impossible to compete in for U.S. employers. We must act now to avoid putting American workers onto a playing field for which they are not equipped.

Mr. ARCHER. Mr. Speaker, I yield myself the balance of the time.

Mr. Speaker, there has been a great deal of rhetoric today on the floor, but let us try to cut through all of it. If this bill does not pass, the FSC provisions that have been railed against by the opponents will continue to be in the law. None of that will change.

What they call a subsidy, which is actually a reduction of the impediment of double taxation on our companies, will still be in the law. Nothing will change. They act like suddenly everything will change, but what will happen is this: American products will have sanctions put against them between $4 billion and $40 billion a year by the Europeans, all justified by the WTO. And who will then be hit?

Will it be the big corporations? The first sanction will be on agriculture. Our farmers will be hit. Then they will put sanctions on man-made staple fibers. Our textile industry will be hit. Then they will put sanctions on cotton and yarns and woven fabrics. Then they will put sanctions on fruits and vegetables and likely our wine, which competes with the French wine.

They will pick the sensitive spots to apply these sanctions, but the FSC provisions that have been railed against will still be in the code. This is our only opportunity to protect American workers so that we can continue to export, even in those areas which do not currently get FSC treatment, the injury to the U.S. and the potential beginning of the mother of all trade wars is something to be avoided and avoided by this bill. It is the only option before us, vote yes.

Mrs. CHRISTENSEN, Mr. Speaker, I rise to speak on H.R. 4986, the Foreign Sales Corporation Repeal and Extraterritorial Income Act of 2000 because of the effect it will have on my district, the U.S. Virgin Islands.

Mr. Speaker, almost from the inception of the Foreign Sales Corporation Act of 1984, the U.S. Virgin Islands positioned itself to act as the premiere location where U.S. companies that were exporting U.S.-made goods could locate to reduce their tax liability. Approximately 3,900 of a total 7,000 FSC's are located in the U.S. Virgin Islands where they provide approximately 40 direct jobs to Virgin Islands residents and indirect employment in the thousands, through 12 law and management firms that serve them. They provide similar benefits on our sister territory of Guam—both of us being a part of this country.

FSC companies in the Virgin Islands generate about $7 to $10 million dollars annually and they have contributed almost $70 million to the cash-strapped treasury of the Government of the Virgin Islands since 1983. Through no fault of our own, and despite our working with the relevant agencies to mitigate the adverse effects, with passage of this bill, we will lose an important tool of our economy at a time when we can least afford it—when the government of the Virgin Islands is facing a severe financial crisis. Our accumulated budget deficit, as of January of last year was estimated to be in excess of $250 million and the Government's debt obligations has reached an unimaginable $1.12 billion.

While Virgin Islands Governor Turnbull has made strides in addressing this problem, the loss of revenues generated by FSC's to our Territory will be a major blow.

I am therefore looking forward to working with Chairman ARCHER and Ranking Member RANGEL to find a way to assist us in replacing the loss of revenue that this bill will mean to the Virgin Islands. I hope for the support of all my colleagues in this effort.

Mr. PAUL. Mr. Speaker, H.R. 4986, brought up under suspension, deserves serious consideration by all Members.

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 lower 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 in to 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 in to 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 have been given till October 1st to accommodate our laws to the demands of the WTO.

That's the sole reason by this legislation is on the floor today.

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 Deutch 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 ratchening 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.

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.

U.S., EU RISK TRADE WAR OVER EXPORT TAX SHELTERS—EUROPE IS LIKELY TO SEEK THE WTO'S PERMISSION TO LEVY PUNITIVE TARIFFS

(By Geoff Winestock of the Wall Street Journal)

BRUSSELS.—After a breakdown of talks last week, a multibillion-dollar trade war is now almost 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. elections.

European Trade Commissioner Pascal Lamy rejected on Thursday the latest U.S. proposal for resolving a dispute over a $4 billion-a-year tax shelter for U.S. exporters that the World Trade Organization ruled illegal in February.

With chances now slim for an agreement on how to bring the U.S. tax code into line with WTO rules, the EU will likely file a new suit with the WTO in October. And this time, the EU will seek permission to retaliate against U.S. companies with trade sanctions. At a minimum, EU officials say, they will ask for punitive tariffs on $4 billion of U.S. goods.

