of the Americas (FTAA) by 2005 strengthens the case for the provisions contained in HR 553. As tariff barriers continue to fall in the Western Hemisphere, the relative advantage of the Caribbean Basin Initiative (CBI) diminishes. But provided that the necessary transition mechanisms are in place, the accession of the CBI beneficiary countries to NAFTA at the earliest possible date would be accomplished smoothly.

While there is a strong rationale for Caribbean countries to enter NAFTA, either individually or through the Caribbean Community (CARICOM) or other groupings, interim arrangements are necessary for those countries unable to undertake even the present NAFTA discipline. The static estimates of the impact of NAFTA on Caribbean countries indicates that without interim parity the agreement will have a strong impact on some of the countries with export concentration on North America.

Why HR 553 is important:

1. Most products from these countries already enter the US duty-free under the CBI and have very little adverse effect on US jobs and industry.

2. HR 553 covers the entire product spectrum of the CBI.

3. The legislation will encourage beneficiary countries to assume full obligations under the NAFTA discipline and prepare themselves for eventual accession to NAFTA.

4. Part of the preparation for entry into NAFTA is to offer reciprocity. Although HR 553 does not contain a reciprocity clause, the governments and private sectors in the Caribbean Basin would be strongly urged to prepare for reciprocity, and to solicit technical assistance in this regard during the six- year transition.

Mr. Chairman:

The arguments which I have tried to summarize are designed to urge this distinguished subcommittee to act favorably on HR 553. Through this legislation we can keep the CBI safe while the countries of the region move toward NAFTA accession and the FTAA. Without HR 553 the US might be turning its back on the aspirations of its closest friends and partners in its own neighborhood.

Chairman CRANE. Mr. Sandler.

STATEMENT OF GILBERT LEE SANDLER, MEMBER, EXECUTIVE COMMITTEE, GREATER MIAMI CHAMBER OF COMMERCE

Mr. SANDLER. Thank you, Mr. Chairman.

My name is Lee Sandler, I am an attorney from Miami, Fla. I serve on the executive committee of the Greater Miami Chamber of Commerce. The chamber is extremely grateful for the opportunity to express its strong support for H.R. 553. We are also grateful for the strong and continued support of the members of this subcommittee, and particularly of Chairman Crane, for the Miami Congressional Workshop on Hemispheric Affairs.

As the chairman knows, we will be holding our next workshop in April, and we look forward to having you and other Members of Congress present to look at issues such as this and the broader scope of issues which affect us in this hemisphere.

The day began with testimony from Florida's Senator Graham, and from south Florida's Congressman Deutsch. It is appropriate that the hearing end with the testimony of the Greater Miami Chamber of Commerce, an organization with 3,500 corporate constituents of those two elected representatives. We wish to emphasize four particular points to the subcommittee as it deliberates over this bill.

The first is that the Caribbean Basin Initiative may be a one-way program on paper, but it has proved to be a two-way program in practice.

We know for certain, in south Florida, that we are direct beneficiaries of the Caribbean Basin Initiative and we would like to see those benefits continue.

The second is that those benefits are very tangible and they are very desirable. We have seen CBI strengthen and stabilize the economies in our region. Make no mistake about it, the Caribbean Basin is our region. We are a part of it.

We know that our exports to the Caribbean Basin have grown as a result of the CBI. We know that there has been a lowering or deterrence of illegal traffic in narcotics as a result of CBI, and we know there has been a deterrence to illegal immigration as a result of CBI.

These are dramatic realities for us in south Florida. The Nation thinks of us as a community of Cuban exiles, but in point of fact, the largest number of foreign-born students in our public school system today are from Nicaragua, and that is because of a previous economic and political failure in our hemisphere. It is the purpose of CBI to give us the opportunity to make certain that we have the stability in our region so that we do not have those continuing problems. It is a daily reality for us. As I say, we are the beneficiaries of CBI.

Our third point is that NAFTA clearly has remodeled the architecture upon which the CBI benefits are built.

Fourth, last, and unfortunately, H.R. 553 is a necessary measure to rebuild the structure that will allow us to continue to move forward positively with our CBI partners.

We thank you very much for this opportunity to testify. We thank you for the good work that went into crafting this bill, and we look forward to moving it forward and to it being signed into law.

[The prepared statement follows:]

STATEMENT OF GILBERT LEE SANDLER, MEMBER EXECUTIVE COMMITTEE, GREATER MIAMI CHAMBER OF COMMERCE

The Greater Miami Chamber of Commerce ("GMCC") strongly supports H.R. 553, the "Caribbean Basin Trade Security Act," introduced on January 18, 1995 by Rep. Philip M. Crane (R-IL). H.R. 553 calls for Caribbean Basin Initiative-participating countries to receive NAFTA-like benefits, or "parity," for as long as six years on a range of products that are currently ineligible for CBI benefits. These products include textiles and wearing apparel, footwear, handbags, luggage, flat goods, work gloves, leather wearing apparel, canned tuna, petroleum and petroleum products, and certain watches. The GMCC urges the passage of H.R. 553 in order to ensure the continued flow of trade and investment between South Florida and Caribbean Basin nations, and to preserve the orderly flow of immigration from those nations to the United States.

Since 1907, the Greater Miami Chamber of Commerce has represented civic and business leaders on issues of import to the South Florida area. As a non-profit organization funded exclusively by its membership, the GMCC provides leadership to, and fosters the betterment of, the entire Greater Miami community. Today, the GMCC counts more than 3,500 businesses as members, reflecting at its core the ethnic diversity of Greater Miami and the preponderance of small and mid-sized companies that make up South Florida.

I. FAILURE TO PASS H.R. 553 WOULD CAUSE SUBSTANTIAL HARM TO THE ECONOMY OF SOUTH FLORIDA

The GMCC strongly supports the passage of H.R. 553. Greater Miami's reputation as the center of trade for the Americas is due in no small part to the strong financial and commercial ties it has developed with Caribbean and Central American nations. Although the advent of the Caribbean Basin Economic Recovery Act of 1983 ("CBI") and the Special Access Program were instrumental in solidifying these ties, Greater Miami's relationship with these countries began long before either of these programs were ever contemplated. Trade in goods, trade in services, and foreign investment are the pillars of Miami's international business, and they are nowhere more evident than in Miami's relationships with the countries of Central America and the Caribbean. The GMCC and its members have played a strong role in developing these ties through trade missions, specific Chamber functions and activities, and individual committees, primarily organized around the idea that forging links between South Florida businesses and Caribbean and Central American nations is in the best interest of our economy.

Recent statistics bear out the success of these endeavors. Based on 1992 figures, total U.S. trade with the Caribbean equaled $11.6 billion, $5.5 billion of which were imports and $6.1 billion of which were exports. Of this trade, approximately $1.3 billion in imports and $2.9 billion in exports flowed through Miami's ports. In other words, over 36% of U.S.-Caribbean trade was conducted through the Greater Miami area. The Caribbean accounted for 16% of Miami's total trade in 1992, and represented Miami's third largest trading partner.

The numbers are even higher when the United States's trade with Central American nations is analyzed. Of total U.S. trade of $9.5 billion (comprised of $4 billion in imports and $5.5 billion in exports), approximately $2.8 billion in exports and $2.0 billion in imports was shipped through the airport and seaport in Miami. That translates into almost 51% of the trade that the United States conducted with Central American nations in 1992. In total, Central America was Miami's second largest trading partner in 1992, representing 17% of the trade that flowed through Miami during that year.

Those numbers continued to grow in 1993. Based on available figures, Miami's share of two-way trade with the Caribbean in calendar year 1993 represented 50% of trade by air and 41% of trade by vessel. Its share of two-way trade with Central America for that same time period was even higher, consisting of 68% of the trade by air and 43% of the trade by vessel. These are not static numbers, either, as the overall volume of trade with these regions increased by almost 13% with Central America, and over 5% with the Caribbean.

As should be apparent, whether with the Caribbean or with Central America, Greater Miami serves as a vital link for trade with Caribbean Basin nations. And, that trade is growing at a phenomenal rate. As trade has continued to blossom, more and more businesses have established operations in Greater Miami, leading to the creation (and preservation) of more and more jobs for South Florida's economy.

The passage of the North American Free Trade Agreement (NAFTA), however, threatens to have a negative impact on Miami-CBI trade. Already, and as discussed below in Part III to this submission, the impact of NAFTA is being seen in the changing pattern of U.S. trade. Businesses that once would have considered the Caribbean or Central America for their operations are now looking to Mexico because of the cost savings inherent in NAFTA. The advances that have been attained by Caribbean and Central American nations through more than ten years of U.S. trade and investment are under very real threat. The negative ramifications of these developments for Greater Miami should be apparent. A drop in trade and investment in the Caribbean and Central America would undoubtedly lead to a drop in the flow of trade through Greater Miami. That, in turn, would cause a concomitant loss in jobs for the South Florida economy, and the nation at large. Clearly, such an outcome is not the result intended by the Administration and by the Congress when they approved NAFTA.

II. FAILURE TO SUPPORT THE CARIBBEAN BASIN COUNTRIES THROUGH INVESTMENT AND TRADE INCENTIVE PROGRAMS SERVES AS A DISINCENTIVE TO LEGAL AVENUES OF IMMIGRATION

Besides the positive impact CBI-directed trade and investment incentives have had on the South Florida economy, those incentives have also played a positive role in tempering the flow of immigration into the Greater Miami area. Miami's status as a haven for immigrants has long been symbolized by the Cuban refugee. It is not the Cubans, however, who represent the largest minority group in Greater Miami's public elementary and secondary schools. Rather, of the 24% of K-12 students in greater Miami's public schools born outside of the United States, the greatest percentage of those students are Nicaraguans, whose citizens arrived in Greater Miami by the thousands during the early and mid-80's in an attempt to flee the turmoil in their own country. The Nicaraguans have been followed (or preceded) by immigrants from a wide range of countries, including Haiti, Cuba, the Dominican Republic, Honduras, and Panama. The Dade County school board estimates that, over the past three years, an average of 1,190 new foreign-born students enter the school system *monthly*. For each of these students, the school district incurs additional expenses of approximately $1,368.00. And, those numbers reflect simply the "normal" flow of immigration into Greater Miami -- any exacerbation of the present situation would only have a larger adverse impact on the South Florida area.

An excellent illustration of the negative effect that a failure to rectify the inequities created by the North American Free Trade Agreement is likely have on the South Florida economy is provided by the recent Haitian crisis. As the situation continued to deteriorate in Haiti, more and more Haitians took to boats or employed other means in an attempt to reach the shores of South Florida. Many thousands made it to Greater Miami where they remained. The absorption of these individuals placed an inordinate strain on Greater Miami's infrastructure. Already overcrowded and understaffed schools became even more overwhelmed, limited affordable housing became even more sparse, hospitals and clinics found themselves confronted with ever greater numbers of sick and uninsured patients, and the police and other enforcement agencies were faced with an increasing incidence of crime.

History shows us that, as opportunity grows more and more scarce in their own countries, the citizens of Caribbean and Central American countries have become increasingly likely to migrate to the United States. Greater Miami's geographical location, coupled with its many established minority communities, make it unique among all of the possible U.S. destinations of these immigrants. If parity is defeated, it is Greater Miami which is likely to bear the disproportionate economic and social burden of absorbing and caring for these individuals.

III. NAFTA CREATES ECONOMIC DISINCENTIVES TO INVESTING IN, AND TRADING WITH, CARIBBEAN AND CENTRAL AMERICAN COUNTRIES

As noted above, although the North American Free Trade Agreement is only a little more than one year old, its effect on U.S. trading patterns has already begun to take shape. NAFTA's impact on U.S. trade is exemplified by the most recent trade statistics on trade in wearing apparel. Based on trade statistics through November of 1994, imports from Mexico increased at a phenomenal 49% rate, while imports increased by only 15% from the CBI region. These data show a drastic change from the trend over the past six years of CBI and Mexican apparel import growth. Since In 1988, apparel imports from the CBI have increased at a rate greater than Mexico. Thus, it is clear that the elimination of import quotas and the phase-out of import tariffs under the NAFTA have caused a reduction in the growth of investment in and trade with CBI countries. If apparel imports from the CBI are not placed on an equal footing with those of Mexico, there will be a continued shift of production out of the region and accompanying disinvestment. This will have negative economic repercussions on Miami-CBI trade and on Greater Miami's economy as a whole.

IV. CONCLUSION

H.R. 553 will allow apparel producers in the CBI region to compete with Mexico which has a significant cost advantage because of NAFTA. It ensures that the trading relationship between Greater Miami and the CBI is not further eroded by the tariff reductions and quota elimination of the NAFTA. H.R. 553 fosters production in the CBI region, which contributes to employment in Greater Miami in cutting, marketing, transportation, shipping, handling and other tasks.

H.R. 553 will serve as a strong economic catalyst for the CBI region, fostering foreign investment and economic development. It will enhance Miami-CBI trade which will have a great positive impact on the economy of South Florida. It will create political stability in the CBI and discourage excessive migration to Greater Miami. The Greater Miami Chamber of Commerce strongly supports H.R. 553 and urges you to approve the legislation as quickly as possible.

Chairman CRANE. Thank you very much, Mr. Sandler, and I want to thank all of you folks and express my appreciation for your endurance, because it has been a long day with the protracted extension of our hearing owing to activities on the floor. But I very much relish your testimony and I look forward to seeing all but Mr. Hoglund, I guess, down in Miami for your April conference. That is contingent upon the activities of our committee, though, because our chairman says we may be back working during the recess.

So, with that, I salute you all, I thank you all, and this hearing is adjourned.

[Whereupon, at 3:30 p.m., the subcommittee was adjourned.]

[Submissions for the record follow:]

STATEMENT OF

THE AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO
JACK SHEINKMAN, PRESIDENT

IN OPPOSITION TO

H.R. 553, THE CARIBBEAN BASIN TRADE SECURITY ACT

TO CHAIRMAN CRANE AND MEMBERS OF
THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS

FEBRUARY 24, 1995

Chairman Crane and Members of the Subcommittee:

Our union has always been an advocate of development, and not a spokesman for "protectionism." We have a long tradition of supporting workers in third world countries to better their living standards and encouraging policies that assist in that effort. The problem with the current proposal for CBI parity is that it fails on all the tests of economic improvement: it contributes to undermining the US economy, it does not promote economic development in the CBI countries, and it drags down living standards in the entire Hemisphere.

ACTWU believes this legislation is bad policy for a host of reasons which will be summarized in the following points:

1. **The Case That CBI Countries Will Suffer Serious Disinvestment Due to NAFTA Has Not Been Made.** This conclusion is largely supported by a study prepared by the US International Trade Commission (USITC) in July, 1992 on the potential effects of a North American Free Trade Agreement on apparel investment in CBERA countries (USITC Publication 2541, July 1992). Among other things, the report found that low wages were a critical element in investment decisions and the Caribbean would continue to be competitive in this area even after NAFTA.

> "Labor costs ranging between 58 cents and $1.10 per hour for an apparel assembly worker in CBERA countries, are sufficiently low (particularly in relation to US wages) **to encourage further growth** [emphasis added] in the region's apparel industry."

Many CBI countries have wages and labor standards that are substantially below Mexico's even after the recent devaluation of the peso. In fact, the labor laws on the books in Mexico are relatively strong and there is an established trade union movement in Mexico. Thus there is an institutional mechanism to give workers a voice in distribution of the added wealth produced by enhanced trade. With rare exception, the same can not be said of the majority of CBI countries that would receive these trade concessions. Almost all production takes place in Free Trade Zones where domestic laws on worker rights and standards are either inapplicable or unenforceable.

The Dominican Republic alone produces 50% more apparel for export to the US than Mexico right now.

The entire CBI apparel exports are 4 times greater than Mexico's. Why? **Labor costs,** as the ITC clearly identified. Duty levels are almost irrelevant, except for the big retailers and multinationals who hunger to pocket this extra money.

TABLE 1

ADJUSTED HOURLY WAGE OF CBI APPAREL OPERATORS,
AS A PERCENTAGE OF US WAGE

Country	Hourly Wage As Percentage of US
US	100%
Dominican Republic	8% to 10%
Guatemala	10% to 12%
Honduras	12% to 14%
Jamaica	8% to 10%
El Salvador	8% to 10%

Source: Based on Bobbin, November 1993. Wages include fringe benefits and social charges.

Expansion of CBI apparel production is still skyrocketing despite NAFTA, and our economy doesn't need further encouragement of American companies to close here and open there.

2. **It Will Increase Job Losses and Reduce Living Standards in the US.** There still are 1.7 million people making apparel and textile products in the US -- more than in the auto, steel, and rubber industries combined. And it is the 600 thousand Hispanic Americans and Black Americans who will be the primary losers of these jobs as companies relocate in response to the perverse incentives of this NAFTA parity proposal. It will certainly undermine the apparel industry in Puerto Rico, where apparel accounts for 20 percent of all manufacturing jobs. The only true winners will be the big retailers like the Wal-Marts and K-Marts, not US consumers or workers. It contributes to a race to the **lowest** common denominator of living standards, not a lifting of standards everywhere. Just as increasing supply reduces consumer prices in classical theory, increasing the supply of labor by making CBI and American workers compete directly with each other has to reduce the "price" of workers -- their wages and conditions of work. Consumer prices may decline, but US workers wages will decline even more!

The bill's premise is "to avoid the potential diversion of investment from beneficiary countries under the program to Mexico as a result of the North American Free Trade Agreement." The irony of this legislation is not lost on thousands of textile, apparel, footwear and leather products workers who have lost their jobs to Caribbean and Mexican imports of these products. They are wondering why the Subcommittee is not more concerned about the diversion of investment from the United States to the Caribbean and Mexico that has occurred and is continuing to occur as a result of the current CBI program, "807," and the potential of NAFTA. They want to know why it is that the Subcommittee is not considering legislation that minimizes, not maximizes, the transference of jobs of thousands of American workers to the Caribbean and Mexico and why they have been all but forgotten in this debate.

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3. **It Will Perpetuate the Underdevelopment of CBI Countries** since CBI is already a bad development policy for the region's economies. Jobs in export-oriented manufacturing have been created in the area due to CBI, but job losses have also occurred in the agricultural, mining and domestic-oriented manufacturing sectors of Caribbean and Central American countries under CBI. Job losses in these traditional sectors have far outweighed job gains. CBI displaced workers have not been re-hired in CBI-related jobs. And CBI-related jobs pay below poverty level wages, thus exacerbating income inequality, social instability and migration from the Caribbean Basin region.

4. **It Will Further Weaken Workers and Human Rights and Undermines Labor Standards** as repressive and inhuman conditions characteristic of free trade zones in countries like Guatemala, El Salvador, Honduras and Dominican Republic are not addressed. The best national laws are deliberately violated or ignored in the Foreign Trade Zones (FTZs).

For example, the Government of El Salvador recently drafted a new labor code to maintain its GSP privileges. But when the 900 workers at Mandarin International informed management last month that a legal union representing the workers had been formed, including legal recognition by the Ministry of Labor, the company locked out all the workers saying it would never accept a union. The workers still don't have their jobs as of today, despite their compliance with Salvadoran labor law.

In Honduras, the story is essentially the same at the King Star Garment Co. There in January, the union officers and active union members were all fired, despite their union being completely legal under recognition by the Honduras Ministry of Labor and a written agreement by the company signed last year that it would abide by workers desire to be represented by a union.

We also know that laws against child labor are never enforced in many CBI countries. In Honduras, El Salvador and Guatemala children 15 years old and younger make up 13 to 15 percent of the work force in the apparel industries. We have the testimony of hundreds of women reporting they are forced to work long hours of overtime above the normal 44 hour week, that they are literally physically abused (slapped, punched, kicked, etc.) or constantly sexually propositioned to keep their jobs. Health care, even legally mandated benefits, are frequently ignored.

Consequently, the countries in the Caribbean that have relatively high wages, strong effective unions, and political democracy will lose out to those countries which are weakest on these measures of social and political development.

5. **It will increase migration** from the Caribbean Basin countries to the US as working conditions in those countries deteriorate to the lowest common denominator. For instance, between 1983 and 1991 as Dominican Republic exports from FTZs increased by 470 percent, real minimum wages **declined** by 26 percent and immigration to the United States **increased** by 88 percent.

The evidence of failed benefits of an export-only oriented trade program to developing countries is most clear in the following comparison of wages and maquiladora exports in Honduras over the last decade:

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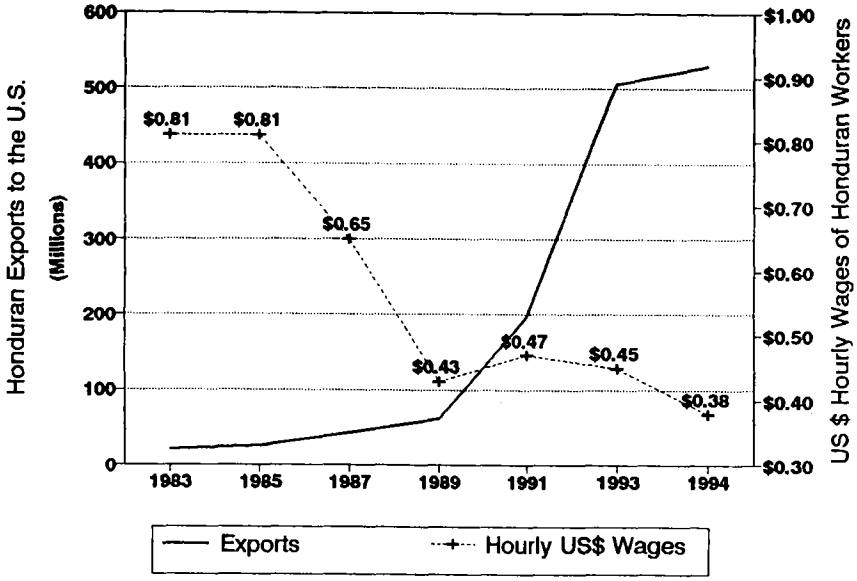
As Honduran Maquiladora Exports Skyrocket the Dollar Wages Paid by U.S. Companies Decline by 53%



Year	U.S. Maquiladora Imports from Honduras	Hourly Minimum Wage (Lempiras)	Exchange Rate (Lempiras/US$)	Hourly Minimum Wage (US$)
1983	$ 20,400,000	1.62	2/$1	$0.81
1984	$ 22,200,000	1.62	2/$1	$0.81
1985	$ 25,800,000	1.62	2/$1	$0.81
1986	$ 31,900,000	1.62	2/$1	$0.81
1987	$ 41,900,000	1.62	2.48/$1	$0.65
1988	$ 62,000,000	1.62	3.10/$1	$0.52
1989	$ 86,700,000	1.62	3.73/$1	$0.43
1990	$112,600,000	2.15	5.10/$1	$0.42
1991	$196,600,000	2.66	5.63/$1	$0.47
1992	$367,131,000	3.02	5.75/$1	$0.53
1993	$506,000,000	3.29	7.26/$1	$0.45
YTD 1994	$507,830,000*	3.29	8.69/$1	$0.38

* Sources: Import figures from U.S. Commerce Department. Year-to-date 1994 imports are January-May figures annualized, but not seasonally adjusted. Minimum wage and foreign exchange rates were obtained from various business sources. YTD 1994 foreign exchange rates are as of 7/12/94.

Certainly the decade of CBI benefits in non-apparel industries has not demonstrated any takeoff in CBI economic development nor lessened migration flow to our shores. In fact this legislation creates the same hyperinflated investment incentives that in good measure led to the Mexican currency collapse.

6. **It Will Reduce Tax Revenues** for the US treasury, which will further increase the federal budget deficit. We calculate the amount of tax revenue loss will be nearly $1.5 billion for the next 5 years, not the $800 million previously predicted. And this does not count the huge federal revenue loss from import-displaced Americans, who will far outnumber the few additional workers employed by increased exports.

The supposed $13 billion of US exports to CBI countries is a statistical fraud. Probably two thirds of our "exports" are not designed for sale in these countries, but are simply component parts being processed for return to our country. This is not trade.

This legislation is a perversion of free trade, not an enhancement of it. It is a one-way free trade road, where everything can come here, but all road blocks on products going there remain intact.

Just because NAFTA parity benefits are extended for "only" six years -- at which time the CBI countries would either accede to NAFTA, or sign their own free-trade accord with the US, or lose benefits -- no one should believe for a minute that the benefits would be revoked under any circumstances. Once extended, the congressional sponsors of this legislation would never permit the benefits to be withdrawn. The legislation is just a not-so-clever ruse to provide trade preferences or "foreign aid" to the Caribbean at the expense of American workers and American standards of living.

The approach taken by HR 553 is capitulation before negotiation. Benefits and obligations go together. Granting the former first creates no incentive for acceptance of the latter. What HR 553 will produce is a managed trade agreement benefiting only corporate managers and shareholders. What should really be done by Congress is to mandate the President to renegotiate NAFTA, fix its neglect of currency policy, labor rights standards and environmental consequences.

At least in the 70s there was a tacit social contract between Government and our citizenry. As trade was to be made more open, the people who would be displaced would be given income support and educational opportunities to allow them to move to new occupations or opportunities. Today this Congress is tearing up that contract and throwing the dispossessed unto the scrap heap of permanent joblessness, poverty and long term misery.

We therefore urge this Subcommittee and Congress to reject this legislation.

*** *** ***

[BY PERMISSION OF THE CHAIRMAN]

7th February, 1995

Hon. William Coyne
2455 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Congressman,

The Ambassadors of the Caribbean and Central American countries wish to express our strong support for the Caribbean Basin Trade Security Act (HR553) introduced by Congressmen Crane, Shaw, Rangel and Gibbons.

The Act will grant CBI countries parity with NAFTA for those products which are excluded from the CBI duty-free preferences. It also allows CBI countries to either accede to the NAFTA or to negotiate bilateral Free Trade Agreements at the end of the six-year transition period.

We believe this Act will address the problems of diversion of trade and investment faced by CBI countries since the implementation of the NAFTA. We sincerely hope that the Congress will support this initiative. We believe that it is in keeping with the US commitment to provide NAFTA Parity for CBI countries.

We take this opportunity to renew to you the assurances of our highest consideration.

Yours sincerely,

Patrick A. Lewis
Ambassador of Antigua & Barbuda

Timothy Donaldson
Ambassador of The
Commonwealth of the Bahamas

Courtney Blackman
Ambassador of Barbados

Dean Lindo
Ambassador of Belize

Sonia Picado
Ambassador of Costa Rica

Jose del Carmen Ariza
Ambassador of Dominican Republic

Ana Cristina Sol
Ambassador of El Salvador

Denneth Modeste
Ambassador of Grenada

Edmund Mullet
Ambassador of Guatemala

Mohammed Ali-Odeen Ishmael
Ambassador of Guyana

Jean Casimir
Ambassador of Haiti

Roberto Flores Bermudez
Ambassador of Honduras

Richard L. Bernal
Ambassador of Jamaica

Roberto Mayorga-Cortes
Ambassador of Nicaragua

Ricardo Alberto Arias
Ambassador of Panama

Mr. Irvin Sweeney
Chargé d'affaires ad interim
Embassy of St. Kitts and Nevis

Joseph Edmunds
Ambassador of St. Lucia

Kingsley C. A. Layne
Ambassador of St. Vincent and
the Grenadines

Corinne McKnight
Ambassador of Trinidad and Tobago

Statement of the American Chamber of Commerce of the Dominican Republic Favoring Passage of the Caribbean Basin Trade Security Act (H.R. 553)

Introduction

The American Chamber of Commerce of the Dominican Republic wishes to express its full support for the proposed "Caribbean Basin Trade Security Act of 1995" (H.R. 553), introduced by Representative Phil Crane (R-IL), Chairman of the Trade Subcommittee of the House Ways and Means Committee, and cosponsored by Representative Sam Gibbons (D-FL) and Representative Charles Rangel (D-NY).

