

**Remarks of Ambassador Rob Portman
United States Trade Representative
US - China Trade Relations
Top-to-Bottom Review
Press Conference
February 14, 2006
Washington, DC**

Ambassador Portman: Thank you all for being here on this Valentine's morning. This is an important day for USTR. We are today announcing the results of our Top-to-Bottom Review. Some of you have been in discussion with me about this the past several months.

If you recall that when I was nominated to be the U.S. Trade Representative, I said I wanted to undertake a "top-to-bottom" review of the U.S. trade policy with respect to China. We've done that. We've undertaken a thorough and detailed look at our trade relationship with China – its development over the past 20 years, core principles underlying that trade policy, and the challenges that we face.

The review was informed by a lot of input including from Congress, industry, China experts, other government agencies, through an intensive inner agency process, public testimony. This was the first comprehensive review of U.S. trade policy towards China actually since China joined the WTO in 2001.

Today I am delivering that report to Congress summarizing the results of this review. It concludes that we are entering a new phase of our trade relationship with China. The first phase covered the 15 years from 1986 to 2001, when the United States worked very hard to get China into the rules-based WTO system. The second phase has included the past 4 years as we helped guide China's transition as a new WTO member. As of this year, the deadline to implement most of China's WTO commitments has now passed, and we are now entering a new phase - one in which China is recognized as a "mature" and successful member of the global trading system.

The U.S. has derived certain benefits from having China in the rules-based trading system. One example, of course would be now that we have received just late last week the 2005 trade numbers, we now know that we have had three consecutive years of strong U.S. export growth to China – each year exceeding 20% growth, making China, incidentally, our largest export market among major economies. However, overall, our U.S-China trade relationship today lacks equity, durability and balance in the opportunities it provides.

This disparity is due in part to China's failure to honor certain commitments, including its failure to enforce intellectual property rights, its protection and support for certain domestic industries, and its refusal to fulfill certain market opening commitments, all of which play a role in the record bilateral trade deficit figures which were released late last week.

Looking forward, the report outlines our objectives and priority goals. As a mature trading partner, China should be held accountable for its actions and required to live up to its responsibilities, including enforcing intellectual property rights, allowing market forces to drive

economic development and opening its markets. We will use all options available to meet this challenge.

The report also announces a series of actions that we propose to take to help us achieve these objectives, including the following:

First, more rigorous enforcement. The report announces the creation of a China Enforcement Task Force at USTR, headed by a new Chief Counsel for China. Although unprecedented at USTR, I believe this kind of dedicated, country-specific enforcement team is needed to secure China's compliance with its commitments.

The United States is the only country, as you may know, that has brought a case against China in the WTO. We were prepared to bring a second one only a few weeks ago, but at the last moment China reversed an unfair antidumping order against U.S. exporters of an important product for us called kraft liner board in response to our specific threat to bring the case. If China does not take affirmative steps to address other outstanding issues, including its inadequate protection of intellectual property rights and its rules that discriminate against imported auto parts, we are prepared to pursue legal options in those cases as well.

Second, is strengthening USTR's Information Collection with Respect to China. In my view, the formation and implementation of our China trade policy – including our enforcement – needs to be informed by more comprehensive, forward-looking information and analysis about China's economic development. We need to be anticipating challenges in the years ahead, not just addressing the concerns of yesterday or today. The report calls for the dedication of new China-specific resources at USTR to coordinate collection and integration of information on China's trade regime. It also calls for the establishment of a senior level advisory task force to advise on China trade policy.

Third, is expanding trade negotiating capacity in Beijing. The report calls for expansion of our trade negotiating capacity there – we need a trade negotiator on the ground - we do not have that now, in fact we do not have that anywhere except in Brussels and of course our Geneva/WTO office. This is a person who would be in constant communication with U.S. business and Chinese officials, and who would be in a position to strengthen trade enforcement and compliance efforts. This individual will also help remove barriers and promote greater market access for U.S. goods and services, work to ensure transparency, better intellectual property enforcement, and even more- and more even- application of the rule of law in China.

Fourth, enhancing cooperation with our trading partners. As you'll see, the report calls for expanding our cooperation with other trading partners as we seek to address common challenges. Concerns that I've raised today with regard to China's practices are not limited to US exports, of course. Recently, as one example of our increased coordination already, we have worked with Japan and Switzerland to seek evidence through the WTO regarding China's intellectual property rights enforcement and compliance. We're seeking to work with the European Union currently with respect to Chinese discriminatory- discriminatory tariffs affecting auto parts, so we've begun some of this coordination, we believe it should be enhanced.

I would also like to see us work jointly to promote more constructive participation by China in

the international trading system. As the report notes, China should take on responsibilities commensurate with its economic heft and the benefits it currently derives from global trade system. This means, in part, that China must play a larger role in the Doha Round of trade negotiations. It should also accede to the WTO Government Procurement Agreement and the World Intellectual Property Organization Internet Treaties. We will improve coordination with other trading partners on China matters, especially with the EU and Japan, to help achieve these goals.

