2006 Trade Agenda

House Ways & Means Committee Hearing

Presentation of United States Trade Representative

Ambassador Rob Portman

February 15, 2006

Recent Milestones

- *Moved WTO Doha Round Forward with Bold U.S. Proposals*
- *Reached agreements at WTO Hong Kong Ministerial to Double Aid-for-Trade and End Export Subsidies by 2013*
- *Closed free trade negotiations with Oman and Peru, notified agreements to Congress*
- *Passed CAFTA-DR*
- *Passed Bahrain Free Trade Agreement*
- *Launched U.S. India Trade Policy Forum*
- *Completed Comprehensive Textile Agreement with China*
- *Completed Saudi Arabia accession negotiations allowing WTO Membership*
- *Completed implementation of Morocco Free Trade Agreement*
- *Negotiated EU Enlargement Compensation Agreement*
- *Completed Multi-Chip Packages (MCP) Agreement*
- *Completed Wine Agreement with EU*
- *Reopened to U.S. Beef Markets in Korea, Hong Kong, Thailand, Taiwan and the Philippines*
- *Completed meat trade agreement with Russia*
- *Conducted China Top to Bottom Review*
- *Trade Promotion Authority extended to July 1, 2007*

Recent WTO Dispute Resolution Highlights

China Cases

- *Persuaded China to remove its discriminatory tax on semiconductors, after the United States filed a formal WTO case against the tax – first and only WTO case filed by any WTO Member against China*
- *China revoked antidumping duties on U.S. kraft linerboard after U.S. stated intent to file a WTO case*
- *Raised with China its discriminatory charges on auto parts and exploring potential WTO case*
- *Working with industry to prepare potential TRIPS case with China*
- *Filed WTO Article 63 China IPR Information request*

Agriculture Cases

- *Won Biotech case against EU at interim stage*
- *Filed WTO case regarding Turkey's restrictions on rice imports*
- *Won a WTO case against Mexico's antidumping duties on U.S. rice and several provisions of Mexico's antidumping and countervailing duty laws*
- *Won WTO case against Japan's restrictions on imports of U.S. apples and secured removal of these restrictions*
- *Canada removed several restrictions on exports of U.S. wheat. after U.S. successfully challenged them in WTO case*
- *Won a WTO challenge to Mexico's discriminatory tax on soft drinks and HFCS at panel stage*

Other Cases

- *Brought WTO case regarding EU subsidies to Airbus*
- *Won a WTO challenge to the EU's discriminatory regime on geographical indications*
- *Won several claims in a WTO case against the EU on the non-uniform and inconsistent manner in which its customs regime operates*
- *Egypt removed discriminatory textile tariffs after the United States filed a formal WTO challenge*
- *In response to a successful U.S. WTO challenge, Mexico removed anti-competitive rules which drove up the cost of international calls*

A Proactive Trade Policy Grows the U.S. Economy

- **The U.S. is already the most open major economy in the world but we must knock down barriers to our goods and services abroad**
- Reducing trade barriers will give our farmers, workers and service providers better access to the 95% of the world's customers living outside our borders
- **Trade liberalization raises productivity and real wages while expanding consumer choice and purchasing power**
- In 2005, the U.S. goods and services accounted for 10.4% of its GDP. Goods and services exports also accounted for 20% of overall growth in the U.S. economy in 2005

Benefits by Sector:

- **Manufacturing** – Manufactured exports have increased 82% since the end of the last multilateral round a decade ago.
  - Manufacturing exports support an estimated 7.4 million jobs in the U.S. (estimate for 2001), including 1 in 5 manufacturing jobs
  - U.S. jobs supported by goods exports pay an estimated 13% to 18% more than the U.S. national average.
- **Agriculture** – Exports account for 27% of farm income
- **Services** – U.S. had a $56 billion surplus in 2005 on exports totaling $379 billion, and these exports have nearly doubled in past 11 years
  - Services account for 8 out of every 10 jobs in the United States

2006 TRADE AGENDA

1) **Global Trade Talks**
   - Doha Development Agenda
   - WTO Accessions

2) **Bilateral and Regional Agreements**

3) **Enforcing Trade Laws & Strengthening Trade Agreements**

GLOBAL TRADE TALKS:
WTO Doha Development Round Update

- **Progress in Hong Kong**

- **Timing**: Final Agreement End of 2006 - TPA expires July 1, 2007

Three Core Negotiating Areas:

- Manufactured Goods (NAMA)
- Services
- Agriculture

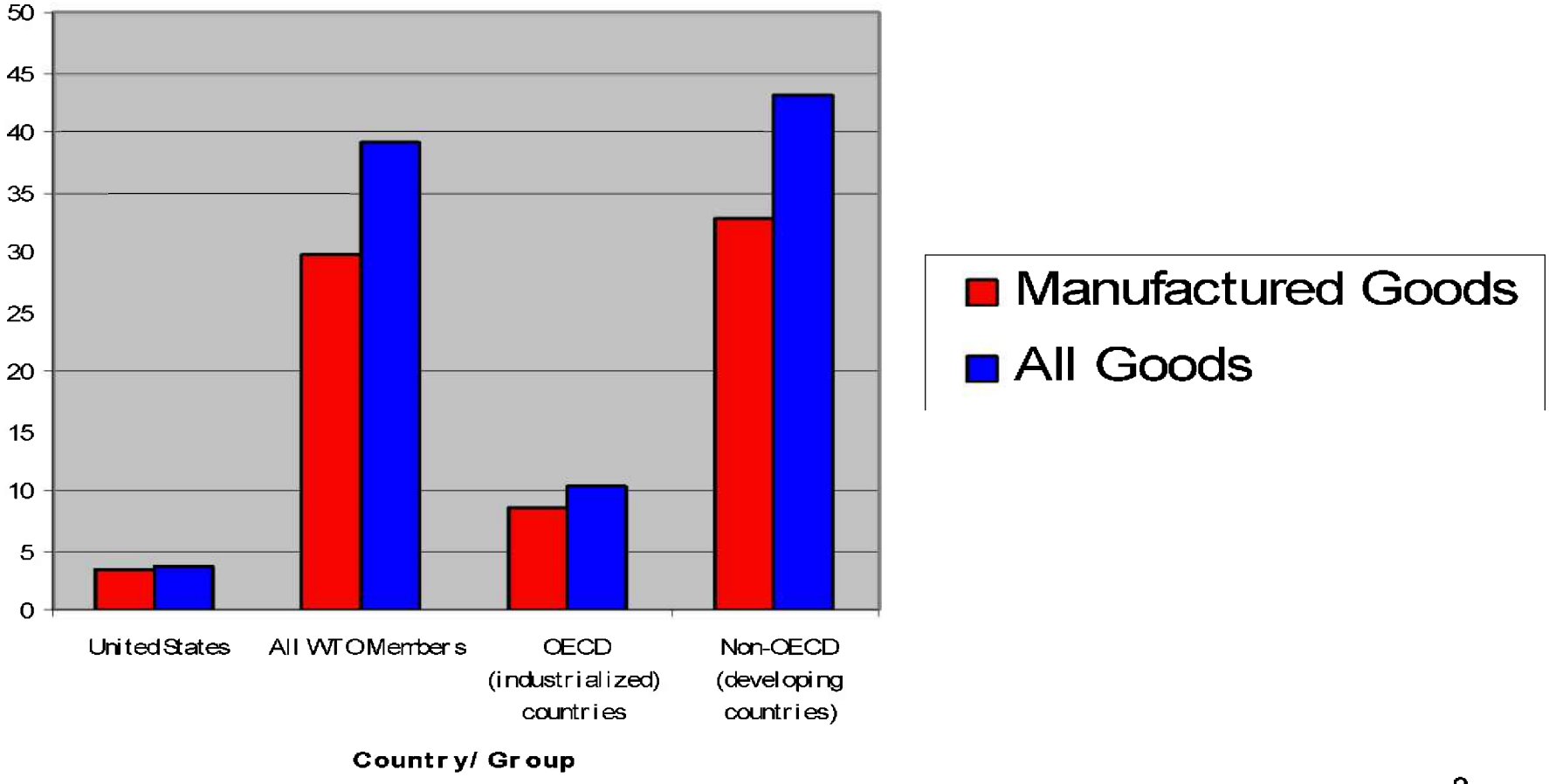
Doha: Manufactured Goods (NAMA)