This American Chamber, representing over 3,400 business firms, large and small, is committed to the promotion of trade and investment between the Dominican Republic and the United States of America in order to improve the standard of living of their peoples.

As a member of the Association of American Chambers of Commerce in Latin America (AACCLA), we fully endorse the statement by Mr. David E. Ivy, President of AACCLA, before this subcommittee on February 9, 1995. The position stated by AACCLA on this legislation very clearly reflects the importance which the Caribbean Basin Countries give to sustained economic development and political stability in the region.

The Impact of the Industrial Free Zones on the Economic Development of the Dominican Republic

The adoption of H.R. 553 is essential for the continued economic development of the Dominican Republic consistent with the pro-free trade declarations made at the Summit of the Americas. The United States is the principal trading partner of the Dominican Republic, with bilateral trade of more than $5 billion in 1994. This volume of commerce makes the Dominican Republic the seventh largest importer of U.S. goods within Latin America, and 35th largest consumer of American products in the world.

The close trading relationship between the U.S. and the Dominican Republic was strengthened with the enactment of the Caribbean Basin Initiative in 1983, and given permanent status in 1990. This program, which facilitates trade between the two countries, has created a significant number of jobs in both nations over the past 11 years. However, passage of the North American Free Trade Agreement has, unintentionally, made taken away some of the benefits of CBI program granted firms in the region.

Now, it is crucial that this Congress approve H.R. 553 in a timely manner. By doing so, the United States can stem the loss of jobs in the Dominican Republic that has resulted from firms either moving to Mexico or cancelling contracts with Dominican factories.

It is calculated that for every five jobs created in the Dominican Republic's free trade zones, 1 job is created in the United States. Should companies continue to divest from the zones and grant contracts to competitors in Mexico, this figure will be reduced in both countries.

The government of the Dominican Republic is working to adopt new and more liberal foreign investment legislation in order to attract and facilitate foreign direct investment. The

American Chamber of Commerce is confident that such measures, if constructed correctly, will create a more favorable investment environment for American firms. Without speedy passage of H.R. 553, market-oriented economic liberalization policies now under review by the government will do little to increase the strong ties between the U.S. and the Dominican Republic A burgeoning export market for U.S. firms will be lost, as will investment opportunities and the job creation effect trade has on all nations opening their economies.

Finally, it is important to note the social and political stability that job creation in the free trade zones has fostered. Thousands of young and eager workers owe their jobs to the Caribbean Basin Initiative. Without those employment opportunities, the Dominican Republic runs the risk of suffering social unrest which would, in turn, pose a serious challenge to the country's nascent democratic institutions.

The American Chamber of Commerce in the Dominican Republic urges the U.S. Congress to approve H.R. 553, the Caribbean Basin Trade Security Act.

AMERICAN CHAMBER OF COMMERCE OF TRINIDAD AND TOBAGO

Hilton International - Upper Arcade, Lady Young Road, Port-of-Spain,
Trinidad & Tobago, W.I. Fax: 627-7405
Telephone: 627-8570, 624-3211 (Ext. 6081).

STATEMENT OF
CLYDE ALLEYNE
PRESIDENT
AMERICAN CHAMBER OF COMMERCE OF TRINIDAD AND TOBAGO
FAVORING PASSAGE OF
THE CARIBBEAN BASIN TRADE SECURITY ACT
FEBRUARY 22ND, 1995

The American Chamber of Commerce of Trinidad and Tobago (AmCham T & T)strongly supports the Caribbean Basin Trade Security Act (HR 553) as proposed by Trade Subcommittee Chairman Phil Crane and cosponsored by ranking Ways and Means Committee member Sam Gibbons and Congressman Clay Shaw and Charles Rangel.

AmCham T & T represents virtually 100% of the American investment in Trinidad and Tobago as well as a large percentage of the Trinidadian business community. AmCham T & T is therefore in the unique position of being able to reflect the interests of both US and Trinidadian business operating here.

The chief beneficiary in the US-Caribbean Basin trading relationship is the US which exports over US$5 billion annually to the region. Trinidad and Tobago alone imports over half a billion dollars worth of goods and services from the US which is by far its largest trading partner. The states of Florida and Texas each export US$100million in goods and services to Trinidad and Tobago per year.

AmCham Trinidad and Tobago is particularly pleased to note that petroleum exports have been specifically identified by this bill for special treatment. This will be of great benefit to Trinidad and Tobago whose major export is petroleum and petroleum-related products The major U.S. investments in Trinidad and Tobago are in the petroleum and petrochemical sectors.

The Government of Trinidad and Tobago has adopted an agressive program to liberalise the economy and has taken some political risk in doing so. It is this new liberalised environment which makes Trinidad and Tobago such an attractive market for US companies to invest. New investment in Trinidad and Tobago has come from Enron Oil and Gas, NUCOR, Unocal, Southern Electric, Exxon, Arcadian, Mobil, Farmland and

Chevron. Some other US companies operating in Trinidad and Tobago are Citibank, Amoco, Texaco, 3M of Minnesota, IBM and Johnson and Johnson.

US investment has grown from US$101 million in 1992 to US$643 million in 1994 and is estimated, according to U.S. company committments, to reach US$1 billion in 1995. (Figures from U.S. Embassy, Port of Spain). This expansion in cross-border investment has been facilitated by the policies of economic liberalisation and open economy practices which the T & T government has rigorously implemented over the last three years. AmCham T & T strongly supports the Crane bill which will reduce investment diversion to Mexico & Canada where exports enjoy superior access to the US over products from the Caribbean.

In summary, AmCham T & T, being in the unique position of reflecting the views of both American and Trinidadian interests, strongly supports HR 553 since it will:

1. - expand the export and investment opportunities for the United States.
2. - be of great benefit to Caribbean basin countries in that it will support the continued programs of economic liberalisation taking place across the region as well as the political stability and democratic rule.
3. - provide the framework to strengthen and expand trade and job opportunites in both countries.
4. - reduce the possibility of investment diversion away from Caribbean countries such as Trinidad and Tobago.

**COMMENTS OF AMERICAN TOURISTER, INC.
TO THE SUBCOMMITTEE ON TRADE
ON H.R. 553**

These comments are submitted on behalf of American Tourister, Inc., of Warren, Rhode Island and Jacksonville, Florida, in support of H.R. 553, the "Caribbean Basin Trade Security Act."

Currently NAFTA provides duty-free treatment for textile luggage assembled in Mexico which incorporates wholly U.S.-formed fabric, however, the same product is subject to a substantial tariff on importation from CBI countries, even if U.S. fabric is utilized.

American Tourister is a leading U.S. manufacturer and importer of luggage, with headquarters at 91 Main Street, Warren, Rhode Island. American Tourister has captive suppliers in the Dominican Republic, where it manufactures luggage from raw materials sourced from both the United States and the Far East. Accordingly, the company has an interest in H.R. 553 and is supportive of the bill.

In late 1989 American Tourister started shifting from buying soft luggage in the Far East, and started sourcing soft luggage in the Dominican Republic, using raw materials sourced both in the United States and the Far East. For this the company set up a 165,550 square foot facility in Jacksonville, Florida to cut the fabric used in the Caribbean assembly operations and then to distribute the finished luggage.

Over 80 percent of textile soft-side luggage sold in the United States is imported predominantly from Pacific Rim countries, principally from Taiwan, Korea, Thailand, and China. Therefore, to the extent textile luggage is produced in Caribbean countries utilizing U.S. origin materials, only Far Eastern suppliers are affected. The only domestic U.S. production of textile luggage is high-end, low volume product which is not competitive with imported soft-sided luggage. American Tourister's production in the Dominican Republic has shifted some of the U.S. supply from the Far East to North America -- a specific goal of the Caribbean Basin Economic Recovery Act.

The CBI-NAFTA parity bill is intended to provide duty-free treatment (in the same manner as NAFTA) for products assembled in CBI-eligible countries utilizing U.S.-origin fabric and qualifying for tariff treatment under Heading 9802 of the HTSUS. Since American Tourister is the sole purchaser from the captive suppliers in the Caribbean, it is in a position to stipulate that these producers use only U.S. fabric in order to take advantage of any duty benefits offered by the CBI-NAFTA parity bill. Therefore, not only would the bill allow continued benefits to Caribbean development, but it would also expand greatly the market for U.S.-origin textile material.

The location of American Tourister's softside luggage operations in the Dominican Republic and Florida has created wide-ranging benefits in both areas. In the Dominican Republic, the company is responsible for about 2,000 jobs. These jobs had previously been in the Far East. This obviously contributes in a very substantial way towards the goal of the Caribbean Basin Initiative of promoting economic growth and stability in the Caribbean region. The Jacksonville, Florida facility, which opened in late 1991 to support the Dominican operations, directly provides over 200 jobs, and also supports independent service operations, such as transportation companies.

Providing duty-free treatment for textile luggage assembled in CBI beneficiary countries from fabrics wholly formed and cut in the United States would benefit rather than harm U.S. interests for several reasons. It would support the expansion of the American Tourister facility in Florida and potential job increases. It would not affect U.S. manufacturers since there is no domestic production of textile luggage in the same market category as that imported from CBI countries. It would discourage the diversion of this activity from this hemisphere to the Far East; and it would expand the market for U.S.-origin textile material.

STATEMENT OF THE

AMERICAN YARN SPINNERS ASSOCIATION

TO THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

ON H.R. 553

"THE CARIBBEAN BASIN TRADE SECURITY ACT"

This statement is being submitted on behalf of the American Yarn Spinners Association, (AYSA), which is the national trade association of the sales yarn sector of the textile industry. The association's member firms employ more than 80,000 Americans in 350 manufacturing facilities in 12 states, producing yarns of natural and manmade fibers for the apparel, homefurnishings, industrial, and craft markets. Bureau of Census reports show that 42.5 percent of total U.S. yarn production in 1993 was produced by the sales yarn sector for conversion by other sectors of the textile and apparel industry into finished products.

AYSA was the first textile organization to officially announce support for the North American Free Trade Agreement (NAFTA). That support was given on the basis that it was the first trade agreement involving textiles and apparel that truly provided reciprocal market access on a basis that permits U.S. yarn producers to share equitably in the greater NAFTA market. It was our hope that the Caribbean Basin Trade Security Act would provide this same reciprocity and that we would be in a position to support H.R. 553. Unfortunately, this is not the case for the reasons outlined in the following paragraphs.

Findings and Policy

H.R. 553 appears to be based on the premise that unless CBI countries receive NAFTA equivalent benefits, there will be a diversion of investment to Mexico. Before addressing this issue, one should first consider why investment in textiles and apparel located in the CBI in the first place. We submit that the primary motivation was directly related to the quota system under the Mulfi-Fiber Arrangement. The proliferation of Free Trade Zones and low wages in CBI countries simply provided manufacturers and opportunity to take advantage of the move liberal quota treatment accorded this area.

In our view, H.R. 553 will cause some dislocation in the CBI, but Mexico is unlikely to be the beneficiary. The fact is that some CBI countries offer advantages over others, including size of the labor force, infrastructure, energy costs etc. It is reasonable, therefore, to assume that with the elimination of textile and apparel quotas from all sources, investment will no longer be motivated by quota, but by real economic and structural considerations. This, rather than parity, will likely determine investment decisions in the future.

We are in agreement that the goal of H.R. 553 should be to achieve accession of the CBI countries in NAFTA at the earliest possible date, but not without reciprocity. For U.S. firms to have to wait for up to six years to achieve the same market access to the CBI, already in effect with Mexico and Canada is simply unjustified.

Tariff Treatment of Certain Textile Articles During the Transition Period

While giving NAFTA tariff treatment to goods entering the United States from CBI countries, H.R. 553 does not require reciprocity for U.S. goods going to CBI countries. We believe this to be unfair to firms in the CBI, as well as potential U.S. suppliers to those firms. For instance, a knitter in Jamaica could be disadvantaged compared with a knitter in Mexico who may receive a lower tariff on yarn imported from the United States under NAFTA.

As a condition for receiving NAFTA parity, CBI governments should be required to accept the same tariff reduction obligations and other market access provisions that apply to current NAFTA partners. Otherwise, U.S. producers would gain no benefit over non-NAFTA countries during the six-year transition and perhaps even longer, since lowering of CBI tariffs would be the subject of negotiation at the time of full accession to NAFTA. One must assume from the language in Title II, Sec. 202 (b)(1) that additional tariff phase-out periods are anticipated.

A final argument for immediate access benefits for U.S. yarn producers is the potential for yarn sales in the CBI countries. AYSA has been able to identify millions of pounds of yarn transshiped from the Far East through U.S. ports to Costa Rica, Dominican Republic, Guatemala, and Honduras. All of these yarns are produced in the United States but are brought in from the Far East by Far Eastern firms who have located in CBI countries to presumably obtain quota access to the U.S. market. Attached as Exhibit A is a listing of the CBI importers, the type of yarn and country of origin of the yarn. This information clearly illustrates a potential yarn market in the CBI that is being supplied by low cost subsidized producers in the Far East. With the exception of a few small mills in Guatemala and El Salvador, yarn production in the CBI is non-existent. Providing reciprocal tariff reductions would enhance competitiveness of U.S. producers and at the same time benefit CBI purchasers of yarn.

Tariff Preference Levels

We are opposed to providing Tariff Preference Levels for two reasons. First, they are not justified and, second, they undermine the NAFTA rules of origin. While NAFTA provides for TPL's, it is our view that the alleged need for TPL's, with some exception, was a smokescreen to circumvent the rules of origin. This is born out by Mexico's lack of use of their allowable TPL's. It should also be noted that NAFTA provides full trade reciprocity, which is not the case with the CBI parity proposal embodied in H.R. 553.

NAFTA contains a provision known as 807-A which is carried over into H.R. 553. Under this provision, apparel may enter the United States duty free provided the fabric components were formed and cut in the United States. The fabric is not subject to the yarn-forward rule. While AYSA acknowledges the difficulty of changing this provision since it is already incorporated in NAFTA, we nonetheless view it as a potential means by which the rule of origin could be circumvented.

Perhaps more important for yarn producers is that some textile and apparel products are produced directly from yarn in a single process with little or not sewing. Hosiery, including socks, is an example since the body of the hosiery is knit to shape with sewing required only to close the toe. Unlike fabric components, U.S. produced yarn does not qualify for 807 or 807-A tariff treatment, although the conversion of the yarn into a product requires little or not sewing in Mexico.

Numerous comments have been received from potential yarn purchases in Mexico and CBI countries questioning why yarn does not receive 807 type benefits. AYSA believes that the time has come to include U.S. produced yarn for special tariff treatment similar to that now in effect for fabrics. This would be beneficial to Mexico and the CBI as well as enhance market potential for U.S. yarn producers.

Conclusion

In conclusion, AYSA would like to be in a position to support H.R. 553 but cannot do so as currently written. All we are requesting is that fairness and reciprocity be incorporated in the legislation as outlined in this statement. It is hoped that the Committee will give our suggestions serious consideration.

EXHIBIT A

02/22/95

PORT	ORIGIN	TYPE	POUNDS	IMPORTER	DESTINATN	DATE
JACKSONVILLE	BRAZIL	COTTON	36601	GONZALEZ	DR	11/17/93
EVERGLADES	BRAZIL	COTTON	98216	TEXTIL CENTRO	COST	07/21/93
EVERGLADES	BRAZIL	COTTON	16369	TEXTIL CENTRO	COST	07/21/93
EVERGLADES	BRAZIL	COTTON	50128	TEXTILES SALU	GUAT	05/26/93
PT EVERGLADES	BRAZIL	COTTON	36601	GONZALEZ	DR	11/03/93
EVERGLADES	BRAZIL	COTTON CARDED	32739	TEXTIL CENTRO	COST	04/21/93
JACKSONVILLE	BRAZIL	COTTON CARDED	17364	M GONZALEZ	DR	12/22/93
PT EVERGLADES	BRAZIL	COTTON	15894	EL ZIPPERLE	GUAT	12/29/93
JACKSONVILLE	BRAZIL	COTTON	16591	MFRS TEXTILES	DR	01/05/94
PT EVERGLADES	BRAZIL	COTTON	39396	MARSOL INTL	HOND	05/18/94
SAN JUAN	BRAZIL	COTTON	29947	CONF. FEMENIN	DR	09/14/94
EVERGLADES	BRAZIL	COTTON	100000	LEVISAN TRDG	DR	09/07/94
SAN JUAN, PR	BRAZIL	COTTON	14709	M GONZALEZ	DR	08/10/94
MIAMI	BRAZIL	COTTON	73000	TEJ. DEL SOL	DR	01/18/95
			577,555			
MIAMI	EL SALVADOR	COTTON	36028	HILANDERIAS	DR	03/17/93
MIAMI	EL SALVADOR	COTTON	33234	HILANDERIAS	DR	11/03/93
MIAMI	EL SALVADOR	COTTON	36028	HILANDERIAS	DR	06/09/93
MIAMI	EL SALVADOR	COTTON	11436	ORDER OF SHIP	DR	12/22/93
EVERGLADES	EL SALVADOR	COTTON	46055	ORDER	DR	08/17/94
EVERGLADES	EL SALVADOR	COTTON	42150	MFRS TEXTILES	DR	08/17/94
MIAMI	EL SALVADOR	COTTON	91000	ORDER	DR	01/25/95
MIAMI	EL SALVADOR	COTOTN	22313	ABRAHAM INTL	DR	01/25/95
MIAMI	EL SALVADOR	COTTON	23699	HILANDERIAS	DR	01/25/95
MIAMI	EL SALVADOR	COTTON	45127	TEXTIL DOMINI	DR	01/11/95
			387,070			
MIAMI	GUATEMALA	COTTON	46065	TEXTIL CENTRO	DR	06/02/93
MIAMI	GUATEMALA	COTTON	55956	TEXTIL HILLAS	DR	06/01/94
MIAMI	GUATEMALA	COTTON	46027	TEXTIL ELLAST	DR	11/02/94
MIAMI	GUATEMALA	COTTON	46033	TEXTIL HILLAS	DR	10/12/94
MIAMI	GUATEMALA	COTTON	42545	SOLITEX	DR	11/23/94
MIAMI	GUATEMALA	COTTON	39411	TEXTIL HILLAS	DR	12/07/94
			276,037			
LONG BEACH	HONG KONG	THREAD POLYESTER	0	C & F IND	DR	06/23/93
LONG BEACH	HONG KONG	COTTON RING	5511	NEW CARI	DR	06/23/93
LONG BEACH	HONG KONG	COTTON	12870	TRAP RAIN	DR	04/14/93
MIAMI	HONG KONG	THREAD POLYESTER	0	BALDWIN & EBE	DR	04/14/93
LONG BEACH	HONG KONG	COTTON	94489	NEW CARI	DR	03/17/93
MIAMI	HONG KONG	THREAD POLY SPUN	0	GOTEX	DR	03/17/93
LONG BEACH	HONG KONG	COTTON	42989	NEW CARI	DR	11/24/93
MIAMI	HONG KONG	THREAD POLYESTER SP	0	GOTEX	DR	04/07/93
MIAMI	HONG KONG	THREAD POLYESTER	0	GOTEX	DR	03/03/93
MIAMI	HONG KONG	POLYESTER SPUN	32651	EAST ONE	HOND	09/22/93
MIAMI	HONG KONG	COTTON	0	FEBENA FASHIO	HOND	09/22/93
LONG BEACH	HONG KONG	COTTON	167549	NEW CARI	DR	10/13/93
LONG BEACH	HONG KONG	COTTON	157042	NEW CARI	DR	03/24/93
LONG BEACH	HONG KONG	COTTON	10387	NEW CARI	DR	07/21/93

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PORT	ORIGIN	TYPE	POUNDS	IMPORTER	DESTINATN	DATE
CHARLESTON	HONG KONG	THREAD POLY SPUN	26093	HILOS	COST	05/26/93
MIAMI	HONG KONG	THREAD POLYESTER	0	FORTEX IND	HOND	05/26/93
CHARLESTON	HONG KONG	THREAD POLYESTER	66950	HILOS	COST	03/31/93
LONG BEACH	HONG KONG	COTTON	187391	NEW CARI	DR	09/15/93
MIAMI	HONG KONG	THREAD	0	STRONG PROGRE	HOND	04/21/93
MIAMI	HONG KONG	NYLON	0	INTL SEWING S	HOND	04/21/93
LONG BEACH	HONG KONG	THREAD COTTON	2636	CASA BARAHONA	HOND	03/10/93
LONG BEACH	HONG KONG	THREAD ACRYLIC POLY	31911	TEJIDOS INTL	DR	03/10/93
LONG BEACH	HONG KONG	COTTON	95900	NEW CARL	DR	10/27/93
LOS ANGELES	HONG KONG	RAMIE/COTTON DYED	6142	UNION D MFG	DR	05/19/93
LOS ANGELES	HONG KONG	MISC	41647	UNION DE MFG	DR	02/03/93
BALTIMORE	HONG KONG	THREAD POLYESTER	11962	HILOS	COST	02/24/93
LONG BEACH	HONG KONG	THREAD COTTON	16754	NEW CARI	DR	02/24/93
LONG BEACH	HONG KONG	THREAD POLYESTER	0	C&F IND	DR	02/24/93
LONG BEACH	HONG KONG	MISC	140256	NEW CARI	DR	02/24/93
LONG BEACH	HONG KONG	COTTON	216844	NEW CARI	DR	02/24/93
LOS ANGELES	HONG KONG	COTTON/RAMIE	29598	TRAP RAIN	DR	02/24/93
LOS ANGELES	HONG KONG	RAMIE/COTTON	24250	TRAP RAIN	DR	02/24/93
LONG BEACH	HONG KONG	COTTON	94489	NEW CARI	DR	06/09/93
MIAMI	HONG KONG	THREAD POLY SPUN	0	GOTEX	DR	06/09/93
MIAMI	HONG KONG	NYLON	0	BALDWIN & EBE	DR	02/16/94
MIAMI	HONG KONG	NYLON	0	BALDWIN & EBE	DR	03/30/94
LOS ANGELES	HONG KONG	POLYESTER	22486	MULTISERVICIO	GUAT	05/18/94
MIAMI	HONG KONG	NYLON	0	BALDWIN & EBE	DR	05/11/94
MIAMI	HONG KONG	NYLON	0	BALDWIN & EBE	DR	05/04/94
LOS ANGELES	HONG KONG	COTTON	16799	OCHENTA & OCH	GUAT	06/01/94
LONG BEACH	HONG KONG	THREAD POLY SPUN	0	NYF GARMENTS	HOND	11/02/94
LONG BEACH	HONG KONG	THREAD POLY SPUN	0	CORTEX INTL	GUAT	11/02/94
LONG BEACH	HONG KONG	COTTON	11902	TEJIDOS INTL	DR	11/02/94
LONG BEACH	HONG KONG	THREAD POLYESTER	0	CORTEX INTL	GUAT	10/12/94
LONG BEACH	HONG KONG	THREAD	0	C&F IND.	DR	09/28/94
MIAMI	HONG KONG	THREAD POLY SPUN	0	CHARMING GRMN	HOND	09/28/94
LONG BEACH	HONG KONG	THREAD	11589	WAVECON	GUAT	09/07/94
LONG BEACH	HONG KONG	COTTON/RAYON	15000	TEJIDOS INTL	DR	11/23/94
LONG BEACH	HONG KONG	COTTON/ACRYLIC	15546	TEJIDOS INTL	DR	08/10/94
			1,609,633			
LONG BEACH	INDIA	COTTON	34568	TEXTILE CENTR	COST	06/23/93
LONG BEACH	INDIA	THREAD COTTON	5297	DISTR MARTE	GUAT	03/17/93
LONG BEACH	INDIA	COTTON	34658	TEXTIL CENTRO	COST	03/17/93
LONG BEACH	INDIA	COTTON	34568	TEXTILE CENTR	COST	03/17/93
LONG BEACH	INDIA	COTTON SUPER CARDED	34568	TEXTIL CENTRO	COST	05/12/93
LONG BEACH	INDIA	COTTON KNITTING	34568	TEXTIL CENTRO	COST	04/21/93
LONG BEACH	INDIA	THREAD COTTON	5297	DISTR MARTE	GUAT	06/09/93
LONG BEACH	INDIA	COTTON	34658	TEXTIL CENTRO	COST	06/09/93
LONG BEACH	INDIA	COTTON	34568	TEXTILE CENTR	COST	06/09/93
LONG BEACH	INDIA	COTTON COMBED	39131	KUNJA KNITTIN	DR	03/09/94
LOS ANGELES	INDIA	COTTON	137535	KUNJA KNITTIN	DR	03/16/94
LONG BEACH	INDIA	COTTON	39131	KUNJA KNITTIN	DR	03/30/94
LONG BEACH	INDIA	COTTON COMBED	78262	KUNJA KNITTIN	DR	03/30/94
LOS ANGELES	INDIA	COTTON	103128	KUNJA KNITTIN	DR	03/30/94
LONG BEACH	INDIA	COTTON COMBED	39131	KUNJA KNITTIN	DR	04/20/94