Fifth to deepen and strengthen U.S. economic and trade relationships in the Asia and Pacific area. We cannot sit back, and we will not sit back. We must proactively engage economies like Singapore, Thailand, Korea, India, Vietnam and Malaysia, as well as working with regional organizations like ASEAN and APEC, to help maintain a robust U.S. economic presence in this critical region. Our FTA negotiations, WTO accession negotiations, and special dialogues with these countries are an important part of this engagement.

In conclusion, I would just like to say I consider this not the end, but the beginning of an important new dialogue on China policy that we will be having with Congress and other stakeholders and the American people. I made that clear in the cover letter I sent to the Chairmen and Ranking Members of the Senate Finance and Ways and Means Committee today. This is a report – top to bottom – of U.S. China trade opportunities and challenges. We are open to additional input and ideas going forward.

At the end of the day, I believe it is in the interest of the United States to have China play a constructive role as a peaceful and prosperous player on the global stage. The U.S. helped usher China into the rules-based trading system to open China's market, broaden its obligations and implement the trade reforms required by WTO membership. We must now adjust our trade policy to ensure that Americans enjoy the full benefits of these achievements.

Again, thank you all for coming and I'll open for any questions you might have.

Media: What in all of these measures goes beyond more intense jawboning, and what enforcement actions are open to you that wouldn't hurt the US consumer?

Ambassador Portman: With regard to your second question, there is obviously a balance here. As I said in my statement, the United States has benefited in certain respects from our trade relationship with China, a growing relationship. It's not just the US consumers' benefit, we've also have seen more than a 20 percent increase in exports now over the last three years which has generated a number of jobs here in this country.

But the relationship needs to be more balanced, more equitable. One indication of that would be the deficit number, but it's beyond that. It's true market opening. It's dealing with intellectual property. And as I said, it's dealing with some of China's internal economic development policies to make sure that it's fair.

So your question indicates there is some balance here, there is. But we believe right now the relationship is out of balance and that through additional measures by the Chinese government themselves, we can see more balance.

In terms of the specific action items we're addressing today, none involve jaw boning. They all involve using the tools we have available to us including more enforcement. We have not been shy, as I noted, in proceeding when we believe we have a good case, and when we believe it's the right thing to do. But we can use more resources and more focus, I believe, and more coordination. That's what this report calls for.

Media: Sir, I think up on the Hill they were expecting this report to produce some commitments to actually get to China for some of the current violations that are perceived in this report. Why are there no proposals in this report to actually take China to the WTO? Were there no cases or no actions the Chinese are now undertaking that are worthy of a WTO complaint? And when will you actually make the decision that there should be something to take to the WTO?

Ambassador Portman: Again, this was a top to bottom review of our China trade policy, where we've been and where we're going. That was the point of the review. It's a very thorough and detailed analysis of that. It's a good piece of work. I believe it's objective as well as hard hitting. We also do make some very specific suggestions on the enforcement side as you will read in the report, some specific areas where we think China needs to move. In terms of announcing WTO cases, that was not the intent of the report from the outset. By the same token, we're not going to slow down. If anything we're going to accelerate our analysis of potential cases.

As I said, the United States is the only country that has taken China to the WTO. We were prepared to do so in the kraft linerboard case only a few weeks ago. After several months of working with the Chinese government we were not able to achieve the result that was fair with regard to the antidumping order that they had placed unfairly on US products coming in from 14 states. It's a corrugated material in cardboard boxes. So we prepared a case. Two days before we were prepared to file that case, we informed the Chinese that indeed we were moving forward with the case and overnight, literally, they rescinded the antidumping order, which was a great result for US industry and exactly the kind of result we want to have.

Why? Because instead of going through the WTO process which, as you know, can take a year to 18 months, sometimes longer as we've seen with the Biotech case, we had an immediate success for US industry. Second, even after you win a case there's often an appeal which can take another six or eight months. Third is when you win a WTO case, the remedy is typically the ability to retaliate which is not always a satisfactory remedy as we've seen with the beef hormone case with the European Union.

So to the extent we can use our leverage that we have with the WTO to address these concerns short of litigation, it sometimes is preferable, and we will do what's in the best interest of US commercial interests. The kraft linerboard case is a great example where we weren't shy about bringing the WTO case but we were able to achieve a better result prior to filing it by threatening to file it. So that's what we will continue to do and to do so aggressively. Again, when you look at China's accession to the WTO there is sort of an apprentice period, a transition period. When

I look at all their obligations and commitments as of this year, 2006, now most of those commitments that China undertook have to be fully made. So we are entering into a new phase here with regard to their commitments and frankly with regard to our legal right. It's also one reason I think this report is timely. It's also timely in that we just got the 2005 trade figures which I wanted to see, and we will move forward aggressively in terms of enforcement.

