

IV. OTHER MULTILATERAL ACTIVITIES

A. Trade and the Environment

The Administration has continued and enhanced its efforts to pursue opportunities to address environmental objectives through multilateral, regional and bilateral trade initiatives. On the multilateral front, the United States has been a global leader in seeking to discipline harmful fisheries subsidies and eliminate barriers to trade in environmental technologies and services through the WTO as part of the Doha Development Agenda (DDA). Ongoing efforts in free trade agreement negotiations culminated in the development of new groundbreaking environmental provisions associated with the bipartisan trade deal with the Congress. The Administration has also utilized additional bilateral trade fora, such as the U.S.-Indonesia Trade and Investment Framework Agreement (TIFA) and the Strategic Economic Dialogue with China, to leverage action on critical global environmental challenges, such as illegal logging.

1. Multilateral Fora

As described in more detail in the WTO section of this report, the United States is active on all aspects of the DDA trade and environment agenda. In particular, the United States has contributed in 2007 to the intensification of work on liberalization of trade in environmental goods in the Committee on Trade and Environment (CTE) in Special Session, including through a joint proposal with the European Communities that lays the groundwork for an innovative new agreement on environmental goods and services (EGSA) and action to eliminate trade barriers to climate-friendly technologies. The United States believes that increased market access for environmental goods and services is an effective means to enhance access to environmental technologies around the world and has continued to advance pragmatic ideas for product coverage and modalities in negotiations on environmental goods. In the Rules Negotiating Group, the United States continues to lead in pressing for stronger disciplines on fisheries subsidies that contribute significantly to global overcapacity and overfishing. In March 2007, the United States submitted a far-reaching textual proposal for a fisheries subsidies agreement, which included a broad prohibition of the most harmful subsidies. The Chairman's draft text, issued in November 2007, draws upon the U.S. proposal in significant respects and retains a high level of ambition.

With respect to the DDA trade and environment agenda that does not specifically involve negotiations, the United States continued to play an active role, particularly through emphasizing the importance of capacity-building. This work included discussions in the CTE Regular Session with respect to the environmental implications of all areas under negotiation in the DDA.

USTR co-chairs the U.S. delegation to the OECD Joint Working Party on Trade and Environment (JWPTE), which met twice in 2007. Work has focused on trade, environment and development issues with an emphasis on the role of environmental goods and services liberalization in promoting "win-win-win" scenarios and the role of Regional Trade Agreements (RTAs) in promoting environmental awareness. These activities are discussed further in the OECD section of this report (Chapter V, Section C).

USTR also participates in U.S. policymaking regarding the implementation of various multilateral environmental agreements to ensure that the activities of these organizations are compatible with U.S. environment-related trade policy objectives. Examples include the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Montreal Protocol on Substances that Deplete the Ozone Layer, the Basel Convention on the Control of Transboundary Movements of Hazardous

Wastes and their Disposal, the United Nations Framework Convention on Climate Change (UNFCCC) and the Cartagena Protocol on Biosafety and the Stockholm Convention on Persistent Organic Pollutants (POPs). USTR also participates in U.S. policymaking regarding activities related to the United Nations Environment Program.

USTR leads U.S. participation in the International Tropical Timber Agreement (ITTA), a commodity agreement whose objectives include sustainable management of tropical forests. Negotiations for a successor agreement to the 1994 ITTA were concluded in 2006, and, once it comes into force, the new agreement is expected to strengthen efforts to promote trade in the context of sustainable management. USTR also continues to be involved in the trade-related aspects of a variety of other international forest policy undertakings including implementation of President Bush's Initiative to Address Illegal Logging, launched in 2003. In addition, USTR participated extensively in U.S. policymaking regarding the compliance regimes of the International Commission for the Conservation of Atlantic Tuna (ICCAT) and other regional fisheries management organizations, as well as in the negotiation of a new agreement in the International Maritime Organization (IMO) to address environmental standards for regulating ship recycling.

USTR also leads United States participation in another international commodity agreement, the International Coffee Agreement (ICA). Since rejoining the International Coffee Organization (ICO) in February 2005, the United States has stressed the need to reform and revitalize the organization. In 2007, these efforts focused on the negotiation of a new ICA, which was concluded in September 2007. The new ICA is designed to enhance the ICO's role as a forum for intergovernmental consultations, to increase its contributions to meaningful market information and market transparency and to ensure that the organization plays a unique role in developing innovative and effective capacity building in the coffee sector. Among the features of the new agreement is a "Consultative Forum on Coffee Sector Finance" to promote the development and dissemination of innovations and best practices that can enable coffee producers to better manage the financial aspects of the volatility and risk associated with competitive and evolving coffee markets. As a result of the new agreement, the ICO will be in a better position to help to facilitate international trade and sustainable development in the coffee sector.

2. Bilateral Activities

The environment chapters of the trade agreements with Peru, Panama, Colombia, and Korea include obligations to implement and enforce provisions in a number of multilateral environmental agreements, such as those covering trade in endangered species, conservation of marine resources, and wetlands protection. In addition, the environment chapter in the Peru Trade Promotion Agreement includes an annex on forest sector governance that will lead to substantial improvements in Peru's management of its biodiversity-rich tropical forest resources. The annex includes procedures for audits and verifications to monitor bilateral trade in forest products in order to detect instances of illegal logging of critical species of trees.

The United States has moved ahead with implementation of important environmental provisions of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). The Secretariat for Environmental Matters is operational and received its first submission concerning an environmental enforcement issue in 2007. Each Party has set up an advisory committee to provide it with advice concerning implementation of the Environment Chapter. The United States allocated close to \$20 million for environmental cooperation activities in the CAFTA-DR region in FY 2006 and approximately \$20 million for FY 2007.

Under the co-leadership of USTR and the Department of State, the United States concluded a Memorandum of Understanding (MOU) with China on combating illegal logging and associated trade. This interim MOU establishes a framework for both immediate cooperation and the negotiation of a more detailed bilateral agreement to be concluded by the Fourth U.S.-China Strategic Economic Dialogue (June 2008). Under the MOU, the United States and China have created a bilateral forum comprised of representatives of relevant government agencies. Through the bilateral forum the Parties will, among other things, identify priority activities for cooperation on combating illegal logging and associated trade, promote trade in forest products from legally-harvested resources, facilitate information sharing and encourage public-private partnerships. Significantly, under the MOU and eventually the more detailed agreement, the United States and China will provide important support for third countries seeking to sustainably manage their forests by further closing markets to timber that has been illegally harvested.

