REMARKS OF SEN. JOHN HEINZ
AMERICAN MINING CONGRESS
FEBRUARY 3, 1982
WASHINGTON, D. C.

Mr. Overton, Mr. Cherones, Friends.

It's a great pleasure for me to be here today. In fact, it's a great pleasure any time I get the chance to sound off about my favorite subject -- international trade.

I have to tell you that I'm a little self-conscious about appearing in the flesh. Last spring, you may recall, I was unable to come to the 1981 coal convention in St. Louis because the President's Budget Reconciliation Resolution came to the Floor the same morning I was supposed to speak. Al Overton gave my speech and gave it so well, I hear, that perhaps I ought to have him do it again ... Al, come up here ...

I always enjoy the chance to discuss trade policy with people who have hands-on experience exporting. I recognize Gordon McVane, a fellow Pennsylvanian who certainly knows the export ropes, and I hope that my ideas about exports mesh with the practical wisdom collected in this room.

The world in which Americans trade is fast changing, and we have to run to catch up. I am concerned that the basic principles of an open world trading system are being deeply and dangerously undermined. America commendably still respects the principles of free market access and reciprocity.

Other partners in world trade are increasingly ignoring these principles.

While this poses obvious threats to American economic interests, what I fear most are the increasingly heavy blows to the free market principles that we know and believe to be the best.

That's why I believe our trade policy is at a crossroads.

The Multilateral Trade Negotiations and the Trade Agreements Act that grew out of the MTN represent a watershed for American trade policy. They signal the end of the postwar era of Western European and American domination of the international economic system.

Today, we face a new economic world with new economic realities and new challenges for the United States

Unrelentingly, economic growth is no longer a luxury of the Western Industrial nations. As the world economic pie grows, others are taking larger and larger slices.

Economic power is no longer located just in the industrial west. We now live in a multipolar world in which new economic centers are becoming more and more powerful.

No longer are non-Western nations silent. The level of rhetorical confrontation is rising. The new international economic order is not the idle dreaming of Third World bureaucrats anxious to justify their nations' own selfish policies. It is a case of the "have nots" realizing how much more the "haves" have. And there is frustration of the lack of institutional means of changing that.

As Third World economic power and control of resources inevitably grow, impatience will grow with it -- and the LDCs' capacity to do something about it. While the U.S. and Western Europe and Japan are still leading economic forces in the world, we can no longer control events through a simple exercise of will.

As a great power, the United States has a responsibility to face this new world and its challenges four-square.

As a world leader we must consistently promote the twin principles of the free market and reciprocity and work to build more effective economic institutions that promote these principles.

This morning I want to share with you, first, some thoughts on where we are specifically with regard to coal exports. And then, second, some thoughts on where the U.S. is today with regard to trade policy given the new realities.

As Chairman of the Caucus, the subject of coal exports is near and dear to me, and I'll be bringing several export issues before the Caucus this session.

How do we stand as a world coal supplier? Well, we have a lot of room to grow into expanding world markets. Total non-U.S. and non-Communist steam coal demand, will be 389 million tons in 1985, up from 280 million tons in 1979. That figure will expand to 507 million tons by 1990 and 650 million tons by 1995. Naturally, each country will try to meet as much of this demand as possible from domestic sources. But the World Steam Coal Service estimates that Europe and the Far East will need to import 141 million metric tons in 1985: more than double their 1981 imports. That expansion will continue, so that by 1990, the two regions will need to import 253 million metric tons. We can't expect to supply all of this need -- our competitors in Australia, South Africa and Poland will see to that -- but with aggressive marketing efforts -- and some important changes at home -- we can pick up a good percentage of it.

The most serious obstacle to increasing our export trade is the condition of our ports ...

The Reagan Administration early on took a position that all waterway improvement projects -- both ports and inland waterway systems -- should be financed 100 percent by private entities.