- Manufactured goods represent 62% of total US goods and services exports; an increase of 82% since the year the Uruguay Round went into effect (1995)
- The United States remains the world's leading country in the export of manufactured goods estimated at $782 billion (2005)
- Timing: April 30 – Modalities deadline
- Formula: The Hong Kong Declaration recognizes a Swiss formula with coefficients is the best way to proceed - Cuts high tariffs more than low tariffs
- Seeking real cuts in the tariffs that are **applied** in both developed and advanced developing markets
- Focus on Key Sectors and Non-Tariff Barriers (NTBs)

What Is At Stake: Manufactured Goods

Tariffs: US average 3%; WTO average 30%

2004 Average Bound Tariffs (as compiled by WTO Secretariat)



Doha: Services Update

- **U.S. $56 billion surplus in 2005 on exports of $379 billion**
- **U.S. exports of services have nearly doubled over the past 11 years and are up 89%**

HONG KONG MINISTERIAL:

- **We achieved agreement on a framework for services that provides the basis to secure a commercially meaningful market access package by the end of the Doha Round**

RECENT DEVELOPMENTS:

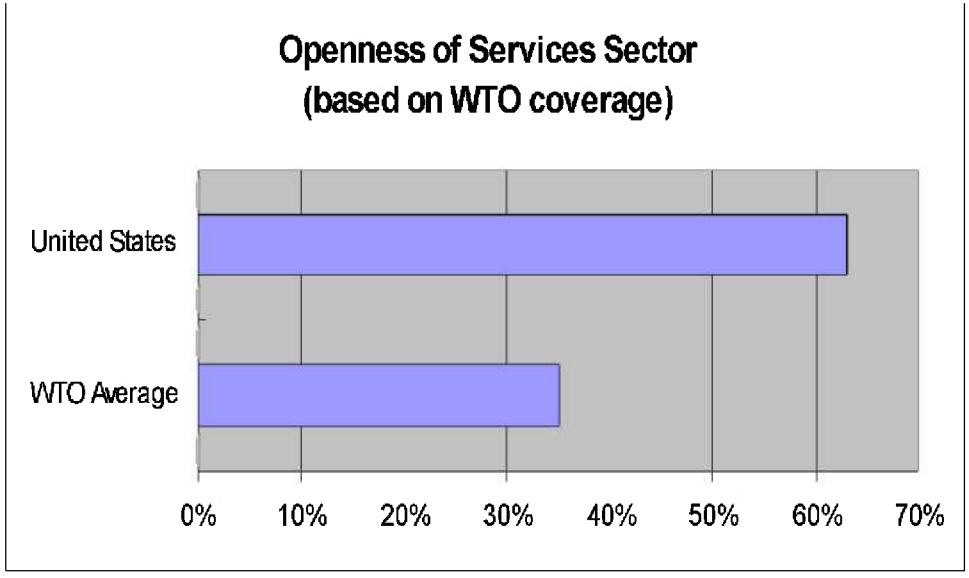
- **WTO members agreed to give a jump start to services market access negotiations early this year by working together in sectors of common interest to develop plurilateral requests**

BOTTOM LINE:

- ***Other WTO Members, especially emerging developing countries, must improve their offers and open their markets to services***

Services Benefits to U.S. Incomes

- U.S. has one of the most open services regimes



- Services liberalization could account for fully 72% of the economic gain from the Doha Round