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PORT	ORIGIN	TYPE	POUNDS	IMPORTER	DESTINATN	DATE
LONG BEACH	INDIA	COTTON	117393	KUNJA KNITTIN	DR	05/18/94
LOS ANGELES	INDIA	COTTON	36594	KUNJA KNITTIN	DR	05/18/94
LOS ANGELES	INDIA	COTTON	36594	KUNJA KNITTIN	DR	05/04/94
LONG BEACH	INDIA	COTTON COMBED	117393	KUNJA KNITTIN	DR	05/25/94
LOS ANGELES	INDIA	COTTON	36594	KUNJA KNITTIN	DR	05/25/94
LOS ANGELES	INDIA	COTTON	33397	KUNJA KNITTIN	DR	06/01/94
LONG BEACH	INDIA	COTTON COMBED KNITT	39181	KUNJA KNITTIN	DR	10/05/94
LONG BEACH	INDIA	COTTON/POLY CP KNIT	39131	KUNJA KNITTIN	DR	09/28/94
LONG BEACH	INDIA	COTTON COMBED	39131	KUNJA KNITTIN	DR	09/21/94
LONG BEACH	INDIA	COTTON	39131	KUNJA KNITTIN	DR	09/07/94
LONG BEACH	INDIA	COTTON COMBED	39131	KUNJA KNITTIN	DR	08/24/94
LONG BEACH	INDIA	COTTON COMBED KNITT	39131	KUNJA KNITTIN	DR	08/10/94
			1,301,869			
LONG BEACH	INDONESIA	POLY/COTTON KNITTIN	37974	KUNJA KNITTIN	DR	10/26/94
			37,974			
MIAMI	ISRAEL	THREAD	3631	GRUPO FOLLAZE	COST	02/17/93
MIAMI	ISRAEL	THREAD	13102	RIEGOS MODERN	COST	02/17/93
			16,733			
MIAMI	JAPAN	MISC	35639	KUNJA KNITTIN	DR	03/24/93
MIAMI	JAPAN	THREAD	0	SP	HOND	04/21/93
MIAMI	JAPAN	THREAD POLYESTER	0	PRIMA IND	HOND	04/21/93
			35,639			
MIAMI	MACAU	THREAD	0	STRONG PROGRE	DR	03/17/93
MIAMI	MACAU	THREAD	0	STRONG PROGRE	HOND	06/30/93
MIAMI	MACAU	THREAD	0	STRONG PROGRE	HOND	09/22/93
MIAMI	MACAU	THREAD	0	STRONG PROGRE	HOND	04/28/93
MIAMI	MACAU	THREAD	0	STRONG PROGRE	HOND	04/21/93
MIAMI	MACAU	THREAD	0	STRONG PROGRE	DR	06/09/93
			0			
NEW YORK	PAKISTAN	COTTON CARDED	36375	KUNJA KNITTIN	DR	11/17/93
LOS ANGELES	PAKISTAN	COTTON	71000	MFRS TEXTILES	DR	04/07/93
LOS ANGELES	PAKISTAN	COTTON	73000	KUNJA KNITTIN	DR	04/07/93
LOS ANGELES	PAKISTAN	COTTON	36221	M GONZALEZ	DR	04/07/93
LOS ANGELES	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	02/17/93
LOS ANGELES	PAKISTAN	COTTON	71296	KUNJA KNITTIN	DR	10/13/93
LOS ANGELES	PAKISTAN	COTTON	160945	KUNJA KNITTIN	DR	03/24/93
NEW YORK	PAKISTAN	COTTON CARDED WAXED	36375	KUNJA KNITTIN	DR	09/15/93
NEW YORK	PAKISTAN	COTTON CARDED WAXED	36375	KUNJA KNITTIN	DR	09/15/93
MIAMI	PAKISTAN	COTTON WAXED	36230	AGENCIAS ROMA	DR	09/15/93
LOS ANGELES	PAKISTAN	COTTON	35203	MFRS TEXTILES	DR	06/02/93
LOS ANGELES	PAKISTAN	COTTON	35648	KUNJA KNITTIN	DR	10/27/93
LOS ANGELES	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	07/28/93
LOS ANGELES	PAKISTAN	COTTON	109127	KUNJA KNITTNG	DR	02/03/93

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PORT	ORIGIN	TYPE	POUNDS	IMPORTER	DESTINATN	DATE
NEW YORK	PAKISTAN	COTTON CARDED	16534	ALMACEN & FAB	COST	02/24/93
NEW YORK	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	09/29/93
LOS ANGELES	PAKISTAN	COTTON	36373	SEKWANG IND	GUAT	12/29/93
LONG BEACH	PAKISTAN	COTTON	18368	GONZALEZ	DR	01/12/94
MIAMI	PAKISTAN	COTTON WAXED KNITTI	71296	KUNJA KNITTIN	DR	02/09/94
NEW YORK	PAKISTAN	COTTON CARDED	36375	KUNJA KNITTIN	DR	03/09/94
MIAMI	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	03/09/94
MIAMI	PAKISTAN	COTTON CARDED	72750	KUNJA KNITTIN	DR	03/09/94
MIAMI	PAKISTAN	COTTON CARDED	71296	KUNJA KNITTIN	DR	03/16/94
LONG BEACH	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	04/06/94
LOS ANGELES	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	04/20/94
LOS ANGELES	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	05/18/94
LOS ANGELES	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	06/01/94
NEW YORK	PAKISTAN	COTTON/POLY COMBED	36375	KUNJA KNITTIN	DR	11/09/94
NEW YORK	PAKISTAN	COTTON	36375	KUNJA KNITTIN	DR	11/09/94
LONG BEACH	PAKISTAN	COTTON	66000	TXT CENTRO AM	COST	11/02/94
LONG BEACH	PAKISTAN	COTTON	32936	TX. CENTRO AM	COST	09/21/94
LONG BEACH	PAKISTAN	COTTON	32936	TX. CENTRO AM	COST	09/21/94
LONG BEACH	PAKISTAN	COTTON	32936	TX. CENTRO AM	COST	09/21/94
NEW YORK	PAKISTAN	POLY/COTTON COMBED	36375	KUNJA KNITTIN	DR	11/16/94
NEW YORK	PAKISTAN	COTTON CARDED KNITT	36375	KUNJA KNITTIN	DR	11/16/94
MIAMI	PAKISTAN	COTTON CARDED	109127	KUNJA KNITTIN	DR	08/24/94
			1,771,222			
PT EVERGLADES	PORTUGAL	COTTON	66266	ARDMORE	DR	10/20/93
			66,266			
LONG BEACH	PRC	THREAD	0	TAN WAY	DR	06/23/93
LONG BEACH	PRC	THREAD ON CONES	0	YA MEI ENTERP	DR	06/23/93
LONG BEACH	PRC	THREAD	40079	YA MEI ENTERP	DR	03/17/93
LONG BEACH	PRC	THREAD	0	TAN WAY	DR	06/30/93
LONG BEACH	PRC	THREAD COTTON/POLY	32652	MEDPLY	COST	09/01/93
LONG BEACH	PRC	COTTON	17535	EXCELLMODES E	GUAT	03/31/93
LONG BEACH	PRC	THREAD	0	YA MEI ENTERP	DR	09/15/93
LONG BEACH	PRC	COTTON DYED	113065	CAMOSA	GUAT	03/10/93
LONG BEACH	PRC	COTTON DYED	88294	CAMOSA	GUAT	03/10/93
LONG BEACH	PRC	THREAD	40079	YA MEI ENTERP	DR	06/09/93
LONG BEACH	PRC	COTTON DYED	28483	ZEP CARIBBEAN	DR	03/09/94
LONG BEACH	PRC	COTTON	31481	LEP CARIBBEAN	DR	03/30/94
LONG BEACH	PRC	COTTON	48214	SASTEX	DR	04/20/94
TACOMA	PRC	POLYESTER SPUN	33002	LLOYDS BANK	HOND	11/09/94
MIAMI	PRC	THREAD POLY SPUN	17601	EAST ONE	HOND	11/30/94
MIAMI	PRC	POLY SPUN	17607	EAST ONE	HOND	08/31/94
			508,092			
LONG BEACH	ROK	THREAD	956	IND TEXSEDA	COST	06/16/93
LONG BEACH	ROK	COTTON	22046	TAE YOUNG	GUAT	06/16/93
LONG BEACH	ROK	COTTON	0	TAE YOUNG	GUAT	06/16/93
LONG BEACH	ROK	COTTON COMBED	25207	WONCHANG HOND	HOND	06/16/93
CHARLESTON	ROK	ACRYLIC SPUN	17289	KOCOMERICA	COST	06/23/93

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PORT	ORIGIN	TYPE	POUNDS	IMPORTER	DESTINATN	DATE
LONG BEACH	ROK	COTTON COMBED DYED	33069	TAE YOUNG	GUAT	06/23/93
LONG BEACH	ROK	ACRYLIC DYED	5628	WOO CHANG	DR	06/23/93
LONG BEACH	ROK	COTTON	23902	WONCHANG HOND	HOND	04/14/93
LONG BEACH	ROK	COTTON	30864	HYUP SUNG	HOND	04/14/93
LONG BEACH	ROK	MISC	444000	KUNJA KNITTIN	DR	04/14/93
LONG BEACH	ROK	MISC	115000	GALAXY IND	HOND	04/14/93
LONG BEACH	ROK	NYLON/ACETATE	29000	MODESTO LOPEZ	DR	04/14/93
MIAMI	ROK	COTTON WAXED	26100	WONCHANG HOND	HOND	04/14/93
MIAMI	ROK	FIL POLYURETHANE	15057	KOCOMERICA	COST	03/17/93
MIAMI	ROK	ACRYLIC SPUN DYED	24967	KOCOMERICA	COST	03/17/93
MIAMI	ROK	MISC	135000	KUNJA KNITTIN	DR	03/17/93
LONG BEACH	ROK	MISC	35000	GALAXY IND	HOND	05/12/93
LONG BEACH	ROK	COTTON CARDED	12083	TAE YOUNG	GUAT	05/12/93
LONG BEACH	ROK	MISC	76000	KUNJA KNITTIN	DR	05/12/93
LONG BEACH	ROK	ACRYLIC DYED	26400	WOO CHANG DOM	DR	05/12/93
LONG BEACH	ROK	MISC	57318	KUNJA KNITTIN	DR	05/12/93
LONG BEACH	ROK	MISC	831	GALAXY IND	HOND	05/12/93
LONG BEACH	ROK	MISC	72518	KUNJA KNITTIN	DR	05/12/93
LONG BEACH	ROK	COTTON CARDED	14259	YOUNG COLLECT	DR	05/12/93
LONG BEACH	ROK	ACRYLIC/NYLON SPUN	26455	YOUNG COLLECT	DR	11/17/93
LONG BEACH	ROK	COTTON CARDED SPUN	48501	TAE YOUNG	GUAT	11/17/93
MIAMI	ROK	MISC	150000	KUNJA KNITTIN	DR	04/07/93
BALTIMORE	ROK	COTTON CARDED	20068	KOCOMERICA	COST	02/17/93
BALTIMORE	ROK	COTTON COMBED	13227	KOCOMERICA	COST	02/17/93
BALTIMORE	ROK	COTTON CARDED	11463	KOCOMERICA	COST	02/17/93
LONG BEACH	ROK	MISC	95000	KUNJA KNITTIN	DR	02/17/93
MIAMI	ROK	COTTON COMBED	28179	WONCHANG HOND	HOND	09/22/93
LONG BEACH	ROK	POLY/COTTON SPUN	41887	TAE YOUNG	GUAT	10/13/93
LONG BEACH	ROK	NYLON ANTRON	9446	BIBONG APPARE	DR	10/13/93
MIAMI	ROK	COTTON COMBED SPUN	12123	WONCHANG HOND	HOND	10/13/93
LONG BEACH	ROK	THREAD	392	EUNSUNG	GUAT	03/24/93
LONG BEACH	ROK	MISC	35639	KUNJA KNITTIN	DR	03/24/93
LONG BEACH	ROK	COTTON	33540	MODAS J S	GUAT	03/24/93
LONG BEACH	ROK	ACRYLIC SPUN DYED	26455	KOCOMERICA	COST	03/24/93
MIAMI	ROK	ACRYLIC DYED	21874	WOO CHANG DOM	DR	03/24/93
MIAMI	ROK	MISC	35639	KUNJA KNITTIN	DR	03/24/93
CHARLESTON	ROK	ACRYLIC/COTTON	16609	KOCOMERICA	COST	07/21/93
MIAMI	ROK	COTTON COMBED	23117	WONCHANG HOND	HOND	09/01/93
LONG BEACH	ROK	THREAD POLYESTER	7722	IND TEXSEDA	COST	02/10/93
LONG BEACH	ROK	MISC	128963	KUNJA KNITTIN	DR	02/10/93
LONG BEACH	ROK	MISC	3306	GALAXY IND	HOND	04/28/93
LONG BEACH	ROK	MISC	28902	GALAXY IND	HOND	04/28/93
LONG BEACH	ROK	COTTON CARDED	18236	KIMI	HOND	04/28/93
LONG BEACH	ROK	COTTON	23725	WONCHANG HOND	HOND	05/26/93
LONG BEACH	ROK	COTTON	24283	WONCHANG HOND	HOND	05/26/93
LONG BEACH	ROK	COTTON CARDED	17195	ZONAS IND	HOND	05/26/93
LONG BEACH	ROK	MISC	78000	KUNJA KNITTIN	DR	05/26/93
MIAMI	ROK	COTTON COMBED	23900	WONCHANG HOND	HOND	05/26/93
LONG BEACH	ROK	ACRYLIC NYLON	50704	YOUNG COLLECT	DR	10/20/93
LONG BEACH	ROK	MISC	50705	TAE YOUNG	GUAT	10/20/93
LONG BEACH	ROK	COTTON CARDED DYED	35273	TAE YOUNG	GUAT	07/07/93
LONG BEACH	ROK	COTTON CARDED DYED	7716	TAE YOUNG	GUAT	07/07/93
LONG BEACH	ROK	MISC	60000	GALAXY IND	HOND	03/31/93

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PORT	ORIGIN	TYPE	POUNDS	IMPORTER	DESTINATN	DATE
MIAMI	ROK	COTTON COMBED	33519	WONCHANG HOND	HOND	03/31/93
LONG BEACH	ROK	COTTON DYED	44092	TAE YOUNG	GUAT	09/15/93
MIAMI	ROK	COTTON COMBED	9552	WONCHANG HOND	HOND	09/15/93
MIAMI	ROK	COTTON	26693	WONCHANG HOND	HOND	06/02/93
MIAMI	ROK	MISC SPUN	37420	WONCHANG HOND	HOND	06/02/93
LONG BEACH	ROK	MISC	170000	KUNJA KNITTIN	DR	04/21/93
LONG BEACH	ROK	MISC	34000	GALAXY IND	HOND	04/21/93
MIAMI	ROK	COTTON COMBED	12571	WONCHANG HOND	HOND	04/21/93
LONG BEACH	ROK	THREAD POLYESTER	9537	IND TEXSEDA	COST	03/10/93
LONG BEACH	ROK	COTTON CARDED	35273	JS MODAS	GUAT	03/10/93
LONG BEACH	ROK	MISC	56085	GALAXY IND	HOND	03/10/93
MIAMI	ROK	ACRYLIC DYED	24984	WOO CHANG DOM	DR	03/10/93
MIAMI	ROK	MISC	85000	KUNJA KNITTIN	DR	03/10/93
LONG BEACH	ROK	COTTON CARDED DYED	79364	T A YOUNG	GUAT	10/06/93
LONG BEACH	ROK	COTTON	79364	TAE YOUNG	GUAT	10/06/93
LONG BEACH	ROK	COTTON	36375	GOLDENTEX	HOND	10/06/93
MIAMI	ROK	COTTON CARDED SPUN	9978	WONCHANG HOND	HOND	10/06/93
MIAMI	ROK	COTTON COMBED SPUN	12008	WONCHANG HOND	HOND	10/06/93
MIAMI	ROK	MISC	35693	KUNJA KNITTIN	DR	07/28/93
LONG BEACH	ROK	MISC	81221	KUNJA KNITTIN	DR	05/19/93
LONG BEACH	ROK	ACRYLIC DYED	23099	WOO CHANG ENT	DR	05/19/93
LONG BEACH	ROK	COTTON	4594	KOCOMERICA	COST	02/24/93
LONG BEACH	ROK	COTTON	6957	KOCOMERICA	COST	02/24/93
LONG BEACH	ROK	COTTON	21000	KOCOMERICA	COST	02/24/93
MIAMI	ROK	FIL POLYURETHANE	15057	KOCOMERICA	COST	06/09/93
MIAMI	ROK	ACRYLIC SPUN DYED	24967	KOCOMERICA	COST	06/09/93
MIAMI	ROK	MISC	135000	KUNJA KNITTIN	DR	06/09/93
MIAMI	ROK	COTTON COMBED	26949	WONCHANG HOND	HOND	09/29/93
LONG BEACH	ROK	ACRYLIC/NYLON	22266	YOUNG COLLECT	DR	12/29/93
LONG BEACH	ROK	COTTON	38121	IND RCA	GUAT	12/29/93
MIAMI	ROK	COTTON COMBED SPUN	24063	WONCHANG HOND	HOND	01/12/94
MIAMI	ROK	MISC BLENDED SPUN	13873	WONCHANG HOND	HOND	01/12/94
MIAMI	ROK	COTTON CARDED SPUN	12742	WONCHANG HOND	HOND	01/12/94
LONG BEACH	ROK	COTTON CARDED GREY	45877	MULTISERVICIO	GUAT	02/09/94
MIAMI	ROK	COTTON	53805	WONCHANG HOND	HOND	02/09/94
LONG BEACH	ROK	COTTON COMBED	16093	KIMI	HOND	02/16/94
MIAMI	ROK	COTTON COMBED RS	30017	WONCHANG HOND	HOND	02/16/94
LONG BEACH	ROK	COTTON	17195	KIMI	HOND	03/02/94
LONG BEACH	ROK	COTTON CARDED	68342	MULTISERVICES	GUAT	03/09/94
LONG BEACH	ROK	MISC	54011	MULTISERVICIO	GUAT	03/16/94
LONG BEACH	ROK	COTTON COMBED	6724	KIMI	HOND	03/16/94
MIAMI	ROK	COTTON COMBED RS	119861	WONCHANG HOND	HOND	03/16/94
MIAMI	ROK	COTTON COMBED	58547	WONCHANG HOND	HOND	03/30/94
MIAMI	ROK	COTTON CARDED	80689	WONCHANG HOND	HOND	04/06/94
LONG BEACH	ROK	MISC	23148	KUNJA KNITTIN	DR	04/20/94
MIAMI	ROK	COTTON COMBED SPUN	93502	WONCHANG HOND	HOND	05/04/94
MIAMI	ROK	COTTON CARDED SPUN	42024	WONCHANG HOND	HOND	05/04/94
MIAMI	ROK	COTTON CARDED SPUN	39391	WONCHANG HOND	HOND	06/01/94
LONG BEACH	ROK	POLYESTER SPUN	6060	SAE HAN TEXT	GUAT	11/09/94
LONG BEACH	ROK	COTTON COMBED	29762	KIMI	HOND	11/09/94
LONG BEACH	ROK	MISC	27667	GALAXY IND.	HOND	11/09/94
MIAMI	ROK	COTTON CARDED	41422	WONCHANG HOND	HOND	11/09/94
LONG BEACH	ROK	MISC	23999	GALAXY IND.	HOND	11/02/94

02/22/95

PORT	ORIGIN	TYPE	POUNDS	IMPORTER	DESTINATN	DATE
LONG BEACH	ROK	COTTON COMBED KNITT	29982	KIMI	HOND	11/02/94
MIAMI	ROK	COTTON CARDED	24140	WONCHANG HOND	HOND	10/26/94
LONG BEACH	ROK	MISC	29122	KUNJA KNITTIN	DR	10/19/94
LONG BEACH	ROK	MISC	64266	GALAXY IND	HOND	10/19/94
MIAMI	ROK	COTTON COMBED	38862	WONCHANG HOND	HOND	10/12/94
LONG BEACH	ROK	COTTON CARDED	63928	TAE YOUNG	GUAT	09/21/94
LONG BEACH	ROK	MISC	12125	KUNJA KNITTIN	DR	09/07/94
LONG BEACH	ROK	COTTON COMBED	22597	KIMI	HOND	11/23/94
LONG BEACH	ROK	COTTON CARDED	26455	TAE YOUNG	GUAT	11/16/94
LONG BEACH	ROK	COTTON COMBED	24471	KIMI	HOND	11/16/94
LONG BEACH	ROK	COTTON	8659	GALAXY IND	HOND	11/16/94
MIAMI	ROK	COTTON CARDED	50273	WONCHANG HOND	HOND	11/16/94
MIAMI	ROK	COTTON COMBED	23736	WONCHANG HOND	HOND	11/16/94
LONG BEACH	ROK	MISC KNITTING	41000	KUNJA KNITTIN	DR	08/31/94
MIAMI	ROK	COTTON COMBED	63000	WONCHANG HOND	HOND	08/31/94
LONG BEACH	ROK	MISC KNITTING	8796	KUNJA KNITTIN	DR	08/17/94
MIAMI	ROK	COTTON COMBED	96000	WONCHANG HOND	HOND	08/10/94
LONG BEACH	ROK	COTTON CARDED	30864	TAE YOUNG	GUAT	01/25/95
LONG BEACH	ROK	COTTON COMBED	13227	EUNSUNG	GUAT	01/25/95
LONG BEACH	ROK	MISC	10119	GALAXY IND	HOND	01/25/95
LONG BEACH	ROK	COTTON	24250	EUNSUNG	GUAT	01/18/95
LONG BEACH	ROK	MISC	16272	GALAXY IND	HOND	01/11/95
			5,332,435			
LONG BEACH	TAIWAN	ACRYLIC LOOP HANG T	40167	UNION D MFG T	DR	06/23/93
LONG BEACH	TAIWAN	ACRYLIC	41997	UNION D MFG T	DR	03/17/93
LONG BEACH	TAIWAN	ACRYLIC SPUN	35187	YOUNG COLLECT	DR	05/12/93
LONG BEACH	TAIWAN	COTTON/POLY	22857	HAN CHANG TEX	DR	11/17/93
LONG BEACH	TAIWAN	MISC	36640	UNION DE MFG	DR	10/13/93
LONG BEACH	TAIWAN	ACRYLIC	36508	UNION D MFG	DR	04/28/93
LONG BEACH	TAIWAN	ACRYLIC SPUN	31556	YOUNG COLLECT	DR	05/26/93
LONG BEACH	TAIWAN	ACRYLIC	39241	UNION D MFG T	DR	05/26/93
LONG BEACH	TAIWAN	ACRYLIC NYLON SPUN	30643	YOUNG COLLECT	DR	11/03/93
LONG BEACH	TAIWAN	MISC	20061	GALAXY IND	HOND	07/07/93
LONG BEACH	TAIWAN	MISC	21880	TRAP RAIN	DR	03/31/93
MIAMI	TAIWAN	POLYESTER	43077	TEXTILES RIO	HOND	06/02/93
LONG BEACH	TAIWAN	ACRYLIC	31675	UNION D MFG	DR	04/21/93
LONG BEACH	TAIWAN	MISC	24678	TRAP RAIN	DR	02/24/93
LONG BEACH	TAIWAN	ACRYLIC	41997	UNION D MFG T	DR	06/09/93
LONG BEACH	TAIWAN	ACRYLIC/NYLON	26896	YOUNG COLLECT	DR	12/15/93
LONG BEACH	TAIWAN	ACRYLIC/NYLON	26896	YOUNG COLLECT	DR	12/15/93
LONG BEACH	TAIWAN	POLYESTER TEXTURED	47255	TEXTILES RIO	HOND	01/12/94
LONG BEACH	TAIWAN	POLYESTER TEXTURED	46027	TEXTILES RIO	HOND	04/20/94
LONG BEACH	TAIWAN	COTTON	26455	TAE YOUNG	GUAT	09/28/94
LONG BEACH	TAIWAN	MISC KNITTING	10416	KUNJA KNITTIN	DR	09/28/94
LONG BEACH	TAIWAN	COTTON COMBED	26896	KIMI	HOND	09/28/94
LONG BEACH	TAIWAN	MISC	18459	KON WAH TEXT.	COST	01/25/95
			727,464			
PONCE, PR	THAILAND	THREAD POLY SPUN	16508	HILOS	DR	10/26/94
MIAMI	THAILAND	POLY/COTTON COMBED	1512	INTERMODA	HOND	08/31/94

02/22/95

PORT	ORIGIN	TYPE	POUNDS	IMPORTER	DESTINATN	DATE
			18,020			
EVERGLADLES	URGUGUAY	COTTON/WOOL	3459	IND GODBERG	COST	09/22/93
			3,459			
PT EVERGLADES	WEST GERMANY	COTTON	0	EDIFICIO QUEE	HOND	10/13/93
PT EVERGLADES	WEST GERMANY	MISC	0	CROPA	HOND	12/08/93
PT EVERGLADES	WEST GERMANY	MISC	0	SCHENKERS INT	GUAT	12/08/93
PT EVERGLADES	WEST GERMANY	MISC	0	CROPA	HOND	01/26/94
PT EVERGLADES	WEST GERMANY	MISC	0	SCHENKERS INT	GUAT	03/09/94
PT EVERGLADES	WEST GERMANY	MISC	0	SCHENKERS INT	GUAT	05/04/94
			0			
		GRAND TOTAL	12,669,468			

Testimony of David Wight
President of Amoco Trinidad Oil Company
Port of Spain, Trinidad
Submitted to the Subcommittee on Trade
(regarding HR 553)
of the House Committee on Ways and Means
February 1995

My name is David Wight. I am president of Amoco Trinidad Oil Company, a subsidiary of Amoco Corporation, the leading marketer of gasoline in the United States and a leading producer of oil and natural gas resources worldwide. Amoco is both the largest producer of natural gas and the largest holder of natural gas reserves in North America.

Amoco is the largest company working in Trinidad and Tobago today, employing nearly 450 persons and producing more than 350 million cubic feet of natural gas and 60,000 barrels of oil per day. Amoco has found the business climate in Trinidad to be very conducive to the formation of long-term relationships, as evidenced by our nearly 30-year history of doing business there.

In the early days of our business ventures in offshore Trinidad and Tobago, the play was oil. Our production eventually peaked at 150,000 b/d from our fields off Trinidad, production that benefited my company, the people of Trinidad, and the myriad of other companies who supply materials and services to keep this operation going. Throughout, we have found the business climate and political climate stable and conducive to a growing business.

Today, the play is shifting from oil to gas as the country's oil reserves diminish and gas reserves continue to grow. Amoco is adapting our operation to continue successful business operations there, gearing up to produce more natural gas. Even as our primary business is changing from the production of oil to the production of gas, the business climate is also adapting to retain existing businesses and attract new companies to Trinidad and Tobago.

Because of that climate, Amoco, British Gas, Cabot, and the National Gas Company of Trinidad and Tobago are in the early stages of jointly developing a liquefied natural gas plant there. A successful conclusion to feasibility studies that are now underway could see additional investments of hundreds of millions of dollars in Trinidad.

In addition, numerous other companies are investing in Trinidad, including Farmland, Nucor, Arcadian, Enron and another Amoco subsidiary company -- Amoco Power Resources Company (APRC). APRC recently purchased a stake in the Trinidad and Tobago Electric Company along with our partner Southern Electric Inc., of Atlanta.

Obviously, Trinidad and Tobago maintains a positive business climate. The US is its largest investment partner, a relationship that benefits both countries. In the 1990s, for example, American companies have invested half a billion dollars a year in the Trinidad economy, according to the US Department of Commerce. This investment can be expected to grow even more under an expanded NAFTA trade agreement, as the cost of doing business becomes equal for Caribbean countries and their competitors, such as Mexico.

Trinidad has taken proactive steps to foster a stable economy. The Trinidad currency has floated freely in the market, and as such is stable against foreign currencies. In 1994, its balance of payments was about $150 million -- on the positive side. Trinidad's exports to the United States include about 80,000 b/d of crude oil and petroleum products, as well as fully one-third of the 3 million tons of ammonia the United States imports annually.