USTR also chairs a Working Group on Illegal Logging and Associated Trade under the U.S.-Indonesia Trade and Investment Agreement (TIFA). The Working Group was created by a first-of-its-kind MOU with Indonesia that was concluded in 2006. The Working Group met to share information on timber trade, including information on illegally-produced timber products, and enhance cooperation in law enforcement activities. The United States committed one million dollars to fund projects under the MOU, including training for customs and law enforcement officials, assistance for Indonesia's efforts to develop a legality standard and enhancing partnerships with NGOs and the private sector. The agreement is designed to promote forest conservation by combating illegal logging and associated trade, and to help ensure that Indonesia's legally-produced timber and wood products continue to have access to markets in the United States and elsewhere. This agreement is an element of President Bush's 2003 global Initiative to Address Illegal Logging.

3. The North American Free Trade Agreement (NAFTA)

USTR continues to work actively with EPA and other agencies in representing the United States in addressing North American trade and environmental issues, including those created by the NAFTA environmental side agreement, the North American Agreement on Environmental Cooperation (NAAEC) and the border environmental infrastructure agreements. These institutions were designed to enhance the mutually supportive nature of expanded North American trade and environmental improvement. The trilateral Commission on Environmental Cooperation (CEC) has responsibility for implementation of the NAAEC. USTR worked closely with EPA, trade and environment officials in Canada and Mexico, and the CEC, to implement the CEC's strategic plan on trade and environment. This strategic plan identifies six priority areas for CEC projects: renewable energy; trade and enforcement of environmental laws; ongoing environmental assessments of NAFTA; green purchasing; market-based mechanisms for sustainable use; and invasive alien species. As part of their implementation of this strategic plan, the Parties initiated a project under which they will examine ways in which environmental sustainability can promote competitiveness. They are also taking steps to ensure that work under the NAAEC and the NAFTA on related issues is coordinated.

B. Trade and Labor

The trade policy agenda of the United States includes a strong commitment to protecting the rights of workers in America and in countries with which we trade and promoting a level playing field for American workers. Expanded trade benefits all Americans through better jobs, lower prices, and greater choices in products available to consumers.

American workers benefit from expanded employment opportunities created by trade liberalization. A concerted focus on worker training and education policies will continue to ensure that the American workforce can compete with anyone. For workers displaced by trade, the Trade Adjustment Assistance Reform Act of 2002 (Title XXI of the Trade Act of 2002) modifies and expands the Trade Adjustment Assistance (TAA) program. TAA helps workers adversely affected by foreign trade through the provision of re-employment services including skills training for displaced workers, income support while in training and job search and relocation assistance. Important changes to the program made in 2002 include expanded eligibility to more worker groups, increased benefits, and tax credits for health insurance coverage assistance. Congress has appropriated funds for the TAA program through September 30, 2008.

In pursuing trade liberalization through free trade agreements, we rely on the congressional guidance contained in the Bipartisan Trade Promotion Authority Act of 2002 (TPA) to bring the benefits of trade and open markets to America and the rest of the world. In addition, for free trade agreements pending in 2007, we relied on the principles articulated in the Bipartisan Agreement on Trade Policy of May 10, 2007 between the Administration and congressional leaders. During this past year, USTR continued to consult with the U.S. Congress on the labor provisions of each pending trade agreement to ensure that the objectives of TPA and the May 10, 2007 Bipartisan Agreement were met in each of the agreements. USTR also continued to work cooperatively with other U.S. agencies in multilateral, regional, and bilateral fora to promote respect for core labor standards, including the abolition of the worst forms of child labor.

1. Bipartisan Trade Promotion Authority Act of 2002 (TPA) – Trade and Labor

The importance of the linkage between trade and labor is underscored by labor-related clauses in three sections of TPA: overall trade negotiating objectives; principal negotiating objectives; and the promotion of certain priorities to address U.S. competitiveness in the global economy.

The overall labor-related U.S. trade negotiating objectives are threefold. The first objective is to promote respect for worker rights and the rights of children consistent with the core labor standards of the International Labor Organization (ILO). TPA defines core labor standards as: (1) the right of association; (2) the right to organize and bargain collectively; (3) a prohibition on the use of forced or compulsory labor; (4) a minimum age for the employment of children; and (5) acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health. The second objective is to strive to ensure that parties to trade agreements do not weaken or reduce the protections of domestic labor laws as an encouragement for trade. The third objective is to promote the universal ratification of, and full compliance with, ILO Convention 182 – which the United States has ratified – concerning the elimination of the worst forms of child labor.

The principal trade negotiating objectives in TPA most important for labor include the provision that a party to a trade agreement with the United States should not fail to effectively enforce its labor laws in a manner affecting trade. TPA recognizes that the United States and its trading partners retain the sovereign right to establish domestic labor laws, exercise discretion with respect to regulatory and compliance matters, and make resource allocation decisions with respect to labor law enforcement.

Additional principal negotiating objectives include strengthening the capacity of our trading partners to promote respect for core labor standards and ensuring that the labor, health or safety policies and practices of our trading partners do not arbitrarily or unjustifiably discriminate against American exports

or serve as disguised trade barriers. A final principal negotiating objective is to seek commitments by parties to trade agreements to vigorously enforce their laws prohibiting the worst forms of child labor.

In addition to seeking greater cooperation between the WTO and the ILO, other labor-related priorities in TPA include the establishment of consultative mechanisms among parties to trade agreements to strengthen their capacity to promote respect for core labor standards and compliance with ILO Convention 182. The Secretary of Labor is charged with consulting with any country seeking a trade agreement with the United States concerning that country's labor laws and providing technical assistance if needed. Finally, TPA mandates a series of labor-related reviews and reports to the U.S. Congress in connection with the negotiation of new trade agreements. These include an employment impact review of future trade agreements, the procedures for which are modeled after Executive Order 13141, which establishes environmental impact reviews of trade agreements. A report addressing labor rights and a report describing the extent to which there are laws governing exploitative child labor are also required for each of the countries with which we are negotiating a free trade agreement.

2. Bipartisan Agreement on Trade Policy of May 10, 2007

The Bipartisan Agreement on Trade Policy of May 10, 2007 between the Administration and congressional leaders provided a path forward for pending free trade agreements. The Bipartisan Agreement identifies particular obligations that should be undertaken by parties to free trade agreements which the United States has negotiated with Peru, Colombia, Panama, and Korea. One of the principal labor-related obligations is the requirement that each Party adopt and maintain in its statutes and regulations certain rights as stated in the ILO Declaration on the Fundamental Principles and Rights at Work and its Follow-Up. A party may not waive or derogate from those statutes and regulations, or fail to effectively enforce them or other labor laws, in a manner affecting trade or investment between the Parties, that decisions on the distribution of enforcement resources shall not be a reason for non-compliance with the principal obligation, and that the labor obligations in a free trade agreement be subject to the same dispute settlement procedures and remedies as the Agreement's commercial obligations.