Doha Agriculture Agenda

- **Building on July 2004 Framework – 3 Pillars:**

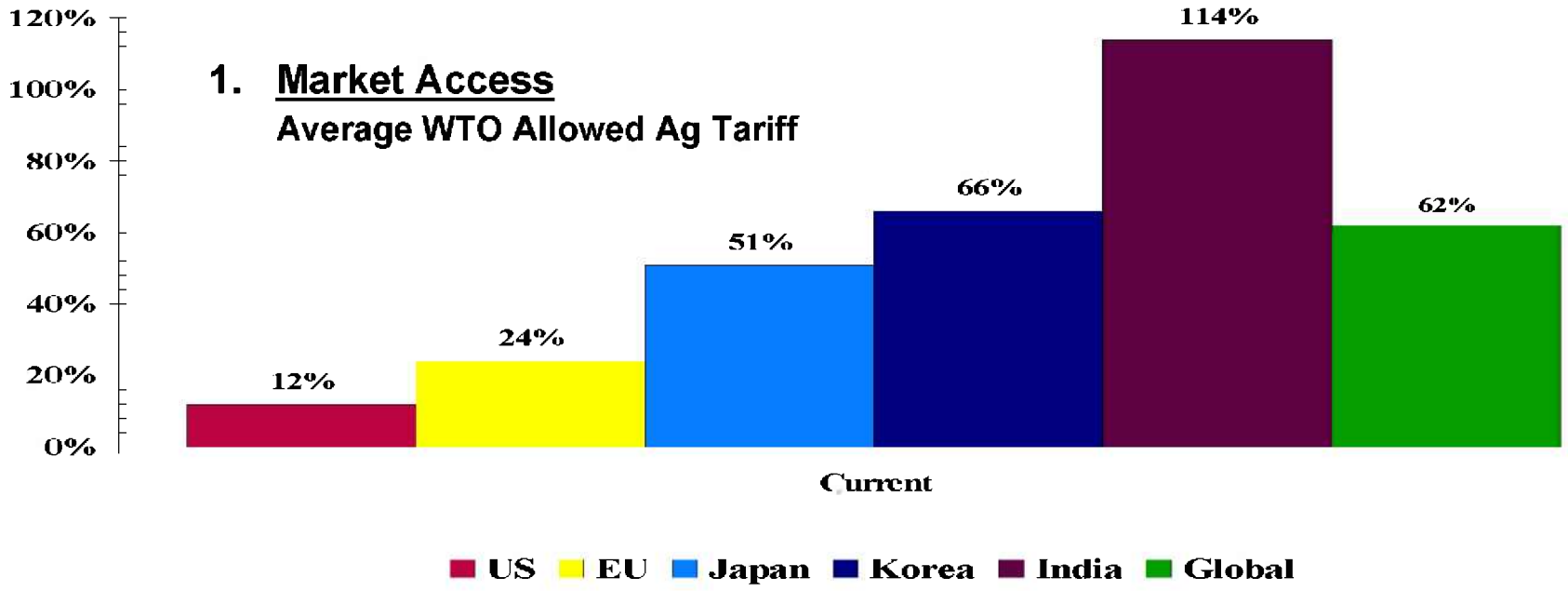
  1) **Expand market access through tariff reductions**

  2) **Eliminate all export subsidies**

  3) **Substantially reduce trade-distorting agricultural support**

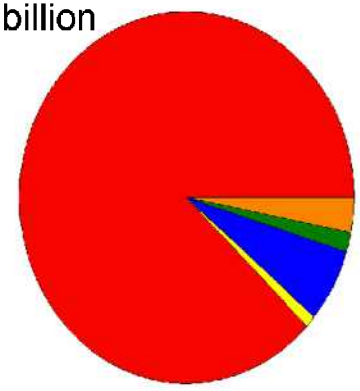
- **In Hong Kong, we made headway on some specific issues, such as export subsidies, and set the path for the final stage of negotiations**

All Three Pillars are Important to U.S.



2. Direct Export Subsidies

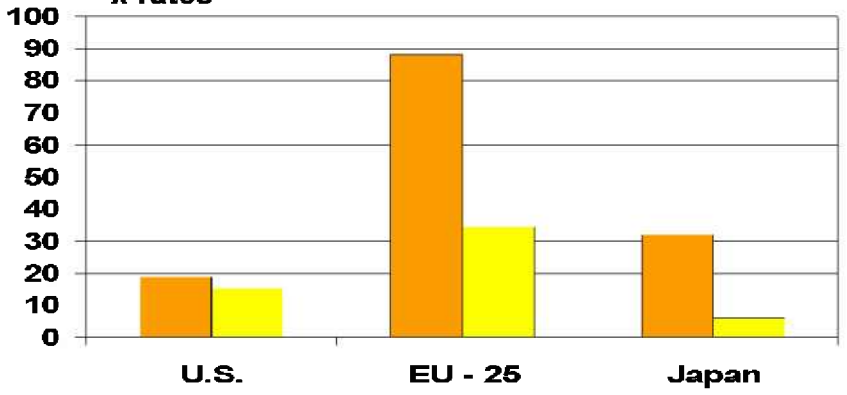
EU
(over $3 billion
a year)