Free trade status, as generally outlined in HR 553, can further benefit the two countries by creating valuable jobs in the energy and trade sectors, as well as related industries that support those core businesses. Small and medium companies, like their larger counterparts, must make capital allocation decisions based on economics and "scarce" capital. In Trinidad and Tobago, new business opportunities will be created over the next few years, as the major companies represented on the island expand their operations or new companies discover its advantageous climate.

But companies interested in doing business there must weigh the cost of doing business in Trinidad versus other countries. Herein lies the benefit of NAFTA parity for Caribbean nations such as Trinidad and concurrently for the United States. It would no doubt be beneficial for the United States -- through expanded employment, increased demand for raw materials, etc. -- to create an even playing field for US companies through NAFTA accession. We know the business climate is stable and conducive and that US companies are already there and are in need of high quality, competitive-cost suppliers.

In March, the city of Houston will host a trade mission to Trinidad and Tobago. This overture marks an additional effort by the city of Houston to expand business relationships in the island nation in areas outside the oil sector. Obviously, Houston's leaders are aware of the positive business climate there and believe additional opportunities exist for US companies. Amoco has been working closely with the organizers of that visit to identify new opportunities for Houston companies to do business in Trinidad.

As our business grows, so do the fortunes of smaller companies who support us. Like Amoco, those support companies will make expansion decisions based on their available investment capital. Extending NAFTA status to Trinidad would no doubt influence the investment direction of these scarce resources to the benefit of the US as well as the people of Trinidad and Tobago.

Thank you for the opportunity to present my company's views on this important issue. It is our hope that HR 553 or some other suitable vehicle will indeed extend the benefits of NAFTA beyond its current scope, to include our deserving trade partners in the Caribbean.

AACCLA
ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA
1615 H Street, N.W. • Washington, D.C. 20062-2000 • (202) 463-5485 • Fax: (202) 463-3126

STATEMENT OF
DAVID E. IVY
PRESIDENT
ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE
IN LATIN AMERICA (AACCLA)
FAVORING PASSAGE OF
THE CARIBBEAN BASIN TRADE SECURITY ACT
February 9, 1995

The Association of American Chambers of Commerce in Latin America (AACCLA) strongly supports the Caribbean Basin Security Trade Act (HR 553) as proposed by Trade Subcommittee Chairman Phil Crane and cosponsored by ranking Ways and Means Committee member Sam Gibbons and Congressmen Clay Shaw and Charles Rangel.

AACCLA is well placed to reflect the interests of American and regional business in the Caribbean basin and in terms of regional integration generally. AACCLA is comprised of 22 American Chambers of Commerce in 20 Latin American and Caribbean nations, and represents some 16,500 members. Like the Amchams throughout the hemisphere, each of the eight American Chambers located in the Caribbean Basin consists both of American companies doing business and producing in the region and local businessmen with interests in expanding contacts with the United States. There is no other group more qualified to speak for the diverse private sector interests involved in U.S. - Caribbean economic relations.

AACCLA urges the prompt passage of HR 553 by the 104th Congress. The bill is necessary to avoid irreparable and unintended harm arising from enactment of NAFTA to businesses and workers in the U.S. who rely on coproduction arrangements with the Caribbean Basin. This is because many important exports, including non-traditional exports, are excluded from CBI duty free benefits but are subject to NAFTA preferences, giving investors a strong incentive to shift production to Mexico. Industrial dislocation is already occurring in some sectors.

The issue is particularly pressing today as a result of the Mexican peso devaluation, which will magnify the competitive disadvantage to the region initially caused by the tariff advantages accruing to Mexico from the NAFTA.

Apparel is among the sectors most adversely impacted. Over 60 percent of Mexican imports currently enter the United States duty and quota free and the remaining 40 percent will have their duties phased out by the year 2000. This exerts a powerful attraction on producers currently operating in the Caribbean Basin and subject to full duties and, in many cases, quotas as well.

It is not surprising that for the first nine months following NAFTA enactment in January 1994, growth in apparel imports from the Caribbean slowed from rates ranging between twenty and thirty percent to single digit growth rates. During the same period, imports from Mexico soared by more than 45 percent. AACCLA member chambers in the region inform us that this trend will intensify if NAFTA parity is not enacted in the near future.

A major reason for seeking to preserve the Caribbean basin-U.S. trading relationship is that the chief beneficiary is the United States. Despite the generous market access provided to the region by CBI I and CBI II, or perhaps as an offshoot of that access, the American trade surplus with the Basin has increased significantly over the past few years. On a per capita basis, the American surplus with the Caribbean as a region has consistently outpaced its surplus with any other country.

The Crane bill differs from the Clinton Administration's Interim Trade Program in a number of ways. AACCLA favors the strongest possible measures to counter investment diversion arising from NAFTA and to help the region prepare for FTAA.

H.R. 553 covers all manufactured products currently excluded from the CBI. Most U.S. imports of these excluded products come from companies based in the Far East, including China, and the Indian Subcontinent, with the Caribbean Basin only supplying a small percentage of these goods. Due in part to this extensive import competition from Asia, there is currently little or no U.S. production of these goods. Hence, any measure to promote CBI production will come at the expense of these other regions, not the United States. In fact, to the degree Caribbean production displaces Asian exports, American manufacturers and workers are liable to benefit. Goods from the Caribbean Basin are much more likely to contain American components and to be produced using American machinery. Furthermore, many American companies take advantage of Caribbean production to complement their higher valued lines produced in the United States and successfully meet Asian competition.

The bill will urge CBI beneficiaries in their efforts to prepare for NAFTA by continuing to liberalize and reform their own economies. Provisions in the bill require meetings between the USTR and regional trade ministers, and reports on economic development, and market oriented reforms in the region all of which will contribute to maintaining momentum toward NAFTA accession. They will focus attention on the need for the United States to integrate Central America and the Caribbean into NAFTA as part of the effort to fulfill the Miami summit's objective of completion of negotiations for a Free Trade Agreement of the Americas (FTAA) by the year 2005, if not earlier.

The only aspect of the bill which we favor modifying would be to make the program permanent, expiring only when countries are ready to graduate to NAFTA accession. We strongly endorse and support the intent of the bill to promote NAFTA accession for the beneficiaries at the end of a six year period. However, despite the best intentions on the part of the U.S. Administration and regional governments, no one can be certain that negotiations would take place and be approved by that time. Timing should be studied carefully to ensure that it fits in with the actual pace of integration. A permanent program would reduce investor uncertainty and the possibility of trade distortions caused by an impending "deadline."

The United States is indeed fortunate in that every neighboring CBI beneficiary country is now peaceful, ruled by a democratic government and an advocate of market economies and continued reform. There is deepening cooperation in matters of common concern ranging from pursuing common goals in international trade to controlling the illicit movement of narcotics. Passage of the Caribbean Basin Security Trade Act will contribute to the maintenance and even acceleration of these trends.

As Congressman Crane so forthrightly stated in announcing the hearing "If the consequences of NAFTA on the Caribbean are not addressed, the resulting economic instability on the region threatens the future of democratic governments there." Prompt enactment of HR 553 would be the best way to avoid this problem and safeguard democratic governments in the region, while promoting the interests of U.S. companies and workers benefiting from shared production and trade with this region.

CARTER FOOTWEAR, INC. 1107 N. Washington St. / Wilkes-Barre, PA 18705 / 717 824-2434

February 24, 1995

The Honorable Philip M. Crane
Chairman, Trade Subcommittee
House Ways and Means Committee
1136 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Crane:

Carter Footwear wishes to commend you and the Trade Subcommittee for your continued support for the CBI program. H.R. 553 is an important step towards assuring that the Caribbean is not economically harmed by the NAFTA.

As the Subcommittee considers this legislation, we want to emphasize the importance of maintaining all existing CBI benefits during the period that NAFTA-equivalent benefits are phased in. This is particularly true with regard to footwear.

H.R. 553 would result in little or no benefit for most footwear produced in the Caribbean for at least 10 to 15 years. However, under a provision of the current program, finished footwear from the Caribbean can be imported duty-free, subject to strict rules of origin requiring that **all** materials and components be of U.S. origin. It is vital to many U.S. footwear producers that these benefits be continued unchanged.

Carter Footwear, located in Wilkes-Barre, Pennsylvania, produces affordable, casual "sneakers." Over the past decade, our industry has been besieged by a flood of imports from the Far East -- primarily China -- to the point that it became almost impossible to compete. As our market share dropped, factories were closed and jobs in the U.S. lost. This is an unfortunate fact of life for our industry.

As Carter Footwear struggled to survive in this environment, the CBI program proved to be a critical lifeline, enabling us to remain viable in a market dominated by low-priced Chinese imports. Today, although the CBI has given us the tools to compete, it is still an uphill climb as we fight to regain the market share lost to Chinese imports.

Unlike imports from China, footwear imports from the Caribbean have a positive impact on U.S. jobs:

- Because the Caribbean-made footwear must be made entirely of U.S. materials, it creates jobs in industries that supply the footwear industry. Foam insoles, laces, eyelets, thread, rubber, cloth, stiffening compounds -- all must be produced in the U.S.

- For Carter, the jobs in our Wilkes-Barre, Pennsylvania plant are directly dependent on and necessary to the Caribbean production. There is a vital synergy between these two operations, with the people in Wilkes-Barre preparing the materials, cutting the fabrics to shape, mixing the rubber formulations and a number of other essential functions. As Carter Footwear's production levels increase in the Caribbean, it will have a corresponding benefit to the Wilkes-Barre operation.

By contrast, if this same footwear production were to be performed in China, zero U.S. jobs would be created since the materials and components would be sourced from and processed in that region.

Statement for The Record - H.R. 553
Carter Footwear, Inc.
February 24, 1995

During the February 10 hearing, the Subcommittee heard testimony from the Rubber and Plastic Footwear Manufacturers Association, which criticized the CBI program's footwear benefits. The witness provided an array of figures to demonstrate that footwear imports from the Caribbean have increased substantially in recent years. That is true. In 1993, the total footwear from the Caribbean was 4,555,000 pairs -- compared to 2,593,000 the previous year.

What is missing from the witness' testimony, however, is the fact that CBI imports are dwarfed by the imports from China -- which totalled 176,266,000 pairs of shoes. In reality, footwear from the Caribbean represented a mere 2% of the total footwear imports into the U.S. in 1993. Chinese imports, on the other hand, constituted 69% of the footwear imports. And this trend is continuing. An International Trade Commission report issued this month reported that imports from China increased in 1994, with footwear identified as one of two products that experienced the greatest increase in imports.

The Rubber and Footwear Manufacturers' concern about the U.S. industry is a valid one, but they are looking in the wrong direction for the culprit. The Rubber and Plastic Manufacturers' unrelenting and singleminded focus on the Caribbean clearly seems out of proportion. Perhaps this orientation can be better understood, however, when you consider that some of the Association's largest members are themselves significant importers from the Far East. For example, it is our understanding that Converse may import from the Far East as much as five times the number of shoes that they manufacture in the U.S.

This is not a simple case of domestic manufacturers fighting against offshore producers. In many respects, this is about U.S. companies who import from the Far East trying to protect their competitive position against other U.S. companies who are involved in the Caribbean. While it may have more appeal for opponents of the CBI to characterize it in other terms, this is the underlying reality.

The Section 222 benefits in the Caribbean have been in effect since 1990. Our company and others have made significant investment decisions based on this provision of the CBI program. I am sure this Subcommittee recognizes that it would be counterproductive to the goals of the CBI program, and a serious injustice to companies like Carter, to turn the clock back now.

Again, Carter Footwear appreciates your leadership in supporting the CBI program.

Sincerely,

Howard Gonchar
President

Costa Rican - American Chamber of Commerce ®
Apartado 4946 -1000 San José, C.R. Tel.: 220-2200 Fax (506) 220-2300

The Costa Rican-American Chamber of Commerce (AmCham) position on H.R. 553, The Caribbean Basin Trade Security Act
February 22, 1995

The Costa Rican-American Chamber of Commerce and its members welcome the introduction of H.R. 553, the Caribbean Basin Trade Security Act. We compliment the drafter of this legislation, Congressman Philip Crane and co-sponsors, Reps. Clay Shaw, Sam Gibbons and Charles Rangel for their decision to submit this urgently needed initiative to stem the diversion of trade and investment from Costa Rica and the other CBI nations as a result of NAFTA, particularly in light of the recent peso devaluation.

While AmCham Costa Rica lobbied for the ratification of NAFTA, our support was contingent upon the prompt implementation of an interim program which would enable the CBI region to remain competitive with Mexico. The announcement of the Interim Trade Program by Vice President Al Gore provided a window of opportunity which, to our utter dismay, was abruptly closed when the ITP was excluded from the GATT implementing legislation.

Of the nearly 300 companies which constitute our Chamber, many are U.S. companies which have settled in Costa Rica and have developed strategic alliances and co-production activities. The Caribbean Basin Initiative has been a determining factor in promoting this kind of investment which in turn has been a major factor in the development of Costa Rica's economy.

It is no surprise that since the implementation of NAFTA, many of these companies have postponed plans for expansion, as is the case with Wrangler, Inc. This company held back on a projected expansion of its facilities in Costa Rica as NAFTA was in the negotiation stages in 1992! Since that time the company has opened a 400 operator plant in Mexico. Other companies have curtailed their exports, or shut down altogether.

In July 1993, Costa Rica had 123 sewing/exporting plants. By June of 1994 that number had dropped by 14% to 106 operating/exporting plants. Of the 17 plants that stopped operations, 5 stopped exporting and 12 more closed down their operations completely.

During the first semester of 1994-the first semester of NAFTA implementation-Costa Rica registered its first negative export growth in 10 years. A comparison of the value added figures reveals a drop from the $163.5 million registered during the 12 months ending in June 1993 when compared to the $154.7 million registered during the same period in June 1994-a decrease of 5.38%.

Further complicating this already unlevel playing field is Mexico's peso crisis. Costa Rica's exports will suffer a double negative impact as a result of the devalued peso and NAFTA's superior tariff advantages. In short, the very program which has contributed so much to the social stability and economic growth in the region is now in jeopardy and, without HR 553, headed for disaster.

The "Caribbean Basin Security Act" is consistent with the "Declaration of Principles" signed by the elected Heads of State and Government of the Americas in the recently held Summit of the Americas. The prompt passage of HR 553 will indeed help to safeguard the CBI achievements in Costa Rica and the rest of the region through incentives for economic integration and free trade.

Although AmCham Costa Rica applauds the more generous provisions affored by HR 553, our Chamber strongly recommends that the program be a permanent one, rather than be limited to a 6 year time frame. Conditioning the program to NAFTA accession after 6 years is an admirable and ambitious goal but possibly an unrealistic one, especially for many of the smaller countries in the Caribbean Basin Region.

The Costa Rican American Chamber of Commerce urges the prompt passage and implementation of the Caribbean Basin Trade Security Act by the 104th Congress. As Congressman Sam Gibbons recently remarked, "the time to act is now, before Caribbean countries suffer from the impact of the North American Free Trade Agreement."

Sincerely,

Humberto Pacheco A., M.C.L.
President

[BY PERMISSION OF THE CHAIRMAN]

STATEMENT OF DR. GABRIEL BIGURIA, PRESIDENT OF GUATEMALA'S "NON-TRADITIONAL PRODUCTS EXPORTERS ASSOCIATION", IN SUPPORT OF "H.R. 553", "THE CARIBBEAN BASIN TRADE SECURITY ACT", BEFORE THE TRADE SUBCOMMITTEE OF THE HOUSE WAYS & MEANS COMMITTEE

MY NAME IS GABRIEL BIGURIA AND I AM THE PRESIDENT OF GUATEMALA'S "NON-TRADITIONAL PRODUCTS EXPORTERS ASSOCIATION" COMMONLY KNOWN BY THE ACRONYM GEXPRONT. I APPRECIATE THE OPPORTUNITY TO SUBMIT A WRITTEN STATEMENT IN SUPPORT OF "H.R. 553", "THE CARIBBEAN BASIN TRADE SECURITY ACT", WHICH IS OF PARAMOUNT IMPORTANCE FOR OUR SECTOR TO MAINTAIN ITS COMPETITIVENESS IN LIGHT OF NAFTA'S IMPACT.

GUATEMALA'S "NON-TRADITIONAL PRODUCTS EXPORTERS ASSOCIATION", REFERED TO FROM NOW ON AS GEXPRONT, WAS FOUNDED IN 1982 BY A BOLD GROUP OF ENTREPRENEURS TO PROMOTE EXPORTS OF PRODUCTS OUTSIDE OF THE TRADITIONAL COMMODITIES LIKE COFFEE, SUGAR, BEEF AND COTTON. OUR INITIAL MEMBERSHIP OF 55 BUSINESSES HAS BLOSSOMED TO INCLUDE 837 COMPANIES IN 1994, REPRESENTING A WIDE GAMUT OF SECTORS SUCH AS FRUITS & VEGETABLES, TEXTILES & APPAREL, WOOD PRODUCTS, SEAFOOD, HANDICRAFTS, ORNAMENTAL PLANTS AND CERAMICS AMONG THE MOST IMPORTANT. OUR ORGANIZATION COMPRISES LARGE CORPORATIONS AS WELL AS SMALL AND MEDIUM-SIZED COMPANIES, INCLUDING RURAL INDIGENOUS COOPERATIVES THAT HAVE PROSPERED CONSIDERABLY AS A RESULT OF A GROWING DEMAND FOR THEIR EXPORTS IN CONSUMER MARKETS. WE ARE STRUCTURED TO EFFICIENTLY RESPOND TO OUR MEMBERS' NEEDS, PROVIDING SUPPORT AND TRAINING THROUGH THE COMMISSIONS REPRESENTING EACH SECTOR, ARTICULATING AND PROMOTING ESTRATEGIES & POLICIES TO ASSIST THE EXPORT INDUSTRY, AND COORDINATING THE RELATED SERVICES REQUIRED FOR OUR PRODUCTS TO REACH THEIR DESTINATARY MARKETS. OUR GOAL IS TO PROMOTE QUALITY AND COMPETITIVENESS, KEEPING UP WITH THE LATEST INNOVATIONS AND CONSTANTLY SEEKING NEW OPPORTUNITIES FOR OUR GOODS THAT ARE CONDUCIVE TO STRENGTHENING OUR COUNTRY'S PRODUCTIVE CAPACITY AND GENERATING EMPLOYMENT. WE ARE ALWAYS DIVERSIFYING OUR POTENTIAL AND OUR SERVICES IN ORDER TO HAVE THE FLEXIBILITY TO ADAPT TO RAPIDLY CHANGING CIRCUMSTANCES WORLDWIDE, UNDER THE FIRM CONVICTION THAT INCREASED TRADE WILL LEAD TO PROSPERITY AND GROWTH.

IN THE PAST, GUATEMALA, LIKE MANY OTHER NATIONS IN THE REGION, RELIED HEAVILY ON A FEW COMMODITIES THAT ARE OFTEN SUBJECT TO UNPREDICTABLE VARIATIONS IN WORLD MARKETS; OUR ECONOMY DEPENDED ON THE INTERNATIONAL SITUATION OF PRODUCTS LIKE COFFEE, SUGAR, BEEF AND COTTON, AND ANY CHANGE IN THOSE ITEMS HAD PROFOUND EFFECTS ON OUR CHANCES FOR PROGRESS. WITH THE IMPLEMENTATION OF THE "CARIBBEAN BASIN INITIATIVE" (CBI) IN 1984, GUATEMALA REALIZED THAT IT HAD THE GOLDEN OPPORTUNITY TO TAP ITS ABUNDANT RESOURCES AND DEVELOP PRODUCTS FOR EXPORT, GIVEN THE OPEN MARKET ACCESS THAT THE PROGRAM ESTABLISHED. THIS HAS ENABLED US TO DIVERSIFY OUR PRODUCTION AND MITIGATE THE IMPACT OF WORLD PRICES IN TRADITIONAL COMMODITIES, WHICH HAVE FLUCTUATED WILDLY DURING PAST YEARS, STRENGTHENING OUR CAPACITY TO COMPETE IN THE WORLD MARKET AND PROVIDING A WINDOW OF OPPORTUNITY TO COUNTLESS PEOPLE WHO PREVIOUSLY HAD NO PERSPECTIVES FOR HOPE AND PROSPERITY. OUR COUNTRY WILL SIGNIFICANTLY BENEFIT FROM THIS CHANGE FOR MANY YEARS TO COME, AS IT HAS BROUGHT ABOUT A CULTURE OF QUALITY AND THE DEVELOPMENT OF A PRODUCTIVE CAPACITY THAT WE CAN BUILD ON TO FURTHER SOLIDIFY OUR POSITION WITHIN GUATEMALA'S ECONOMY.

THE TREATMENT GRANTED BY THE CBI HAS BEEN A KEY FACTOR IN SPAWNING THE SIGNIFICANT GROWTH OF GUATEMALA'S NON-TRADITIONAL SECTOR, AS IT CREATED OPPORTUNITIES AND DEMAND FOR A WIDE VARIETY OF PRODUCTS THAT WE'RE CAPABLE OR EXPORTING BUT WHOSE POTENTIAL WE HAD SCARCELY TAPPED. THE CBI ALLOWED FOR GUATEMALA TO TAKE ADVANTAGE OF THE CLIMATE AND RESOURCES IT HAS BEEN BLESSED WITH, GENERATING CONSIDERABLE EMPLOYMENT AND BRINGING THE KNOW-HOW THAT LEADS TO EFFICIENCY. FROM 1984 TO 1994 GUATEMALA'S NON-TRADITIONAL EXPORTS EXPANDED OVER FIVE-FOLD, THE ENCLOSED CHARTS ILLUSTRATE THE RATE OF GROWTH AND PINPOINT OF THOSE SECTORS IN WHICH WE HAVE ADVANCED THE MOST. IN 1984, THE NON-TRADITIONAL SECTOR ACCOUNTED FOR 18,800 JOBS, CONTRASTED WITH 1994 WHERE DIRECT EMPLOYMENT IS SURPASSING 250,000 WORKERS, IN ADDITION TO THE RELATED INDIRECT BENEFITS THAT OUR EXPORT SECTOR BRINGS TO AREAS LIKE TRANSPORTATION, PACKAGING & LABELLING, PROCESSING, COMPUTER SUPPORT SERVICES AND FINANCIAL INSTITUTIONS.

IN THE AGRICULTURAL AREA, GUATEMALA HAS BECOME ONE OF THE LARGEST EXPORTERS OF FRUITS & VEGETABLES IN THE WORLD, TAKING ADVANTAGE OF DEMAND IN THE UNITED STATES AND EUROPE. OUR PRODUCTION OF SNO-PEAS, BROCCOLI, CAULIFLOWER, FRENCH BEANS AND BERRIES HAS CAPTURED MARKETS ABROAD, THANKS TO THEIR QUALITY AND YEAR-ROUND SUPPLY; INTERNALLY, IT HAS PROVIDED SMALL RURAL FARMERS WITH THE CHANCE TO CULTIVATE CROPS THAT BRING CONSIDERABLY GREATER INCOME THAN SUBSISTENCE AGRICULTURE BASED ON GROWING CORN & BEANS FOR LOCAL CONSUMPTION. IF ONE TRAVELS THROUGHOUT THE GUATEMALAN WESTERN HIGHLANDS, ONE CAN SEE THE IMPROVEMENT IN THE STANDARD OF LIVING AMONG ITS INHABITANTS DUE TO THE GROWTH OF NON-TRADITIONAL EXPORTS; USUALLY OPERATING UNDER A COOPERATIVE STRUCTURE, THESE PEOPLE HAVE BETTER SCHOOLS, IMPROVED ACCESS TO HEALTH CARE AND LIVING CONDITIONS THAT REPRESENT A SIGNIFICANT STEP ABOVE THEIR PREVIOUS SITUATION. GREAT EMPHASIS HAS BEEN PLACED IN TEACHING THEM MARKETING SKILLS AND TECHNICAL ABILITIES, SO THAT THEY CAN DEAL DIRECTLY WITH FOREIGN BUYERS AND COMPLEMENT THEIR AGRICULTURAL SAVVY. YOU WILL NOTE IN MANY OF YOUR SUPERMARKETS THAT, DURING THESE COLD WINTER MONTHS, YOU CAN ENJOY FRESH GUATEMALAN PRODUCE IN A SEASON WHERE FRESH PRODUCTS USED TO BE UNAVAILABLE; THE CBI HAS CONTRIBUTED TO THIS BY ALLOWING THE ACCESS FOR OUR PRODUCTS TO ENTER THE UNITED STATES WITHOUT ANY BARRIERS. OUR PRODUCTION OF MELONS, RASPBERRIES, BLACKBERRIES AND TROPICAL FRUITS HAS INCREASED SUBSTANTIALLY AS THE QUALITY IDENTIFIED WITH OUR GOODS GATHERS MORE CONSUMERS THAT WISH TO FLAVOR THE JUICE OF CANTALOUPES, TASTE THE TEXTURE OF HONEYDEWS AND BAKE PIES WITH OUR BERRIES IN MONTHS WHEN THEY PREVIOUSLY WERE NOT AVAILABLE.

ANOTHER SECTOR THAT HAS EXPERIENCED GROWTH IS THE SEAFOOD INDUSTRY WHICH IN THE PAST WAS LIMITED TO SMALL FISHERMEN IN COASTAL VILLAGES THAT ACCOUNTED FOR LIMITED VOLUME. IN THE PAST 10 YEARS, GUATEMALA'S PRODUCTION OF CULTIVATED SHRIMP AND VARIOUS TYPES OF FISH HAS BLOSSOMED THANKS TO THE OPPORTUNITIES BROUGHT ABOUT BY THE CBI; IN 1986, EXPORT EARNINGS FROM THIS SECTOR REACHED A MEAGER $8 MILLION, COMPARED TO 1993 WHERE THEY ACCOUNTED FOR AN IMPRESSIVE $31.2 MILLION; EXPECTATIONS ARE THAT THERE IS STILL ROOM TO EXPAND AND GENERATE ADDITIONAL JOB OPPORTUNITIES WITH THE ACQUISITION OF SKILLS OF BENEFIT TO A WORKER'S PRODUCTIVE OUTPUT.

SOME SECTORS, SUCH AS WOOD PRODUCTS AND HANDICRAFTS HAVE AL GAINED FROM CBI TREATMENT IN THE PAST DECADE; GUATEMALA HAS A RI ENDOWMENT OF FINE WOODS, LIKE MAHOGANY AND PINE, WHICH WE SOUGHT RATIONALLY EXPLOIT FOR THE MANUFACTURE OF HIGH-QUALITY FURNITU AND OTHER ITEMS THAT ARE POPULAR IN CONSUMER MARKETS.