3. Multilateral Efforts

At the WTO Ministerial meetings in Singapore (1996) and Seattle (1999), the United States was among a group of countries supporting the creation of a WTO Working Party to examine the interrelationships between trade and labor standards. At the 2001 Doha WTO Ministerial, the United States supported a similar EU proposal that a group of developing countries adamantly opposed. The text of the Doha Ministerial Declaration, adopted by consensus, includes the following:

“We affirm our declaration made at the Singapore Ministerial Conference regarding internationally recognized core labor standards. We take note of work underway in the International Labor Organization (ILO) on the social dimensions of globalization.”

In the Hong Kong Ministerial Declaration adopted during the 2005 WTO Ministerial, the governments reaffirmed the declarations and decisions adopted in Doha and their full commitment to give effect to them.

In 2007, the ILO and WTO prepared a well-received joint study, entitled “Trade and Employment: Challenges for Policy Research,” that focused on the relationship between trade policies and labor policies. The 2007 ILO “Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work” dealt with the principle pertaining to the elimination of employment

discrimination. The report, entitled “Equality at Work: Tackling the Challenges,” reviewed member countries’ programs and policies enacted to combat discrimination and promote equality and proposed methods for addressing the issue.

The United States remains the largest donor to the work of the ILO. The United States has been particularly supportive of the ILO’s International Program on the Elimination of Child Labor (IPEC). ILO-IPEC efforts have focused on the means to eliminate the worst forms of child labor, including child prostitution and pornography, forced or bonded child labor, and work in hazardous or unhealthy conditions.

Activities to combat the worst forms of child labor continued in 2007, including in many of our trading partner countries. Total U.S. contributions to ILO-IPEC and other organizations in support of projects to address exploitive child labor in Fiscal Year 2007 amounted to approximately \$54 million, helping to finance 19 projects in 18 countries.

4. Regional Activities

The Inter-American Conference of Ministers of Labor (IACML) is a meeting of the Western Hemisphere’s Labor Ministers, held approximately every two years under the auspices of the Organization of American States (OAS) in order to promote hemispheric cooperation on labor issues. The IACML responds to the labor mandates agreed to by President Bush and other Heads of State in the Summit of the Americas process. Trinidad and Tobago is the current chair of the IACML and hosted the Fifteenth IACML in September 2007.

In September, labor ministers unanimously adopted a Declaration that: reaffirmed their commitments regarding the ILO *Declaration on Fundamental Principles and Rights at Work* and the commitments by Heads of State in the Fourth Summit of the Americas to eradicate the worst forms of child labor, to develop programs to eliminate forced labor, and to reduce youth unemployment; responded to decent work challenges in the Hemisphere; promotes policies supporting employment creation, with an emphasis on youth employment; and aims to strengthen the capacities of labor ministries. Ministers also endorsed the Plan of Action of Port of Spain that continues the two IACML Working Groups and encourages the sharing of best practices. Brazil chairs Working Group 1, with the United States and Guyana as vice-chairs. This Working Group focuses on decent work as a tool for promoting democracy in the context of globalization and provides, *inter alia*, for the continued examination of the labor dimensions of free trade agreements and regional integration processes. El Salvador chairs, with Canada and Uruguay as vice-chairs, Working Group 2, which focuses on strengthening the capacities of ministries of labor. Ministers also endorsed Argentina as the president *pro tempore* of the Sixteenth IACML, following Trinidad and Tobago. The ILO, the Organization of American States, the Inter-American Development Bank and the UN’s Economic Commission for Latin America and the Caribbean, along with the Business Technical Advisory Committee on Labor Matters (CEATAL) and the Trade Union Technical Advisory Committee (COSATE), participate in IACML meetings and activities. CEATAL and COSATE presented a Joint Declaration to the Fifteenth IACML that highlighted the role of social dialogue and the importance of training and lifelong learning.

In 2007, the IACML work program examined government policies addressing the informal economy; programs to promote micro, small, and medium enterprises; the labor dimensions of free trade agreements and integration processes; public employment services; developments in occupational safety and health; and country programs to protect the labor rights of migrant workers.

Other regional trade and labor activities carried out under the North American Agreement on Labor Cooperation/North American Free Trade Agreement and the OECD are noted in those sections of this report.

5. Bilateral Activities

a. FTAs

The Administration continued to negotiate bilateral trade agreements that fully incorporate the congressional guidance on trade and labor contained in TPA. Additionally, modifications were made to four pending agreements (Peru, Colombia, Panama, and Korea) to reflect principles articulated in the May 2007 Bipartisan Agreement on Trade Policy between the Administration and congressional leaders. During 2007, Congress approved an FTA with Peru and USTR signed FTAs with Panama and Korea.

The FTA process has helped to encourage many of our trading partners to adopt new labor law reforms. In 2007, prior to Congressional consideration of the Peru TPA, Peru undertook labor law reforms to ensure compliance with the obligations of the agreement that relate to fundamental labor rights. Also in 2007, Oman completed enactment of reforms to ensure respect for core labor standards to which it committed during Congressional consideration of the FTA. The enactments followed related reforms that took place in 2006. These efforts in 2007 follow similar labor law reforms encouraged by negotiation of FTAs with Morocco and Bahrain previously.

Reflecting a key element of the May 2007 Bipartisan Agreement on Trade Policy, for the first time in U.S. free trade agreements, the agreements with Peru, Colombia, Panama, and Korea include a commitment by each party to implement in its law and practice the fundamental labor rights as stated in the 1998 ILO *Declaration on Fundamental Principles and Rights at Work*. Each agreement provides that neither party will waive or derogate from the statutes and regulations that implement this obligation in a manner affecting trade or investment between the parties. Additionally, the agreements include a commitment by each country not to fail to effectively enforce its labor laws, including its laws embodying the fundamental labor rights as stated in the ILO Declaration, through a sustained or recurring course of action or inaction in a manner affecting bilateral trade or investment.

All obligations set out in the labor chapters are subject to enforcement through the same dispute settlement procedures and remedies as the agreement's commercial obligations. The labor chapters commit each party to designate an office within its labor ministry to serve as a contact point for purposes of the labor chapter and create labor cooperation and capacity building mechanisms through which the parties will work together to enhance opportunities to improve labor standards and to further advance common commitments regarding labor matters.