But just to be clear, Sam, this was never intended to be a report announcing a particular case. We will move expeditiously on these cases as we did with kraft linerboard. We didn't hold it up for this report. We moved forward with it. We got the resolution that we wanted and we will continue to do that whether it's auto parts or whether it's intellectual property rights or other issues going forward.

Media: Mr. Portman, you said that the relationship, I believe you said the relationship overall you said lacks equity balance but you also said it lacks durability. What do you mean by that?

Also given all the problems that you're citing, is it arguable that China is not ready to be within a rules-based trading system?

Ambassador Portman: I thought you'd ask that about durability. It's in part a political judgment on my part.

If you look at what is currently happening in terms of the fast-moving global economy and China's emergence and you look at the, as I say, the imbalance in the opportunities in the trade relationship, there is increasing concern. As you know, I left Congress only less than a year ago, eight or nine months ago, so I'm very familiar with that. Durability in part goes to that question.

One could say is it sustainable, this current policy? It's also an economic judgment on our part. The current policy and the imbalances that have been created also create concerns on the economic front in terms of its durability.

So again, this report is timely in the sense that we've gone through this first phase of what's in the interest of the United States getting China in the rules-based system, encouraging the kind of market reforms that we've seen in China over the last couple of decades. Second was creating the WTO that I've said earlier so it's an apprenticeship period, a transition period. Now China clearly is in a position, having benefited from the global trading system, being a mature trading partner and it's time for us all to recognize that.

Your second question, is China ready for a rules-based system? The rest of the world is ready for that. That's the point. Without China being in the WTO you would not have the ability for us to have this discussion today about enforcing WTO standards. And it's not just bringing the disputed cases. It's also about subsidies. It's also about government procurement. I mentioned here in my statement about the need for China to join the government procurement agreement. It's also about standards. I mentioned the WIPO treaty. So the WTO gives us the ability to not only have China be an active player in the global trading system but to live within rules that are able to be enforced. So I think it's very much in our interest.

Media: A follow-up to that, please. When your predecessor, Mickey Cantor, was talking about whether China had earned its way to the WTO to avoid there becoming an enforcement and compliance nightmare, \$800 billion deficit sounds like someone wasn't watching with the vigilance that they promised when they joined the WTO. How did the deficit get so large with this kind of policy?

Ambassador Portman: I'm glad you asked that question. I did mention the deficit earlier in relationship to our imbalance in our relationship, but I think we need to be very careful not to directly link the issues that I addressed in terms of our China trade relationship and the deficit. Why? Because as every economist will tell you, whether it was Mickey Cantor's economist on the other side of the aisle or my economist on my side of the aisle or objective economists like I hope we have at USTR now, right left or center they'd be able to tell you the same thing, which is that the trade deficit is primarily based on macroeconomic factors that cannot be directly affected by the trade policies we're talking about today. What do I mean by that?

The savings rate in the United States, as you know, is very low. Based on how we measure it, it's zero or below. We can have a debate on that economically, but the fact is we're consumers not savers. The Chinese savings rate as you may have seen recently, is as high as 50 percent. That gap between savings and investment between our two countries most economists will tell you is a primary driver in terms of deficits. This is why recently you saw in the President's report, the Economic Report of the President, the Council of Economic Advisors called for China to implement policies that would encourage consumption and investment over savings. They also called on the United States to encourage policies that lead to more savings.

Second is the fact that our economy has grown quite rapidly and relative to other developed economies quite strongly over the last few years. That has led us to importing more than otherwise might have gone to particularly Japan and the European Union. In the last year while we see these record trade deficit numbers, our unemployment rate has gone from 5.2 percent to 4.7 percent. We've added two million new jobs in this country. Our growth rate has been steady at about 3.5 percent. We expect it to continue this year. If you look at our other G7 trading partners, the major developed countries in the world, that means we're growing at about twice their rate of growth.

So these are macroeconomic factors that can't necessarily be affected by some of the issues that I addressed including market openings, including intellectual property, including some of the internal economic development issues in China, and we have to recognize that.

Another issue in the deficit, as I'm sure you heard from others in talking about this, and a number of economists have pointed this out to me as I've asked the same question you just asked. If you look at our deficit with Asia, it has changed very little. In other words, China has become an assembler for much of Asian production and in fact as a percentage of our deficit the Asian part of our deficit has been reduced over the last five years. The exact numbers David's got in the top of his head.

Voice: It's declined from 54 percent to 47 percent [inaudible] trade deficit [inaudible] Asia Pacific and China.

Ambassador Portman: The way we calculate our Chinese deficit is also a question of dispute with China. We think we do it the right way. We include shipping, insurance, and we include Hong Kong which we think is appropriate. Hong Kong is part of China. So they [the Chinese] have deficit numbers, as you know, which are about half of ours. They say the deficit's only half as large as we do, roughly. We think we calculate it properly. But I do think when you look at the whole Asian area, you're talking about trade policy, you need to look at what's been happening with regard to other countries including Korea, Japan and others.