The U.S. Congress is considering a bill designed to bring U.S. tax law into line with WTO rules. But hopes that this would yield a quick solution disappeared last week when Mr. Lamy sent a letter criticizing the bill to Deputy Treasury Secretary Stuart Eizenstat. Mr. Lamy said the proposal for amending the U.S. tax code "failed to render it compatible with international trade rules," according to an EU briefing note. Indeed, EU officials say, the bill was marginally worse than a White House proposal that the EU rejected in May.

Describing the EU letter as "disappointing" and "unconstructive," a senior U.S. official says the EU's attitude could sour trans-Atlantic trade ties. "What we're trying to do is avert a trade war," the official says. "We're doing everything we can to avoid it. If there's to be one, it will be in their hands, not in ours."

The official says that the White House would continue to support the bill, which he says would be fully WTO-compliant. Unless the U.S. makes some change to the tax program by the WTO's Oct. 1 deadline, the official says, the U.S. will have no chance of avoiding a confrontation with the EU or winning its case in the WTO. The EU will have 30 days after Oct. 1 to lodge a complaint with the WTO, which will then take a few months to rule on what, if any, retaliation can be taken.

At the core of the dispute is a tax-law provision that allows U.S. companies to channel overseas sales of domestically produced goods through so-called foreign sales corporations—offshore subsidiaries, usually in tax havens, whose profits on those exports are subject to lower federal income taxes than are other profits. The FSC shelter saved U.S. companies about $4 billion last year. Boeing Corp., which used the shelter to save $230 million last year, included a warning about the trade dispute in its annual financial reports.

The U.S. says the congressional bill would replace the WTO-illegal tax breaks with a much broader exemption for all foreign-source income, both from exports and from goods manufactured abroad. The U.S. official says this is comparable with tax exemptions offered by EU countries, including the Netherlands and France.

But EU officials and some U.S. analysts say the analogy is inaccurate and that the proposed revision simply repackages the FSC program, retaining its preference for exports over domestic sales. "U.S. industries which are benefiting from FSCs are being very stubborn," says Peter Morici, a senior fellow at the Economic Strategy Institute, a Washington, D.C. think tank. "They do not want to make a real fundamental change in the law."

Mr. DEFAZIO. Mr. Speaker, let's briefly review why we find ourselves here today to debate replacing a rather arcane section of the tax code that allows corporations to avoid a portion of their tax bill by establishing largely paper entities in a filing cabinet in a tax haven like Barbados with the equally arcane tax provisions of H.R. 4986, the FSC Repeal and Extraterritorial Income Exclusion Act of 2000.

Creating this new, expanded loophole to assist corporations in escaping their fair share of the tax burden in the U.S. makes a mockery of pleas by my colleagues to simplify the tax code and improve fairness.

For nearly two decades, beginning with the Revenue Act of 1971 (P.L. 92–178), the U.S. provided tax incentives for exports. However, our trading partners complained that these incentives violated our commitments under the General Agreement on Tariffs and Trade (GATT). While not conceding the violation, in 1984, Congress scrapped the Domestic International Sales Corporation (DISC) provisions and created the Foreign Sales Corporation (FSC) provisions. The differences are highly technical and probably only understood by international tax bureaucrats.

Under the FSC provision, corporations can exempt between 15 and 30 percent of their export income from taxation by routing a portion of their exports through a FSC. Our trading partners, specifically the European Union (EU), were not satisfied with the somewhat cosmetic changes made to the U.S. tax code.

Going back on a verbal gentleman's agreement not to challenge our respective tax codes under global trading rules, the EU filed a complaint with the World Trade Organization (WTO), successor to GATT, essentially arguing the same thing that was argued about DISCs. Namely that export subsidies were illegal under global trading rules by conferring an unfair advantage on recipient companies.

A secretive WTO tribunal ruled against the U.S. Dutifully, the U.S. appealed the decision. Earlier this year, the WTO appeals panel upheld the earlier decision and ordered the U.S. to repeal the FSC provision or risk substantial retaliatory measures.

Specifically, the WTO appeals panel wrote, "By entering into the WTO Agreement, each Member of the WTO has imposed on itself an obligation to comply with all terms of that Agreement. This is a ruling that the FSC measure does not comply with all those terms. The FSC measure creates a 'subsidy' because it creates a 'benefit' by means of a 'financial contribution', in that government revenue is foregone that is 'otherwise due.' This 'subsidy' is a 'prohibited export subsidy' under the SCM Agreement [Agreement on Subsidies and Countervailing Measures] because it is contingent on export performance. It is also an export subsidy that is inconsistent with the Agreement on Agriculture. Therefore, the FSC measure is not consistent with the WTO obligations of the United States."