The Office of Trade and Labor Affairs (OTLA) in the Bureau of International Labor Affairs (ILAB) of the U.S. Department of Labor serves as the contact point for purposes of administering the Bureau's responsibilities under the labor provisions of free trade agreements and the North American Agreement on Labor Cooperation (NAALC), including the labor cooperation mechanisms. OTLA procedural guidelines for handling public submissions under free trade agreements were published on December 21, 2006 (Fed. Reg. vol. 71, no. 245, Dec 21, 2006, 76691-76696).

Cooperation and consultations are the preferred means to resolve differences over a party's compliance with its obligations under an FTA's labor chapter. If cooperation and consultations fail to resolve such a disagreement, the FTAs permit a party to ask a dispute settlement panel to determine whether the other

party has violated its obligations under the labor chapter. The agreements provide the same dispute settlement processes and remedies for the labor obligations as they do for commercial obligations.

We continue to include a labor cooperation mechanism in each agreement to help ensure the longer-term capacity of our trading partners to meet their obligations under the labor chapters, including capacity building programs designed to strengthen the capacity of labor ministries and the effective enforcement of labor laws.

The Administration committed \$20 million in FY 2005 and \$40 million in FY 2006 for labor and environment initiatives in CAFTA-DR countries. For FY 2007, the Administration requested and obtained \$40 million which was appropriated in the form of \$20 million in Economic Support Funds and \$20 million in Developmental Assistance (DA). Nineteen million dollars of FY 2005 funds, \$21.1 million of FY 2006 funds, and \$20.3 million of FY2007 funds are being directed toward labor initiatives, including projects to strengthen labor ministries, modernize labor justice systems, reduce gender and other types of workplace discrimination, promote a culture of compliance with labor laws, and benchmark and verify progress. For FY 2008, the Administration again requested \$40 million for labor and environment initiatives in the CAFTA-DR countries. These initiatives are supplemented by Department of Labor-funded programs aimed at the elimination of child labor, to which approximately \$4 million will be directed for the region in FY 2007.

An interagency group comprised of the Departments of State and Labor, USTR, USAID, and other agencies was established to program the funds. These agencies identify appropriate projects in consultation with the CAFTA-DR governments and in view of the 2005 *White Paper* on strengthening compliance and enhancing capacity issued by the *Working Group of the Vice Ministers Responsible for Trade and Labor in the Countries of Central America and the Dominican Republic*.

Several labor programs are also being carried out in Morocco, Oman, Bahrain, Jordan, and Egypt aiming to train workers on worker rights issues, to enhance the labor ministries' capacity to increase compliance with labor laws, and to help eradicate the worst forms of child labor.

Pending bilateral FTA negotiations with Malaysia and the United Arab Emirates include discussion of labor provisions and adherence to internationally recognized labor rights.

b. Other Bilateral Agreements and Programs

In November 2000, the U.S. Department of Labor (DOL) and Vietnam's Ministry of Labor, Invalids and Social Affairs signed a Memorandum of Understanding (MOU) to establish a program of cooperation and an annual dialogue on labor matters of mutual interest, including international labor standards, worker rights, and labor market reform. The 2000 MOU expired at the end of 2005. In August 2006, both governments reaffirmed their commitment to labor cooperation by signing a Letter of Understanding, pledging to continue the annual labor dialogue and labor cooperation. In October 2007, the annual labor dialogue, headed by the DOL Deputy Under Secretary for International Affairs, took place in Hanoi.

A final aspect of trade and labor bilateral activities relates to the worker rights provisions of U.S. trade preference programs, such as the African Growth and Opportunity Act (AGOA), the Andean Trade Preference Act (ATPA), the Caribbean Basin Trade Preferences Act (CBTPA), and the Generalized System of Preferences (GSP). Pursuant to the ATPA, there is an annual petitioning process to review the eligibility of countries. ATPA petitions concerning worker rights in Ecuador were filed in 2005 and the Trade Policy Staff Committee (TPSC) continued to review worker rights conditions in that country in 2007. Any modifications to the list of beneficiary developing countries or eligible articles resulting from this review of progress will be published in the *Federal Register*.

As part of the 2007 GSP Annual Review process, USTR accepted three worker rights-related petitions for review concerning Bangladesh, the Philippines, and Uzbekistan. Review of whether those countries are meeting the GSP worker rights criteria will continue in 2008. The review of GSP worker rights issues in Niger continued in 2007.

C. Organization for Economic Cooperation and Development

Thirty democracies in Europe, North America, and the Pacific Rim comprise the Organization for Economic Cooperation and Development (OECD), established in 1961 and headquartered in Paris. The OECD member countries account for 75 percent of world GDP, 97 percent of world official development assistance, over half of the world's energy consumption, and 14 percent of the world's population. The OECD is not just a grouping of economically significant nations, but also a policy forum covering a broad spectrum of economic, social, and scientific areas, from macroeconomic analysis to education to biotechnology. The OECD helps countries – both OECD members and non-members – reap the benefits and confront the challenges of a global economy by promoting economic growth, free markets, and efficient use of resources. Each substantive area is covered by a committee of member government officials, supported by Secretariat staff. The emphasis is on discussion and peer review, rather than negotiation, though some OECD instruments are legally binding, such as the Anti-Bribery Convention. Most OECD decisions require consensus among member governments. In the past, analysis of issues in the OECD often has been instrumental in forging a consensus among OECD countries to pursue specific negotiating goals in other international fora, such as the WTO.

The OECD conducts wide-ranging outreach activities to non-member countries and to business and civil society, in particular through its series of workshops and “Global Forum” events held around the world each year. In 2007, the OECD completed comprehensive reviews of the economies of India and Chile, both non-member countries that participate as observers in various OECD committees. Non-members may participate as observers of committees when members believe that participation will be mutually beneficial. The OECD carries out a number of regional and bilateral cooperation programs. The China program, for instance, supports China’s efforts to establish a market economy and improve public governance.

The OECD is mainly funded by the member countries. National contributions to the annual budget are based on a formula related to the size of each member’s economy, with the United States' contribution capped at just less than 25 percent. The overall budget for 2007 was projected to total 340 million euros (approximately \$498 million).

1. Trade Committee Work Program

In 2007, the OECD Trade Committee, its subsidiary Working Party, and its joint working groups on environment and agriculture, continued to address a number of issues of significance to the multilateral trading system. Members asked the Secretariat to focus its analytical resources on work that would advocate freer trade and facilitate WTO negotiations, deepening understanding of the rationale for progressive trade liberalization in a rules-based environment. The Trade Homepage on the OECD website (<http://www.oecd.org/trade>) contains up-to-date information on published analytical work and other trade-related activities.