So I'm glad you raised the deficit issue because there's sometimes, among my former colleagues and among the American people, that sense there's a direct correlation here between the issues I'm talking about today and the deficit. The deficit may go down this year I'm told by economists, but it may have nothing to do with some of these issues. It may have to do with some of these larger macroeconomic issues. So whether we're taking credit for it or taking the blame for it, sometimes it's frankly not appropriate because some of these factors in trade do not relate to the deficit. Having said that, this is a matter of fairness. The degree to which China opens its market to us will have an effect on the deficit. I'm not saying it's the major effect, I don't want to get cross-wise with my comments over here, but it does have an effect. In order to rebalance our relationship, China needs to open its market to our products just as we are open to Chinese products. That's the point of this report, that's the point of these enhanced enforcement efforts that we're announcing today and this is why I believe this report is timely.

We now are at a stage in our US-China trade relationship where we have a mature and successful trading partner who needs to live up to its obligations.

Media: Can I ask a question about the Internet? This is kind of an emerging issue. Maybe it's a trade issue, maybe it's a political issue, but will you be addressing the issue of how China treats US internet information companies? And what do you think of ideas that are flitting around Capitol Hill to ban US companies from putting servers on Chinese soil?

Ambassador Portman: I'm not prepared to answer the second part of the question since I haven't seen those suggestions. Have those been put in a policy legislation yet?

Media: I think it's going to come up at the hearing tomorrow.

Ambassador Portman: Okay. Thanks for the warning. [Laughter]. I'll be better prepared.

The Internet generally is one of the concerns that we have with regard to some of the internal Chinese policies I've talked about earlier. It goes to regulation specifically and it's addressed in the report. Another one would be competition policy. These are not directly related to trade but they do affect our trade and we need to be cognizant of the impact. So it is a concern and again, when you look at the US comparative advantage to China it includes high technology, it includes some of these Internet services, it tends to include more knowledge-based exports, although as I said earlier, everything we're talking about here would affect other exporters just as it would affect us. We are disproportionately, negatively impacted by some of these Chinese policies including some of the Internet issues you raise or certainly intellectual property where we have a significant competitive or comparative advantage in software exports, for instance, but also in terms of movies and recordings. The United States is disproportionately impacted.

Media: Does the Administration anticipate that this series of actions will convince Congress to hold its fire on some of the pending legislation particularly in regard to the China [inaudible] regime?

Ambassador Portman: It's not related to any particular legislative initiative. This is something that I undertook to review when I was in the nomination process. I thought it was necessary for us to have a more coherent review of where we had been and where were going in terms of China trade policy. It's not in reaction to any particular piece of legislation.

Media: What do you think Congress' reaction will be?

Ambassador Portman: I hope they'll find it an objective and helpful piece of information as Congress designs trade policy vis-à-vis China. That's the intent here.

I hope that as Members of Congress look at the relationship they focus on what we view to be the real problems and they also focus on where the United States derives certain benefits. We provide that balance in this report. We talk about the benefit for exporters, to our consumers, but I also talk about the missed opportunities or the challenges and the fact that China needs to do a lot more in terms of making this relationship again more equitable and more durable, and the opportunities more balanced. So I hope that's how the Congress will use this report, is to better understand what the problems are to be able to more precisely target congressional efforts.

We do have some specific recommendations here, in fact some specific action items we are able to undertake without congressional involvement and we will do those things. At the same time, as my cover letter made clear to the chairs and ranking members of the two committees of primary jurisdiction, we welcome their input. This could serve, in a sense, as a platform to come up with what we think will be effective policy with regard to China.

Media: Are you asking for a bill? Are you asking Congress to legislate on China?

Ambassador Portman: I'm not asking Congress to do a specific piece of legislation, but as you know, there are a lot of different proposals out there, a lot of different ideas, and I think this report can form again a basis for legislating in a way that will address the real issues that we perceive at USTR, the trade issues. So I hope it will inform the congressional decisionmaking on what kind of legislation they move forward on.

Media: Do you anticipate legislation then? Is that what you're saying?

Ambassador Portman: Greg, I really don't know when Congress will act. I think at some point Congress will. As you know, they worked through a process in the House already on what was called the English Bill. I would assume that we'll continue to see movement in both committees – Ways and Means and Finance. I don't have any sense of timing or any sense of what the final form might be, nor is that the purpose of this report. The report I think will be helpful though. Again, as a former member, I would have appreciated this kind of input to better understand what the issues are. I think it's an objective analysis. Again, it's hard hitting but it's objective. I think that is needed right now.

This is an extremely important economic relationship. It is important to our economy in very direct ways in terms of the jobs created by exports, in terms of the benefits consumers get on prices and choices and we need to be very careful how we move forward. So I think this can help form the basis for more informed decisionmaking.

