

REMARKS OF SENATOR JOHN HEINZ (R-Pa)
EXPORT TRADING COMPANY CONFERENCE
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I'm particularly pleased to be here today as we inaugurate in Philadelphia a new era in exporting. An era exemplified by the Export Trading Company Act. This legislation, which occupied a large part of my time and thoughts over the past three years, will create a new class of "Export Experts" -- people and companies dedicated to increasing our exports.

They will do that by helping the new or potential exporter surmount unfamiliar barriers and regulations and break through the red tape. Exporters will continue to take business risks. But they will succeed where others have not because the exporters of this new era will have the necessary expertise, confidence, and capital to do the job. The Export Trading Company legislation is the key to opening this door. And it is a broad threshold of promise. For example, if our state's coal industry alone fully exploits the legislation, over 36,000 jobs could be created.

You here today are a diverse group. I hope you will profit from the experts here today to discuss the Act. This legislation represents a very important step in the direction of a more competitive America. But it is not the only step, and it does not address all our problems in being competitive exporters. What I propose to do today is discuss those problems with you and give an assessment of our progress and what we can do.

Rising World Protectionism

These problems include not only our sad decline in the international marketplace, but the growing erosion of commitment to the free market and the rules that govern it.

Like all of us, I believe in the free market system, but I also believe we Americans are the only nation left that practices it.

For example, in 1979 the Japanese announced they were relaxing their foreign investment laws, but their individual ministries retained authority to impose restrictions on foreign investment in Japanese companies if, among other things, national security would be affected. Thus far national security has been used to restrict investment in a cosmetic/pharmaceutical company and a silk cocoon producer.

Taiwan last year arbitrarily banned imports of soda ash, a product where we have a clear competitive advantage, in violation of both general and specific trade agreements.

Another rapidly growing problem is outright theft of American designs and technology. Apple computer, for example, recently filed complaints against 20 companies for pirating its computer technology. We have had similar problems with other kinds of sophisticated equipment as well as cases involving products like Pac-Man and Rubik's Cube. Apparently, if it sells well here, you can be sure it will be illegally--and often poorly--copied in Hong Kong or Taiwan and sold at sharply reduced prices here in third markets.

There are many more examples that are public knowledge--beef and citrus quotas and laborious testing requirements in Japan. Restrictions on transborder data flows in Europe. Canada's energy program. They all demonstrate that the basic principles of an open world trading system are being deeply and dangerously undermined. It may be the exception in the United States, but I'm afraid protectionism is the rule elsewhere in the world.

This head-long rush to protectionism and beggar-thy-neighbor policies means a near total breakdown of the international rules of fair trade.

Reciprocity

Congress has noticed and has been the first to react. Senator Jack Danforth of Missouri and I both introduced reciprocal market access bills in the last and now again in this Congress.

Reciprocity legislation is intended to provide the President with broad discretionary authority and flexible new tools to attack trade barriers. It will not force action. It will not require automatic sector-by-sector retaliation. But, it will open others' doors (not shut ours) by giving the President the means to translate tough talk into tough action. As the nation with the most open, developed economy in the world, we have few barriers left to trade away. Our leverage with those who want trade to be a one-way expressway to U.S. markets is our open market. We should demand a two-way street, and threatening to slow the traffic down until we get it is not only our best leverage, it is our only leverage.

In a thumbnail sketch, that is what reciprocity is all about -- providing leverage and a means to use it in order to expand open markets.

Our reciprocity legislation was not enacted last year. It was not enacted because of attacks from both the free traders and the protectionists. The former said it would lead to retaliation. They ignored the sanctions and barriers already in place against us.

The latter said it was too weak. In their search for the perfect answer, they ignored the limits of what was politically possible and internationally responsible.

These same forces threaten the bill this year. The free traders maintain a principle they are unwilling to fight for. They would prevent us from using the very tactics necessary to restore the discipline of the free market that others have abandoned.

The protectionists would recreate Fortress America, shut us off from the international system by impenetrable walls.

But neither extreme will win this war. We will not leave the world market, but neither will we allow it to take advantage of us. I know that all of you will join me in fighting for a responsible and tough-minded trade policy, one which will restore discipline to the system, and thereby preserve the free market.

Shooting Ourselves In the Foot

National barriers, of course, are not the only problem; and discipline not the only answer. Much of our current difficulty, on both the export and import sides, stems from current world economic conditions. Global recession, high interest rates, a disproportionately high dollar, have all contributed to our current fix. Such conditions reduce demand and make our exports more expensive. Even our competitive exports become unwelcome abroad as waves of protectionism sweep many countries.

Getting the deficit down farther, reducing unemployment -- will all help, but we also have to restore our competitive edge internationally. Most of all, that means removing our own barriers to exports, and it means getting our flabby industries in shape.

Speaking of our own barriers to exporting, Adlai Stevenson, my predecessor as Chairman of the International Finance Subcommittee, used to claim we had a tendency to shoot ourselves in the foot. Accurate as that observation is, what has always amazed me is our ability to quickly reload and keep firing!

The real question, though, is: will our aim ever improve?

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. Why the same recommendations? Because so few of them have been implemented. Now, after a frustrating twenty years, we are finally acting with the leadership of the Reagan Administration.