THE APPEAL OF GUATEMALA'S COLORFUL AND RICH TRADITION HAS CAPTUR THE ATTENTION OF MANY CONSUMERS IN THE UNITED STATES AND EUROP WHO NOW VALUE GUATEMALAN TYPICAL CLOTHING AS SOMETHING UNIQUE A COMFORTABLE TO WEAR. OUR WEAVERS HAVE MANY YEARS OF DEDICATI THEMSELVES TO THIS ART, AND NOW THEY HAVE FOUND A WAY TO MAKE GOOD LIVING BY EXPORTING THEIR CRAFTS AND APPAREL ABROAD, IMPROVI THEIR LIVELIHOOD WHILE PRESERVING THEIR HERITAGE. THE MAJORI HAVE FORMED COOPERATIVES OR CREATED MECHANISMS THAT PERMIT JOI MARKETING, THEREBY INCREASING THEIR LEVERAGE WHEN DEALING WI FOREIGN IMPORTERS WHILE POOLING THEIR INDIVIDUAL RESOURCES STRENGTHEN THEIR ABILITY TO MAKE THE GOODS REACH THEIR DESTINATIO VARIATIONS IN STYLE AND PATTERN HAVE BEEN CLEVERLY INTRODUCED KEEP UP WITH CHANGES IN FASHION AND TARGET CLOTHING DESI ACCORDING TO THE SEASONS.

BUT PERHAPS THE SECTOR THAT HAS PROSPERED THE MOST, DESPITE NO ENJOYING CBI DUTY-FREE TREATMENT, IS THE TEXTILE AND APPARE INDUSTRY WHICH HAS BECOME ONE OF THE MOST IMPORTANT COMPONENTS FO THE GUATEMALAN ECONOMY SINCE THE MID-1980S. IN 1986, GUATEMAL EXPORTED $19.5 MILLION TO THE UNITED STATES, COMPARED WITH $545. MILLION IN 1993; ANNUAL GROWTH RATES HAVE CLIMBED SIGNIFICANTL UNTIL RECENTLY WHERE, AS WE WILL LATER EXAMINE, NAFTA HAS HAD PROFOUND ADVERSE IMPACT. ONE OF THE MAIN CONTRIBUTIONS OF TH TEXTILE & APPAREL INDUSTRY TO THE LOCAL ECONOMY HAS BEEN EMPLOYMEN GENERATION; IN 1986, JOBS IN THIS SECTOR BARELY REACHED 15,000 COMPARED TO 1993 WHERE 80,000 PEOPLE WERE DIRECTLY EMPLOYED BY TH INDUSTRY WITH WAGES ABOVE THE AVERAGE AND VALUABLE TRAINING AN EDUCATION OPPORTUNITIES AVAILABLE TO ALL. THE IMPACT OF NEW JOB HAS BEEN SPECIALLY STRONG IN THE IMPROVEMENT OF THE QUALITY O LIFE THAT POOR WOMEN IN THE HIGHLANDS HAVE HAD WORKING IN TH APPAREL INDUSTRY. A KEY BENEFIT FOR THE CBI REGION'S TEXTILE APPAREL INDUSTRY HAS BEEN THE SPECIAL ACCESS PROGRAM KNOWN A "807A" WHICH ESTABLISHES "GUARANTEED ACCESS LEVELS" (GALS) FO APPAREL MANUFACTURED WITH U.S. CUT AND FORMED FABRIC, THU PROVIDING FOR INCREASED MARKETS FOR U.S. EXPORTS OF RAW MATERIALS IN 1994 ALONE, GUATEMALA IMPORTED OVER $280 MILLION OF U.S COMPONENTS FOR ITS TEXTILE AND APPAREL INDUSTRY, A FIGURE THA SHOULD CONTINUE TO GROW IF CBI BENEFICIARIES RECEIVE EQUIVALEN TREATMENT WITH NAFTA.

WITH NAFTA TAKING EFFECT IN 1994, GUATEMALA'S NON-TRADITIONA EXPORTS HAVE SUFFERED THE IMPACT OF THE ADDITIONAL BENEFIT OBTAINED BY MEXICO WHICH ERODE OUR COMPETITIVENESS TO THE U.S MARKET AND THREATEN TO CANCEL THE PROGRESS MADE TO DATE. MANY O THE SECTORS MENTIONED BEFORE ARE IN DANGER OF LOSING THE PROGRES MADE TO DATE, WITH THE SEVERE SOCIAL AND ECONOMIC REPERCUSSION THAT UNDERMINE OUR COUNTRY'S WELL-BEING AND QUESTION OUR EFFORTS T PROMOTE TRADE LIBERALIZATION. THE CBI REGION IS CURRENTLY UNDE THE OMINOUS SHADOW OF LOSING ITS COMPETITIVE ADVANTAGE AND SEEIN ITS WINDOW OF OPPORTUNITY CLOSE AFTER YEARS OF SUSTAINED GROWTH. ITS IMPORTANT TO STRESS THE FACT THAT THE CBI HAS IMPROVED THE

TRADE BALANCE BETWEEN THE REGION AND THE UNITED STATES SINCE ITS INCEPTION. IN 1983, GUATEMALA EXPORTED $374.6 MILLION TO THE UNITED STATES AND IMPORTED $315.3 MILLION; WITH CBI THE DRIVING FORCE, OUR EXPORTS TO THE UNITED STATES REACHED $1.2 BILLION IN 1993 AND U.S. EXPORTS TO OUR COUNTRY INCREASED SUBSTANTIALLY TO $1.3 BILLION. ITS KEY TO KEEP IN MIND THAT, FOR EVERY DOLLAR WE EARN FROM EXPORTS WORLDWIDE, APPROXIMATELY 75 CENTS GOES TO PURCHASING U.S. GOODS; THIS CLEARLY DEMONSTRATES THAT THE CBI IS A "WIN-WIN" SITUATION FOR ALL PARTIES INVOLVED PROMOTING GROWTH THROUGH TRADE AND BRINGING ABOUT THE PROSPERITY THAT OUR PEOPLE YEARN FOR, SIGNIFICANTLY BENEFITTING THE POTENTIAL FOR THE PRODUCTS AND SERVICES WE HAVE TO OFFER.

THE IMPACT OF NAFTA THREATENS THIS BRIGHT OUTLOOK AS SOME SECTORS STAND TO DISAPPEAR IF PROMPT AND DECISIVE ACTION IS NOT TAKEN. IN THE CASE OF THE APPAREL INDUSTRY, THE EFFECT HAS BEEN THE MOST DRAMATIC AS COMPANIES FLEE TO MEXICO LOOKING TO TAKE ADVANTAGE OF THE ADDITIONAL ACCESS ESTABLISHED BY NAFTA. IN 1994, GUATEMALA HAS SUFFERED THE CLOSING OF 72 PRODUCTION FACILITIES WITH THE LOSS OF OVER 8,000 JOBS THAT OUR SMALL ECONOMY CAN HARDLY ABSORB; THE TENDENCY SEEMS TO BE FOR THE WORSE, AS MANY OPERATORS HAVE REPORTED THE LOSS OF MANUFACTURING CONTRACTS THAT HAVE BEEN RELLOCATED TO MEXICO. THIS IS NOT ONLY HARMFUL TO GUATEMALA, AS IT HAS A DIRECT EFFECT ON THE SALES OF U.S. RAW MATERIALS TO A SECTOR THAT HAD CONTINUED TO GROW; WITH THE LOSS OF MANUFACTURING OPERATIONS, WE ARE PURCHASING LESS AMOUNTS OF U.S. FABRIC, A TREND THAT WILL CONTINUE IN DECLINE IF CONCRETE MEASURES ARE NOT TAKEN.

OTHER SECTORS HAVE ALSO BEEN HIT BY NAFTA, MAINLY IN AGRICULTURAL COMMODITIES WHERE THE LOSS OF CBI ADVANTAGES ARE PRODUCING LOSSES IN MARKET SHARE GIVEN THE BENEFITS OBTAINED BY MEXICO AND ITS PROXIMITY TO THE UNITED STATES. IN ADDITION TO THE TARIFF IMPACT, MANY OF OUR EXPORTERS EXPRESS THEIR SURPRISE WHEN MEXICO HAS VIRTUALLY NO PROBLEM IN ENTERING THE UNITED STATES WITH THE FITOSANITARY REGULATIONS, CUSTOMS PROCEDURES AND QUALITY STANDARDS, WHILE THEY FACE A NEVER-ENDING MAZE OF PAPERWORK AND OBSTACLES.

IN THE AREA OF INVESTMENT, THERE SEEMS TO BE A WIDESPREAD PERCEPTION THAT MEXICO IS A MUCH BETTER PLACE TO GO AS A RESULT OF NAFTA, IN DETRIMENT OF THE CBI REGION WHO HAS WORK SO DILIGENTLY IN MAKING THE NECESSARY SACRIFICES TO ATTRACT INVESTORS. GUATEMALA'S PRIVATE SECTOR HAS CONSISTENTLY LOBBIED FOR ECONOMIC LIBERALIZATION, PROMOTING THE ELIMINATION OF TARIFF AND NON-TARIFF BARRIERS THAT DISTORT COMMERCE AND THE SIMPLIFICATION OF THE LEGAL FRAMEWORKS THAT GOVERN TRADE. IT BECOMES DIFFICULT TO CONTINUE PREACHING THE BENEFITS OF REMOVING SUBSIDIES AND REDUCING BUREAUCRATIC INTERVENTION IF ONE CANNOT SHOW TANGIBLE RESULTS THAT EVIDENCE THE VALIDITY OF THE STEPS TAKEN. ONCE AGAIN, ACTION IS A MUST IF THE CBI REGION IS TO MAINTAIN ITS RATE OF GROWTH AND ATTRACT THE INVESTMENT NECESSARY TO TAKE FULL ADVANTAGE OF ITS RESOURCES AND THE TECHNOLOGY REQUIRED TO TAP OUR POTENTIAL.

FOR THESE REASONS, GUATEMALA'S "NON-TRADITIONAL PRODUCTS EXPORTERS ASSOCIATION" (GEXPRONT) STAUNCHLY SUPPORTS "THE CARIBBEAN BASIN TRADE SECURITY ACT" AS INTRODUCED IN THE TRADE SUBCOMMITTEE OF THE HOUSE WAYS & MEANS COMMITTEE. WE FIRMLY BELIEVE THAT THIS LEGISLATION WILL CONTRIBUTE TO RESTORING GUATEMALA'S

COMPETITIVENESS AS A CBI BENEFICIARY AND LESSEN THE IMPACT OF NAFTA ON KEY SECTORS OF OUR ECONOMY. IT WILL PROVIDE THE PRIVATE SECTOR WITH THE CONFIDENCE AND MOTIVATION TO STRIVE FOR CONSISTENT IMPROVEMENT, PUTTING OUR BEST EFFORT WITH THE ASSURANCE OF HAVING ACCESS TO THE MARKETS THAT DEMAND OUR PRODUCTS. THIS BILL WILL ENABLE GUATEMALA'S NON-TRADITIONAL SECTOR TO CONTINUE GROWING AT A HEALTHY PACE, CREATING NEW JOBS AND STRENGTHENING ITS IMPORTANT ROLE FOR THE COUNTRY'S ECONOMY.

THE MOST IMPORTANT PROVISION IN THE LEGISLATION CALLS FOR EQUIVALENT TREATMENT TO NAFTA THAT COVERS THOSE PRODUCTS EXCLUDED FROM CBI BENEFITS, INCLUDING THE ABOVE-MENTIONED TEXTILES & APPAREL INDUSTRY AS WELL AS OTHER IMPORTANT GOODS LIKE FOOTWEAR, LEATHER ARTICLES THAT WOULD GIVE OUR COUNTRY SIGNIFICANT OPPORTUNITIES. THE NAFTA-LIKE TREATMENT FOR THE FABRIC & GARMENT SECTOR WOULD MITIGATE THE DAMAGE SUFFERED THAT I PREVIOUSLY ALLUDED TO AND KEEP PRODUCTION AND EMPLOYMENT BUOYING. GUATEMALA HAS A HIGH-QUALITY FABRIC PRODUCTION INDUSTRY, THAT CURRENTLY SUPPLIES NOT ONLY THE LOCAL AND REGIONAL MARKETS BUT ALSO EXPORTS TO THE UNITED STATES AND EUROPE. THE BILL WOULD GIVE THEM A BOOST AND ENHANCE THEIR COMPETIVENESS THROUGHOUT THE CARIBBEAN BASIN, AS THEIR PRODUCTS FULLY COMPLY WITH NAFTA RULES OF ORIGIN. THE ESTABLISHMENT OF EQUAL TREATMENT WOULD ALSO HELP U.S. EXPORTS OF RAW MATERIALS FOR THE MANUFACTURE OF APPAREL, WITH PRELIMINARY ESTIMATES INDICATING THAT THERE WOULD BE AN INCREASE OF $15 MILLION IN SALES TO GUATEMALA ALONE, DURING THE FIRST YEAR OF EQUIVALENT TREATMENT.

THE LEGISLATION WOULD ALSO GIVE EQUAL TREATMENT TO OTHER PRODUCTS THAT THE CBI HAS POTENTIAL TO EXPORT, CONTRIBUTING TO ITS ECONOMIC PROGRESS; GUATEMALA WISHES TO EXPLORE INCREASING ITS EXPORTS OF FOOTWEAR, HANDBAGS AND FLAT GOODS, WHICH WOULD HAVE A CHANGE IF THE BILL IS PASSED.

A PROVISION OF PARTICULAR RELEVANCE TO GUATEMALA IS THE TREATMENT SET FOR HANDICRAFTS & FOLKLORIC ARTICLES, AN ISSUE THAT HAS BEEN PURSUED WITH THE UNITED STATES ON A BILATERAL BASIS FOR SOME YEARS. MANY OF OUR PEOPLE ARE DESCENDANTS OF THE MAYA AND HAVE A RICH & ANCIENT TRADITION OF WEAVING AND CREATING UNIQUE ITEMS THAT ARE RECOGNIZED AROUND THE GLOBE FOR THEIR COLOR AND BEAUTY. THIS HERITAGE IS ALIVE TODAY WITH THE PRODUCTION OF APPAREL, RUGS, HOUSEHOLD GOODS AND DECORATIVE ARTICLES THAT HAVE SIGNIFICANT DEMAND IN THE UNITED STATES. THEY DO NOT COMPETE WITH U.S. MADE PRODUCTS AND POSE NO THREAT OF MARKET DISRUPTION. AS SUCH, THEY DESERVE UNIMPEDED ACCESS TO THE U.S. MARKET AND WOULD PROVIDE A TREMENDOUS OPPORTUNITY FOR OUR COTTAGE INDUSTRY AND COOPERATIVES TO EARN INCOME WHILE PRESERVING THEIR CULTURE. MANY ARTISANS WHO LIVE IN RURAL AREAS WOULD CONSIDERABLY BENEFIT FROM THIS TREATMENT AS ENVISIONED BY THE BILL, BRINGING THEM HOPE FOR A BETTER FUTURE AND THE CHANCE TO PROSPER WHILE TAPPING THEIR INHERENT STRENGTH.

IN ADDITION, THE LEGISLATION DRAWS THE PARAMETERS FOR GUATEMALA AND ITS CARIBBEAN BASIN NEIGHBORS TO BEGIN THE PROCESS OF NEGOTIATIONS CONDUCIVE TO OUR FULL PARTICIPATION IN NAFTA. IN THIS SENSE AND CLOSELY RELATED TO MY PREVIOUS COMMENTS, GUATEMALA'S PRIVATE SECTOR IS FULLY SUPPORTIVE OF ITS GOVERNMENT AND SEEKS TO COMMENCE WITH SECTORIAL NEGOTIATIONS AS SOON AS POSSIBLE. OUR NON-TRADITIONAL AGRICULTURAL EXPORTS WOULD BENEFIT FROM A FITOSANITARY AGREEMENT

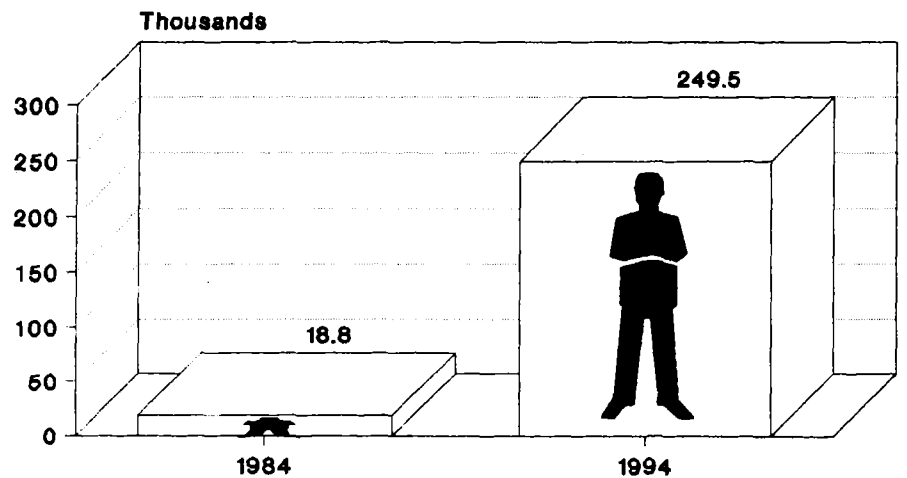
WITH THE UNITED STATES THAT ESTABLISHES CLEAR, TRANSPARENT AND AGILE MECHANISMS FOR THE ENTRY OF OUR PRODUCTS INTO YOUR COUNTRY; WE ARE PREPARED TO DO OUR PART AND INVEST IN THE TECHNOLOGY AND KNOW-HOW NECESSARY TO GUARANTEE THAT OUR EXPORTS MEET WITH THE HIGHEST QUALITY STANDARDS. THE REMOVAL OF NON-TARIFF OBSTACLES TO THE FREE FLOW OF GOODS & SERVICES IS A GOAL THAT WE ALL SHARE AND ONE THAT WE MUST ALL STRIVE FOR IN ORDER TO MAKE FREE TRADE A REALITY.

SIMILAR CONSULTATIONS COULD BE HELD IN AREAS SUCH AS CUSTOMS PROCEDURES, INVESTMENT, INTELLECTUAL PROPERTY AND OTHERS, WITH THE VIEW OF FACILITATING THINGS FOR BUSINESSMEN TO CARRY OUT THEIR ENTREPRENURIAL ACTIVITIES. NAFTA CAN PLAY A VITAL ROLE AND SERVE AS THE FRAMEWORK IN MAY OF THESE MATTERS, IN ADDITION TO ENSURING CONSISTENCY WITH APPLICABLE TO PROVISIONS.

MANY OF US BUSINESSPEOPLE WHO ATTENDED THE MIAMI SUMMIT WERE PLEASED AND ENCOURAGED THAT THE DEMOCRATICALLY-ELECTED GOVERNMENTS OF THE HEMISPHERE REACHED A CONSENSUS TO PROMOTE FREE TRADE, RECOGNIZING THE KEY ROLE OF PRIVATE ENTERPRISE IN DEVELOPMENT. NOW ITS IMPORTANT TO FOLLOW UP THE DECLARATIONS WITH CONCRETE ACTIONS THAT SEEK TO IMPLEMENT THE VARIOUS DISCIPLINES OUTLINED IN THE "PLAN OF ACTION"; FOR THIS PURPOSE, THE MEETING OF CARIBBEAN BASIN TRADE MINISTERS WITH THE UNITED STATES TRADE REPRESENTATIVE THAT THE BILL CALLS FOR IS A TIMELY RECOMMENDATION AND DESERVES THE SERIOUS CONSIDERATION OF OUR GOVERNMENTS. TIME IS OF ESSENCE AND WE MUST ACT NOW!! GUATEMALA'S NON-TRADITIONAL SECTOR IS READY TO DO ITS PART, AND LOOKS FORWARD TO JOINING FORCES WITH ALL PARTIES WHO GENUINELY BELIEVE IN FREE TRADE TO MAKE "THE CARIBBEAN BASIN TRADE SECURITY ACT" A REALITY DURING 1995. THE LEGISLATION HAS BIPARTISAN SUPPORT AND REQUIRES THAT IT BE ACTED UPON EXPEDITIOUSLY, SEEKING THE APPROPRIATE MECHANISMS FOR ITS SWIFT PASSAGE. PRESIDENT CLINTON GAVE THOSE OF US IN THE PRIVATE SECTOR CONFIDENCE WHEN HE CATEGORICALLY REITERATED HIS ADMINISTRATION'S SUPPORT FOR THE CBI AT THE MIAMI SUMMIT. WE FEEL THAT THIS BILL REPRESENTS THE GOLDEN OPPORTUNITY TO FULFILL THIS COMMITMENT AND ARE CONFIDENT THAT THE UNITED STATES GOVERNMENT WILL GIVE ITS FULL SUPPORT AND ACTIVELY LOBBY FOR ITS APPROVAL. THE IMPLEMENTATION OF "H.R. 553" WILL RESTORE OUR COMPETITIVENESS IN KEY AREAS AND LESSEN THE IMPACT OF NAFTA, WHILE SETTING THE GROUNDWORK FOR GUATEMALA'S INSERTION INTO THE ECONOMIC LIBERALIZATION PROCESS.

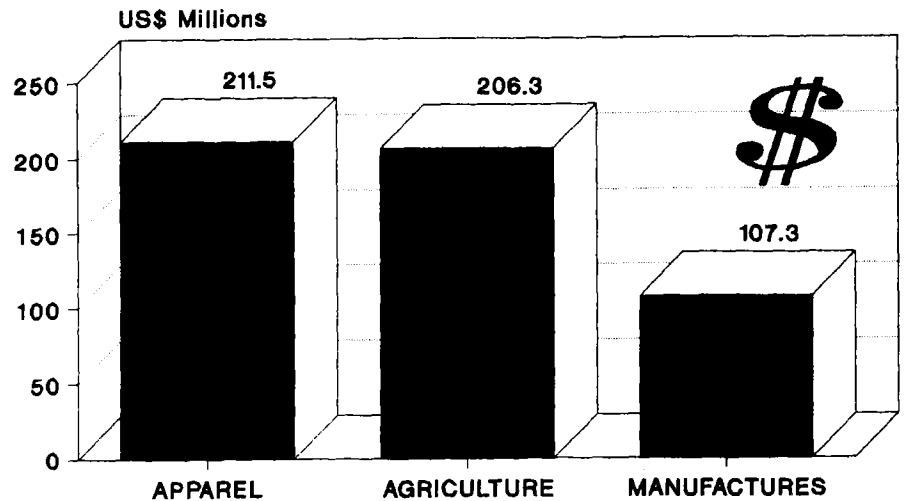
I THANK YOU FOR THE OPPORTUNITY TO PRESENT THIS STATEMENT IN SUPPORT OF "H.R. 553" AND TRUST THAT YOU WILL BACK THIS LEGISLATION WHICH WILL SEND A CLEAR MESSAGE FOR GROWTH THROUGH TRADE.

JOBS CREATED BY NON-TRADITIONAL EXPORTS 1984-1994

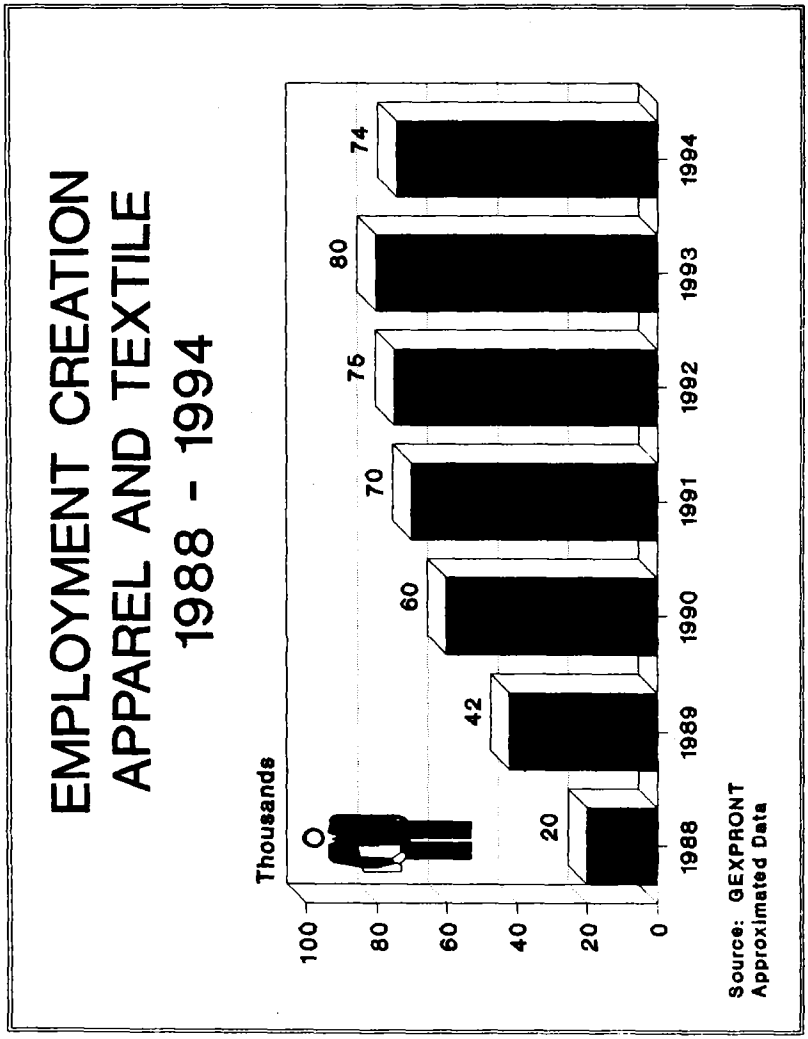


Source: GEXPRONT

FOREIGN EXCHANGE EARNINGS
PRINCIPAL NON-TRADITIONAL EXPORTS
1993 - 1994

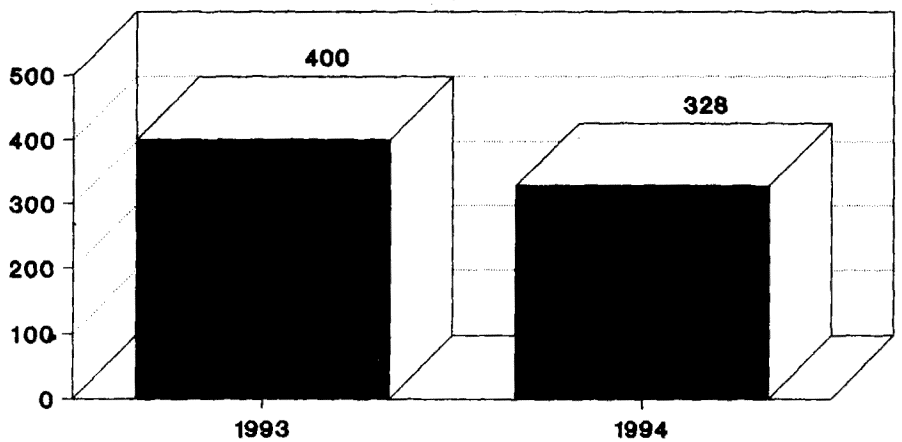


Source: Bank of Guatemala


EMPLOYMENT CREATION
APPAREL AND TEXTILE
1988 - 1994
Thousands
100
80
60
40
20
0
20
42
60
70
75
80
74
1988
1989
1990
1991
1992
1993
1994
Source: GEXPRONT
Approximated Data

APPAREL AND TEXTILE INDUSTRY

(Number of Companies)



Source: GEXPRONT
Approximated Data

STATEMENT OF
GLADYS M. COUPET
PRESIDENT
HAITIAN-AMERICAN CHAMBER OF COMMERCE AND INDUSTRY

THE HAITIAN-AMERICAN CHAMBER OF COMMERCE AND INDUSTRY
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STATEMENT OF THE HAITIAN AMERICAN CHAMBER OF COMMERCE
FAVORING THE PASSAGE OF THE
CARIBBEAN BASIN SECURITY ACT (H.R. 553)

Port-au-Prince, February 24, 1995

The Haitian-American Chamber of Commerce (HAMCHAM) would like to hereby express its full support for the proposed "Caribbean Trade Security Act of 1995" (H.R. 553), introduced by Representative Phil Crane (R-IL), Chairman of the Trade Sub-Committee of the House Ways and Means Committee, and co-sponsored by Representative Sam Gibbons (D-FL) and Representative Charles Rangel (D-NY).