Several major analytical pieces were developed or completed under the Trade Committee during 2007. These included the study *Business Perceptions of Non-Tariff Barriers Facing Trade in Selected Environmental Goods and Associated Services*, which examined how product testing and certification

requirements, customs requirements, customs procedures, intellectual property protection, and government procurement procedures can act as barriers to trade in the environmental goods and services sectors. There was also work on an ongoing project aimed at developing the first Services Index of Trade Restrictiveness (STRI), an interactive database including information on regulation and trade by mode of supply, starting with three pilot sectors (telecommunications, business services, and construction). The Trade Committee also released a number of Working Papers on topics such as “Facilitating Trade and Structural Adjustment,” “Technical Barriers to Trade and Regional Trade Agreements,” and “Trade and Structural Adjustment in non-OECD Countries.” Building on 2006 groundwork, the Trade Committee continued its “BRICS” project – the development of country studies on China, Brazil, India, Indonesia, and Russia, in which each country is analyzed across a set of core issues (NAMA, services liberalization, intellectual property rights) and selected country-specific issues.

Work in the Trade Committee on trade in services continued to provide analysis and background relevant to services liberalization and WTO negotiations. Services not only provide the bulk of employment and income in many OECD countries, they also serve as vital inputs for producing other goods and services. In 2007, the OECD analyzed these connections in “Business Services, Trade and Costs,” a comprehensive, quantitative cross-country analysis of how the manufacturing and business services sectors interact in the production process. “Expanding International Supply Chains: The Role of Emerging Economies in Providing IT and Business Process Services” extended this theme by examining the impact of business process offshoring and the opportunities it provides developing countries. Two other papers focused on the difficult subject of evaluating services trade barriers: “Modal Estimates of Services Barriers” presented new approaches for measuring service barriers, and “Services Trade and Domestic Regulation” identified fixed and variable costs associated with regulatory measures.

A Global Forum on Trade, Innovation, and Growth in October 2007 provided an opportunity to discuss how trade and open markets affect the innovation process, touching on the issues of technology transfer through trade, competition effects of innovation, global value chains, impact on information and communication technologies, and trade in services. Several regional trade-related events were also held in 2007, including a regional trade seminar in May 2007, in co-operation with the WTO, World Customs Organization and United Nations Conference on Trade and Development in Cotonou, Benin, to familiarize francophone Africa countries with this use of the Self-Assessment Guide for assessing national needs and priorities for implementing trade facilitation.

The Trade Committee also laid the groundwork for a meeting of OECD member country trade ministers in May 2007. U.S. Trade Representative Susan C. Schwab headed the U.S. delegation. Ministers from a number of key non-members also participated. Those discussions made a positive contribution to the WTO negotiations.

In addition, the Trade Committee continued its dialogue with civil society and discussed aspects of its work and issues of concern with representatives of civil society, including members of the OECD’s Business and Industry Advisory Council and Trade Union Advisory Council.

2. Dialogue with Non-OECD Members

The OECD has continued its contacts with non-member countries to encourage the integration into the multilateral trade regime of developing and transition economies, such as the countries of Eastern Europe and Central Asia, leading developing economies in South America and Asia, and sub-Saharan African countries. Following the May 2007 decision of the OECD Council in Ministerial session, the OECD began a concerted drive to broaden and deepen its involvement with emerging new players in the global economy through its Accession and Enhanced Engagement Programs.

Chile, Estonia, Israel, Russia, and Slovenia were invited to begin the OECD accession process, while enhanced engagement program participation was offered to Brazil, China, India, Indonesia, and South Africa. Enhanced Engagement is a partnership arrangement that, depending on the interests and level of participation desired by the individual countries and upon approval by respective committees, may include elements of the following: committee participation, economic surveys, adherence to instruments, integration into the statistical reporting and information systems, sector-specific peer reviews, and other actions.

In 2007, the Trade Committee and its Working Party continued its discussion on how to enhance outreach to accession and enhanced engagement candidates and other interested non-members. A new, more proactive strategy for outreach was implemented in March 2006, which involves inviting non-member economies to be observers on an *ad hoc* basis when their participation could both benefit from, and contribute to, the Trade Committee's work. The Trade Committee Working Party further strengthened this approach in December 2007, by building in more lead-time and flexibility to its non-member invitation process. India, China, and the Philippines were invited to participate as *ad hoc* observers in the Trade Committee's October 2007 meeting. The current regular observers in the Trade Committee are Argentina, Brazil, Chile, and Hong Kong China. These four observers, plus India, Russia, and South Africa, also accepted the OECD's invitation to participate in the trade ministers' meeting at the May 2007 Ministerial Council Meeting, which focused on future challenges in an open trading system.

3. Technical Assistance and Capacity Building

The Working Party of the Trade Committee and the OECD Development Assistance Committee (DAC) held two joint meetings during the year to discuss Aid for Trade (A4T). The WTO had asked the OECD to devise a methodology to address the quantitative aspects of A4T assistance and to report on the results of that work at the WTO global review of Aid for Trade, held in Geneva in November 2007. The OECD conducted a survey of donors and recipients on their strategies and practices in trade capacity building, thus completing the first round of monitoring and establishing a baseline for global A4T flows and policies. To this end, OECD staff participated in the three regional reviews of A4T during the period September 2007 and November 2007.

The OECD, working through the Trade Committee's Working Party and the DAC, will pursue further work in this area during 2008, including with the World Bank, on the monitoring and evaluation of aid for trade assistance. OECD members will be actively involved in this effort.

4. Competition Policy and Trade

OECD members decided not to renew the Joint Group on Trade and Competition's mandate in 2006. After that decision, work on competition policy as it affects world trade has continued through policy papers and studies developed through the Trade Committee. In 2007, this work included Trade Committee Working Party policy working papers on the impact of pro-competitive reforms on trade in developing countries.

5. Environment and Trade

The OECD Joint Working Party on Trade and Environment (JWPTE) met twice in 2007 to continue its analysis of the effects of environmental policies on trade and the effects of trade policies on the environment, as well as its efforts to promote mutually supportive trade and environmental policies. During the year, the JWPTE contributed important work on environmental goods and services to support

the WTO Doha negotiations, including identifying non-tariff barriers faced by businesses in key environmental sectors such as renewable energy and wastewater management.

The JWPTTE also published work on the environmental aspects of regional trade agreements (RTAs). In addition, the OECD held a workshop in June 2007 in Japan, with broad participation from economies in the region, including non-OECD member country experts with experience in negotiating and implementing environmental provisions set out in, or complementary to, RTAs. The extensive body of work highlights innovative environmental provisions in U.S. free trade agreements.