The Export Trading Company Act, the main focus of today, became law last October. Regulations for the anti-trust part should shortly be issued in final form. The comment period on regulations for the banking portion of the law expires next month. Already several banks have announced their intentions to form ETCs.

On occasion our Export Trading Company legislation has been the victim of some exaggerated claims, and I would like to take a minute to put it back in the proper perspective. Export trading companies will not solve all our export problems. They will not make every small businessman an exporter. They will not create 47 new Mitsubishis. But they will ease entry into exporting for many. They will provide access to capital for many current exporters, and they will help change our traditionally insular attitude about overseas business by helping us see new opportunities and seize them. And that, it seems to me, is enough to ask of one bill.

Let's get back to how we stop shooting ourselves in the foot. The Foreign Corrupt Practices Act has provided some real ammunition. That is why we passed in the Senate amendment to clarify the ambiguities in the Foreign Corrupt Practices Act, S. 708 in the last Congress. However, the House did not act on them. This year I have reintroduced the Senate-passed bill, S. 414. The hearing was held yesterday, and I expect quick and favorable action on it in the Senate.

One area during the last Congress we did succeed in was exacting 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.

Another problem area, one where we may have amputated at the knee, relates to last year's Presidential decision to impose export controls on goods related to the Yamal pipeline, the resultant required breaking of existing contracts and what amounted to an unprecedented extraterritorial extension of U.S. law. That action, following as it did after President Carter's unsuccessful grain embargo, however laudable the goal, created deep and serious doubts abroad as to the reliability of American suppliers. Frankly, we cannot expect people to buy from us if neither they -- nor we -- ever know with certainty if we will be permitted to sell. I'm pleased that Secretary of State George Shultz, a man with a private sector background in exporting, has finally silenced that machine gun.

A sizeable opportunity to prevent reoccurrence is available this year because the Export Administration Act must be renewed -- another responsibility of my subcommittee. I have introduced a renewal bill which will provide for contract sanctity while tightening enforcement of national security controls. If enacted, I believe this bill will help restore the credibility and reliability of American suppliers.

Today, as we stand on the threshold of making the Export Trading Companies legislation an effective force, I submit we have made a good start -- the best start in the last 20 years. And if we succeed in enacting this body of legislation into law, we will have come a long way in allowing American companies to again compete in world markets.

I am pleased to say that in the last month we have also finally begun to make progress on the Eximbank. The Bank has lowered its rates to the same levels our competitors maintain. The President, in his State of the Union message, endorsed my proposal to create a war chest fund to meet foreign credit subsidies. This is a major reversal of previous policy, one which has been obtained through long hours of lobbying and education.

Thus far our victory has been largely rehetorical. We still face the reality of translating the President's promise into more dollars and better management decisions.

I cannot overemphasize the importance of the Ex-Im Bank to our exports. As you know, a non-competitive financing offer most often means loss of the sale and often permanent loss of market. If our government cannot end other nations' subsidies and will not match them, we force major losses abroad upon our companies here at home. And we also force the outright transfer of business and technology abroad as industries move overseas or license their products in order to obtain competitive financing. Those, in the Administration and elsewhere, who complain about the movement of important American know-how and technology overseas should realize that our own policies accelerate this problem.

Avoiding Protectionism

Restoring competitiveness, however, means more than improving our export profile. It also means getting our domestic industries into shape

- so they can better withstand imports
- so they can produce a competitive product

To our older "smokestack" industries like steel or automobiles, that means adjustment, a difficult and painful process. Historically, we have not done it well. To try to remedy our past failure and provide a framework for government assistance to an industry without the bureaucracy and frustration of central planning, or the political pitfalls of credit allocation, I will shortly propose legislation to tie more extensive and effective import relief to the preparation of an industry adjustment plan agreed upon and committed to by labor, management, and government. This system will force distressed industries to confront all their problems and devise their own solutions to them. No longer will imports take the entire blame.

But because they are always partly to blame, real import relief remains an important part of the package. It will give the industry an umbrella -- time to get its domestic house in order. Time to become competitive.

What I'm describing is a hard-nosed but humane approach to industrial adjustment. And we desperately need a national commitment to adjustment. The absence of an adjustment program gives affected industries nowhere to go but the Congress, and nothing to ask for but protection. I hope to be circulating draft legislation for comment shortly.

All of you here today are going to work hard to make our hopes for exports and jobs and competitiveness a reality. You are probably as aware as I am that maintaining free market principles and restoring our competitiveness is harder with each passing month. I believe that succeeding at that is as important to our long-term survival as is our national security policy and defense capability. You here today -- with your experience in international trade -- know better than anyone what we face. Our choice is to demonstrate leadership, or to economically wither and succumb.

Our situation reminds me of the Priest and the Rabbi who go to a prize fight together. As the boxers are about to go to the middle of the ring, the Rabbi notices one of the boxers crossing himself. Puzzled, he turns to the Priest and says, "Father, what does that mean?" "Rabbi," says the Priest, "It doesn't mean a thing if you can't fight."

Today, I ask you to join with me and others to fight. I urge you to dedicate -- or rededicate -- yourselves to fighting world protectionism -- so that we can preserve not just our own economic strength, but the free market system that -- we know from experience -- will better all the peoples of the world.

Thank you.