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.

1. **Market Access**
   Average WTO Allowed Ag Tariff

   - US: 12%
   - EU: 24%
   - Japan: 51%
   - Korea: 66%
   - India: 114%
   - Global: 62%

2. **Direct Export Subsidies**
   EU (over $3 billion a year)

   - United States
   - Switzerland
   - Norway
   - Other

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

U.S. Goods Exports to the World

FTAs Partners (31 Countries) = 54% ($485 billion)
(Implemented, Negotiated, In Negotiation, Potential)

Non-FTAs = 46% ($419 billion)

World GDP Excluding U.S.

FTAs Partners = 15% ($7.3 trillion)

Non-FTAs = 85% ($39.7 trillion)

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

Exports to FTA Partners Grow Faster

Annual Growth Rate for U.S. Goods Export

- 20.9%
- 10.0%

Legend:
- □ 4 Implemented FTAs since 2001
- ■ Rest of World
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
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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**
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