In other words, it is unfair and illegal under global trade rules for the U.S. tax code to provide welfare for corporations by allowing them to escape taxes that would otherwise be due.

At this point, one would expect that my colleagues who, on most occasions eloquently defend the need for "rules based trade" and "free markets", to adhere to the WTO directive and repeal FSC. Because I assumed my colleagues would want to be intellectually consistent, I introduced legislation shortly after the WTO ruling to repeal FSC.

After all, precedent proved the U.S. was more than willing to bend to the will of the WTO. When the WTO ruled against a provision of the 1990 Clean Air Act, the Environmental Protection Agency gutted its clean air regulations in order to allow dirtier gasoline from Venezuela to be sold in the U.S.

Similarly, when Mexico threatened a WTO enforcement action on a 1991 GATT case it had won that eviscerated the Dolphin Protection Act, the U.S. went along to get along. In fact, the Clinton Administration sent a letter to Mexican President Ernesto Zedillo declaring that weakening the standard by which tuna must be caught in "dolphin-safe" nets "is a top priority for my administration and me personally."

The WTO also ruled against the Endangered Species Act provisions that required U.S. and foreign shrimpers to equip their nets with inexpensive turtle excluder devices if they wanted to sell shrimp in the U.S. market. The goal was to protect endangered sea turtles. The Clinton Administration agreed to comply with the ruling.

Given this record of acquiescing to the WTO, one could be forgiven for assuming the Clinton Administration and Congress would behave in a similar manner when losing a case on tax breaks for corporations.

Of course, sea turtles and dolphins don't make massive campaign contributions, or any campaign contributions for that matter. But, the large corporations who would be impacted by the WTO decision against FSCs do.

Apparently not bothered by the hypocrisy, immediately after the ruling by the WTO appeals panel, the Clinton Administration, a few Members of Congress, and the business community openly declared the need to maintain the subsidy in some form and began meeting in secret to work out the details on how to circumvent the WTO ruling and maintain these valuable, multi-billion dollar tax incentives.

Now, it is well-known that I am not a big fan of the WTO. It is an unaccountable, secretive, undemocratic bureaucracy that looks out solely for the interests of multinational corporations and investors at the expense of human rights, labor standards, national sovereignty, and the environment.

But, by pointing out that export subsidies like FSCs are corporate welfare, however, the WTO has done U.S. taxpayers a favor. Unfortunately, this legislation before us today only does wealthy corporations a favor.

I have several problems with H.R. 4986 besides the intellectual inconsistency. I will touch on each of these now.

First, and perhaps most importantly, there is little or no economic rationale for export subsidies like FSCs or the provisions of H.R. 4986. In its April 1999 Maintaining Budgetary Discipline report, the Congressional Budget Office (CBO) noted "Export subsidies, such as FSCs, reduce global economic welfare and may even reduce the welfare of the country granting the subsidy, even though domestic export-producing industries may benefit."

Similarly, in August 1996, CBO wrote "Export subsidies do not increase the overall level of domestic investment and domestic employment . . . In the long run, export subsidies increase imports as much as exports. As a result, investment and employment in import-competing industries in the United States would decline about as much as they increased in the export industries."

Need further evidence? The Congressional Research Service (CRS) has written "Economic analysis suggests that FSC does increase exports, but likely triggers exchange rate adjustments that also result in an increase in U.S. imports; the long run impact on the trade balance is probably nil. Economic theory also suggests that FSC probably reduces aggregate U.S. economic welfare."

Of course, protests will be heard from supporters of H.R. 4986 that it gets rid of the export requirement. In testimony before the Ways and Means Committee, Deputy Secretary Eizenstat said the Chairman's mark is "not export-contingent." Of course, that claim is absurd. If a company sells products solely in the U.S., they don't qualify for the tax subsidy. That is, by definition, an export subsidy. Therefore, the criticisms of export subsidies previously mentioned would apply to this new legislation as well.

President Nixon originally prosed export subsidies, which became the DISC and then FSC, because he was alarmed at the size of the U.S. trade deficit, which was $1.4 billion in 1971, a number that seems almost quaint by today's standards. As Paul Magnusson noted in the September 4, 2000, Business Week FSC "produced some hefty tax savings for big U.S. exporters, but it never did actually do much to narrow the trade deficit, which hit a record $339 billion last year." And which, I should add, has continued to set new records virtually every month this year.

I can't understand why it makes sense to subsidize U.S. exporters to the tune of $5 billion or more when the economic impact is "probably nil" or worse.