6. Agriculture and Trade

The Committee for Agriculture (CoAg) is the primary forum for discussing agriculture-related issues in the OECD. The CoAg has two flagship publications that are produced annually – a 10-year *Agricultural Outlook* and a review of *Agricultural Policies in OECD Countries*. The *Agricultural Outlook*, which is prepared in conjunction with the Food and Agriculture Organization (FAO) of the United Nations, presents the OECD-FAO 10-year baseline for agricultural commodity production and trade. In addition to the OECD countries, the market projections in the report cover a large number of other countries and regions, including Brazil, Russia, Argentina, and South Africa. The 2007 report looked closely at the causes and the impacts of recent and continued forecasts for high prices for many commodities.

The *Agricultural Policies in OECD Countries* report was released in November 2007. A new method of classifying policies was applied, designed to better reflect new, more decoupled but also more complex policy measures. Findings indicated that despite strong commodity prices and some reform efforts in some countries, overall support to agriculture remains both very high and largely dependent on policies that are trade distorting. A third periodic publication, produced every second year, examines *Agricultural Policies in Non-OECD Countries*. In 2007, this report reviewed policy developments in Brazil, Bulgaria, China, India, Romania, Russia, South Africa, and Ukraine.

Other important activities this year included work on targeting and on the costs of implementing agricultural policy. A report synthesizing the main lessons and recommendations from several years of applied policy work is nearing completion – it defines the characteristics of alternative policies that would allow governments to meet their domestic objectives better, while avoiding unintended impacts on global production and trade. A major report entitled *Environmental Indicators for Agriculture* was completed and is scheduled for release early in 2008. During March 2007, CoAg and the U.S. Department of Agriculture/ERS conducted a workshop in Washington, DC on Environmental Indicators. The theme of the workshop was the development, use, and monitoring functions of environmental indicators for policy purposes.

A study of agricultural policy in Mexico was released in 2007, while work neared completion on a comprehensive *Review of Agricultural Policies in Chile* (to be released early in 2008). A two-year pilot project on agricultural policy analysis for Sub-Saharan Africa was also completed, while a review of rural development in China was launched (for completion in 2008) in conjunction with the Public Governance and Territorial Development Directorate.

During 2007, CoAg organized a Global Forum on Agriculture in Rome, jointly sponsored by the World Bank, the FAO, and the International Fund for Agricultural Development. Invited participants from 24 national governments, as well as international donors and development agencies, regional organizations, civil society and the private sector, met to discuss African agricultural development and poverty reduction. In addition, CoAg organized a regional outreach event, sponsored by Romania, on

Agricultural Policy Reform that aimed to introduce new EU members into the OECD work on agricultural policy issues.

7. Labor and Trade

The 2007 *OECD Employment Outlook* continued the string of contributions on labor and trade found in this important annual publication. In one chapter, it addressed a paradox of globalization: even though international trade appears, on average, to have increased the wages and labor market prospects of workers in OECD countries, in many of these countries, popular support of trade liberalizing policies has waned. The OECD finds that recent experience with trade liberalization is also associated with more variability in wages and employment, suggesting that this variability is a source of uncertainty for workers and voters. This uncertainty, left unchecked by appropriate policies to aid the few for whom trade does not confer benefit, is the likely source of waning popular support, because individual workers and voters assess a higher risk to being among the few. Another chapter of the *Employment Outlook* addresses labor markets in Brazil, India, and China, and shows that there remain significant differences in the characteristics of those countries' labor forces and where they work, in comparison with OECD countries. The *Employment Outlook* is prepared by well-respected researchers in the Employment, Labor, and Social Affairs Directorate and is subject to peer review by a group of senior researchers from OECD member governments. The United States actively participates in the peer-review group, and currently holds the chair.

The Trade Union Advisory Committee (TUAC) to the OECD, made up of over 56 national trade union centers from OECD member countries, and the Business and Industry Advisory Committee (BIAC), which represents major business organizations in the 30 OECD member states, have played consultative roles in the operation of the OECD and its various committees since 1962. As part of the OECD Ministerial Council meeting in May 2007, joint consultations were held with TUAC and BIAC. TUAC's statement emphasized the need: to ensure the equitable distribution of GDP; rebalance growth among OECD regions; promote the social dimension of globalization; help developing countries achieve the Millennium Development Goals; and develop programs for the creation of "green jobs" to respond to climate change. BIAC's statement emphasized the importance of innovation as a key driver of growth and employment and noted that a high-skilled workforce and a well-functioning labor market were key contributing factors in promoting innovation.

In May 2007, the Trade Committee submitted three papers detailing the results of the third Globalisation and Structural Adjustment project (GSAIII) to the Trade Committee Working Party for discussion and comment: a policy paper on trade and labor market adjustments; a regional case study focusing on Japan, Korea, China, and ASEAN; and a regional case study focusing on the Nordic/Baltic Region. The policy report describes the long-term trends in trade and labor market developments, analyzes how they are linked, and draws policy conclusions. The regional case studies examine the labor market impact of offshoring and fragmentation of production and emphasize regional production networks. The conclusions of these papers are consistent with the findings in the *Employment Outlook* described above.

8. Export Credits

The OECD Arrangement for Officially Supported Export Credits (the Arrangement) places limitations on the terms and conditions of government-supported export credit financing, so that competition among exporters is based on the price, quality and serviceability of the goods and/or services being exported, rather than on the terms of government-supported financing. It also limits the ability of governments to tie their foreign aid to procurement of goods and services from their own countries (tied aid). The Participants to the Arrangement (Participants), a stand-alone policy-level body of the OECD, are

responsible for implementing the 29-year-old Arrangement and for negotiating further disciplines to reduce subsidies in official export credit support.

The Administration estimates that the Arrangement saves U.S. taxpayers about \$800 million annually. First, rules on minimum interest rates ensure that the Export-Import Bank of the United States, the U.S. export credit agency, no longer has to offer loans with below-cost interest rates and long repayment terms to compete with such practices by other governments. Second, agreement on minimum exposure fees for country risk has generally reduced costs. Finally, the “level playing field” created by the Arrangement’s tied aid disciplines has created conditions for U.S. exporters to increase their exports by about \$1 billion per year. These exports alone would have cost taxpayers about \$300 million annually since 1993, if the United States had been compelled to create its own tied aid program to compete with other programs.

