

REMARKS OF SEN. JOHN HEINZ (R-PA)
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I am particularly pleased to be here today to speak to you about international trade and the Congressional agenda for the next 18 months.

The companies represented here today have been instrumental in the post-war era in expanding the export of American goods and services. Today that record is under pressure as never before. Our challenge is to maintain this competitiveness in the face of some serious problems.

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.

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.

Last year both Senator Jack Danforth of Missouri and I decided it was time to stop talking about protectionism and introduced reciprocal market access bills. A combined version has already passed the Senate.

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. But, it will open other's doors 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.

The International Debt Crisis

One effective means we do have to combat protectionism is the international monetary fund. Created in 1944 to help stabilize the world trading and financial structure, the IMF is just as important today as a source of stability and a force against protectionism.

I am happy to report to you that, after a series of exhaustive hearings in my Subcommittee, the Banking Committee reported the quota increase to the full Senate without a dissenting vote. That bill, which contains a number of necessary reforms of international lending and bank supervision, was passed by the Senate essentially intact on June 8.

The Senate vote confirmed that the IMF is an absolutely vital part of the effort to stabilize the international trading system during this time of stress. Until they look closely at the statistics, many Senators and Congressmen don't realize how vital international trade is to the U.S. economy. I needn't remind this audience that 40 percent of farm production and 20 percent of industrial production is accounted for by the export market or that service exports have grown faster than any other sector. What is particularly significant, however, is that almost 40% of that market is in the developing world, with almost half of that in Latin America where the most significant debt problems exist.

Without an effective IMF adjustment program, countries such as Mexico, Brazil, and Argentina would almost certainly turn to increased protectionism and subsidy programs along with abrupt cancellation or postponement of major development projects. Last year, for example, exports to Mexico, our third largest market dropped by \$6 billion, causing the loss of almost 200,000 U.S. jobs compared to 1981. The IMF adjustment programs are our best insurance against protectionist solutions and precipitous export cut-offs. Moreover, the IMF seal of approval conveyed by a successful adjustment program is the signal which the international banking community demands as the prior condition for the continued extension of credit to these troubled economies to keep them from going over the edge into default.

Shooting Ourselves In The Foot

The other significant step which we must take in the 98th Congress, however, is to remove our own barriers to exports. 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 20 years, we are finally acting with the leadership of the Reagan Administration.

The 97th Congress

Already we have made some progress. Two vital pieces of trade legislation were passed during the last Congress. Sections 911 and 913 of the Internal Revenue Code were revised so that Americans working abroad are no longer penalized in a way which virtually invites American businesses to employ foreign management personnel, who, in turn, are more likely to write specifications for -- and order equipment from -- foreign sources.

The Export Trading Company Act, which I was proud to have introduced and to have managed through the legislative process, was signed into law last October.

The Commerce Department and the Federal Reserve Board have moved quickly to write regulations for the banking and the antitrust titles of the legislation. Two bank applications have already been approved, and I am confident that the positive effects of this legislation on the U.S. economy will soon be felt.

Foreign Corrupt Practices Act

We could also improve our aim by revising the Foreign Corrupt Practices Act. That is why the Senate acted to clarify the ambiguities in the Foreign Corrupt Practices Act, S. 703, in the last Congress. However, the House did not act, and this year I have again reintroduced the Senate-passed bill, as S. 414. That bill was favorably reported last month by the Banking Committee and I expect quick Senate action on it in the near future. Once again, however, the key to real progress lies in the House. The recent agreement between the Foreign Affairs and Commerce Committees that the latter will act within 60 days of the former approving a bill is a positive development. I have met with House members involved in this agreement, and I hope we are at long last on the right track to producing a bill.

Export Administration Act

Another serious problem area relates to last year's Presidential decision to impose export controls on goods related to the Yamal Pipeline. The resulting broken contracts and unprecedented extraterritorial extension of U.S. law 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 am pleased to report that the Senate Banking Committee has approved a bill to reauthorize and revise the Export Administration Act. That bill is a joint proposal by Senator Garn and myself. One of its changes should be of particular interest to this audience.