Media: You talk about action items that you're going to take. As I read the report it looks like the primary new action that's taken within the Administration was in your agency. [inaudible] But within your agency which is 200-plus individuals, how do you envision a refocusing of priorities? Can you quantify how many new people within the agency would be dedicated to meeting these goals? And beyond the individual that you would put in Beijing would there be supplemental staff that would go in to support that function?

Ambassador Portman: We are fortunate, as you know, that we got a little improvement in our budget for this year, the fiscal year we're in currently, which gives us the flexibility to be able to bulk up our China effort in ways that frankly we couldn't have done last fiscal year because we did not have the resources to be able to focus on even the very ambitious trade agenda that we have effectively, in my view. So this year we have a little more leeway to do that so we'll be able to make some changes in terms of bringing people in, but also in terms of prioritizing with the agency in ways I think which will be successful to bring that focus.

In terms of numbers of people in the enforcement shop, because we're setting up not just a new Chief Counsel but actually a new task force, I don't know the exact number of people yet. We are working on that in terms of again our existing budget. We're a small agency, as you know, just over 200 people, with a budget that's relatively small compared to some other government agencies. But I think we've got enough leeway this fiscal year to be able to accomplish that or otherwise we wouldn't have made the commitment. I'll let you know how many people when we come up with that number. It will depend on salaries and it will depend on what we feel we need.

Media: I just wanted to ask you a question about the ongoing look at what China's doing better in terms of enforcement. Late last year they said China questioned the ability of the US to even ask these questions under Article 63 and what we were told by your office was we're sort of ignoring that question for now and just going after information.

But how does that square with everything you've said today? If you treat China as a mature trading partner shouldn't they answer to the Article 63 process and shouldn't that be an important thing you have to hold them up to? In some ways I'm asking, is it smart to let them off the hook on Article 63?

Ambassador Portman: It's a good question. Just so everybody knows what we're talking about, under the WTO Article 63 a member has the ability to request of another member information on intellectual property compliance. Enforcement and compliance. To my knowledge this has never been used before. The United States invoked Article 63. We were very pleased that Switzerland and Japan joined us in that effort. That was a big priority of mine, to make this a multilateral effort rather than a unilateral effort and I applaud them for that. It takes some courage because there are some people who believe that when you take on some of

these tough issues there could be some negative commercial consequences. I believe that the IPR issue has become so important, not just to the United States incidentally, but to the global economy, and not just in China but in many other countries, that it was necessary to move forward.

So we took the Article 63 invocation forward with China. I absolutely believe that China should respond and respond consistent with its WTO commitments to the Article 63 request that we have made. I don't believe we should give China a pass. I believe it's their responsibility to do so. We're sending a team over to follow up on the Article 63 request. We need better data and better information. I think the Chinese ought to use this as an opportunity to provide us with the information that they say they have which indicates they have made significant improvements to their intellectual property laws and rules, but also to the enforcement of those laws and rules.

To the extent that's true, we need to know about it. What we are hearing from US businesses and others is that there still is rampant theft of intellectual property. You can see the piracy on the streets of almost any Chinese city you visit if you've been there in terms of, what I said earlier, some of our comparative advantages whether it's movies or recordings or software. We need the answers.

So we are not letting them off the hook.

Media: Your office said that they were sort of ignoring that issue for now though. So this was maybe just a month ago. Has that changed? I thought we were sort of brushing that aside in a way and trying to --

Ambassador Portman: Tim, why don't you answer that question?

Voice: We're certainly not ignoring the process. We have a dialogue going on with China on 63 and we're trying to pursue it in a way that we think will be most effective to get the information.

Ambassador Portman: Tim Stratford is the Assistant US Trade Representative for China, and one of the authors of this report and has done a terrific job on this, I believe. He has over 20 years experience in China. Speaks fluent Mandarin and Cantonese and headed up our commercial foreign service office or commercial service office for the Commerce Department and the embassy in Beijing, and then most recently was Chief Counsel for General Motors and the lead counsel on the cherry case. So we've got some good expertise in house now. On Article 63, we are pursuing it.

Media: One of the criticisms of I guess the Administration's policy is the lack of tools to get at some of China's trade practices. American industry can't file any subsidy cases because of China's non-market economy status. Section 421, China specific safeguard, is pretty much regarded as more abundant under this Administration because of the President's refusal to follow through on that.

Why not talk more about the tools for American industry? Do you feel that there are sufficient ways for US companies to get at these things, or is the WTO the only way to, the only avenue for US companies to [inaudible]? Why not provide more options?

Ambassador Portman: That's a good question. Let me just be clear on two points. One, with regard to enforcement tools, we do believe that there are a number of tools in addition to the WTO. I didn't want to focus too much just on WTO earlier. One is our own domestic laws. As you know perhaps, we have filed more antidumping suits against Chinese products than against any other country in the world. So we are aggressively pursuing our antidumping laws.