This change in what had been Federal policy for over 150 years caused an uproar in Congress and the submission of some 20 bills at variance with the Administration approach.

In the Senate, the deep draft harbor improvement proposal that appears most likely to pass is the Abnor/Moynihan bill, which calls for 100 percent private funding of construction projects, and 25 percent private funding of operation and maintenance under a complex formula of user fees.

A third proposal that will probably influence the end product is the Hatfield/Thurmond bill, which would supply a higher percentage of federal aid. Smaller ports favor this idea.

As might be expected, another export issue of considerable interest to the Caucus is coal slurry pipelines. However, Secretary of the Interior Watt has testified before the House Interior Committee in opposition to Federal eminent domain for coal slurry pipelines, on states' rights grounds. Hence, the coal slurry bill looks dead in the water -- this year, at least.

These are some of the coal export issues we'll be dealing with this year in Congress, and I must say that to me the current outlook for coal is nowhere near so bright as it ought to be. Expansion will not happen by itself. We'll have to work hard on it.

Now, looking at the big picture, the main new reality of the international trading system is growing world protectionism.

Ironically, one reads in the press that our number one trade problem is growing American protectionism. In fact, our number one problem is the protectionist extremism practiced by others -- in the form of non-tariff measures, subsidies, performance requirements and other such trade distorting practices. These activities are growing, and they allow nations to avoid facing their real economic problems.

A good example is the Japanese practice of severely restricting our market access until their industries are big enough to threaten us. To many Americans it may sound trivial that the Japanese have created a safety standard for baseball bats that only six manufacturers -- all Japanese, of course -- can meet. But when this is multiplied by autos, computers, and other semiconductors, the result is massive protectionism.

Only last weekend, after tremendous pressure, Japan announced the removal or modification of 67 of its identified trade barriers. But if you look at that list closely, you will see that every important barrier -- like the agriculture quotas or the auto inspection requirements -- is not on it.

The Reagan Administration has begun its attack on protectionism by breaking down our own self-imposed barriers to exports and trade. Every President since John F. Kennedy has commissioned studies on how to increase exports. And every study has made the same recommendations, over and over again, because so few of them have been implemented. Now, under the leadership of the Reagan Administration, we are finally acting.

Export Trading Company legislation has passed the Senate, and I am optimistic it will pass the House and be signed into law in this Congress. It will create new exporters and help small ones expand by giving them access to bank capital. It will also protect exporters from uncertain antitrust enforcement.

Amendments to the Foreign Corrupt Practices Act (S.708) have also passed the Senate, and will be on the House's agenda this year. I have talked with Tim Wirth about this and I hope by mid-March he'll have a proposal of his own.

On another front, we have enacted reforms in the tax treatment of Americans working abroad, Sections 911 and 913, that will solve the problems created by the 1976 Tax Reform Act.

I submit we have made a good start -- the best start in the last 20 years. If we succeed in enacting this body of legislation into law, we will allow American companies to become far more aggressive -- in short, to compete again in the world market.

Adlai Stevenson, my predecessor as Subcommittee Chairman, used to say we always shot ourselves in the foot. I have always been amazed at our ability to quickly reload and repeat the process.

The question still remains whether our aim is ever going to improve.

One area important to you where that remains a serious question is the Export-Import Bank. According to recent data, the Bank has made loans or guarantees in the mining/refining sector for projects valued at nearly $15 billion. The Bank has supported projects valued at over $400 million in coal mining and processing alone. No doubt you are well aware of the critical role the Bank plays in these exports.

We have an Administration that has correctly and forthrightly advocated the critical role of the private sector and private investment in economic development. It has not, however, always tried to enforce that principle abroad as hard as it has at home.

With respect to export financing, the OECD's agreement on raising the interest rate floor from 7.75% to 10% when our prime rate is 15% or better is not a victory.