The economic rationale further deteriorates when one realizes, as the previous quotes suggest, that export subsidies discriminate against mom-and-pop stores who don't have the resources to export and against U.S. industries that must compete with imports. This means that export subsidies distort markets by pre-ordaining winners and losers. The winners? Large exporters and foreign consumers who get to enjoy lower priced U.S. products subsidized by U.S. taxpayers. The losers? Small businesses, U.S. taxpayers, and import-competing industries.

I find it interesting while Treasury has spent a great deal of time figuring out how to combat corporate tax shelters that have no economic rationale, as discussed in a July 1999 report, that they would push this corporate welfare, which also has no economic rationale.

So, who specifically benefits? The journal Tax Notes conducted a revealing study of FSCs in its August 14, 2000, edition. The article profiled the 250 companies that reported $1.2 billion in FSC tax savings in 1998. The top 20 percent of the companies in the sample claimed 87 percent of the benefits. The two largest FSC beneficiaries were the General Electric Company and Boeing, which saw their tax bills reduced by $750 million and $686 million, respectively from 1991–1998.

What are some of the other top FSC corporate welfare queens? Motorola, Caterpillar, Allied-Signal, Cisco Systems, Monsanto, Archer Daniels Midland, Oracle, Raytheon, RJR Nabisco, International Paper, and ConAgra. The list reads like a who's who of extraordinarily profitable multinational corporations. Hardly companies that should need to feed from the taxpayer trough.

Furthermore, American subsidiaries of European firms take advantage of U.S. taxpayers through export subsidies. British Petroleum, Unilever, BASF, Daimler Benz, Hoescht, and Rhone-Poulenc are all FSC beneficiaries. The fact that foreign companies can also claim export benefits pokes a large hole in the argument that these tax benefits are needed to ensure the competitiveness of U.S. businesses.

Simiarly, isn't it a bit odd that economist and U.S. policymakers like to lecture European nation's about their high tax burdens, but now, suddenly their tax burden is too low and, therefore, U.S. companies need subsidies in order to compete?

Let's be clear, this legislation is not about the competitiveness of large, wealthy, multinational corporations based in the United States. It is about wealthy campaign contributors wanting to keep and expand their $5 billion-plus tax subsidies and elected officials willing to do their bidding.

Not only does H.R. 4986 allow these companies to continue receiving billions in tax breaks, but it actually expands them. This legislation will cost U.S. taxpayers another $300 million a year or more.

It is also unfortunate that this legislation subsidizes a number of industries—such as defense contractors, tobacco companies, and pharmaceutical firms—that have no business receiving any more taxpayer hand-outs.

Take the defense industry, for example. Under the current FSC regime, defense contractors can only claim 50 percent of the tax available to other industries. The legislation before us today allows the defense industry to claim the full benefit available to others.

Leaving aside the fact that U.S. taxpayers are already overly generous to defense contractors, which no doubt they are, expanding this corporate welfare will have no discernible impact on overseas sales. The Treasury Department noted in August 1999, "We have seen no evidence that granting full FSC benefits would significantly affect the level of defense exports."

In 1997, the CBO made a similar point, "U.S. defense industries have significant advantages over their foreign competitors and thus should not need additional subsidies to attract sales."

Even the Pentagon has acknowledged this fact by concluding in 1994, "In a large number of cases, the U.S. is clearly the preferred provider, and there is little meaningful competition with suppliers from other countries. An increase in the level of support the U.S. government currently supplies is unlikely to shift the U.S. export market share outside a range of 53 to 59 percent of worldwide arms trade."

As Ways and Means Committee Member, Representative DOGGETT, noted in his dissenting views on H.R. 4986, "In 1999, without the bonanza provided by this bill, U.S. defense contractors sold almost $11.8 billion in weapons overseas—more than a third of the world's total and more than all European countries combined."

The U.S. should stop the proliferation of weapons and war, not expand it as this bill intends.

The pharmaceutical industry is another industry that does not need or deserve additional subsidies from U.S. taxpayers. The industry already receives substantial research and development tax credits as well as the benefits flowing from discoveries by government scientists. As Representative STARK noted in his dissenting views, drug companies lowered their effective tax rate by nearly 40 percent relative to other industries from 1990 to 1996 and were named the most profitable industry in 1999 by Fortune Magazine.

The industry sells prescription drugs at far cheaper prices abroad than here in the U.S. For example, seniors in the U.S. pay twice as much for prescriptions as those in Canada or Mexico. It is an affront to U.S. taxpayers to force them to further subsidize an industry that is already gouging them at the pharmacy as this bill would do.

