

November 14, 2000

FSC REPEAL AND EXTRATERRITORIAL INCOME EXCLUSION ACT OF 2000

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Statement of HON. RON PAUL OF TEXAS

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- We've heard proponents of this FSC bill argue for tax breaks for U.S. exporters, which, of course, should be done. Those proponents, however, argue that this must be done to move the United States into compliance with a decision by the WTO tribunal. Alternatively, opponents of the bill, argue that allowing firms domiciled in the United States to keep their own earnings results in some form of subsidy to the `evil' corporations. If we were to evaluate this legislation based upon the floor debated, we would be left with the choice of abandoning U.S. sovereignty in the name of WTO compliance or denying private entities freedom from excess taxation.

- Setting aside the aforementioned false choice of globalism or oppression by taxation, there are three reasons to consider voting against this bill. First, it perpetuates an international trade war. Second, this bill is brought to the floor as a consequence of a WTO ruling against the United States. Number three, this bill gives more authority to the President to issue Executive

Orders.

- Although this legislation deals with taxes and technically actually lowers taxes, the reason the bill has been brought up has little to do with taxes per se. To the best of my knowledge there has been no American citizen making any request that this legislation be brought to the floor. It was requested by the President to keep us in good standing with the WTO.

- We are now witnessing trade war protectionism being administered by the World (Government) Trade Organization--the WTO. For two years now we have been involved in an ongoing trade war with Europe and this is just one more step in that fight. With this legislation the U.S. Congress capitulates to the demands of the WTO. The actual reason for this legislation is to answer back to the retaliation of the Europeans for having had a ruling against them in favor of the United States on meat and banana products. The WTO obviously spends more time managing trade wars than it does promoting free trade. This type of legislation demonstrates clearly the WTO is in charge of our trade policy.

- The Wall Street Journal reported on 9/5/00, 'After a breakdown of talks last week, a multi-billion-dollar trade war is now about certain to erupt between the European Union and the U.S. over export tax breaks for U.S. companies, and the first shot will likely be fired just weeks before the U.S. election.'

- Already, the European Trade Commissioner, Pascal Lamy, has rejected what we're attempting to do here today. What is expected is that the Europeans will quickly file a new suit with the WTO as soon as this legislation is passed. They will seek to retaliate against United States companies and they have already started to draw up a list of those products on which they plan to place punitive tariffs.

- The Europeans are expected to file suit against the United States in the WTO within 30 days of this legislation going into effect.
  
- This legislation will perpetuate the trade war and certainly support the policies that have created the chaos of the international trade negotiations as was witnessed in Seattle, Washington.
  
- The trade war started two years ago when the United States obtained a favorable WTO ruling and complained that the Europeans refused to import American beef and bananas from American owned companies.
  
- The WTO then, in its administration of the trade war, permitted the United States to put on punitive tariffs on over \$300 million worth of products coming into the United States from Europe. This only generated more European anger who then objected by filing against the United States claiming the Foreign Sales Corporation tax benefit of four billion dollars to our corporations was 'a subsidy.'
  
- On this issue the WTO ruled against the United States both initially and on appeal. We had been given until November 1st to accommodate our laws to the demands of the WTO.
  
- H.R. 4986 will only anger the European Union and accelerate the trade war. Most likely

within two months, the WTO will give permission for the Europeans to place punitive tariffs on hundreds of millions of dollars of U.S. exports. These trade problems will only worsen if the world slips into a recession when protectionist sentiments are strongest. Also, since currency fluctuations by their very nature stimulate trade wars, this problem will continue with the very significant weakness of the EURO.

- The United States is now rotating the goods that are to receive the 100 to 200 percent tariff in order to spread the pain throughout the various corporations in Europe in an effort to get them to put pressure on their governments to capitulate to allow American beef and bananas to enter their markets. So far the products that we have placed high tariffs on have not caused Europeans to cave in. The threat of putting high tariffs on cashmere wool is something that the British now are certainly unhappy with.

- The Europeans are already well on their way to getting their own list ready to 'scare' the American exporters once they get their permission in November.

- In addition to the danger of a recession and a continual problem with currency fluctuation, there are also other problems that will surely aggravate this growing trade war. The Europeans have already complained and have threatened to file suit in the WTO against the Americans for selling software products over the Internet. Europeans tax their Internet sales and are able to get their products much cheaper when bought from the United States thus penalizing European countries. Since the goal is to manage things in a so-called equitable manner the WTO very likely could rule against the United States and force a tax on our international Internet sales.

- Congress has also been anxious to block the Voice Stream Communications planned purchase by Deutsche Telekom, a German government-owned phone monopoly. We have not

yet heard the last of this international trade fight.

- The British also have refused to allow any additional American flights into London. In the old days the British decided these problems, under the WTO the United States will surely file suit and try to get a favorable ruling in this area thus ratcheting up the trade war.

- Americans are especially unhappy with the French who have refused to eliminate their farm subsidies--like we don't have any in this country.

- The one group of Americans that seem to get little attention are those importers whose businesses depend on imports and thus get hit by huge tariffs. When 100 to 200 percent tariffs are placed on an imported product, this virtually puts these corporations out of business.

- The one thing for certain is this process is not free trade; this is international managed trade by an international governmental body. The odds of coming up with fair trade or free trade under WTO are zero. Unfortunately, even in the language most commonly used in the Congress in promoting 'free trade' it usually involves not only international government managed trade but subsidies as well, such as those obtained through the Import/Export Bank and the Overseas Private Investment Corporation and various other methods such as the Foreign Aid and our military budget.

- Lastly, despite a Constitution which vests in the House authority for regulating foreign commerce (and raising revenue, i.e. taxation), this bill unconstitutionally delegates to the President the `authority' to, by Executive order, suspend the tax break by designating certain property `in short supply.' Any property so designated shall not be treated as qualifying foreign trade property during the period beginning with the date specified in the Executive order.

- Free trade should be our goal. We should trade with as many nations as possible. We should keep our tariffs as low as possible since tariffs are taxes and it is true that the people we trade with we are less likely to fight with. There are many good sound, economic and moral reasons why we should be engaged in free trade. But managed trade by the WTO does not qualify for that definition.