We do not consider China a market economy. As you know, China very much would like to have the status of market economy. We do not believe that the market signals are there within that economy to be able to effectively use our countervailing duty laws. So as with other non-market economies, we rely instead on a surrogate country analysis under the antidumping statute rather than the countervailing duties. This is administered by the Department of Commerce, by the way, not by US Trade Representatives office so I'm getting out of my lane here a little bit, but it's all part of our trade policy and it's all part of enforcing our laws.

So we've been very aggressive. The issue as to whether we should change our law or our practice, because some would argue we could do some of this administratively, and be able to use the countervailing duty laws rather than the antidumping laws with regard to subsidies, is a matter that's being debated in Congress, as you know. Trade officials with whom we consult have mixed views on that. Some believe that it's more effective to use the antidumping statute and the surrogate country analysis that results in more realistic tariffs. They also believe that it would be very hard to find the market signals in China because there is, unfortunately, as I said in my opening statement, not enough free market forces to be able to determine what some of these subsidy levels are. Others believe that it's time to change that policy and to directly try to address the subsidy issue, even with some of those challenges.

So it's a debate. It doesn't mean that we're not enforcing the law. We are, and we're doing so aggressively.

On safeguards, some of the retailers would be surprised to hear you say we're not using safeguards. In the textile issue I've gotten a lot of heat I guess from both sides. We negotiated a very tough agreement with China using the safeguards and aggressively pursuing our rights. When China acceded to the WTO we agreed that there would be a transition period during which we could impose safeguards on textiles. We now have a comprehensive agreement with China that I believe is very much in the interest of domestic textile production because it gives them the kind of certainty and predictability that we're seeking. I believe it's also in China's interest, by the way, because they can plan. That's an issue that the Chinese were very concerned about in terms of their employment in their textile factories. So I think it's a good tough but balanced agreement and we used the safeguards aggressively, as you know, up to the point that we came up with the comprehensive agreement.

On other 421 cases, steel tube is maybe the one you're referring to. We've done the analysis. We look at it in a couple of ways. One is if you were to use the safeguard with regard to a Chinese product would there be any lessening of exports from other countries coming to the United States? In this case we identified a few dozen countries that would continue to send relatively low-priced imports to the United States with this particular product and that that would

most likely be the result, that the displacement of the Chinese products would be of other third country products. Then second was the impact on the national economy.

So I think the President made a good call there. I think he made the right decision. Politically it might have helped me with regard to 421, but I think you need to look at these on a case by case basis and we will do so. And where it is in the interest of US industry and the interest of our national economy, we will not hesitate to use those safeguards as we have, particularly in the textile case I mentioned.

Media: When you say there were debates within the trade [inaudible], was that when you were talking about the CvD and non-market economy, or I'm sorry, were you referring to other --

Ambassador Portman: I was referring more to the debate that Congress has had over this in connection with the English Bill and with its movement through Ways and Means with regard to the Senate Bill which has not been brought up for a vote yet, but debated within the committees and there have been hearings on this. So there's also discussion within the Administration on it. There's also discussion within USTR on it. Even though it's, as I say, an issue where the Commerce Department has the lead because they administer the program.

My point is, it's not for lack of interest in enforcing our rights, it's trying to figure out what the best tool is to use and what the most effective way is to enforce those rights.

Media: What sort of effects would you expect the latest WTO ruling on FSC-ETI have? And when do you expect to see the latest ruling addressed?

Ambassador Portman: That's a good question. I spoke to Chairman Thomas and Chairman Grasseley about this yesterday because I was concerned by the EU reaction to the latest decision. Recall during this long FSC-ETI issue Congress took some difficult political steps to phase out the export subsidy element consistent with the WTO. That transition period I believe ends this year. Is that accurate?

So here we have a decision by the appellate body, the WTO, saying well there is still some subsidy element here that's inappropriate and yet it phases out this year and the EU is threatening to retaliate to the tune of 60 percent I think of the original, I think it was \$4 billion in retaliation when there's just a very little amount left in terms of the transition. Second, is grandfathering. There are some grandfathering benefits but based on the Joint Tax Committee analysis, it's relatively minor, much much smaller than the 60 percent of retaliation that's being contemplated.

So I would hope that the EU looks at this objectively, dispassionately, doesn't try to link it to other issues such as the Airbus Boeing litigation ongoing in the WTO and that we're able to deal with this issue in a way that recognizes the tough decisions Congress has made. The success we had frankly in Congress, I was a member of the Ways and Means Committee at the time and worked hard on this, to address the WTO case which had been brought by the European Union. If that does not happen then I do think it could have a negative impact on transatlantic relations because I think it will show they are not, again, objectively analyzing this and giving us the

benefit of the tough decision that was made in Congress with regard to [inaudible]. So that's where we are on that issue. We'll see how the EU responds.

As I look at the timing here, I think they have until early May to make their decision.

Media: Can you share with us your views on repeal of PNTR with China? What will be the addenda at the JCCT?