In direct contradiction of various federal policies to combat tobacco related disease and death in the U.S., this legislation would force U.S. taxpayers to subsidize the spread of big tobacco's coffin nails to foreign countries. This violates the American taxpayers' sense of decency and respect. Their money should not be used to push a product onto foreign countries that kills one-third of the people who use it as intended.

By placing H.R. 4986 on the suspension calendar, debate is prematurely cut off and amendments to reduce support for drug companies, the defense industry or tobacco companies can not be considered. But, I guess that's just par for the course for a process that has taken place in relative secrecy between a few Members of Congress, the Administration, and the industries that stand to benefit from this legislation.

You may not hear this in the debate much, but it is important to point out that the EU has already put the U.S. on notice that H.R. 4986 does not satisfy its demands. According to the EU, H.R. 4986 still provides an export subsidy, maintains a requirement that a portion of a product contain U.S.-made components, and does not repeal FSCs by the October 1st deadline. Therefore, it is likely the EU will ask the WTO to rule on the legality of the U.S. reforms. Most independent analysts agree with the EU critique of H.R. 4986.

So, it is reasonable to assume the WTO will again rule against the U.S. and allow the EU to impose retaliatory sanctions against U.S.

products. According to some press accounts, the EU would be able to impose 100 percent tariffs on around $4 billion worth of U.S. goods. These would be the largest sanctions ever imposed in a trade dispute. In other words, this inadequate reform of export subsidies will open up the U.S. to retaliatory action by the EU, which will harm exports as much or more than any perceived benefit that would be provided by H.R. 4986. Of course, the exporters that will be hurt by retaliatory sanctions probably won't be the same businesses that will enjoy the tax windfall provided by this legislation.

Mr. Speaker, ADM is not suffering. Cisco Systems is not suffering. Raytheon is not suffering. Microsoft is not struggling mightily to keep its head above water. But, the American people are. Schools are crumbling, 45 million Americans have no health insurance, individuals are working longer hours for less money with the predictable stress on families, millions of seniors do not have access to affordable prescription drugs, and poverty remains stubbornly high, particularly among children.

Rather than debating how to preserve billions in tax subsidies for some of our largest corporations, we should be figuring out how to address some of these issues. How many times over are we going to spend projected, and I stress projected, surpluses, if we want to pay down the national debt, provide prescription drugs, shore up Social Security and Medicare, and increase funding for education, Congress cannot keep showering wealthy corporations with unjustifiable tax subsidies.

I will end with a quote from a newspaper I'm not normally inclined to agree with editorially, the Washington Times. In an editorial on September 5, 2000, the Washington Times wrote, "The Ways and Means Committee boasts that support for its revised FSC bill was bipartisan and near unanimous. It remains a bipartisan and near unanimous blunder."

I urge my colleagues to vote against H.R. 4986.

Mr. UNDERWOOD. Mr. Speaker, I rise to express my concern about the impact of H.R. 4986, The FSC Repeal and Extraterritorial Income Exclusion Act of 2000, on the U.S. territories, particularly the U.S. Virgin Islands and Guam.

Since the WTO decision last fall on Foreign Sales Corporations (FSCs), I know that the Administration has worked closely with House Ways and Means Committee Chairman ARCHER and Representative RANGEL, the ranking member, to ensure that the United States passes legislation to meet the October 1, 2000, deadline set by the WTO to comply with its ruling.

As many of you know, the WTO panel issued a ruling last fall that subsidies for Foreign Sales Corporations under U.S. tax laws violated the WTO Subsidies Agreement. U.S. negotiators have since worked in good faith on a proposal to retain many of the tax benefits of the FSC structure, while establishing a new structure which would be responsive to the European Union's challenge.

However, I simply want to express my concern over the impact that H.R. 4986 would have on the U.S. territories. Under the current FSC system, U.S. territories have been able to benefit through tax exemptions for U.S. exporting industries. With the repeal of the FSC system, we will no longer be able to offer this incentive although I understand that current contracts will be honored.

In Guam, there are around 211 FSC licensees, generating around $170,000 to the Government of Guam. However, license fees are only some of the direct benefits from FSCs. Other direct benefits include compensation for Guam attorneys and other professionals, bank deposits, and funds generated through the hotel and restaurant industries that host FSC corporate meetings. Indirect benefits would be the cumulative effect that FSCs and other tax incentives have on attracting U.S. businesses to Guam.

