

STATEMENT OF CHAIRMAN BOB DOLE

THE NEW YORK METROPOLITAN TRANSIT AUTHORITY'S PURCHASE OF CANADIAN BUILT SUBWAY CARS POSES FUNDAMENTAL TAX AND TRADE POLICY ISSUES.

THE TAX ISSUES

SAFE HARBOR LEASING IS NOT A NEW ISSUE FOR THE FINANCE COMMITTEE.

CONCERNED ABOUT WIDESPREAD REPORTS OF ABUSE, WE FIRST HELD HEARINGS ON THE OPERATION OF THE SAFE HARBOR LEASING RULES ON DECEMBER 10TH OF LAST YEAR.

WE HAVE HELD ADDITIONAL HEARINGS IN MARCH. THE FOCUS OF THESE PREVIOUS HEARINGS HAS BEEN THE PRIVATE USE OF SAFE HARBOR LEASING.

THE 1981 ECONOMIC RECOVERY TAX ACT ALSO CREATED A VERSION OF SAFE HARBOR LEASING FOR PUBLIC TRANSIT AUTHORITIES. UNDER THIS PROVISION, MASS TRANSIT AUTHORITIES LIKE THE MTA CAN SELL TAX TITLE TO THEIR SUBWAY CARS AND BUSES TO PRIVATE TAXPAYERS WHO MAY THEN CLAIM THE DEPRECIATION DEDUCTIONS (BUT NOT THE INVESTMENT TAX CREDIT).

SOME HAVE CRITICIZED THIS MASS TRANSIT LEASING PROVISION BECAUSE IT CREATES NEW TAX DEDUCTIONS, UNLIKE THE USUAL LEASING PROVISIONS WHICH ONLY PERMIT THE TRANSFER OF TAX DEDUCTIONS. OTHERS HAVE SUGGESTED THAT ALLOWING THE USE OF SAFE HARBOR LEASING FOR PROPERTY PRODUCED ABROAD SHOULD BE SPECIALLY LIMITED. FINALLY, OTHERS HAVE CRITICIZED THE EFFICIENCY OF MASS TRANSIT LEASING.

BUT MASS TRANSIT LEASING IS NOT WITHOUT ITS DEFENDERS. ONE OF THE MOST ARTICULATE SPOKESMEN IS RICHARD RAVITCH, THE CHAIRMAN OF THE MTA. I LOOK FORWARD TO HEARING THIS MORNING'S TESTIMONY ON THIS IMPORTANT ISSUE.

THE TRADE POLICY ISSUES ARE OF EQUAL CONSEQUENCE. THE BASIC QUESTION IS WHAT THIS GOVERNMENT IS PREPARED TO DO WHEN AMERICAN PRODUCERS ARE FORCED TO COMPETE AGAINST FOREIGN PRODUCERS AND WORKERS BEING SUBSIDIZED BY THEIR GOVERNMENTS. IF I WERE ON THE MTA, IT WOULD BE MY INCLINATION TO LOOK FOR THE BEST DEAL POSSIBLE ON SUBWAY CARS. BUT IF I WERE A WORKER IN NEW YORK CITY OR ANYWHERE ELSE AND MY JOB WAS IN JEOPARDY BECAUSE A FOREIGN GOVERNMENT WAS SUBSIDIZING EXPORTS TO THE U.S. MARKET OF THE PRODUCT I MADE, I WOULD LOOK TO MY GOVERNMENT FOR HELP. I WOULD ALSO EXPECT THEM TO DO SOMETHING.

IN THE LONG RUN, THE ANSWER IS THE ELIMINATION OF EXPORT CREDIT SUBSIDIES. FOR SOME TIME NOW, THE U.S. GOVERNMENT HAS BEEN ATTEMPTING TO NEGOTIATE A NEW AGREEMENT ON SUCH SUBSIDIES. DESPITE A DETERMINED EFFORT, HOWEVER, OUR NEGOTIATORS HAVE MET WITH LITTLE SUCCESS. JUST YESTERDAY, THE WASHINGTON POST CARRIED A STORY DETAILING AMBASSADOR BROCK'S FRUSTRATION OVER THE FAILURE OF OUR TRADING PARTNERS TO CONCLUDE AN AGREEMENT GOVERNING THE USE OF THIS UNECONOMIC AND BASICALLY FOOLISH PRACTICE.