The Haitian-American Chamber has only recently been reactivated in Haiti, in the wake of the resolution of the political crisis, marked by the return of President Jean-Bertrand Aristide in Haiti. With a membership of 53 companies, representing both Haitian and American business interests in Haiti, HAMCHAM's main objective, as stated in its by-laws, remains the promotion of trade and commerce between Haiti and the United States of America.

Although HAMCHAM is only now in the process of seeking formal membership in AACCLA (Association of American Chambers of Commerce of Latin America), we fully support the statement made by Mr. David Ivy, President of AACCLA, before this subcommittee on February 9, 1995. We believe that AACCLA's position clearly supports economic development in the region and is in line with the fundamental economic interests of both Haiti and the Caribbean Basin.

In the aftermath of the political crisis of the past three years, Haiti is today in a state of economic and social emergency. Its export assembly industry has been particularly devastated by the embargo, and employment in this sector dropped from 44,000 in September 1991 to around 8,000 by May 1994. Today, more than four months after the restoration of democracy in Haiti, employment in this sector is still believed to be lower than 10,000.

Passage of the above bill would be essential to restore Haiti's competitiveness and to allow us to quickly create new and permanent employment, which is badly needed in the country. In addition, we believe that this measure would be beneficial for the United States, as the bulk of raw materials used will originate form that country.

The creation of employment in Haiti would also have a positive impact on illegal immigration to the United States and would prevent the Haitian people from continuing to risk their lives on small and unfit boats to try and reach the United States.

In conclusion, we believe that the passage of H.R. 553 would be an important step in helping to stimulate the development of Haiti and the Caribbean Basin as a whole, while also having a positive impact on the United States. We thus urge the U.S. Congress to listen to our plea and to move forward with this important piece of legislation.

International Intellectual Property Alliance

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March 2, 1995

The Honorable Philip Crane
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth
Washington, D.C. 20515

Re: H.R. 553, The "Caribbean Basin Trade Security Act"

Dear Chairman Crane:

The International Intellectual Property Alliance (IIPA) appreciates this opportunity to comment on H.R. 553, the "Caribbean Basin Trade Security Act." While IIPA supports the principal objectives of this bill, we urge that it include provisions which ensure that Caribbean Basin Initiative (CBI)-eligible countries raise their now-inadequate protection of intellectual property rights to levels consistent with the requirements of NAFTA.

IIPA and the Copyright Industries

The International Intellectual Property Alliance ("IIPA" or "Alliance") consists of eight trade associations, each of which, in turn, represents a significant segment of the copyright industries in the U.S. These associations are the American Film Marketing Association (AFMA), the Association of American Publishers (AAP), the Business Software Alliance (BSA), the Information Technology Industry Council (ITI), the Information Technology Association of America (ITAA), the Motion Picture Association of America (MPAA), the National Music Publishers' Association (NMPA) and the Recording Industry Association of America (RIAA). The IIPA represents more than 1,500 companies that produce and distribute computers and computer software, motion pictures, television programs and home videocassettes; music and sound recordings; textbooks, tradebooks, reference and professional publications and journals.

Copyright-based industries play a crucial and growing role in the U.S. economy. The core copyright industries contributed an estimated $238.6 billion to the U.S. economy in 1993, or approximately 3.74% of the Gross Domestic Product (GDP). According to February 1995 report prepared for IIPA by Economists, Inc. entitled Copyright Industries in the U.S. Economy: 1977-1993, the core industries grew more than twice as fast as the economy as a whole (5.6% vs. 2.7%) between 1991 and 1993. Employment in the core copyright industries grew some four times than the annual rate of the whole economy (2.6% vs. 0.7%) between 1988 and 1993. Foreign sales support an increasing proportion of U.S. jobs. The core copyright industries compiled an estimated $45.8 billion in foreign sales in 1993, an increase of 11.7% over 1992.

The CBI and H.R. 553

The Caribbean Basin Economic Recovery Act (also known as the Caribbean Basin Initiative (CBI)) was the first legislation passed by Congress which explicitly linked trade benefits to intellectual property protection.[1] The President makes his determinations regarding countries' CBI beneficiary status based on certain criteria; importantly, intellectual property rights (IPR) provisions are included in both the mandatory[2] and discretionary[3] criteria.

H.R. 553 would grant preferential tariff treatment equivalent to that accorded NAFTA members for certain products to CBI beneficiary countries for up to six years, pending their accession to NAFTA. However, as introduced, H.R. 553 would not require, nor even provide any incentives for, these countries to improve their protection of copyrighted works, including reducing existing piracy of motion pictures, computer software, music and sound recordings and books.

As discussed above, CBI countries are already obligated to provide adequate and effective copyright protection and enforcement in order to benefit from the CBI program. In our February 13, 1995 submission on "Special 301" to the U.S. Trade Representative, IIPA reported that estimated trade losses experienced by the motion picture, recording, music, computer software and book publishing industries in just four Central American countries covered by CBI totaled at least $35.2 million in 1994.

El Salvador	$15.5 million
Guatemala	$ 9.5 million
Nicaragua	$ 5.3 million
Honduras	$ 4.9 million

While IIPA does not have estimates for losses in all the remaining 20 beneficiary countries, it estimated 1993 losses in three other CBI countries (Panama, Costa Rica and the Dominican Republic) amounting to an additional $25.1 million. Assuming these 1993 losses were constant for 1994, then the losses for 1994 in these seven CBI countries alone totalled approximately $60 million.

1/ See Section 212 of the Caribbean Basin Economic Recovery Act, Pub. L. No. 98-67 (codified at 19 U.S.C. 2702).

2/ Mandatory criteria which would deny a country CBI beneficiary country status include the expropriation of intellectual property (19 U.S.C. 2702(b)(2)(A) and (B)), and unauthorized broadcast of U.S. copyrighted material by a government-owned entity (19 U.S.C. 2702(b)(5)).

3/ Discretionary criteria for CBI beneficiary designation include the extent to which a country provides "adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property ..." (19 U.S.C. 2702(c)(9)) and the extent to which a country prohibits its nationals from engaging in the broadcast of copyrighted material belonging to U.S. copyright owners without their express consent (19 U.S.C. 2702(c)(10)) (emphasis added).

IIPA believes that most of the countries in this region have not met their CBI IPR obligations. IIPA and its members have petitioned to remove the most serious offenders from eligibility for CBI benefits under the existing program.[4]

IIPA is greatly concerned that H.R. 553, as currently drafted, would extend additional and significant trade benefits under NAFTA to countries which may not even be complying with existing CBI IPR criteria. Even those few countries currently in compliance with CBI standards should not receive these additional NAFTA benefits without shouldering additional IPR obligations, as Mexico has done. We believe these countries are prepared to bring their copyright obligations up to the standards provided in the NAFTA and that they should be required to do so.

Accordingly, IIPA would strongly support H.R. 553 with changes to mandate that these countries enter into an agreement with the U.S. to improve their current levels of protection to NAFTA-level IPR standards before they become eligible for these NAFTA-level benefits.

This could be accomplished by amending the current CBERA to empower the President to declare that, upon meeting certain conditions, these countries would become eligible for NAFTA benefits. These IPR-related criteria could be either set out in the amended CBERA or be specified in legislative history. These criteria would be as follows:

- As a condition to the President declaring that a country is eligible for the additional NAFTA benefits provided in the bill, each CBI beneficiary country would be required to enter into a binding agreement with the United States to implement the following within one year after the Presidential declaration:

  -- an IPR regime (that is, an adequate and effective copyright law, including enforcement) meeting the standards of the GATT TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement without subscribing to the transition periods for developing countries, as well as protection of encrypted program-carrying satellite signals, and full national treatment with regard to the protection and enforcement of all intellectual property rights; and

  -- successful negotiation of all issues raised under "Special 301" or pending CBI and GSP petitions.

- If the country wishes to continue to receive preferential benefits under this program, it must conclude the following with the U.S. within two years following the Presidential declaration:

4/ In June 1993, IIPA petitioned that El Salvador be subject to an IPR review under both the CBI and the Generalized System of Preferences (GSP) programs. USTR accepted our petition and El Salvador's IPR practices are currently under review. MPAA, an IIPA member, filed a GSP/CBI petition against Honduras in 1992 which is also under review. MPAA also petitioned for GSP/CBI reviews against both the Dominican Republic in 1992 and Guatemala in 1991; after improvements were made by both governments to improve cable piracy in their respective countries, MPAA withdrew its petitions. On February 13, 1995, IIPA recommended that USTR initiate an investigation into whether Nicaragua's IPR practices meet CBI standards.

-- a bilateral investment treaty and IPR agreement (based on the most current U.S. model IPR agreement), both to be implemented within eighteen months.

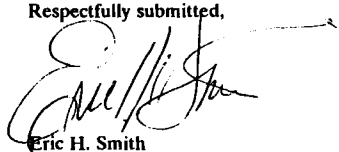
This means that a CBI country which wants to receive NAFTA-level benefits will have implemented higher levels of IPR protection within one year and the bilateral treaty and the IPR agreement within three and one-half years. If the country does not meet these deadlines, its participation in the program would cease and its additional NAFTA benefits would be terminated.

Conclusion

IIPA believes that these criteria are reasonable and can be accomplished by CBI beneficiary countries and urges that they be included in H.R. 553. In order for these countries to accede to NAFTA at some future date, they must meet the IPR obligations of NAFTA. If we are to grant such important additional preferential trade treatment even on an interim basis, it is just and reasonable that these requirements be met.

Thank you for the opportunity to comment on H.R. 553. We look forward to working with you and members of the Subcommittee on this important legislation to assist not only in the economic growth and development of the Caribbean Basin countries, but in the elimination of piracy throughout the region.

Respectfully submitted,



Eric H. Smith
President

cc: The Honorable Sam Gibbons

[BY PERMISSION OF THE CHAIRMAN]

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
OF THE
UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT
OF THE
INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION
OF THE DOMINICAN REPUBLIC
ON
H. R. 553

February 24, 1995

Introduction

The International Sugar Policy Coordinating Commission of the Dominican Republic (Dominican Sugar Policy Commission)[1] welcomes the opportunity to submit this statement in response to the Subcommittee on Trade's request for comments on H.R. 553, the "Caribbean Basin Trade Security Act", which was introduced by Congressmen Crane, Shaw, Gibbons, and Rangel on January 18, 1995.

The Dominican Sugar Policy Commission supports the thrust of the bill, particularly the provisions designed to ameliorate the effects of the North American Free Trade Agreement (NAFTA) on sugar imports from beneficiary countries of the Caribbean Basin Initiative (CBI).[2]

Under NAFTA Mexico, which never supplied sugar to the United States in significant amounts, has been given substantially increased duty-free access to the U.S. market--up to 250,000 tons during the first fifteen years, and unlimited access thereafter. While Mexico is not a "net surplus producer"[3] now, it will achieve this status soon according to USDA. This could have disastrous consequences for the traditional off-shore suppliers, especially sugar producers in the Dominican Republic, who reliably provided sugar to the United States at times when we could have received higher prices elsewhere. This NAFTA preference in favor of Mexico is of particular significance for the Dominican Republic whose economy, despite significant strides

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[1] The International Sugar Policy Coordinating Commission of the Dominican Republic is a quasi-governmental agency comprised of both public and private sector members under the chairmanship of the Secretary of State for Foreign Relations of the Dominican Republic.

[2] Section 102 of the bill is, except for the use of abbreviations, identical with section 102 of H.R. 1403, introduced on March 18, 1993, in the 103rd Congress. The Dominican Sugar Policy Commission submitted comments on H.R. 1403 on April 30, 1993, pointing out the problems in the sugar provisions in the NAFTA, which at that time had been negotiated, but not yet enacted into law.

[3] "Net surplus production" is defined as projected production minus projected domestic consumption. If this formula yields a positive number, Mexico would be a "net surplus producer."

in diversification, remains heavily dependent on sugar.

While a side agreement to NAFTA was reached which makes it harder for Mexico to be considered a net surplus producer and thereby qualify for 250,000 ton-access to the U.S. sugar market during the first fifteen years, there is still a very real danger that the Dominican Republic and other traditional suppliers in the Caribbean and Central America will be shut out of the U.S. market entirely after year fifteen, and Mexican sugar imports eventually could completely fill the "guaranteed minimum quota" established by the 1990 Farm Act, leaving no room for imports from traditional suppliers. Moreover, failure to address these problems in an effective manner also would have serious adverse consequences for the U.S. domestic industry.

Parity in the treatment of sugar should be restored. Changes should be made to the sugar provisions in section 102 of H.R. 553 for the bill to ensure that the CBI is not adversely affected by the implementation of NAFTA, and in particular to prevent any erosion in CBI sugar exporters' traditional access to the U.S. market. Section 102 should be amended to protect the CBI countries' traditional share of the guaranteed minimum quota. Furthermore, in the interests of fairness and parity, Mexico should impose marketing controls on its producers whenever marketing allocations are in effect in the United States. The "monitoring and consultation" provisions in Section 102 need to be amended because, by the time Mexico becomes eligible to ship 250,000 tons in exportable surplus to the United States, it will be too late to prevent irreparable harm to the CBI countries.

Purpose of H.R. 553

The underlying purpose of H.R. 553 is to prevent NAFTA from undermining the benefits of the Caribbean Basin Initiative. The bill proposes to accomplish this by giving CBI beneficiaries temporary parity with benefits Mexico receives under NAFTA (including favorable treatment for textile and apparel articles and other articles ineligible for duty-free treatment under CBI); by encouraging the twenty-four CBI countries to enter into Free Trade Agreements (FTAs) with the United States; and, in the case of sugar, by requiring the President to monitor the effects of increased sugar imports from Mexico and mandating that he take action or propose legislation to Congress to ameliorate any adverse effects.

The Dominican Sugar Policy Commission believes that passage of the bill, with the modifications we have described below, is crucial to protect the access of traditional off-shore suppliers' to the U.S. market and to prevent NAFTA from "nullifying and impairing" the benefits bestowed on CBI sugar producers by the CBI and related legislation, including the "guaranteed minimum quota" established by the 1990 Farm Act.

Caribbean Basin Initiative

The Dominican Republic has been a strong supporter of the Caribbean Basin Initiative from its beginning, regarding it as one of the United States Government's most-important foreign policy initiatives undertaken in the 1980's, and the catalyst to generating increased foreign exchange earnings for the Dominican Republic which could be used to finance new industries and more varied agriculture in the region.

Unfortunately, in spite of the efforts of the public and private sectors in the United States and the twenty-four beneficiary countries, the program has not achieved all the positive results which were intended, namely, "to promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin."

Instead, the program has been only a modest success. There are a number of reasons for this, including changing market conditions and generally depressed commodity prices, and especially in the case of the Dominican Republic, the loss of foreign exchange earnings from substantially-decreased sugar exports to the United States.

Loss of Foreign Exchange Earnings

Representatives of the Dominican Republic have emphasized the importance of sugar to the economy of the Dominican Republic in numerous earlier statements and appearances before the Ways and Means Committee. Historically, the sugar industry has been the nation's largest employer and the main source of the country's export earnings. From 1978-1987, sugar exports provided roughly 30 percent of the Dominican Republic's foreign exchange, which is needed to finance the purchase of the many essential imports that cannot be produced in the Dominican Republic. (The great bulk of manufactured items that the Dominican Republic imports are of U.S.-origin.) For example, the Dominican Republic's sugar exports to the United States averaged 805,000 tons per year during the 1975-1981 period, and under the Caribbean Basin Initiative it was contemplated that the Dominican Republic could export 859,794 tons (780,000 metric tons) per year duty-free.

Because of the operation of the U.S. sugar quota program, the Dominican's sugar quota has steadily eroded. It is currently 219,404 metric tons for fourteen months (207,300 p.a.). Over the past decade the Dominican Republic has failed to realize more than $2 billion in potential sales to the United States due to the shrinkage in its U.S. sugar quota.

This is a huge sum for a developing country, and as a result, the economy of the Dominican Republic has been in a precarious position for several years. Foreign debt service has been draining a large portion of the limited foreign exchange earnings, and the bilateral and commercial debt have had to be rescheduled to prevent default. While other off-shore suppliers have not suffered as severely, their losses, too, have been significant.

The Dominican Republic has put forth tremendous effort to diversify its economy away from its traditional dependence on sugar, including significant expansion of free zone operations, but a revitalization of its sugar industry would be extremely helpful in enabling the country to take full advantage of CBI. These benefits were made permanent by the "CBI-II" legislation, the "Caribbean Basin Economic Recovery Expansion Act of 1989." Any further damage to the Dominican sugar industry, as threatened by the implementation of NAFTA, would be disastrous to the country.

Food, Agriculture, Conservation, and Trade Act of 1990

In addition to CBI-I and CBI-II, there is another law which is extremely important for Dominican sugar exporters, Title IX of P.L. 101-624, the Food, Agriculture, Conservation, and Trade Act of 1990 (the 1990 Farm Act), which amended the Agriculture Adjustment Act of 1938 (the 1938 Act) in two significant aspects. The 1990 Farm Act established a guaranteed minimum import quota of 1.25 million tons for traditional off-shore suppliers, and, in addition, it provides that marketing controls will be imposed on domestic cane and beet sugar and on crystalline fructose manufactured from corn if anticipated fiscal year imports for consumption are less than 1.25 million tons.

Underlying the adoption of these two provisions was Congress's concern about traditional off-shore suppliers' loss of

access to the U.S. sugar market during the 1980's and the resulting harm to their economies, especially countries such as the Dominican Republic where sugar had been the engine of economic growth.

Congressional action in the 1990 Farm Act was an express recognition both of the importance of the guaranteed minimum quota to the economies of the traditional sugar suppliers and of the need to have marketing controls in the United States to assure the continued operation of the domestic sugar price support program at no net cost, and without forfeitures of pledged sugar to the Commodity Credit Corporation. The size of the guaranteed minimum quota (but not its allocation) was "bound" in the Uruguay Round Agreements.

Mexican Sugar Imports under NAFTA

The Dominican Sugar Policy Commission is strongly opposed to the provisions in NAFTA which provide Mexican sugar exporters with increased preferential access to the U.S. market because of the threats to the "no net cost" sugar program and the guaranteed minimum quota for traditional off-shore suppliers.[4]

The Dominican Sugar Policy Commission is concerned about the preferential treatment of Mexican sugar imports because the increased imports presumably would count against the over-all sugar quota, and with a lack of appropriate marketing and distribution restrictions in Mexico, the integrity of the "no net cost" program and the guaranteed minimum quota for traditional suppliers could be compromised.

Increased Preferential Access

Although as we have said, Mexico had not been a significant exporter of sugar to the United States, when NAFTA was negotiated, Mexico was given significantly increased access to the U.S. sugar market. After the negotiations had been completed, it became apparent that there were a number of flaws in the original language which had to be corrected, and furthermore, the Bush Administration's original assumption that Mexico would not become a "net surplus producer" was contradicted by a USDA study that Mexico would have tremendous exportable surpluses within a few years.

Side Agreement on Sugar

After a "side agreement" with Mexico was reached, NAFTA was signed into law on December 8, 1993 and became effective on January 1, 1994 (P.L. 103-182). The side agreement was necessary because the original NAFTA language would have allowed serious problems to arise regarding "substitution," e.g., high fructose corn syrup (HFCS) and other nutritive sweeteners could have been substituted for sugar in domestic applications in Mexico. The displaced sugar could then have been exported to the United States duty-free.

The side agreement stipulates that, for purposes of the net surplus producer formula, HFCS will be considered on the consumption side only, so that Mexican sugar production will have to exceed Mexican consumption of both sugar and HFCS for Mexico to be considered a net surplus producer.

The side agreement also eliminated the so-called "two-year

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[4] The Dominican Sugar Policy Commission has raised these issues before in detailed submissions to the Secretary of Agriculture and in its April 5, 1993 statement to the Trade Subcommittee on NAFTA supplemental agreements and its April 30, 1993 statement on H.R. 1403.

provision" in the original NAFTA language. This provision would have allowed Mexico duty-free access after year seven for its total net production surplus, provided that it had previously achieved a net production surplus for two years in a row.

Thus, in phase one (years one through six) Mexico now will have duty-free access for sugar exports to the United States for the amount of its net surplus production up to a maximum of 25,000 metric tons raw value. Even if Mexico is not a net surplus producer, it will still have duty-free access for 7,258 tons, or the "minimum boatload amount" authorized under the U.S. tariff-rate quota.

In phase two (years seven through fourteen), Mexico will have duty-free access to the U.S. market for the amount of its surplus as measured by the formula, up to a maximum of 250,000 tons with a minimum duty-free access still at the minimum boatload amount. After year fifteen, there would be no limits on Mexican exports to the United States.

Fundamental Problem

The fundamental problem is that, as a result of NAFTA, Mexico, which has never been a traditional exporter of sugar to the United States, has been given an advantage over the traditional suppliers such as the Dominican Republic. Under NAFTA Mexico's traditional volume of exports to the United States could be tripled in phase one, rising from 7,258 tons to 25,000 tons, and could be increased thirty-five fold, to 250,000 tons in phase two. This would give Mexico fully 20 percent of the entire guaranteed minimum quota of 1.25 million tons, and of course, the CBI countries' share of the quota would shrink. The Dominican Republic's share could shrink from 220,000 tons to 176,000 tons per year, causing a loss of approximately $50 million by year fifteen. The twenty-four CBI countries are collectively allocated 37.9 percent of the overall quota. By year fifteen, they could fail to realize a total of $100 million in foreign exchange earnings at projected prices, based on a loss of 94,750 tons a year.

This is unfair because, when the quota allocations were determined in 1982, they were based upon export levels to the United States over a representative period (as required by GATT Article XIII). Traditional suppliers received quota allocations determined by their traditional levels of exports. The Dominican Republic received the largest share of the allocated quota, 17.6 percent of the total. Mexico's traditional level was a "minimum boatload."

However, Mexico's potential access to the U.S. market has been increased substantially, since GATT Article XXIV provides an exception to Article XIII for FTAs. Thus, sugar imports from Mexico can fill the largest part of the guaranteed minimum quota during the first fifteen years, and thereafter leave no quota at all for traditional suppliers.

"Parity" for CBI Sugar

There are two primary areas where Congress should take action to restore "parity" in the treatment of sugar: (1) CBI countries' traditional sugar quota allocations should be protected against erosion by increased Mexican sugar imports, and (2) Mexican sugar producers should be subject to "substantially equivalent" marketing controls as U.S. producers. With regard to quota allocations, if Mexican sugar imports are counted against the over-all quota, the CBI countries' quota allocations should be maintained at traditional levels and the shares of non-CBI countries must, of necessity, be reduced to accommodate Mexican imports.

Lack of Marketing and Distribution Restrictions

One of the stated objectives of the NAFTA negotiations was to establish the framework for free trade throughout North America. Under this philosophy of creating a North American "common market" in sugar, Mexican sugar growers should not object to being subject to substantially the same marketing controls as U.S. producers. To do otherwise would undermine the express intent of Congress in the 1990 Farm Act, namely to provide traditional off-shore suppliers with guaranteed minimum access to the U.S. market while preserving a viable domestic sugar industry.

Increased domestic production (or decreased consumption) could trigger marketing controls on U.S. sugar producers. This would lead to the anomalous situation where Mexican producers could produce as much sugar as desired while U.S. producers would be subject to marketing controls. To prevent this, Mexican producers should be subject to the same or "substantially equivalent" marketing controls as those imposed on U.S. growers.

Suggested Amendments to H.R. 553

The need for legislation to protect against surges of Mexican sugar imports is obvious. According to an April 1993 Department of Agriculture (USDA) study on the Mexican sugar industry entitled "Mexico's Sugar Industry--Current and Future Situation", prepared by officials of USDA's Economic Research Service and Foreign Agricultural Service, Mexico is expected to have exportable sugar surpluses reaching 800,000 tons by year fourteen of the agreement.

Furthermore, as a result of $2 billion new investment in the Mexican sugar industry, total annual production is expected to increase by over 1 million tons by year fourteen. While this investment may be delayed by the collapse of the peso, it would be wise to have a specific mechanism to protect against import surges from Mexico.

As drafted, Section 102 of H.R. 553 contains some provisions to protect off-shore suppliers. It requires the President to (1) monitor NAFTA's effects on the access of traditional suppliers to the U.S. market, and (2) take action or recommend appropriate legislation to Congress to ameliorate any adverse effects.

These provisions need strengthening to take into account future increased imports of Mexican sugar. It is a virtual certainty that Mexico will become a net surplus producer because of the increased investment described above. By that time it will be too late for any monitoring and consultation measures to have any effect. Therefore, the language of Section 102 should be amended as follows:

(1) Protection of CBI Sugar Quotas. The legislation should provide that, if Mexico's increased imports are counted against the "guaranteed minimum quota," the allocated shares of CBI countries may not be reduced. For example, the Dominican Republic's allocated share of the U.S. sugar quota is 17.6 percent and its share of the guaranteed minimum quota is 220,000 tons, i.e., 17.6 percent of 1.25 million tons. The bill should hold sacrosanct such percentage allocations (and volumes) for all the CBI countries.

(2) Trigger for Presidential Action. Congress has already established a threshold for determining when irreparable injury will occur to traditional off-shore suppliers, that is, whenever total imports are projected to be less than 1.25 million tons, i.e., the "guaranteed minimum quota" established in the 1990 Farm Act. This should be used in Section 102 to specify when the President must act, since in addition, marketing controls will be

in effect in the United States.

(3) Required Presidential Action. Since the second tier duty under the tariff rate quota is the only effective control on imports, the President should be required under Section 102 to reimpose the duty on all Mexican sugar imports whenever the access of traditional suppliers is threatened as described above. However, Mexico would be allowed to avoid a "snap-back" if Mexico imposes stand-by marketing controls on Mexican producers after year six (when the import quota rises to 250,000 tons) similar to those imposed on U.S. producers under USDA's marketing allocating regulations. Thus, Section 102 should mandate a "snap-back" of the second tier tariff on all Mexican sugar imports unless "substantially equivalent" marketing controls are in effect in Mexico whenever marketing allocations are in effect in the United States after year six.

Conclusion

It is extremely important to the Dominican Republic that its sugar exports retain at least the minimum level of access to the U.S. market established by the 1990 Farm Act. Congress has recognized this and in order to accomplish this, it is necessary to enact H.R. 553, with the several amendments set forth herein. This would afford meaningful protections to Dominican sugar exporters and other traditional off-shore suppliers, and would prevent further damage to their economies.