Be it as it may, the writing is on the wall for FSCs as we now know it. Therefore, I am appealing to the Clinton Administration, particularly the Treasury Department, to offset the economic impact of today's legislation with the means necessary to allow the U.S. territories to promote economic self-sufficiency during any negotiations with the Congress on any final omnibus budget or tax package.

Apart from H.R. 3247, which would provide empowerment zones for the U.S. territories, I have worked closely with my colleagues to enact legislation that I authored which would level the playing field for foreign investors in Guam through the passage of the Guam Foreign Direct Investment Equity Act (H.R. 2462/S. 2983).

My legislation would provide Guam with the same tax rates as the fifty states under international tax treaties. Since the U.S. cannot unilaterally amend treaties to include Guam in its definition of united States, my bill amends Guam's Organic Act, which has an entire tax section that "mirrors" the U.S. Internal Revenue Code.

As background, under the U.S. Code, there is a 30% withholding tax rate for foreign investors in the United States. Since Guam's tax law "mirrors" the rate established under the U.S. Code, the standard rate for foreign investors in Guam is 30%.

The Guam Foreign Direct Investment Equity Act provides the Government of Guam with the authority to tax foreign investors at the same rates as states under U.S. tax treaties with foreign countries since Guam cannot change the withholding tax rate on its own under current law. Under U.S. tax treaties, it is a common feature for countries to negotiate lower withholding rates on investment returns. Unfortunately, while there are different definitions for the term "United States" under these treaties, Guam is not included. Such an omission has adversely impacted Guam since 75% of Guam's commercial development is funded by foreign investors. As an example, with Japan, the U.S. rate for foreign investors is 10%. That means while Japanese investors are taxed at a 10% withholding tax rate on their investments in the fifty states, those same investors are taxed at a 30% withholding rate on Guam.

While the long term solution is for U.S. negotiators to include Guam in the definition of the term "United States" for all future tax treaties, the immediate solution is to amend the Organic Act of Guam and authorize the Government of Guam to tax foreign investors at the same rates as the fifty states. Other territories under U.S. jurisdiction have already remedied this problem through delinkage, their unique covenant agreements with the federal government, or through federal statute. Guam, therefore, is the only state or territory in the United States which is unable to take advantage of this tax benefit.

Section 3 of H.R. 2462, which I introduced last year, and has bi-partisan support, passed the House on July 25, 2000. Senators AKAKA and INOUYE introduced a companion measure, S. 2983, on July 27, 2000.

As we consider today's measure on the repeal of FSCs, I simply ask that my colleagues support my legislation on equal tax treaty rates for Guam and I implore the Clinton Administration to also support such economic relief for the people of Guam. Please include equitable tax treatment for foreign investors in Guam during any final omnibus budget or tax package.

□ 1715

The SPEAKER pro tempore (Mr. STEARNS). All time has expired.

The question is on the motion offered by the gentleman from Texas (Mr. ARCHER) that the House suspend the rules and pass the bill, H.R. 4986, as amended.

The question was taken.

Mr. STARK. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The SPEAKER pro tempore. Pursuant to clause 8 of rule XX and the Chair's prior announcement, further proceedings on this motion will be postponed until tomorrow.

EXPRESSING SORROW OF THE HOUSE AT THE DEATH OF THE HONORABLE HERBERT H. BATEMAN, MEMBER OF CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

Mr. BLILEY. Mr. Speaker, I offer a privileged resolution (H. Res. 573) and ask for its immediate consideration.

The Clerk read the resolution, as follows:

H. RES. 573

Resolved, That the House has heard with profound sorrow of the death of the Honorable Herbert H. Bateman, a Representative from the Commonwealth of Virginia.

Resolved, That a committee of such Members of the House as the Speaker may designate, together with such Members of the Senate as may be joined, be appointed to attend the funeral.

Resolved, That the Sergeant at Arms of the House be authorized and directed to take such steps as may be necessary for carrying out the provisions of these resolutions and that the necessary expenses in connection therewith be paid out of applicable accounts of the House.

Resolved, That the Clerk communicate these resolutions to the Senate and transmit a copy thereof to the family of the deceased.

Resolved, That when the House adjourns today, it adjourn as a further mark of respect to the memory of the deceased.

The SPEAKER pro tempore. The gentleman from Virginia (Mr. BLILEY) is recognized for 1 hour.

Mr. BLILEY. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, it is with great sadness we are here today to honor our late colleague, Representative Herb Bateman of Newport News, Virginia. Herb represented the First District of Virginia, better known, as he used to say, as "America's First District," because