Other
United States
Switzerland
Norway

3. Domestic Support – Amber Box:

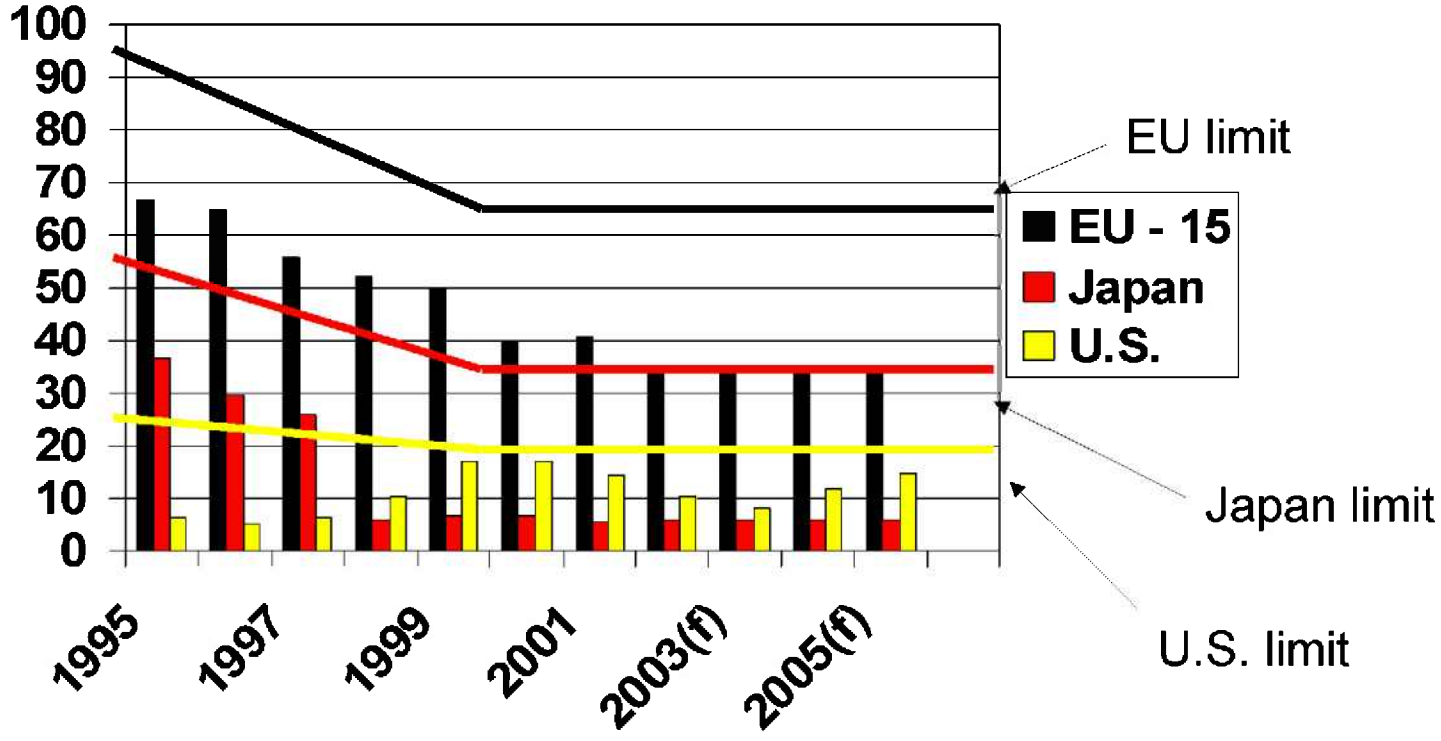
WTO allowed (gold) and Projected (yellow) 2005 Aggregate Measurement of Support (AMS) Levels. Billion $ at current x rates



Amber Box Support

(*Most Trade-Distorting Subsidies)*

U.S., EU, and Japan Amber Box Support: WTO Limits and Actual



Billion U.S. Dollars – 2001 Exchange Rate

WTO ACCESSIONS

30 Applicants Seeking Membership in the WTO

All Packages Require:

- Bilateral Agreements on market access, agriculture, manufactured goods and services
- Multilateral Negotiations in WTO Working Party on WTO Rules

Upcoming Accessions:

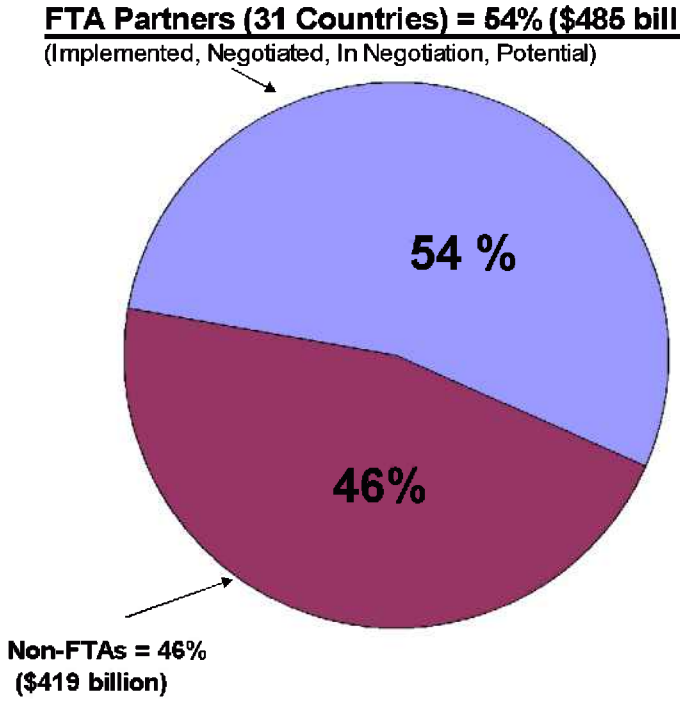
- Expect major progress/possible completion in 2006 for a number of major accessions: Vietnam, Ukraine, Russia, Kazakhstan
  - U.S. nearing completion of bilateral agreements with all four Applicants
- Administration continues to actively consult Congress: All four still need a PNTR vote in Congress to be removed from Jackson-Vanik

Generalized System of Preferences (GSP)

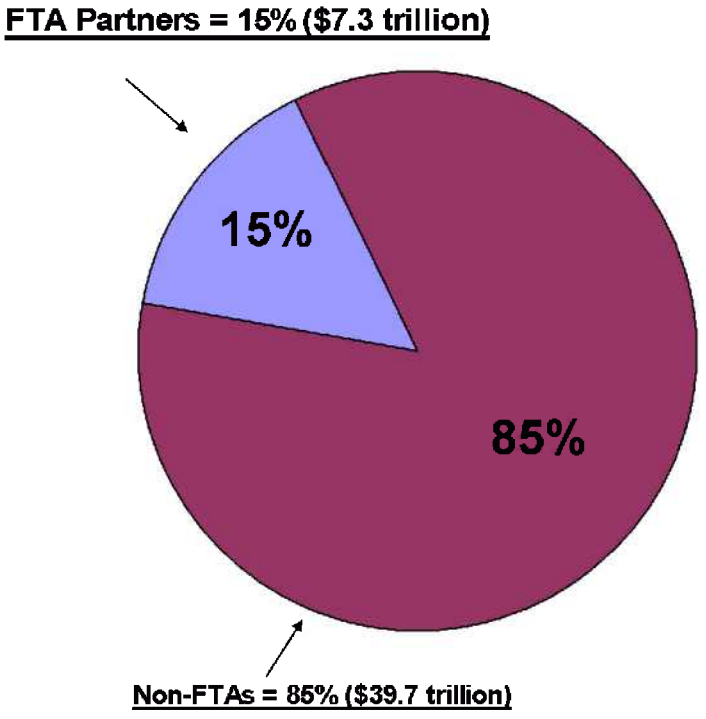
- Expires December 31, 2006
- President has requested a five-year reauthorization in FY 2007 budget
- Program expands choices of American industry and consumers, while creating economic opportunities in developing countries
- $26.7 billion in imports received GSP duty-free treatment in 2005

FTA Partners Account for 15% of World GDP (excluding the U.S.), but 54% of U.S. Exports

U.S. Goods Exports to the World



World GDP Excluding U.S.



Note: 4 largest economies account for nearly 60% of Global GDP excluding U.S.