It is fundamentally unfair to give preferential treatment to Mexico for its sugar imports at the expense of the CBI countries. Parity needs to be restored.

Robert W. Johnson II
Counsel
International Sugar Policy
Coordinating Commission of the
Dominican Republic

[BY PERMISSION OF THE CHAIRMAN]

JAMAICA SETS THE STAGE FOR THE TWENTY-FIRST CENTURY

"Jamaica is now a private sector-led, market-driven economy, having successfully completed a quiet economic revolution. Strategic global repositioning of the economy has established Jamaica as the business center of the Caribbean in the 21st century."

Ambassador Dr. Richard L. Bernal

After several years of economic difficulties, Jamaica is now poised to become a major economic powerhouse in the Caribbean. This "quiet revolution" currently underway is the result of the present government's firm commitment to a market-driven, private sector-led economy.

Since the late 1980s, Jamaica has taken several bold steps in a number of areas, resulting in changes not only in its internal economic structure, but also in its external trade relations. Through a coordinated process of structural adjustment and trade liberalization, a new more vibrant economy has emerged.

Economic growth has been positive, increasing from approximately 0.3% in 1991 to an estimated 2% in 1993 and 1994. Production of bauxite, the major export, has increased 11.9 million metric tons, the highest level since 1980. Tourism, another major foreign exchange earner, continues to see strong growth, with Jamaica being named top Caribbean destination by the International Travel Trade Gazette, supported by travel agents worldwide. With respect to agriculture, banana exports have grown significantly, with 78,577 tons exported in 1994, an increase of 1,800 tons over 1993. Finally, in the area of non-traditional exports, apparel exports from Jamaica to the U.S. have increased by 60% since 1989. This includes products from Jamaican subsidiaries of U.S. companies such as Hanes, Jockey, Fruit of the Loom and Polo.

Net International Reserves (NIR) have grown steadily, turning positive at the end of 1993 for the first time since 1976. As of December 1994, NIR stood at J$400 million, compared to minus J$830 million in 1984. This has improved Jamaica's creditworthiness in terms of the government's ability to attract commercial loans and trade credits. Jamaica is once again being viewed favorably by the financial markets, receiving a Bear Stearns rating (lower BB) for the first time in September 1994. This ranking is higher than Brazil, Turkey, Ecuador, Venezuela, Peru and the Dominican Republic. Jamaica's rating with Institutional Investor has also improved.

Major aspects of the "quiet economic revolution" include the following:

A. Trade Liberalization

Jamaica is fully committed to trade liberalization and is a signatory to the recently concluded Uruguay Round Agreement culminating in the formation of the new World Trade Organization (WTO). Jamaica is also a member of the Caribbean Common Market (CARICOM), which is a regional trading bloc consisting of the twelve English-speaking Caribbean countries with Haiti and Suriname as observers. In June of 1994, Jamaica was one of almost forty countries who signed the treaty forming the Association of Caribbean States (ACS) which includes such regional trading giants as Mexico and Colombia. Jamaica's membership in these trade groupings is indicative of the country's continued thrust towards overall trade liberalization and global free trade.

Moreover, Jamaica actively participates in several regional trade-liberalization arrangements with the United States (the Caribbean Basin Initiative - CBI), Europe (the Lomé Convention), Canada (CARIBCAN), and the other English-speaking countries in the Caribbean - the Caribbean Common Market [CARICOM])

The CBI, which allows duty free access of goods from the region to the US market has not only benefitted Jamaica and other countries in the region, but has resulted in increased US trade with CBI countries. In the past decade, two-way trade has grown rapidly exceeding $21 billion in 1993. It has also been estimated that US exports to the Latin American and Caribbean region will exceed those to Western Europe by the year 2000.

The process of trade liberalization which began in Jamaica in 1987 is essentially complete. By December 1991, the average tariff for the economy as a whole was 20.3%, having been reduced from an average tarriff of 49.9% in 1989. The current tariff range is 0% to 45%, but the majority of products carry rates of 10% or less, i.e. 58% of the tariff positions in the Harmonized System Classification bear a tariff of 10% or less. In April 1994, the government acted to further reduce duties on imported raw materials to 0%-5%, down from 5%-25% in 1993. Non-competing raw materials are now duty free, while non-competing capital goods carry a tariff rate of 5%. Duties on competing goods now range from 15%-25%, down from 20%-30%. Two additional phases of tariff reduction are scheduled for 1997 and 1998.

At the present time, import licenses are only required on certain hazardous chemicals, arms and ammunition. Hence, the United States has free access to the Jamaican market, and enjoys most-favored nation status. Tariffs apply to all countries, with CARICOM member countries enjoying some tariff concessions.

There are no non-tariff barriers and there have been no cases of restrictions on U.S. exports by standards, testing, labelling and certification. Government procurement practices allow U.S. firms and goods to compete freely. The Jamaica customs administration,

while still attempting to improve its efficiency, has not and is not an impediment to U.S. exports or investors requiring imported inputs.

Jamaica has also signed a Bilateral Textiles Agreement with the United States, and was the first country to include provisions for anti-circumvention in the accord. The textile and apparel industry has played a crucial role in the development of Jamaica's economy in the last ten years. This industry is the single largest employer of labor in the country and generates almost $400 million in foreign exchange earnings annually. Significantly, roughly 80% of the cost of a finished garment assembled in Jamaica consists of US labor, fabric or other inputs, confirming that trade with Jamaica is actually beneficial to US industry. The Jamaican textiles and apparel industry is competitive in terms of labor cost and production and is a sound investment for foreign firms.

B. Investment Incentives

In keeping with its commitment to trade liberalization, and an open investment regime, Jamaica has indicated an interest in acceding to the North American Free Trade Agreement (NAFTA). Jamaica can now meet all the reciprocity requirements necessary for membership in the NAFTA, having signed a Bilateral Investment Treaty (BIT), and an Intellectual Property Rights Agreement (IPR).

The BIT provides a stable and predictable framework for US investment in Jamaica. The agreement allows US investors virtually free and open access to the Jamaican market and also provides for unlimited repatriation of profits from investment. Jamaica has signed similar agreements with several other countries, including the U.K., Holland, Switzerland and is currently in negotiations with China.

Adequate protection of intellectual property rights is critical to the global competitiveness of firms and service industries worldwide. Under the IPR agreement, Jamaica will accord such protection to firms and industries thus paving the way for increased trade and investment between Jamaican and US firms. Both agreements go beyond the requirements for the NAFTA.

C. Privatisation

In the context of market reforms, the government has undertaken a comprehensive privatization program. To date, the national airline (Air Jamaica), telecommunications, several hotels and all government-owned sugar companies have been privatized. Negotiations are currently underway for the privatization of PETROJAM, the state-owned petroleum corporation, and the Jamaica Railway Corporation. As part of the privatization initiative, Jamaica also has in place a debt-equity program.

D. Market-determined Exchange Rate

As of September 1991, the foreign exchange market has been completely liberalized, with firms and individuals free to hold as much foreign exchange as needed. All exchange controls have been abolished and the government has introduced a "cambio system" of licensed foreign exchange dealers which includes local hotels. As a result of this as well as fiscal and monetary policy changes, the Jamaican dollar has remained stable relative to the U.S. dollar at 33:1 since February 1994. This stability in the exchange rate has had a positive impact on inflation, which fell to 22% on an annualized basis in August 1994, down from 37% in March. Rates for October and November 1994 registered 1.3% and 0.7% respectively.

E. Fiscal Discipline

The government has curbed public spending considerably over the last few years. In 1991/92 the public sector saw a deficit equivalent to 0.4% of GDP. By 1992/93, this has moved to a surplus of 2.2% of GDP, and to 2% of GDP in 1993/94. In tandem with fiscal restraint, steps have been taken to rationalize the civil service to limit costs and improve efficiency. The government work force has been reduced by more than 20%, and the number of government departments has also fallen. Further restructuring of government agencies is underway.

F. Tax Measures

Tax reform has been one of the key components of the government's reform program. Recent initiatives include: raising consumption taxes with the introduction of a value-added tax (the GCT) in 1991; improving tax enforcement; broadening the tax base for withholding taxes on wages and interest income and increasing licensing fees as well as property taxes. As of 1993, the upper ceiling on personal income tax rates was lowered from 33 1/3% to 25%. In addition, the personal income tax threshold has been increased to J$35,000, effective January 1, 1995. As of January 1995, income tax waivers are being granted to investments in the private sector venture capital company, Jamaica Production Fund. This in effect will broaden the range of financial services available to local companies.

Finally, import tax rates have been lowered and stamp duties abolished. Most significantly for American firms operating in Jamaica, the government has also signed a double taxation agreement with the U.S.

G. Financial Intermediation

Commercial bank credit ceilings have been abolished. Open market operations and changes in reserve requirements for the commercial

banks now control credit. Interest rates are also determined by the free market.

Steps are also being taken to strengthen the institutional capacity of the Bank of Jamaica. The Bank has begun to turn over to commercial banks many of its responsibilities as a bank for the public sector. The government has begun to take over its own liabilities, thus reducing Bank of Jamaica losses.

The Jamaican stock market is once again on an upswing, with the Bank's tight liquidity policies and a more stable exchange rate. The stock market index gained 27% in 1994, and advanced by 18% in the first two days of 1995. The stock market is the largest in the Caribbean, both in terms of the number of companies listed (45) and capitalization (US$1.5 billion as of December 1994). It was rated the top-performer for 1992 by the International Finance Corporation, registering growth of 202% in real terms. It is also part of a larger Caribbean stock market network.

H. Human Resources

Government wage guidelines for the private sector have been eliminated. At the present time, only the minimum wage is set by government. Jamaica has a highly literate work force from which semi-skilled, technical and managerial personnel can be sourced. Existing labor laws and institutions are in place to protect the interests of both employees and employers.

I. Price Liberalization

Price liberalization has accelerated since 1989. Price controls are now limited to a few items and general food subsidies have been replaced by targeted subsidies aimed at the poor.

In the final analysis, Jamaica recognizes that ongoing adaptation to global trends via structural transformation of the domestic economy is vital for long-term development and prosperity. Jamaica stands ready to take advantage of the current global environment to achieve sustained growth into the twenty-first century.

Embassy of Jamaica, Washington D.C.
February 3, 1995

STATEMENT OF THE LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

ON THE

CARIBBEAN BASIN ECONOMIC SECURITY ACT, H.R. 553

TO THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS

FEBRUARY 24, 1995

This statement is submitted by the Luggage and Leather Goods Manufacturers of America, Inc. (LLGMA). The LLGMA is an association whose several hundred member companies represent the luggage and flat goods industry in the United States and its suppliers. Products made by LLGMA members are made from a variety of materials, including textiles, leather, and plastic. LLGMA member companies account for the vast majority of all sales of luggage, business cases, and flat goods in the United States. The products of our industry are largely excluded from duty-free treatment under the CBI program.

LLGMA's comments on H.R. 553 are directed to the one-sided manner in which trade benefits are conferred under the bill's provisions. The bill before the Committee would offer NAFTA equivalent tariff benefits to CBI countries for six years before these countries were even asked to consider negotiations to open their markets to U.S. goods.

In her remarks before the Subcommittee on February 10, Deputy U.S. Trade Representative Charlene Barshefsky made the following comments about H.R. 553:

> *'..with a six year grace period in H.R. 553, there may be a temptation to delay reforms in some CBI nations. For example, a current government may see this as something for their successor government to implement -- thus allowing them to take the glory of gaining the NAFTA benefits but postponing the NAFTA obligations for his/her successor to handle.*
>
> *This prospect could lead us to a situation in which benefits are perpetuated with little or no reform in the CBI nations, which is not the direction we want to take [in] U.S. trade policy. U.S. firms that invest in the region as a result of duty-free entry into the United States will argue strongly that such preferences must be continued. And, of course, the countries themselves will want to maintain these new trade preferences.*
>
> *This six-year grace period would also establish an unfortunate precedent for any future FTA negotiations. Other countries would come to expect to receive full NAFTA benefits before beginning to assume NAFTA obligations.*

LLGMA believes that Ambassador Barshefsky has zeroed in on a major defect and primary weakness in the approach taken by H.R. 553: The preferences are given up front without exacting any commitments whatsoever from these countries that they will liberalize their trade regimes. This is not good trade policy and it sets an unfortunate and irreversible precedent for future free trade agreements. For example, what would prevent Chile or other Latin countries -- like the Andean countries with which we have a preferential trade agreement similar to the CBI -- from asking for the same treatment that is proposed for CBI countries under the provisions of H.R. 553?

LLGMA would not oppose this bill if it bound CBI countries to a specific set of actions that would result in reciprocal tariff and trade benefits. Unfortunately, H.R. 553 falls short of this important goal.

Embassy of the Republic of Mauritius

[BY PERMISSION OF THE CHAIRMAN]

Feb 22nd 1995

Congressman Philip Crane
Chairman of the Trade Sub-Committee
House Ways and Means Committee
US House of Representatives
1102 Longworth House Office Building
Washington DC 20515-6348

Dear Chairman Crane:

We understand that the Subcommittee on Trade is currently considering the Caribbean Basin Trade Security Act, H.R. 553. We are writing to present the concerns of the Government of Mauritius regarding H.R. 553, which we fear may result in the diversion of trade opportunities from the African continent to the countries of the Caribbean Basin.

For several years the countries of the African continent have asked the developed countries to provide greater access to their markets for "trade" rather than offering "aid." The response, including from the United States, has not been encouraging, Senior U.S. officials have stated repeatedly during recent visits to African countries that aid to our continent will diminish. At the same time, the U.S. Congress is considering measures that would reduce the opportunities for trade, thereby further disadvantaging the African economies and frustrating attempts to improve the standard of living .

A major source of concern is H.R. 553, the so-called Caribbean Parity Bill, which would extent to the CBI beneficiary countries during a transition period the same advantages that Mexico benefits from under NAFTA, in preparation for full membership in NAFTA. This legislation threatens to undermine seriously access to the U.S. market for several major exports from the African continent, including sugar and textiles/apparel.

Since Mauritius is a major exporter of sugar and textiles/apparel to the United States, our country will be directly affected by the passage of this particular legislation. Since this particular industry is not only a provider of employment to our countrymen and women but also a main source of important foreign currency, we view with alarm any attempts that would disadvantage our exports and thus undermine our economy.

Regarding sugar, Section 102 of HR 533 authorizes the President to monitor the effect, if any, of NAFTA on the CBI beneficiary countries' access to the US sugar market. If the President determines that NAFTA is adversely affecting such access, Section 102 authorizes the President to propose legislation or to take action to ameliorate such adverse affect. Thus, Section 102 seems to contemplate preferntial access to the US sugar market for the CBI sugar exporters, eg. by reallocation of the first tier of the of the US tariff rate quota on sugar.

Any such reallocation in favor of the CBI countries, would, however, reduce and perhaps eliminate access to the US sugar market for the ten African sugar-exporting countries: Congo, Cote d'Ivoire, Gabon, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland and Zimbabwe. Any such discrimination in access to the US sugar market would violate the United States' obligations under the GATT and the World Trade Organization, as recognized by Ambassador Barchefsky in her testimony before the Trade Sub-Committee of the House Ways and Means Committee on February 10th 1995. Moreover, any such discrimination would also violate the terms of the waiver granted by the GATT to the United States on February 15th 1985, to allow implementation of the original CBI program.

In the case of textiles and apparel H.R. 553 would advantage the CBI beneficiary countries over African countries in three ways.
First, the reinforcing of the 807 programme, which allows the duty-free entry of apparel made from U.S. fabric, gives an unfair advantage to the CBI beneficiary countries, which by their proximity to the United States can feasibly carry out such a programme, compared to the African countries which would face insurmountable freight charges were they to attempt to use this programme.

Second, the extension of the preferential tariff rates which Mexico enjoys under NAFTA to those apparel categories under bilateral textile agreement restraints will mean that the CBI beneficiary countries will benefit from duty-free entry for almost all these categories, compared with African countries which will continue to pay 15-20% tariff rates for the next ten years under the phase-out of the Multi-Fiber Agreement.

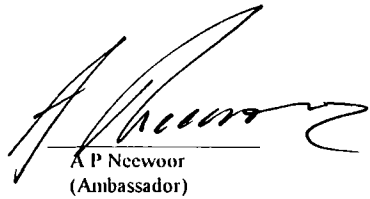
Third, the instructions to the USTR to seek preferential tariff rates for apparel coming from the CBI beneficiary counties and which does not originate in North America, will also prejudice the african exporters. Together, these preferences will almost certainly result in the diversion of apparel trade opportunities from the African countries to the CBI beneficiaries.

While assisting the countries of the Caribbean Basin is a worthwhile goal, it should not be done at the expense of the African countries. HR 553 threatens two of the main categories of exports from the African countries to the United States. We trust that the bill was not intended to have this result and that the Subcommittee will take appropriate steps to avoid unintentionally harming the African countries.

Therefore, we strongly urge that your Committee consider extending to the African countries the same conditions that you are proposing to give to the Caribbean countries under the provisions of the Caribbean Basin Trade Security Act. This would not only uphold equal trading opportunities as proposed under the provisions of the new World Trade Organisation, but would also be of great assistance and encouragement to the emerging industrialization process in the African continent.

Finally, a variety of products exported by the African countries to the United States benefit from the Generalized System of Preferences (GSP), which will expire in July of this year. We urge the subcommittee to give due consideration to renewal of the GSP programme and to maintaining standards of eligibility that will allow the African countries to continue to benefit from this valuable programme.

Sincerely,



A P Neewoor
(Ambassador)

BEFORE THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

COMMENTS OF
THE MAURITIUS SUGAR SYNDICATE
ON H.R. 553

The Mauritius Sugar Syndicate (MSS) respectfully submits the following comments on H.R. 553, the Caribbean Basin Trade Security Act. The MSS is a private sector organization that represents all sugar millers and planters in Mauritius and is responsible for exporting and marketing Mauritian sugar, including sales to the United States under the tariff-rate quota. The views set forth below are presented on behalf of the entire sugar industry of Mauritius.

The MSS's comments are directed solely to Section 102 of H.R. 553, which concerns the effect of the North American Free Trade Agreement (NAFTA) on sugar imports from the beneficiary countries under the Caribbean Basin Economic Recovery Act, also known as the Caribbean Basin Initiative (CBI). Section 102 authorizes the President to monitor the effect, if any, of NAFTA on the CBI beneficiary countries' access to the U.S. sugar market. If the President considers that NAFTA is having an adverse effect on such access, Section 102 authorizes the President to propose legislation or take action to ameliorate such adverse effect.

As the Subcommittee is aware, the sugar provision of NAFTA provides Mexico with preferential access to the U.S. sugar market in the event it becomes a "net exporter" of sugar during the 15-year transition period. Thereafter, Mexico will have unlimited access to the U.S. sugar market. Contrary to the position taken in the United States' submissions in the Uruguay Round negotiations, the Administration has now modified the U.S. Harmonized Tariff Schedule to include sugar imports from Mexico within the first-tier quota of the U.S. tariff-rate quota. *See* Presidential Proclamation No. 6763, 60 Fed. Reg. 1007 (Jan. 4, 1995). Accordingly, any increase in sugar imports from Mexico as a result of NAFTA would necessarily diminish the volume of sugar that could be imported from the other countries that hold allocations under the U.S. tariff-rate quota. While Section 102 of H.R. 553 is intended to protect the CBI beneficiary countries against the threat of reduced access to the U.S. sugar market as a result of NAFTA, the CBI beneficiary countries are not the only countries that would be adversely affected by the sugar provision of NAFTA. Rather, 25 other countries hold allocations under the U.S. tariff-rate quota. Most of these quota holders are developing countries for which sugar exports to the United States constitute a significant source of revenue to fund their economic development. For example, ten developing African countries export sugar to the United States under the tariff-rate quota: Congo, Cote D'Ivoire, Gabon, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland and Zimbabwe. As a group, these developing African sugar-exporting countries are more dependent upon sugar exports than are the CBI beneficiary countries.

Section 102 could have the unintended consequence of actually compounding the injury to the African sugar-exporting countries caused by the sugar provision of NAFTA. For example, as demonstrated by the attached table, if

---

the President were to extend to the CBI beneficiary countries the same sugar access rights granted to Mexico in NAFTA, the CBI beneficiary countries — most of whom are already substantial net exporters — could by themselves supply more than the entire U.S. sugar quota of 1,117,195 metric tons. In other words, Section 102 could result in the complete elimination of access to the U.S. sugar market by the African countries and all other quota holders.

Such discrimination is clearly inconsistent with the fundamental tenet of most-favored-nation treatment (*see* GATT Article 1, section 1), and with the United States' commitment in the Uruguay Round to maintain current market access opportunities. Indeed, Ambassador Charlene Barshefsky testified before this Subcommittee on February 10, 1995:

> We are concerned about the possible implications of the sugar provisions in Section 102, which directs the President to take action if the NAFTA is adversely affecting Caribbean Basin countries. Within the constraints of the existing domestic sugar program and our obligations under the NAFTA and World Trade Organization (WTO), the President has very little discretion to increase sugar access levels or reallocate market shares. *Our WTO obligations prevent the United States from discriminating among countries in allocating the overall reductions in access to the U.S. market.* We ask that this provision [Section 102] be reviewed in light of U.S. commitments.

(Statement by Ambassador Charlene Barshefsky on H.R. 553, February 10, 1995, p. 10 (emphasis added).)

Moreover, because the original CBI program granted preferential trade priviliges to the beneficiary countries, the United States had to obtain a special waiver from the GATT. In granting permission to depart from the standard of nondiscrimination, the GATT expressly required that the U.S. sugar quota continue to be allocated on a nondiscriminatory basis: "The Government of the United States shall ensure that this waiver will not be used to contravene the principle of non-discriminatory allocations of sugar quotas." (GATT Decision of February 15, 1985, para. 4(i).) As recognized by Ambassador Barshefsky, however, Section 102 would violate the GATT waiver upon which the entire CBI program is premised.

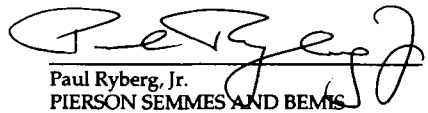
Finally, Section 102 is inconsistent with the spirit of Section 134 of the Uruguay Round Agreements Act of 1994, Pub. L. No. 103-465, § 134, 108 Stat. 4809, 4840 (Dec. 8, 1994), which calls upon the President to "develop and implement a comprehensive trade and development policy for the countries of Africa." Rather than encouraging trade and development in Africa, Section 102 would divert U.S. sugar trade from Africa to the CBI beneficiary countries.

In summary, Section 102 of H.R. 553 recognizes that the sugar provision of NAFTA threatens future access to the U.S. sugar market for numerous developing countries around the world. Unfortunately, as currently drafted Section 102 compounds the risk posed by NAFTA for the African sugar-exporting countries. It is respectfully suggested, therefore, that Section 102 should be either: (1) deleted; (2) modified to extend its protection to all countries that currently hold allocations under the U.S. tariff-rate quota on sugar; or (3) modified to specify that preferential reallocation of the tariff-rate quota on sugar is not authorized as a means of ameliorating any harm caused by the sugar provision of NAFTA. While

any of the foregoing steps would ensure that H.R. 553 does not cause unintended harm to the numerous developing countries that rely upon access to the U.S. sugar market for their economic well-being, the second alternative — *i.e.*, extending Seciton 102 to include all quota holders — would be the preferred result because it would be consistent with the principle of nondiscrimination.

The MSS appreciates the opportunity to submit its views on this important issue and would be happy to provide any further information that may be useful to the Subcommittee in its consideration of H.R. 553.

Respectfully submitted,



Paul Ryberg, Jr.
PIERSON SEMMES AND BEMIS
1054 Thirty-First Street, N.W.
Washington, D.C. 20007
(202) 333-4000

Counsel to the Mauritius Sugar Syndicate

February 15, 1995

Potential Impact of CBI Parity Bill on the U.S. Sugar Quota

Barbados	36,000	8,726	25,000	36,000	36,000
Belize	95,942	13,713	25,000	95,942	95,942
Costa Rica	100,000	18,699	25,000	100,000	100,000
Dominican Republic	326,120	219,404	219,404	250,000	326,120
El Salvador	40,000	32,412	32,412	40,000	40,000
Guatemala	721,386	59,831	59,831	250,000	721,386
Guyana	240,948	14,959	25,000	240,948	240,948
Haiti	(49,000)	8,468	8,468[1]	0	0
Honduras	11,800	12,466	12,466	11,800	11,800
Jamaica	100,751	13,713	25,000	100,751	100,751
Nicaragua	41,800	26,179	26,179	41,800	41,800
Panama	44,500	36,152	36,152	44,500	44,500
St. Kitts/Nevis	22,000	8,468	22,000	22,000	22,000
	45,317	8,726	25,000	45,317	45,317
	1,826,564	481,916	566,912	1,279,058	1,826,564
Mexico	(75,000)	8,468	25,000[2]	25,000	25,000
	1,826,564	**490,384**	**591,912**	**1,304,058**	**1,851,564**

	626,811	**525,283**	**(186,863)**	**(733,369)**

Assumptions:

1. **Haiti fails to qualify as a net exporter.**
2. **Mexico becomes a net exporter in 1996, but does not exceed 25,000 MT net exportable surplus.**
3. **CBI quota holders maintain current net surplus.**
4. **The global quota remains at 1,117,195 MT, the bound level under the Uruguay Round.**

Figures in Metric Tons ("MT").

MILLICOM INTERNATIONAL
Walter L. Threadgill
Vice President, External Affairs

I. INTRODUCTION.

Mr. Chairman, I am Walter L. Threadgill, Vice President for External Affairs for Millicom International, a diversified publicly owned international telecommunications company. We appreciate the opportunity to submit this statement for the record on H.R. 553, the Caribbean Basin Trade Security Act. As further discussed below, we propose that H.R. 553 be amended so that Costa Rica will not be granted "NAFTA parity" unless there is a satisfactory resolution of the expropriation by the government of Costa Rica of the cellular telephone network developed and owned and operated by Millicom in that country. In addition, the Subcommittee should consider amending the underlying the Caribbean Basin Initiative ("CBI") law so that an expropriation finding will result in the immediate termination of CBI beneficiary country designation, as well as denial or termination of NAFTA parity.

Mr. Chairman, while Millicom understands and supports the goals of H.R. 553 to ensure that the countries of the Caribbean Basin are not adversely affected by the implementation of the North American Free Trade Agreement ("NAFTA"), we believe that the benefits provided by H.R. 553 should be enjoyed only by those Caribbean nations which do not engage in expropriation, repudiate contracts or commercial obligations or otherwise seize control of property owned by U.S. persons or businesses beneficially owned by U.S. persons.

As you are undoubtedly aware, Mr. Chairman, the above-cited principles are contained in the Caribbean Basin Economic Recovery Act which established the CBI program in 1983. Costa Rica has received CBI beneficiary country designation and under H.R. 553 would be offered tariff and quota treatment equivalent to that accorded to the U.S., Mexico and Canada under NAFTA. However, regrettably, Millicom is suffering the unfair and unwarranted nullification of cellular telephone service contract rights which it was granted by the Government of Costa Rica in 1989.