That is the provision for contract sanctity with regard to foreign policy controls. The President, of course, would still have the power to cut across existing contracts under the International Emergency Economic Powers Act, but he would have to justify such action as a national emergency. Had this measure been in effect last year, the divisive and destructive disputes with our allies over extraterritorial application of U.S. law could have been avoided.

I would not try to claim that this bill solves all the problems exporters have with the Export Administration Act. But I would argue that it is a positive step in the direction of re-establishing the United States as a reliable supplier to the world market, and that is no small accomplishment, given our recent history.

The bill makes no changes in the anti-boycott provisions. Earlier this year we made an effort to bring together the private sector groups that produced this law in 1977 to see if agreement was possible on revisions. I was particularly interested in conforming the so-called Ribicoff amendment, a tax provision, to the Export Administration Act. While there has been a willingness to meet, the effort has yet to bear fruit. And from the Congressional point of view, that process is the only way to make progress on this issue. It is clear that Congress has no interest in changes without a private sector consensus.

Export - Import Bank

Finally, let me make a few comments about the Export-Import Bank, whose charter is up for renewal this year. As most of you know, this is not a new battle for me. I fought for increased funding and expanded programs at a time when there was little support for the Bank among my colleagues or within the Administration. Finally it looks like we may be making progress. I am pleased with the recent increase in support for the Bank, both by the President in his State of the Union Address and among a number of potential Presidential candidates, who seem to have discovered the significant job-creating characteristics of the Bank.

All of this is gratifying, but most of it is still rhetoric. Translating the President's promises and the offers of support from others into more dollars for the Bank and a more aggressive policy from the Bank's directors is not yet a reality.

But achieving those goals is one step closer with the Banking Committee's recent reporting of S. 869. Among other things, our bill provides fixed staggered terms for Bank directors to give the board policy independence and continuity.

Another provision grows out of my belief that the surest way to avoid foreign export subsidy competition is to demonstrate our ability and willingness to respond. Sometimes restraint is taken for lack of will. That is why we have created a program that will develop a U.S. counterpart to foreign mixed credit programs, which have had an alarming growth in recent years as the export credit arrangement has shut off other means of subsidy. We estimate that the pernicious practice of foreign mixed credits cost us as much as \$500 million in lost sales in 1982, and we have to use our leverage to stop it.

S. 869 also makes an important change with regard to service exports. ExImBank simply has not been willing to support purely service exports in a manner commensurate with their growing importance.

The bill seeks to remedy this neglect by affirming, in unmistakable legislative language, the importance which the Committee attaches to service exports along with explicit direction to the Bank to give the same full and equal treatment to services it gives other sectors. This will encourage Bank funding for prefeasibility studies and other service exports not directly related to an immediate export of manufactured goods.

This should also mean that large multi-national construction companies will no longer be forced to book projects out of their overseas subsidiaries in order to take advantage of funding for the early stages of such projects.

The most critical provision of the bill is the one which clarifies the competitive mandate of the ExImBank. That mandate has been interpreted by the Bank's current leadership as giving equal weight to the twin objectives of providing competitive financing and keeping the Bank self-sufficient. In times of high interest rates, that interpretation has led the Bank to unilaterally raise its rates above that of the competition, no matter what the cost of lost sales. It also means that the Bank directors can arbitrarily decide not to support certain classes of sales even when such U.S. products are in clear competition with foreign products in many places in the world.

My bill makes it absolutely clear that the first and overriding mandate of the bank is to be fully competitive in all of its programs. The Bank fails to fulfill its very

reason for existence when it provides loans at uncompetitive rates because it fears temporary losses. But that is just what it did last year. I have been told by Chairman Draper that the Bank must be self-sustaining. Self-sustaining for what? If the Bank fails to fulfill the mission for which it was created, there is no point to sustaining it at all.

The Congress must make absolutely clear its determination that the Bank was created to provide competitive financing for U.S. exporters. This is its primary mandate.

Conclusion

I am glad to have had this opportunity to discuss world trade issues and the congressional agenda. I ask you to join with me to fight for a freer world trading system and a more competitive U.S. trade policy. I urge you to dedicate -- or rededicate yourselves -- to these twin goals. You know as well as I, that the two go hand in hand, but neither will be achieved without hard work and intelligent policy decisions on the part of the Administration and the Congress. I urge you to speak out on these issues while you can still make a difference in the outcome.