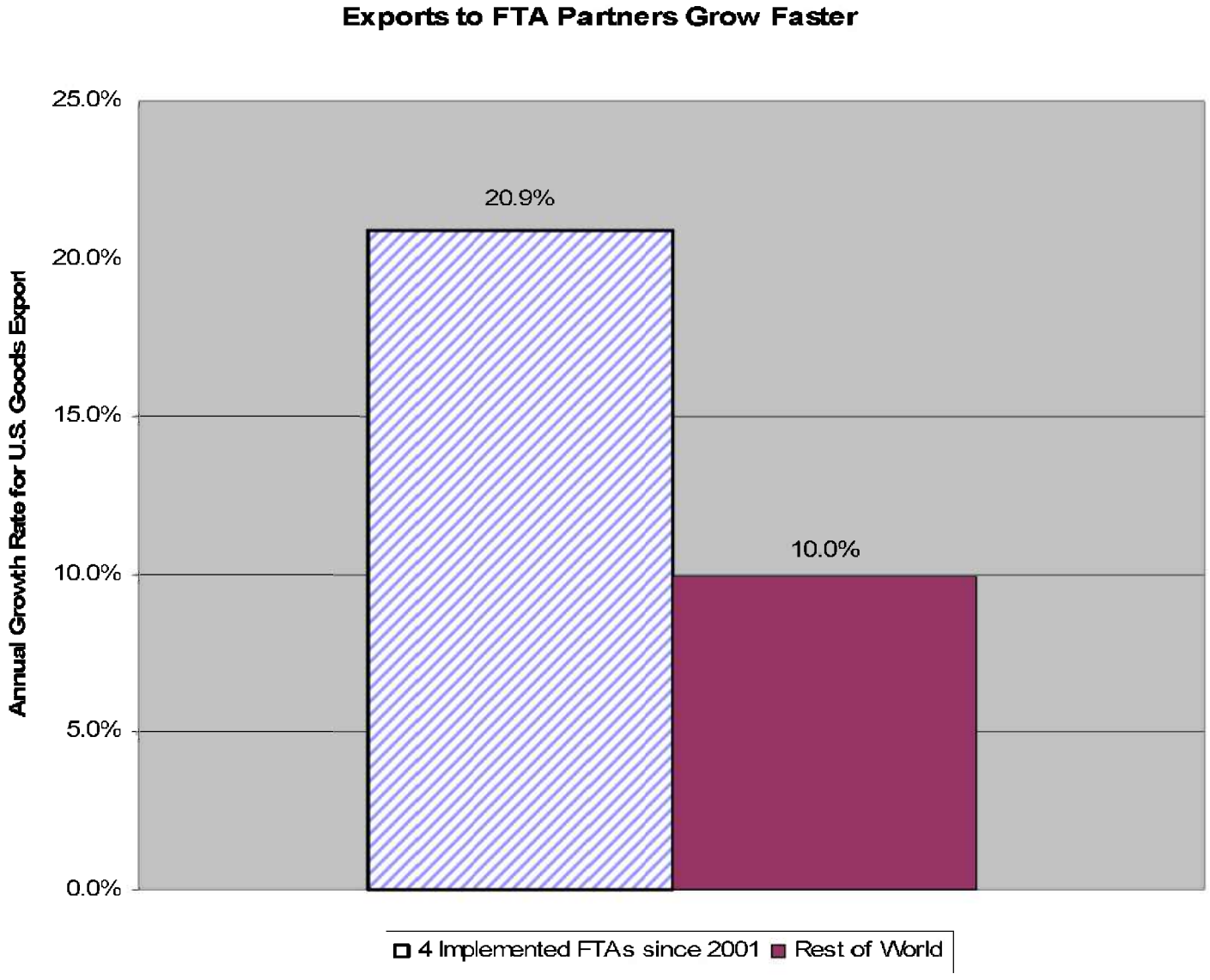
- **EU25: 26%**
- **China: 17%**
- **Japan: 8%**
- **India: 8%**

2005 Total U.S. Goods Export Market: $904 Billion

2005 World GDP excluding the U.S.: $47 Trillion

Sources: Dept of Commerce; World Fact book (GDP at Purchasing Power)

U.S. FTAS = EXPANDED EXPORTS



FTA Negotiations

Completed

Oman *(signed)*

Peru *(Notified Congress of Intent to sign)*

New

Korea *(Launched Feb. 2)*

2006 Completion

Panama

Thailand

Colombia

UAE

Continuing

SACU

FTAA

Ecuador

Korea

- **Announced intent to enter into talks on February 2 on the Hill with bipartisan support**

FTA would Bring Big Benefits to U.S. and Korea:

- **7th Largest U.S. Trade Partner in 2005**
  ($71.4 billion in two-way trade)
- **U.S. Goods Exports: *$28 billion in 2005***
- **6th Largest Market for U.S. Ag. Exports in 2005 *($2.2 billion)***
- **Korea is 10th largest economy in the world** *($983 billion in 2005 – based on Purchasing Power Parity Exchange Rate)*
- **The launch of this FTA would provide great benefit to U.S. agriculture, services and industrial Goods**

Enforcing Trade Laws & Strengthening Trade Agreements

- **Bilateral Consultations**
- **WTO**
  - Doha Round
  - Accessions
  - Enforcing Existing Agreements
- **FTA Negotiations**
- **Antidumping and Countervailing Duties**
- **WTO Dispute Cases**

Enforcement – Dispute Cases

PROTECTING OUR RIGHTS **– Major WTO Cases Brought by U.S.**

- **Airbus – Largest WTO Case Ever Filed**
- **EC Biotech**

RECENT SUCCESSES

- **Kraft Linerboard**
- **Mexico Telecommunications**
- **Japan Apples**
- **Mexico High Fructose Corn Syrup Tax**
- **EU Geographical Indications**
- **Korea Semiconductors**

Priority Enforcement Initiatives Outside Traditional Dispute Settlement

CHINA

- ***China Textile Safeguards***
- ***China Transparency Initiative***
- ***China JCCT***

Intellectual Property

- ***Strategy Targeting Organized Piracy (STOP!) Initiative***
- ***Special 301*** **[update]**
  - **Ukraine 301 Status Improves to: Priority Watch List**
  - **Pakistan Shut Down Illegal CD Plants**

FTA Implementation

2006: Opportunities and Challenges Ahead

- Conclude global trade talks and realize once-in-a-generation opportunity
- Pursue high-standard bilateral and regional agreements to provide new market access for U.S. goods and services
- Vigorous enforcement of trade laws and agreements to ensure a level playing field

ANNEX

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Key Elements of U.S. Agriculture Proposal

- **Stage 1 (5-year implementation):**
  - Substantial reductions in trade-distorting domestic support (60% cut in "amber box")
  - Substantial reductions in tariffs, with deeper cuts for higher tariffs
    - Developed countries: cuts range from 55% to 90%
    - Developing countries: slightly lesser cuts, focus on emerging markets
    - Least developed countries (49 total): make no tariff cuts at all under Doha
  - Limits the number of "sensitive products" eligible for smaller tariff cut to only 1% of total tariff lines, and ensures meaningful access through large quotas.
  - In Hong Kong the Ministers agreed to eliminate export subsidies by 2013
- **Stage 2 (5 years after stage 1 implemented):**
  - Phase out remaining tariffs and trade-distorting support measures over 5 years

Annex 1

CAFTA-DR Implementation - Update

- **Summary of Status:** Rolling admissions process – those we determine are ready by mid-month – entry into force first of next month
- **Progress to Date** - Working hard to complete implementation with all our CAFTA-DR partners
- **There are Remaining Obstacles**
- **We Must Implement CAFTA-DR Properly**

Annex 2

Recent Trade Trends

World:

- Goods and services deficit rises from 5.3% of GDP in 2004 to 5.8% in 2005
- *Exports up 10.4% in 2005 to $1.3 trillion*
- *2003 to 2005, U.S. increases exports by one quarter trillion dollars ($250 Billion)*

China:

- *Goods exports to China in 2005 grow over 20% (third straight year 20% or more)*
- *China Goods imports up 24% (on longer basis)*
- *Exports up 118% since WTO accession (2001)*
- *Asia Pacific Rim (including China) = 57% of U.S. trade deficit in 1999, but 43% in 2005*

Annex 3

U.S. Trade Deficit Context

2005 ECONOMIC DATA:

- **GDP up 3.5%**
- **2 million job gain**
- **Unemployment decline from 5.2% to 4.7%**
- *Macro-Economic Factors that Effect Trade Deficit:*
  - Stronger U.S. growth than elsewhere (e.g. EU, Japan)
    Effect: U.S. imports growing faster than exports
  - High foreign saving in excess of investment (e.g. China)
    Effect: Foreign trade surpluses; pressure on U.S. deficit
  - U.S. saving levels far below level of domestic investment
    Effect: Increased domestic side of trade deficit

Annex 4