The OECD tied aid rules continue to reduce tied aid dramatically and redirect it from capital projects, where it has had trade-distorting effects, toward rural and social sector projects. Tied aid levels were nearly \$10 billion in 1991 before the rules were adopted, but were \$4.4 billion in 2006. For the first five months of 2007, which is the most current data available, the Participants provided \$1.2 billion in tied aid. If the annualized version of this figure is similar to the actual 2007 figure, then 2007 tied aid levels would be the lowest or second lowest level on record. Aside from reducing the overall volume of tied aid, the tied aid rules also ensure that tied aid-financed projects remain in sectors that do not distort trade and better represent *bona fide* development aid.

One of the biggest challenges facing Participants is how to address developing country concerns that the Participants – among the wealthiest countries – are not taking developing country concerns into account when setting the rules for the provision of export credits. Related to this, WTO disputes over export credits for aircraft have motivated aircraft-manufacturing Participants to reach agreement with Brazil on aircraft financing. Even though Brazil is not an OECD member, it is a major producer of regional aircraft and had been the most vocal of the developing countries that have criticized Participants’ rule-setting practices. After two years of negotiations, the Participants in July 2007 finalized a new agreement on official financing for aircraft, with Brazil participating as a full partner in the negotiations.

Referred to as the Aircraft Sector Understanding (ASU), this agreement levels the playing field for the U.S. airline industry by eliminating or sharply reducing the official financing subsidies available to its foreign competitors. It also levels the playing field for U.S. manufacturers and exporters of airframes and related equipment. By requiring this financing to reflect a shared assessment of market risk, the ASU will allow aircraft sales campaigns to focus purchase decisions on price and quality, where U.S. producers excel, rather than on the terms and conditions of the financial packages, where subsidies have swayed purchase decisions. By eliminating or sharply reducing subsidies, the ASU encourages more use of market financing.

The ASU also represents a commitment by governments to work cooperatively on all financing issues in the future, rather than engage in international litigation. By including Brazil, the ASU is viewed as a model for mutually-beneficial cooperation between OECD members and rapidly-advancing developing countries.

The ASU – which covers all types of civil aircraft from jumbo jets to small planes and helicopters – governs interest rates, maximum repayment periods, fees for loan guarantees, and other conditions applied to official financing for aircraft sales. It also sets strict underwriting standards to ensure that the financing is provided in a responsible manner. In recent years, official financing for aircraft sales have supported deals valued at \$7 billion to \$10 billion annually, and the volume of financing has been growing rapidly. The Administration coordinated closely with U.S. aircraft manufacturers/exporters throughout these negotiations.

The Participants will continue to reach out to non-OECD members, such as China, with the goal of leveling the playing field for all governments providing official export credit support and their exporters.

9. Investment

The Investment Committee of the OECD is the primary multilateral forum for addressing international investment issues. The Committee's discussions and analytical work help build international consensus on key emerging policy challenges with respect to international investment and on ways to promote sound investment policy and high standards of investment protection. The Committee also seeks to promote voluntary adherence by multinational enterprises to sound business practices to strengthen understanding of the relationship between investment and development and to enhance the contribution of investment to economic advancement. The Committee is responsible for monitoring and implementing the OECD Codes of Liberalization and the OECD Declaration on International Investment and Multinational Enterprises. The United States plays a major role in shaping investment-related work within the OECD.

In view of recent developments among members and key non-members regarding maintaining national security or protecting other important national interests in relation to foreign investment, the OECD Investment Committee continued work in 2007 on surveying practices in this area and evaluating their implications for sustaining and promoting an open investment policy among OECD members and non-members. In March, October, and December 2007, the Committee hosted roundtables on "Freedom of Investment, National Security and 'Strategic' Sectors," in which OECD members and key non-members (e.g., Brazil, India, Russia, and China) continued to discuss approaches being taken to address national security interests and other essential interests and their potential implications for sustaining open investment policies. The theme of the roundtables focused on: changes to legislative and regulatory practices at the juncture of investment policy and national security; threats to advances in investment liberalization, such as emerging protectionist pressures; and, possible steps on international cooperation designed to address the issues. The OECD has finished Phase one of the work, in which members and key non-members took stock of the state of investment policy and national security practices, and is now looking in 2008 to a work program on implementing selected recommendations from the findings.

In the context of the freedom of investment work, the OECD has also begun a discussion of the emerging issue of sovereign wealth funds (SWFs) in the global economy. The focus of the Committee's work is possible policy implications of SWF investment and sovereign investment generally, and appropriate policies to address any concerns consistent with the imperative of maintaining open investment regimes.

In a further refinement of existing efforts, the OECD joined forces with the World Bank Group in 2007 to introduce the Business Climate Development Strategy (BCDS.) The BCDS will establish a more comprehensive approach to evaluating a country's business environment and then provide technical assistance to institute specific reforms.

In 2007, the OECD continued its investment policy dialogue with non-members. The Middle East-North Africa Initiative (MENA), which aims to mobilize private investment for the benefit of economic development in Middle Eastern countries, organized a series of ministerial forums designed to consolidate advances from previous meetings and begin a new phase of cooperation on investment and governance policies. A series of conferences on regional capacity building, women in business, and good governance capacity building in Middle East countries was concluded with a November ministerial in which participants agreed to extend the OECD-MENA project until 2010. During this time, the MENA initiative will begin a second phase of the project, focused on a peer learning process, the establishment of

regional knowledge networks for policy development, public governance, capacity building and the establishment of benchmarks for reform targets.

The OECD continued to promote the Policy Framework for Investment (PFI). Developed within the past two years, the PFI is a comprehensive diagnostic tool - covering 10 broad policy areas ranging from investment to trade, competition and corporate governance - designed for use in attracting and retaining foreign and domestic investment. In 2007, the OECD began a close, cooperative relationship with Vietnam with the intent of using the PFI in an assessment of that country's investment climate and possible reform opportunities. The work on the PFI in Vietnam will continue throughout 2008, based on a schedule mutually-developed between the OECD and the government of Vietnam, and serves as a template for other countries in their engagement with the OECD on PFI use.

Finally, the Investment Committee continued to play an active role in promoting corporate social responsibility through its oversight of the voluntary OECD Guidelines for Multinational Enterprises. In June 2007, the Committee hosted a roundtable on the application of the OECD Guidelines for Multinational Enterprises to the financial services sector. The roundtable also addressed broader issues of corporate social responsibility in the financial services sector and was attended by representatives from both the public and private sector. The Committee also continues to serve as a forum for exchanges of experience on the Guidelines among national contact points (NCPs) as a source of clarification with respect to the Guidelines and as a source of guidance in addressing the role of NCPs in promoting the Guidelines and in assisting firms in the resolution of issues that arise between them and others regarding their activities in relation to the Guidelines.