IT MAKES NO SENSE AT ALL FOR ANY INDUSTRIALIZED COUNTRY TO ENGAGE IN THE UNECONOMICAL PRODUCTION OF A PARTICULAR PRODUCT AND THEN SEEK TO MAKE THE PRODUCT COMPETITIVE BY SUBSIDIZING ITS EXPORT TO ANOTHER INDUSTRIALIZED COUNTRY THROUGH GUARANTEES OF BELOW MARKET RATE FINANCING. UNLESS WE CAN AGREE TO MUTUALLY ELIMINATE THIS PRACTICE, EVERY COUNTRY, INCLUDING THE UNITED

STATES, WILL EVENTUALLY BE FORCED TO SUBSIDIZE THEIR EXPORT CREDIT RATES AND, IN ADDITION, TO PROTECT THEIR DOMESTIC MARKETS. IT WOULD INDEED BE UNFORTUNATE IF WE ARE FORCED TO DO THIS TO PROTECT JOBS IN THIS COUNTRY. NOT ONLY WOULD THE U.S. GOVERNMENT HAVE TO TAX ITS CITIZENS TO SUPPORT THE PURCHASES OF OUR PRODUCTS BY CONSUMERS IN OTHER COUNTRIES, BUT THERE WILL BE ADDED PRESSURE TO REJECT THE CURRENT TRADING RULES WHICH ARE ALREADY UNDER FIRE.

IN THE SHORT RUN, THERE ARE A NUMBER OF AVENUES IN OUR LAWS WHICH THE ADMINISTRATION MUST CONSIDER EMPLOYING. SUBSIDIZED INTEREST AT RATES BELOW THE OECD GUIDELINES ARE SPECIFICALLY PROHIBITED BY THE SUBSIDIES CODE. THE ADMINISTRATION MAY CONSIDER INSTITUTING A 301 CASE AND PROCEEDING THROUGH THE INTERNATIONAL DISPUTE SETTLEMENT PROCESS AGAINST SUCH SUBSIDIES.

SUBSIDIZED INTEREST AT ANY RATE MAY BE ACTIONABLE UNDER U.S. COUNTERVAILING DUTY LAW. I WOULD SUGGEST THAT THE ADMINISTRATION MAY WISH TO CONSIDER SELF-INITIATING A COUNTERVAIL CASE OR WORKING WITH THE DOMESTIC INDUSTRY TO EXPEDITE THE FILING OF A CASE.

SECTION 1912 OF THE EXIMBANK ACT PROVIDES YET ANOTHER POSSIBLE AVENUE FOR ACTION. I KNOW SENATOR HEINZ HAS BEEN WORKING WITH THE DOMESTIC INDUSTRY ON THE USE OF THIS STATUTE UNDER WHICH THE SECRETARY OF TREASURY MAY AUTHORIZE THE EXIMBANK TO PROVIDE MATCHING FINANCING TO A DOMESTIC INDUSTRY FACING COMPETITION FROM IMPORTS SUBSIDIZED AT BELOW MARKET INTEREST RATES.

IT MAY ALSO BE POSSIBLE TO BRING AN ACTION UNDER SECTION 201,
OUR GENERAL IMPORT RELIEF LAW. I URGE THE ADMINISTRATION TO
CAREFULLY EVALUATE THE FACTS AND POLICY IMPLICATIONS OF THE MTA
CONTRACT AND THEN IF NECESSARY, PROCEED EXPEDITIOUSLY UNDER ONE
OR MORE OF THESE AUTHORITIES.

THE ISSUES RAISED HERE ARE BECOMING INCREASINGLY FAMILIAR
ACROSS OUR DOMESTIC INDUSTRIES. GENERAL AVIATION AIRCRAFT PRO-
DUCERS IN KANSAS FACE COMPETITION IN BOTH THIS MARKET AND ABROAD
FROM FOREIGN PRODUCED AIRCRAFT FINANCED AT SUBSIDIZED INTEREST
RATES. PRODUCERS OF HEAVY ELECTRICAL GENERATING EQUIPMENT FACE THE
SAME PROBLEM. THIS PRACTICE IS POOR ECONOMIC POLICY, IT IS BAD
TRADE POLICY, AND IT SHOULD BE STOPPED.