Ambassador Portman: Very good questions. I'll answer your second one first. There is this Joint Committee on Commerce and Trade coming up. April 11th I think is the date now. I don't know if that's official yet.

Voice: It is now. [Laughter].

Ambassador Portman: I make Christin's life difficult all the time. [Laughter].

I think we're set for early April for that meeting which is good because it's time to do a stock-taking of our last JCCT and make progress on some of these issues that I outlined here. I sincerely hope we can make concrete and tangible progress on some of these issues including intellectual property, including market openings that are addressed in the report. The report is timely I think with regard to JCCT because it lays out the issues I hope in an objective way. So I'm hopeful that JCCT can be successful. This would proceed, as you know, the visit of President Hu to the United States which is also an opportunity for us to address some of these trade issues.

Your first question was about Senator Dorgan and Senator Gramm's legislation. I just looked at that legislation for the first time late last week when they introduced it. My concern with the legislation, which won't surprise you, is that I wouldn't want to put China in the position of being able to revoke our WTO rights. If we revoke their permanent normal trading relationship with us, some believe that they would then be in a position of not having to offer us the WTO rights that we do have in the Chinese market. And everything in this report, as you know, from my description of it, is designed to utilize and leverage those rights in a more effective way.

So I'd be concerned if the result of that kind of legislation were to limit our access to the Chinese market. We need to do just the opposite. We need to expand our access to the Chinese market. We need to make sure China lives up to its commitments in the WTO. I believe China should go beyond some of those commitments given their status in the world trading system today, and I believe they need to also enter the government procurement agreement which will help us with regard to software and other issues, and the [inaudible] treaties talked about.

So if anything, I believe we need to move China into more WTO compliance, not less. So that would be my concern about the legislation as I have analyzed it. I may be missing something, but I would be very concerned if that were the impact.

Media: I want to ask you a question about the increased number of resources and so forth. You've been doing trade policy for a fairly long time so I suspect you may remember there have been a fair number of instances in the past where Administrations have proposed [inaudible].

My question is, do you really think it makes that much difference? Isn't the main reason why Administrations don't bring cases or don't file enforcement actions are because the industry doesn't want them to because they think it will – I understand it never hurts to have more people working on these things [inaudible]. In your experience is it much more important what the industry wants you to do? Do you really have that big of a problem with lack of staff?

Ambassador Portman: It's a very fair question and I think I alluded to this earlier when I talked about other countries joining us with regard to the 63 implication, and more recently working with the EU on the auto parts case. You are correct in the sense that there are some US industries that have been hesitant to move forward on some enforcement actions. The Chinese market is a valuable market for the United States. For many companies it's a profitable market. In some cases their most profitable market. So it is a reality that sometimes I find that we're a little ahead of our own industry. Nonetheless, we're moving ahead and we will continue to. Working with them, our industry, as much as possible. We need them to provide us with the data. Some of it is proprietary, as you know. And so we have a very active outreach program. I'll be meeting later today with a representative of a major trade association here on some of these very issues. I did that twice last week. So we are aggressively working with US exporters and US industry to let them know better what we're doing, why we think it's the right thing to step up enforcement. But sometimes, you're right, there are concerns expressed.

In terms of your first question on whether more targeted or more resources for enforcement can be effective, I think it helps. And as you know, we have a very I think effective group of people and a hard working group of people at USTR, but it's a relatively small office and by targeting and focusing our resources more on this particular issue I think we can make a difference, including outreach to industry, outreach to other trade experts who can help us with regard to bringing some of these cases and dealing with some of these issues before we have to bring a case, as we did with craft linerboard.

In particular, we have never in USTR's history, identified a particular group of enforcement officials who would be focused on one country. It's unprecedented. There was not a Japanese trade enforcement team back during the '80s. This is something, it's hard for me, looking at this for a number of years, it's hard for me to compare this because we haven't tried this before so it's something new to have members of our enforcement team who are exclusively focused on China and on these issues. I think it can have a positive impact.

Media: One follow-up on that. You mentioned the Japanese trade friction of the 1980s. How do you compare this to then? I remember members of Congress being very upset about Japanese imported cars and how they were going to slap sanctions on them and all this. We don't have that, it doesn't seem, to the same visible degree we do with China.

Ambassador Portman: I'm going to get into some issues here I probably shouldn't address but I will anyway. [Laughter].

I think there are some comparisons, actually, and I think it's instructive for us to look back at the '80s and look at where we, I wasn't in Congress then, I was actually in the Administration, the first Bush White House for part of that, and I was a trade lawyer for part of it here in town. But you recall there was a concern that we just could not compete and win against Japan, no matter

what. Look what's happened. You had a high technology revolution in this country following that. It was an essential wakeup call. My sense is that's where we are again, in a sense.