Mr. Chairman, Millicom has attempted to resolve this situation through dialogue with Costa Rica, to no avail. In this regard, we have presented the facts of this case to U.S. Government officials who have been supportive. However, we believe the unfair actions of Costa Rica will be rectified only if this Subcommittee and the Congress reaffirm in the strongest terms that CBI beneficiary status and NAFTA parity opportunities will be denied to Costa Rica, and any other CBI nation which engages in expropriation or does not live up to its commercial obligations.

II. BACKGROUND.

A unit of Millicom International, Millicom International Cellular S.A. ("MI Cellular"), operates cellular telephone networks in fifteen countries in Europe, Asia, Africa and Latin America. As you may know, a cellular telephone network is a communications system that allows mobile units to communicate with a central switch via radio frequencies, and through that switch, with the public telephone network, thus enabling the mobile units to make and receive calls. Through a subsidiary, Millicom Costa Rica, S.A. (MCR), MI Cellular developed the first state-of-the-art cellular telephone network for Costa Rica.

In March 1989, through its national telephone monopoly (ICE), Costa Rica contracted with MCR to develop and operate a cellular telephone network to the country. The contract was entered into only after MCR sought and received the government's designation of and authorization to use radio frequencies for network operations. In addition, MCR received written assurances that no restrictions existed which would prejudice MCR's ability to own and operate the network.

In April 1989, MCR began cellular telephone service for the Central Valley region (later expanded to cover both coasts and the north of the country) and has assets of more than $6.2 million. At present the network has approximately 4,000 subscribers with projected growth over the next ten years to more than 50,000 subscribers. Projected revenues are also promising and we believe within the near term the network will have a going concern value of approximately $100 million. In fact, MCR has plans to make additional investments in order to expand cellular telephone service to other parts of Costa Rica. MCR is also a large client of ICE, the Costa Rican telephone monopoly. MCR makes substantial payment for services related to calls generated by its customers and also pays substantial fixed monthly ICE charges.

MCR has fulfilled all of its contractual obligations to provide the people of Costa Rica with the benefits of Information Age technology. MCR's reward has been Costa Rica's unilateral nullification of its contract rights and expropriation, effective May 10, 1995, of the network which the company developed and operates.

III. EXPROPRIATION OF MCR'S BUSINESS.

After MCR had completed the introduction of its valuable cellular telephone technology to Costa Rica during 1989, various Costa Rican authorities began a concerted four-year campaign to expropriate the network and MCR's technology for the national telephone monopoly. The authorities (with the apparent or tacit approval of the government) began restricting MCR's technology, by strangling MCR's access to the local cellular market and destroying the value of its contract rights. This campaign was culminated by a political judicial decree nullifying MCR's operating rights. This campaign has been well-reported and is thus well-documented by the Costa Rican press (See Chronology of Events, Attachment 1).

Costa Rica has not used outright force. Instead, the government has employed more subtle but equally insidious techniques of regulatory expropriation to nullify MCR's property rights. The panoply of administrative, legislative, judicial and extra-legal measures used in Costa Rica and ICE to expropriate MCR's business include:

1. Costa Rica has retroactively retracted its pre-contract assurances that MCR's business operation satisfied local legal requirements.

2. ICE deliberately stunted MCR's business expansion by refusing to grant permits for additional trunk line interconnections essential for that expansion.

3. ICE established a competing cellular network and engaged in unfair marketing and business tactics. For example, ICE raided MCR's customer base, after MCR had opened up and educated the market, by offering below-market subsidized prices (including free subscriptions to government ministries and legislators).

4. ICE unions instigated newspaper and other attacks upon MCR to intimidate MCR and scare away potential customers and orchestrated judicial activity culminating in a ruling abrogating MCR's contract rights, and ordering closure of MCR's operations by May 10, 1995.

The provisions in the CBI authorizing statute anticipate and condemn the kind of actions inflicted upon MCR by Costa Rica (See 19 U.S.C. §2701(b)(2), Attachment 2). In fact, if the expropriation of MCR's business had occurred before Costa Rica was designated as a CBI beneficiary country, that designation would have been denied unless the expropriation were satisfactorily resolved, or the condition was waived by the President based on

U.S. national security or economic interest. Clearly there is no such interest in this case and H.R. 553 should be amended to deny NAFTA parity to Costa Rica (and any other nation) which engages in expropriation.

IV. CONCLUSION

Costa Rica's expropriation of MCR's business is the most egregious case in a distressing pattern of flagrant disregard for the property rights of U.S. investors in Costa Rica in particular, and in CBI beneficiary countries in general as documented by the Senate Foreign Relations Committee Republican Staff.

A March 1994 Senate Foreign Relations Committee Republican Staff Report, "Confiscated Property of American Citizens Overseas: Cases in Honduras, Costa Rica, and Nicaragua" (Senate Print 103-77), highlights examples of 1,603 cases the Republican Staff had learned about in Costa Rica and the two other CBI beneficiary countries. The Republican Staff found expropriations in Latin America to be widespread. The report clearly indicates that the issue of expropriations by CBI beneficiary countries should be revisited by Congress.

Illustrative of the Costa Rica's cavalier attitude is President Figueres' statement in April 1994 that the expropriation of MCR's $100 million business is merely a "pebble in the shoe" ("piedrita en el zapato") of Costa Rica-U.S. relations.

We believe that the legislation to grant NAFTA parity to CBI beneficiary countries must be used as the opportunity to redress the expropriation of MCR's business. The granting of NAFTA parity to Costa Rica must be conditional. We propose that:

- H.R. 553 be amended to re-apply with respect to MCR's case the expropriation condition for CBI beneficiary country designation as a condition for the granting of NAFTA parity to Costa Rica.

- An amendment be considered to H.R. 553 to re-apply the expropriation condition for CBI beneficiary country designation to other Costa Rican cases, and expropriation by other CBI beneficiary countries.

- An amendment be considered to H.R. 553 to add the expropriation condition to the list of CBI beneficiary country designation conditions that cannot be waived by the President, in the context of the re-application of the conditions for the granting of NAFTA parity.

- Consideration be given to amending the CBI law to specify that an egregious expropriation, like MCR by Costa Rica, or a pattern of expropriation, shall result in termination of CBI beneficiary country designation (and NAFTA parity).

ATTACHMENT 1

CHRONOLOGY OF EVENTS

PHASE I--THE GOVERNMENT OF COSTA RICA AUTHORIZES MCR BUSINESS OPERATION IN COSTA RICA

March 18, 1987 -- COMCEL presents application to Oficina de Control Nacional de Radio (CNR) for assignment of frequencies to establish a cellular telephone system.

June 1, 1987 -- CNR directs Notice 690 to the Executive President of ICE requesting information about the frequencies being used by ICE, as COMCEL has applied for such frequencies as ICE is not using.

June 25, 1987 -- Ing. Armando Bonilla of ICE responds to CNR stating the frequencies which ICE is using at that time and in the near future.

August 11, 1987 -- CNR officially authorizes COMCEL to use frequencies of 830-833 Mhz and 875-878 Mhz (and later authorizes COMCEL to use additional frequencies of 834-835 Mhz and 879-880 Mhz).

Feb. 17, 1988 -- Minister of Government and Police publishes agreement for assignment of frequencies to COMCEL.

October 20, 1988 -- Ing. Alvaro Soto Mora, Director General of Industries of Ministry of Economy and Commerce, states in letter to Ann Toby, Commercial Attache of United States Embassy:

> "se ha determinado que no existen en el pais restricciones para que empresas se instalen a desarrollar la telefonia celular. Por consiguiente, nuestro gobierno no tiene objección alguna a la inversión propuesta..."
>
> "it has been determined that there are no restrictions in the country for establishing companies to develop cellular telephony. Hence, our Government has no objection to the proposed investment."

March 17, 1989 -- ICE, which is the government of Costa Rica's national telephone monopoly, through Ing. Nestor Calderon Aguirre, Chief of Commercial Section of Metropolitan Area of ICE, sends written offer to MCR detailing the administrative and contractual aspects of the ICE-MCR relationship.

March 18, 1989 -- MCR accepts ICE offer and 15 Telephone Service Contracts for interconnecting trunk lines.

April 27, 1989 -- MCR cellular telephone system is officially inaugurated; first subscribers sign onto system on May 27.

May-Dec. 1989 -- MCR installs cellular system in Costa Rica. MCR system has state-of-the-art hardware and software, including a NovAtel MMC with one SMC which controls 6 cell sites with a total of 100 voice channels. The system uses AMPS

technology, and has 60 trunks to interconnect with ICE's public telephone network. The links between cell sites and the SMC are microwave hops of 8 GHz. Links to ICE are 15 GHz (one of the highest frequency microwave hops in Costa Rica). MCR's initial coverage area comprises the Central Valley (including the capital, San Juan) and the main towns of Puntarenas, Limon and the San Carlos region.

PHASE II--THE GOVERNMENT OF COSTA RICA ACTS TO DESTROY MCR'S BUSINESS FOR ITS OWN BENEFIT

Feb. 5, 1990 -- Costa Rica's Attorney General Office (Procuraduria General de la Republica) issues non-binding opinion, in response to request from National Assembly Deputy Clinton Cruishank, that MCR needs approval from National Assembly (Asamblea Legislativa) in order to operate, allegedly because the Radio and TV Law does not allow the Radio Office to grant usage of frequencies in the cellular range. MCR sales fall in half for several months after opinion.

Jan. 17, 1991 -- Costa Rica's Contraloria (Comptroller Office), in response to request from National Assembly Deputy Ricardo Araya on MCR operation, states that it will not interfere with Attorney General Office and will not proceed any further in this matter.

Feb. 25, 1991 -- The Attorney General Office issues a second non-binding opinion, in response to request from National Assembly question "How to proceed in order to take the frequencies away from Millicom," that MCR contract is illegal. The rationale has changed from February 1990 opinion; now it is that ICE has monopoly for cellular service in Costa Rica.

May 27, 1991 -- Controlaria, notwithstanding its January 1991 statement that it would take no further action, declares void a contract to provide cellular services between MCR and Cempro (a government office), thereby making it impossible for public offices to contract services with MCR.

June 20, 1991 -- The government's Servicio Nacional de Electricidad (SNE) issues a statement, out of its area of competence, declaring MCR's operation to be unconstitutional.

Sept. 3, 1991 -- Rumbo, a weekly publication, states that "within a year ICE will be offering a cellular service that will cost 25% less than Millicom's".

Sept. 7, 1991 -- ICE engineers union requests that "Millicom be stripped of the frequencies it uses for the cellular system".

Sept. 28, 1991 -- Newspapers headline that "Contraloria gives ultimatum to Minister Fishman" concerning shutdown of MCR operation.

October 2, 1991 -- National Assembly Deputy Marcos Gonzalez files an unconstitutionality action against MCR's cellular operations.

October 3, 1991 -- Minister Fishman states that MCR "cellular operation is legal".

October 6, 1991 -- ICE engineers union denounces "political pressures in the cellular issue" which would avoid shutdown of MCR operation.

October 25, 1991 -- ICE engineers union files an unconstitutionality action against the MCR cellular concession, which will be consolidated with action filed by Deputy Gonzalez.

Feb. 1992 to August 1993 -- Committee of "Diputados" of the National Assembly review work of ICE and issue report that MCR has acted in good faith, but that ICE has been negligent in the dealings with MCR.

Nov. 22, 1992 -- MCR requests new block of 1000 cellular phone numbers in order to serve additional customers.

Feb. 12, 1993 -- MCR runs out of cellular phone numbers and must stop servicing new customer subscriptions because ICE has delayed in acting on outstanding November 1992 request.

April 2, 1993 -- ICE finally assigns a block of 1000 new numbers to MCR.

May 10, 1993 -- MCR requests additional cellular numbers to service ever-increasing customer demand.

July 1993 -- MCR runs out of cellular phone numbers again (so that no new subscribers can enter its system). Since then, ICE has refused to grant MCR any more numbers or trunk lines (needed to handle the extra traffic) notwithstanding the outstanding MCR request of May 1993.

October 26, 1993 -- Constitutional Court rules that the grant of frequencies to COMCEL was unconstitutional but gives MCR a one-year stay before having to close its operation. On May 10, 1994, the full sentence is published in the Judicial Bulletin, thereby giving MCR until May 10, 1995 to cease operation. Although at least 15 companies, offering commercial services such as paging, trunking and two way radio services, could be affected by the ruling, they are not mentioned in the sentence nor have they suffered any consequences.

Nov. 22 & 29, 1993 -- ICE unions stage work stoppages to prevent the government from sending bill to the National Assembly to resolve MCR's situation. They also seek written agreement from the heads of the political parties represented in the National Assembly that they will not pass a "Millicom" law in the event the government presents it.

April 2, 1994 -- ICE announces that it will enter cellular telephone market.

April 25, 1994 -- SNE publishes tariffs for ICE's cellular system.

April 27, 1994 -- President-elect Jose Figueres states that MCR's plight is mere "piedrita en el zapato" ("pebble in the shoe") of Costa Rica - U.S. relations and refuses to authorize legislative relief for MCR.

May 4, 1994 -- ICE starts offering its cellular system to the general public. The ICE system is justified as a system for servicing rural areas (where MCR wanted to expand service but was prevented from doing so by ICE). However, the first ICE cell sites are located in San Jose and adjacent cities, and it soon becomes apparent that the ICE system is in direct competition with MCR. ICE's tariffs are below market and among the lowest in the world ($.20 per minute during peak hours). ICE also offers free subscriptions to government Ministers and National Assembly Deputies.

July 19, 1994 -- ICE publishes a "Licitacion Privada", a request for bids by invitation only, to "lease with option to buy" a cellular system with a final capacity of 50,000 subscribers.

May 10, 1995 -- MCR has been ordered to cease all business in Costa Rica.

ATTACHMENT 2

The Caribbean Basin Economic Recovery Act listed countries eligible for CBI beneficiary country designation. 19 U.S.C. §2702(b)(2) states that any country shall not be designated if such country --

> (A) has nationalized, expropriated or otherwise seized ownership or control of property owned by a United States citizen or by a corporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens,
>
> (B) has taken steps to repudiate or nullify --
>
> (i) any existing contract or agreement with, or
>
> (ii) any patent, trademark, or other intellectual property of, a United States citizen or a corporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of property so owned, or
>
> (C) has imposed or enforced taxes or other exactions, restrictive maintenance or operational conditions, or other measures with respect to property so owned, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of such property, unless the President determines that --
>
> (i) prompt, adequate, and effective compensation has been or is being made to such citizen, corporation, partnership, or association,
>
> (ii) good-faith negotiations to provide prompt, adequate, and effective compensation under the applicable provisions of international law are in progress, or such country is otherwise taking steps to discharge its obligations under international law with respect to such citizen, corporation, partnership, or association, or
>
> (iii) a dispute involving such citizen, corporation, partnership, or association, over compensation for such a seizure has been submitted to arbitration under the provisions of the Convention for the Settlement of Investment Disputes, or in another mutually agreed upon forum, and
>
> promptly furnishes a copy of such determination to the Senate and House of Representatives.

[BY PERMISSION OF THE CHAIRMAN]

COMMENTS ON H.R. 553,
THE CARIBBEAN BASIN TRADE SECURITY ACT

ON BEHALF OF

WEST INDIA RUM REFINERY, LTD.,
A MEMBER OF WIRSPA

West India Rum Refinery, Ltd., a Member of The West Indies Rum and Spirits Producers Association ("WIRSPA"), appreciates the opportunity to provide the Subcommittee on Trade with its views on H.R. 553, the Caribbean Basin Trade Security Act.

WIRSPA and its members fully support the Subcommittee's efforts to ensure that the North American Free Trade Agreement ("NAFTA") does not damage the special relationship which the United States has established under the Caribbean Basin Initiative ("CBI") with the island nations of the Caribbean and the small countries of Central America. By providing "NAFTA parity" for products currently excluded from the CBI program and establishing a framework for free trade in the future, H.R. 553 would make important contributions to efforts to coordinate the NAFTA and the CBI.

We support not only the concept of NAFTA parity but also the most rapid possible enactment of H.R. 553. Our statement addresses, however, only one section of this important bill: section 103, designed to resolve an anomalous situation impeding the access of Caribbean rum to the U.S. market. The problem is a technical one but is significant to Caribbean rum producers.

A Rule-of-Origin Anomaly

The problem addressed by section 103 is that liqueurs and alcohol-based coolers exported from Canada to the United States cannot use Caribbean rum as a base without sacrificing the duty-free treatment they would otherwise receive. (Caribbean rum in this discussion includes rum from the U.S. Virgin Islands as well as rum from CBI beneficiary countries.)

Caribbean rum entering Canada is classified under HTS 2208.40. When that rum is then used to produce another product such as a rum cooler, the finished product is typically classified under HTSUS 2208.90 upon exportation to the United States, the Canadian processing having rendered the finished product a product of Canada for general customs purposes. (According to the Customs Service, either HTSUS 2208.90.45 or HTSUS 2208.90.80 could apply.) Under the CFTA/NAFTA rules of origin governing availability of duty-free treatment, however, a change between subheadings 2208.40 and 2208.90 is not sufficient to confer a change of origin for the input (rum). Thus, the finished rum-based beverage in the above scenario would not be eligible for preferential CFTA/NAFTA tariff treatment. Rather, as a product

of Canada deemed ineligible for preferential treatment, the finished product would be dutiable under HTSUS 2208.90.

The explanation for this result is complicated and involves General Note 3(c)(vii)(R)(4)(gg) of the Harmonized Tariff Schedule and NAFTA Annex 401-10. Special CFTA/NAFTA rules designed to cover such anomalous cases do not, for various reasons, apply in this particular situation. For example, within certain tariff headings, a finished product with sufficient value-added in Canada will automatically have Canadian origin for CFTA/NAFTA purposes. This value rule does not apply to Caribbean rum in the scenario described above, however, as there must be a specific provision for the value rule to operate and neither the CFTA nor the NAFTA contains such provision for headings 2207 through 2209. Similarly, while the NAFTA contains a de minimis rule allowing a product to qualify for NAFTA benefits so long as components of non-North American origin account for no more than seven percent of its total value, NAFTA Art. 405, headings 2207 through 2208 are specifically excluded from the de minimis rule. See NAFTA Art. 405(h).

At present, then, such Caribbean rum used in Canada cannot enter the United States duty-free even though (1) most Caribbean producers can ship rum directly to the United States (or to Canada) duty-free and (2) components added to the Caribbean rum in Canada would otherwise be entitled to CFTA/NAFTA duty-free treatment. This is a clearly unintentional outcome resulting from the interplay of various CFTA rules of origin that were, in relevant part, carried forward in the NAFTA. It adversely impacts both Caribbean rum production and Canadian processors and is inconsistent with the spirit of market access that underlies the CFTA, the NAFTA, and the CBI.

Proposed Solutions

A first step to resolve the problem was taken by Rep. Gibbons in 1993, when he introduced H.R. 2885 to allow Canadian producers to use Caribbean rum as an input without incurring the penalty of the loss of CFTA treatment. Specifically, the bill provided that Caribbean rum shall be treated as a product of the United States for purposes of determining whether a Canadian product incorporating that rum qualifies for CFTA treatment when entering the United States. After the bill was introduced, rum producers in the U.S. Virgin Islands discovered that they faced the same problem as producers in CBI beneficiary countries and asked that they be included in future legislative drafts (which has in fact happened).

A second proposal contemplated administrative, rather than legislative, action to solve the problem by proclaiming a change in the NAFTA rules of origin under Section 201(b) of the NAFTA Implementation Act. While principally used for accelerated tariff reductions, the Section 201(b) authority appears suffi-

ciently broad to permit the necessary change -- essentially the same change that would have been effected by H.R. 2885 -- to be proclaimed by the President after consultation and layover. WIRSPA filed a petition -- endorsed in a letter to Ambassador Kantor from Rep. Gibbons -- and pursued the 201(b) approach until notified by officials at the Office of the U.S. Trade Representative ("USTR") that the Administration preferred to include an appropriate Caribbean Basin Economic Recovery Act ("CBERA") amendment in the Caribbean trade provisions it hoped to attach to the Uruguay Round Agreements Act.

WIRSPA worked with USTR on a revised legislative draft (this time structured as a CBERA amendment) which was subsequently modified in minor respects as a result of discussions with Customs and other Treasury officials. The resulting provision -- which now appears as section 103 of H.R. 553 -- adds the rum-based beverages in question to the list of "eligible articles" set out in 19 U.S.C. § 2703(a). Specifically, it provides that CBERA duty-free treatment applies to "liqueurs and spirituous beverages produced in Canada from rum" provided that:

- the rum is the growth, product or manufacture of a beneficiary country or of the U.S. Virgin Islands and is imported directly into Canada;
- the liqueurs and spirituous beverages are imported directly into the United States, entering under particular tariff subheadings; and
- the rum accounts for at least 90 percent by volume of the alcoholic content of the liqueurs and spirituous beverages.

This CBERA amendment was included in the Administration and House versions of the Uruguay Round implementing legislation. While dropped for procedural reasons from the final bill, it encountered no opposition on substantive grounds in the Congress. Indeed, there has been no opposition, domestic or otherwise, to WIRSPA's effort to solve this problem or to the specific CBERA amendment developed in consultation with USTR. Initial concerns voiced by the U.S. Virgin Islands have been fully met. In preparing a formal report on the Gibbons bill in 1993, the International Trade Commission staff contacted other potentially interested parties and identified no opposition.

The Rum Cooler Rule-of-Origin Problem is Unique

As the discussion above makes clear, the situation addressed by section 103 is an utterly anomalous and unintended result of NAFTA and CBI rules of origin drafted at different times and now interacting in unforeseeable ways. There is no basis for concern that this provision will lead to, or set a precedent for, other legislated changes to generally sound and time-tested CBI rules.

While other ways to solve the rum anomaly have been explored, the approach reflected in section 103 is the most concise and appropriate available. We are grateful for section 103's inclusion in the bill and urge that it be enacted at the earliest possible opportunity.

Rum is a CBI Success Story That Should Be Sustained

Rum is a product of special importance for many CBI countries, having been produced in the Caribbean for centuries and occupying a significant place in local cultures and economies. Under the CBI, Caribbean producers have obtained a foothold in the large U.S. rum market, earning much needed foreign currency and creating new jobs in the region. The International Trade Commission has identified rum as one of a limited number of products benefitting most from the CBI.

As we and others have cautioned this Subcommittee in the past, however, the NAFTA threatens to overwhelm those hard-won gains by extending the preference enjoyed by Caribbean rum to Mexican rum which already enjoys huge advantages in energy costs and other factors. It is particularly appropriate, then, that a bill designed to curb the NAFTA's ill-effects on the CBI include a remedy for the anomalous and unintended situation addressed by section 103.

* * * * *

This Subcommittee has long been in the forefront of efforts to protect and promote the interests of governments throughout the Caribbean region. We look forward to working with you to ensure that these important interests can be reconciled with the equally important objectives of the NAFTA.

February 24, 1995

TELEPHONE (202) 332-7100

[BY PERMISSION OF THE CHAIRMAN]

EMBASSY OF THE REPUBLIC OF ZIMBABWE
1608 NEW HAMPSHIRE AVENUE, N.W.
WASHINGTON, D. C. 20009

YOUR REF.:

February 23 1995

Chairman Phillip Crane
Subcommittee on Trade
Committee On Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C 20515-6348

Dear Mr Chairman,

We understand that the Subcommittee on Trade is currently considering the Caribbean Basin Trade Security Act, H.R. 553. We are writing to present the concerns of the Government of Zimbabwe regarding H.R. 553, which we fear may result in the diversion of trade opportunities from the African continent to the countries of the Caribbean Basin. We feel this will have a negative impact on Zimbabwe's access to the United States market for products like sugar, textiles and apparel.

For several years the countries of the African continent have asked the developed countries to provide greater access to their markets for "trade" rather than offering "aid." The response, including from the United States, has not been encouraging, senior U.S. officials have stated repeatedly during recent visits to African countries that aid to our continent will diminish. At the same time, the US Congress is considering measures that would reduce the opportunities for trade, thereby further disadvantaging the African economies and frustrating attempts to improve the standard of living.

A major source of concern is H.R. 553, the so called Caribbean Parity Bill, which would extend to the CBI beneficiary countries during a transition period the same advantages that Mexico benefits from under NAFTA, in

period the same advantages that Mexico benefits from under NAFTA, in preparation for full membership in NAFTA. This legislation threatens to undermine seriously access to the U.S. market for several major exports from the African continent, including textiles/apparel.

Since Zimbabwe is a major exporter of textiles and/or apparel to the United States, our country will be directly affected by the passage of this particular legislation. This particular industry is not only a provider of employment to our countrymen and women but also a main source of the much needed foreign currency. We view with alarm and grave concern any attempts that would disadvantage our exports and thus undermine our economy. Economic stability and political stability are inextricably linked, Direct foreign investment which has proven to be the engine of growth for most developed and emerging markets will be adversely affected if there is no economic or political stability.

In the case of textiles and apparel H.R. 553 would advantage the CBI beneficiary countries over African countries in three ways.
First, the reinforcing of the 807 programme, which allows the duty-free entry of apparel made from U.S. fabric, gives an unfair advantage to the CBI beneficiary countries, which by their proximity to the United States can feasibly carry out such a programme, compared to the African countries which would face insurmountable freight charges were they to attempt to use such a programme.

Second, the extension of the preferential tariff rates which Mexico enjoys under NAFTA to those apparel categories under bilateral textile agreement restraints will mean that the CBI countries will benefit from duty-free entry for almost all these categories, compared with African countries which will continue to pay 15-20% tariff rates for the next ten years under the phase-out Multi-Fibre Agreement.

Third, the instructions to the USTR to seek preferential tariff rates for apparel coming from the CBI beneficiaries countries and which do not originate in North America, will also prejudice the African exports. Together, these preferences will almost certainly result in the diversion of apparel trade opportunities from the African countries to the CBI beneficiaries.

While assisting the countries of the Caribbean Basin is a worthwhile goal, it should not be done at the expense of the African countries. HR 553 threatens two of the main categories of export from the African countries to the United States. We trust that the bill was not intended to have this

result and that the subcommittee will take appropriate steps to avoid harming the African countries including Zimbabwe.

We strongly urge that your committee consider extending to the African countries the same conditions that you are proposing to give to the Caribbean countries under the provisions of the Caribbean Basin Trade Security Act. This would not only uphold equal trading opportunities as proposed under the provisions of the new World Trade Organisation, but would also be of great assistance and encouragement to the emerging industrialization process in the African continent.

Finally, a variety of products we export from Zimbabwe benefit from the Generalized System of Preferences (GSP), which will expire in July of this year. We urge the subcommittee to give due consideration to the renewal of the GSP programme and to maintaining standards of eligibility that will allow the African countries to continue to benefit from this valuable programme.

Yours Sincerely,

Amos B.M. Midzi
Ambassador