

**OPENING STATEMENT  
SENATOR RICHARD G. LUGAR  
SENATE COMMITTEE ON FOREIGN RELATIONS  
HEARING ON PENDING TAX TREATIES  
MARCH 5, 2003**

I am delighted that we are holding this hearing this afternoon. I thank the witnesses who have come before us today and Senator Hagel for chairing the hearing in his role as Chairman of the International Economic Policy, Export and Trade Promotion Subcommittee.

At a time when the Committee is considering a number of monumental foreign policy challenges, the more ordinary business of diplomacy goes on. Tax treaties may not seem exciting to some observers, but at a time when our country faces serious national security questions, we cannot neglect the important business of promoting trade and closer economic cooperation worldwide.

Earlier this year I wrote about five campaigns that the United States must undertake if it hopes to win the war on terrorism. We must strengthen U.S. diplomatic capabilities; expand and globalize the Nunn-Lugar program; build alliances; reinvigorate our commitment to democracy, the environment, energy and development; and promote free trade. Trade is one of the essential components of winning the war against terrorism because it strengthens the economic ties that bind nations together and enhances the standard of living for people around the world.

This goal will be accomplished through bold initiatives, like the comprehensive round of negotiations taking place at the World Trade Organization. But it also will be accomplished through painstaking negotiations to lower barriers to trade and investment one country at a time.

The tax treaties that we have before us today will bolster the economic relationships between the United States and three countries that are already good friends and critical trade and investment partners. In 2001, cross border investment between the United States and the United Kingdom stood at nearly half a trillion dollars. Investment between the United States and Mexico and the United States and Australia each stood at just under 60 billion dollars. By integrating and simplifying our systems of taxation, we will create an even better environment for trade and investment.

These treaties represent our most ambitious attempt yet to integrate our systems. Eliminating withholding taxes on the payment of dividends by an 80 percent owned corporation to its foreign parent corporation should greatly facilitate the flow of capital to its most beneficial uses. More than 2,500 U.S. companies have subsidiaries in the United Kingdom, Mexico, or Australia that could benefit from this change.

The reciprocal recognition of pension contributions provided for in the UK treaty is particularly

important in an increasingly globalized world. This provision will allow employees to continue making tax-free contributions to retirement plans while they are working overseas, which removes a significant barrier to the cross-border provision of services. The services sector is extremely important to the U.S. economy, and it is one of the few sectors in which we hold a trade surplus with the rest of the world. There are 300,000 Americans crossing the Atlantic every year to work in the United Kingdom, and this provision, I believe, will encourage even more.

In conclusion, reporting out these tax treaties would fulfill an important role of the Committee and would be an important step in promoting free trade. The last time the Committee reported out any tax treaties was in 1999, over three years ago. The fact that we are facing serious national security challenges makes it all the more important that we devote energy to expanding trade and investment. I am pleased that the Committee is moving forward on these treaties, which should build even stronger ties with countries that are among our closest friends and trading partners.