There is among some Americans the sentiment that we simply can't compete and win with regard to China. I don't think that's true. I think if we have a more level playing field if we get China to live by the rules we can compete and not just survive, but win. It doesn't mean that China loses, by the way. The great thing about trade is it is truly win/win. As I said at the conclusion of my statement, we want a prosperous China. That's in our interest. We want a China to become not just part of the WTO but to undergo the kind of market reforms that would make them a more prosperous country that had more economic freedoms which we believe leads to more political freedoms.

So I think as we look at China we can learn from some of the experience of the 1980s. I'm not saying the analogy's perfect. There were different issues. Autos were a big issue, you had the VRAs, you had different sectors of the economy that were affected, but in terms of our thinking as Americans, I think we need to be focused on making ourselves more competitive, making ourselves in terms of trade more effective and leveling that playing field. If so, I believe the US economy has a very bright future.

Media: On the auto parts issue, is that something you think could be resolved by the JCTT meeting in April? And what is sort of the dynamic that's going on on that? You say you're urging China to address your concerns. Are they responding in a way that they responded in the kraft linerboard case?

Ambassador Portman: The question was about the auto parts discussion we're having with China and whether I would like to see it resolved before the JCTT. I certainly would. I'd like to see it resolved tomorrow. This is an issue where we believe there is a policy in place to protect domestic production that unfairly discriminates against our auto parts exports to China. Again, given what's happening with our relationship overall, the imbalance that I talked about earlier in terms of opportunities, this is a very specific issue where we would like to see immediate resolution. I hope it's not necessary to bring a WTO case but we are prepared to do that if necessary.

So JCTT would be a fine opportunity to resolve it. I hope it can be resolved even before that. That's all I can say.

Media: Have you given China a deadline like you did with kraft?

Ambassador Portman: We're in continued discussion with them. That's all I can say at this point.

Media: Is there an obvious trigger point for that that you face a decision on that?

Ambassador Portman: There's not an external trigger point but there is strong interest on our part to get this resolved and in my view deadlines can often be very effective in getting those kinds of issues resolved.

I'm supposed to take one more question because we're already a little bit over time.

Media: The areas you cover in this report look very similar to the US-Japan structural reform report. You do that every year. I was wondering if you were going to do this every year and how you plan to judge your success. Is it going to be the decrease in deficits or how will you assess your success?

Ambassador Portman: Good question. One thing you'll see in the report is that there is a call for enhanced interagency coordination which is extremely important USTR does not have the sole responsibility here. This is spread out over a number of different agencies, departments, and we've worked very closely with them really over the last several months in an intense interagency process. We've gotten great cooperation. Through the TPRG and TPSC which are our two interagency groups we've called not for just an annual review but actually a monthly review of where we are in terms of progress on the issue we identify in the report. Some had called for that to be semi-annual, some had called for it to be quarterly. We moved it to monthly on purpose to keep the pressure on me and our interagency process, to stock take, to make sure that we are making progress.

How will we measure our progress? It's a great question. You asked whether it will be by the degree of the deficit. My answer is, per my answer to the gentleman's earlier, I think it would be a mistake for us to tie it directly to the deficit. Why? Because the deficit could look better and still we would have serious challenges and a lack of a level playing field with China. The deficits could look worse and yet we could be making progress on what we've identified in the report.

So I think the way to measure our performance is to go point by point through the report looking at the issues that I've talked about at the outset which have to do with intellectual property and its proper enforcement. It has to do with internal Chinese policies which according to the report I think is economic development policies, but that would include subsidies and protection of domestic industry. It would include standards. Then finally market opening. I think market openings is related to the previous two but more specifically Chinese [inaudible] commitments on market openings, and as I said a moment ago, it shouldn't just be WTO commitments. Given the imbalance in the opportunities and relationship today, I believe that China ought to open its market to US products as we have opened our market to theirs.

So that's how we should be judged, and there will be a very, again, coordinated effort on the part of the agencies. We also call for more coordination with Congress. We also call for more input from stakeholders. We also set up a new high level advisory group just on China. We also called for something which is a little hard to get into much detail on in the report, but better information at USTR. And that includes information about not just again where we've been or where we are but where we're going and where China's going in terms of its policies. That information I think needs to be enhanced to USTR but also to other members of our interagency team.

Media: Any reaction from China to your report?

Ambassador Portman: I don't know. I haven't talked to anybody yet. [Laughter]. I do hope they will view this in the spirit in which it's written and I hope announced today which is --

Media: Have you delivered the report?

Ambassador Portman: We are sending it to them as we're sending it to you. Our trading partners in China will get the report this morning just as you will. But I hope they'll receive it as it is intended which is an objective, thorough analysis. As I said, it's the unvarnished view of where we are in terms of our trade policy and what our opportunities as well as challenges are, and it's an attempt to improve that great relationship. At the end of the day it's in our interest to have China in the WTO. It's in our interest to have China be successful. But it's also in our interest to make sure that that relationship is more equitable, more durable as we've said, and has more balance in terms of the opportunities it provides American workers and farmers and businesses.

Media: Thank you.

Ambassador Portman: Thank you.

###