And raising the Bank's interest rates higher and faster than everyone else is not the way to achieve one. It is not using the Bank as leverage. It is dropping out of the race. It is unilateral disarmament in multi-lateral cut throat trade war. We don't advocate unilateral disarmament in defense. It is equally suicidal in trade.

The Bank has a statutory mandate to provide competitive financing. But in the past six months it has:

-refused to renew expiring preliminary commitments at the promised rate, thus removing the American bidder from the competition at the end of the process, after the preparatory work has been done;

-refused to alter its terms to match the competition, even when the match would be consistent with the international arrangement;

-in a recent aircraft decision, reneged on a public promise to provide direct financing for new generation aircraft, quite possibly costing us a major Latin American market and several other regional markets as well.

These are internal ExIm Bank management decisions. There is also the funding story. Congress, to its credit, has consistently voted more money for the Bank than the President has requested. Despite that record, and despite the demonstrated need, the President will request even less for the Bank in his fiscal 1983 budget than he did last year.

Unfortunately, a Bank funding decision will not mean postponement of the project or a shift to private sector support. In the international market there is no postponement because one bidder isn't ready. A noncompetitive financing offer means loss of sale and probably permanent loss of market.

The collective effect of these decisions is to encourage U.S. companies to build factories overseas or license their technology abroad. This not only costs us jobs, it is costing us our technological lead.

In failing to support adequately the export of goods, United States manufacturers instead export technology and the U. S. as a nation ends up transferring our real comparative advantage, our technological advantage, abroad -- to both friendly and unfriendly nations. This also has serious national security implications.

In the Yamal pipeline case, for example, much of the same equipment we are denying the Soviets is available through our licensees in Europe, who may prove beyond our control. Had we more aggressively provided the sale of American products rather than encouraging our own manufacturers to go elsewhere, we would not now be faced with this kind of political -- and national security -- dilemma.

Accordingly, I plan shortly to introduce new legislation that will address these management and funding problems. It will help to make the Bank's Directors and Bank financing (1) more independent by fixing the Director's terms, (2) removing the Bank from the Federal budget, and (3) it will provide for a new financing program. This will be controversial legislation, and I cannot promise it will pass. But it will focus the debate, clarify the issues, and demonstrate the Bank's importance to a U.S. economy that is increasingly tied to that of the rest of the world.

It is also disappointing that the Administration, which has so skillfully moved our domestic economy toward a freer market, has not yet coupled its free trade message with action. A freer global economy will take more than rhetoric. We have to be willing to use our clout to get the results we want.

I believe we need broad new legislation to deal with the growing problem of world protectionsim and the process of developing that has already begun.

Last week we held hearings on my bill to provide a better means of dealing with unfair trade practices by nonmarket economies. This week I will introduce legislation to provide broad new authority to act against performance requirements and other limitations on the free market and to promote the principles of reciprocal market access. Other bills setting up a program of trade incentives for developing countries that does not discriminate against the poorest, a domestic adjustment program that is comprehensive and effective once injury has been found, and a better governmental structure to give trade the emphasis it deserves in government policy making, are pending or soon to be introduced.

Needed though these changes are, I have to admit that a trade bill is nonetheless a unilateral initiative that can't do the entire job. We need a multilateral effort as well.

Last fall I proposed a new Bretton Woods Conference to facilitate open exchange of views and narrowing of differences, not the development of a sterile communique in the official language of the bureaucracy.

What we should look for at a new Bretton Woods is the development of a new set of economic rules and a new institution to deal with them. The rules should embody the principles of the free market access and reciprocity that most countries already say they believe in.

Such a conference is not an idle dream, but a necessity in a rapidly changing world if we are to attain a system based on free trade and reciprocity. The need for that order and how to achieve it is the message I want to leave you with today. If America is to be a leader, we must act like a leader. We can't hold back. We have to usè our enormous economic might aggressively.

Only by joining the staying in the fray can we maintain a strong voice for a freer, fairer international trading order. That is to the advantage of both ourselves and the world.