

Opening Statement

Subcommittee on International Monetary Policy and Trade

Financial Services Trade

Chairman Doug Bereuter

June 26, 2001

The Subcommittee on International Monetary Policy and Trade meets in open session today to examine financial services trade. The Subcommittee will hear from private sector witnesses who will testify about financial services trade as it pertains to insurance, banking and securities. This hearing will be the beginning of this Subcommittee's and the full Committee's examination of this important subject. In fact, on July 11th, United States Trade Representative Robert Zoellick will brief the members of the Financial Services Committee on pending issues in financial services trade.

The Financial Services Subcommittee on International Monetary Policy and Trade has jurisdiction over trade as it pertains to financial services. This is quite important as U.S. cross-border trade in financial services has recently grown quite significantly. U.S. cross-border transactions are between resident U.S. companies and foreign consumers. In year 2000, U.S. cross-border exports of financial services (banking, securities, and insurance) equaled \$20.5 billion, which is an increase of 26.5 percent relative to 1999. Moreover, unlike the current overall U.S. trade deficit, U.S. financial services trade had a positive balance of \$8.8 billion in 2000. It is important to note that these statistics do not even include the activity of the affiliates of U.S. companies who are physically located in a different country.

Before introducing our distinguished panel of witnesses, I would like to briefly stress the following three issues that are quite important to today's hearing: U.S. policy towards foreign financial institutions, barriers to financial services trade, and current efforts to open financial service markets. I am interested in the thoughts of our witness panel on these three particular subjects, as well as other relevant subjects and issues.

First, the U.S. uses a policy of "national treatment" for foreign financial institutions that have a presence in the U.S. National treatment allows foreign owned financial institutions and U.S. domestically owned financial institutions to be treated the same. In fact, under the Financial Reports Act of 1988, the Secretary of the Treasury must provide to Congress a quadrennial study of changes in laws that effect national treatment of foreign banks and securities firms in the U.S.

Second, U.S. financial service firms do confront many types of trade barriers. For example, Japan, until recently, restricted sales of foreign insurance companies of life and non-life insurance. Furthermore, the Brazilian government denies foreign marine cargo

insurers the ability to compete for business. I am interested in other specific examples which restrict the foreign market access of U.S financial institutions.

Third, even with these trade barriers, there are current efforts to open up financial service markets. Financial services trade is part of the larger framework of World Trade Organization (WTO) negotiations on trade in services. The General Agreement on Trade in Services (GATS) within the WTO was concluded in 1997. As a result, a Financial Services Agreement (FSA) included member commitments to provide national treatment and market access to foreign providers of financial services. Moreover, in year 2000, a new round of service negotiations began in the WTO.

Furthermore, the Free Trade Area of the Americas (FTAA) is another example of an effort to open up financial service markets. In June of 1998, nine negotiating committees, including one for financial services, were established among the 34 nations in the Western Hemisphere. Due to the prospective emerging markets, the U.S. financial service sector could benefit greatly from the FTAA.

Lastly, this Member believes that giving the President Trade Promotion Authority (TPA) would provide new opportunities for financial services trade. While the U.S. continues to be the global leader in financial services, this position could be threatened by the lack of TPA. Currently, the European Union has free trade agreements with 27 countries, while the U.S. has only two such free trade agreements which are signed into law. The TPA would greatly enhance the credibility of the U.S. negotiating position in both the WTO and the FTAA.

On May 10th, President Bush provided Congress with an outline of his 2001 legislative agenda including TPA. In addition, Representative Phil Crane introduced a TPA bill, H.R. 2149, which currently has 89 cosponsors, including this Member.

To assist the Subcommittee in examining these issues, I am pleased that we will have the opportunity to hear from our distinguished panel of private witnesses. First, Mr. Peter O'Connor, the Executive Vice President, of Global Government Affairs and New Markets for Ace INA, will testify on behalf of the American Insurance Association. Ace INA, which has offices in 50 countries, is one of the world's largest providers of property and casualty insurance. Mr. O'Connor has 30 years of international management experience in Europe, the Middle East, Africa, South America, and Asia Pacific.

Second, the Subcommittee will hear from Thomas L. Farmer, the General Counsel of the Bankers' Association for Finance and Trade (BAFT). This association, which represents internationally active financial institutions and companies, promotes the expansion of financial service markets worldwide. Mr. Farmer has had a distinguished career which includes being a founding member of the Overseas Development Council and a former General Counsel of the Agency for International Development.

Third, Mr. Steve Judge will testify on behalf of the Securities Industry Association (SIA). The SIA represents nearly 700 securities firms (including investment banks,

broker-dealers, and mutual fund companies). SIA member-firms are active in both U.S. and foreign markets. Mr. Judge has been the head of the Securities Industry Association's Washington Office since 1993. Prior to joining SIA, he was a congressional staff member for more than 13 years.

In addition, Dr. Mark Weisbrot, the Co-Director of the Center for Economic and Policy Research in Washington DC, will testify. Dr. Weisbrot has written different publications on trade and globalization. In addition, he is the author of a weekly column on economic and policy issues that is distributed to newspapers by the Knight-Ridder/Tribune Media Services.

We welcome the distinguished panel to our hearing. And, without objection, your written statements will be included in their entirety in the Record. I turn to the distinguished Ranking Member of the International Monetary Policy and Trade Subcommittee, Representative Bernie Sanders, for any comments that he may have.