10. Steel

As noted in the "Steel Trade Policy" section of this report, the Administration supported efforts by the OECD Secretariat to reach out to steelmaking developing economies, including participation in a major steel conference hosted by the OECD Steel Committee in Istanbul, Turkey in May 2007. A number of non-OECD steelmaking countries, including India, China, and Russia, have been active in the OECD steel activities. In addition to continued work on subsidies and capacity issues, the Administration began working with industry in the OECD Steel Committee to examine issues related to steel production and global climate change.

11. Regulatory Reform

Since 1998, the OECD Trade Committee has contributed to OECD work on domestic regulatory governance with country reviews of regulatory reform efforts. The United States has supported this work on the grounds that targeted regulatory reforms (*e.g.*, those aimed at increasing transparency) can benefit domestic and foreign stakeholders alike by improving the quality of regulation and enhancing market openness.

The Trade Committee's work on regulatory reform has two aspects: country reviews and product standards. In conducting country reviews, the Committee evaluates regulatory reform efforts in light of six principles of market openness: transparency and openness of decision-making; non-discrimination; avoidance of unnecessary trade restrictions; use of internationally harmonized measures, where available/appropriate; recognition of the equivalence of other countries' procedures for conformity assessment, where appropriate; and application of competition principles.

The Trade Committee has reviewed twenty OECD Members, including all of the G8 countries. In 2007, the Trade Committee carried out in-depth analyses focused on identifying regulatory processes, tools, and

policies, adopted in order to support market openness and improve trade and investment opportunities, such as the report “Impact of Pro-Competitive Reforms on Trade in Developing Countries,” which examined the mutually reinforcing relationship between trade, investment and competition policies and the substantial gains for developing countries in higher trade flows and income per capita through market and regulatory reforms.

Based in large part on the lessons learned in the country reviews, in April 2005, the OECD Council adopted Guiding Principles for Regulatory Quality and Performance. These principles fed into the APEC-OECD Integrated Checklist on Regulatory Reform, approved by the Special Group on Regulatory Policy in the OECD in March 2005, and endorsed by APEC Ministers Responsible for Trade in June 2005. At a Joint APEC-OECD Co-operative Initiative on Regulatory Reform policy roundtable in 2007, Korea and Australia each issued a report based on the Checklist, providing a comprehensive overview of the national regulation reform agenda for each country.

12. The OECD Anti-Bribery Convention: Deterring Bribery of Foreign Public Officials

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions entered into force in February 1999. The Convention was adopted by the then 29 members of the OECD and five non-members. The non-members are Argentina, Brazil, Chile, Bulgaria, and Slovakia (now an OECD member). The three most recent parties to accede to the Anti-Bribery Convention are Slovenia (2001), Estonia (2004), and South Africa (2007).

The Convention requires parties to criminalize the bribery of foreign public officials in executive, legislative, and judicial branches; impose dissuasive penalties on those who offer, promise or pay bribes; end the practice of some OECD member countries of allowing tax deductibility of foreign bribes; and implement adequate accounting procedures to make it harder to hide illegal payments. All 37 parties, except South Africa, have adopted legislation to implement the Convention. Prior to the entry into force of the Convention, the United States was alone in criminalizing the bribery of foreign public officials. As a result, U.S. firms are believed to have lost international contracts with an estimated value of billions of dollars every year due to bribery payments to corrupt officials. Such payments also distort investment and procurement decisions in developing countries, undermine the rule of law, and create an unpredictable environment for business. These consequences can be particularly damaging in developing countries.

By the end of 2007, all parties, except South Africa, had undergone a review of their respective national legislation implementing the Convention (*i.e.*, Phase one review). The parties to the Convention commenced the second phase (*i.e.*, Phase 2) of peer monitoring – the evaluation of enforcement – in November 2001. By the end of 2007, Phase two reviews had been completed for 34 countries. Information on these reviews is available on the Internet at www.export.gov/tcc and www.oecd.org. The Working Group on Bribery will complete two more Phase two country reviews in 2008. The United States is working to ensure that loopholes such as the Convention’s failure to cover intermediaries in foreign bribery cases are closed; that member parties increase the frequency and level of prosecutor meetings so that there is meaningful information exchange; and that a permanent peer-review monitoring process remains in place after all Phase two country reviews have been completed to ensure continued compliance with and support of the Convention by all parties.

D. Semiconductor Agreement

On June 10, 1999, the United States, Japan, Korea, and the European Commission announced a multilateral Joint Statement on Semiconductors designed to ensure fair and open global trade in semiconductors. The 1999 Joint Statement, which was updated in 2006, aims to promote the growth of the global semiconductor market through improved mutual understanding between industries and governments and cooperative efforts to respond to challenges facing the semiconductor industry. Chinese Taipei and China have subsequently endorsed the objectives of the Joint Statement and become the Agreement's fifth and sixth parties. All major semiconductor producers are now parties to the Joint Statement.

In 2007, implementation of the landmark 2006 agreement under the Government/Authorities Meeting on Semiconductors (GAMS) to reduce to zero the duties on multichip integrated circuits (also known as "multi-chip packages" or "MCPs") continued to be a priority for the GAMS. Efforts are underway to secure the participation of China and other non-GAMS producers as well as users of MCPs in the agreement. In addition, industry has begun to develop a list of MCP-related products for possible inclusion in a potential expanded MCP agreement. In the area of non-preferential rules of origin, the GAMS welcomed industry's ongoing work to develop consensus rules of origin for all semiconductor products – an effort which could set the stage for a consensus GAMS position in the WTO non-preferential rules of origin negotiations.

The Joint Statement provides for industry to make reports and recommendations to governments on policies that may affect the future outlook and competitive conditions within the global semiconductor industry through a CEO-level World Semiconductor Council (WSC). In May 2007, the WSC held its eighth annual meeting. Specific topics discussed by the WSC included cooperation on global issues such as standardization, environmental concerns, worker health and safety, intellectual property rights, trade and investment liberalization, and worldwide market development. National/regional industry associations may become members of the WSC only if their governments have eliminated semiconductor tariffs or committed to eliminate these tariffs expeditiously.

The Joint Statement also calls for the parties to hold a GAMS meeting at least once a year to receive and discuss the WSC recommendations. The eighth GAMS was held in September 2007, hosted by the United States. China did not attend. At the meeting, the GAMS discussed WSC recommendations relating to expanded participation in the MCP agreement and a possible new agreement to provide duty-free treatment for MCP-related products; improving market access through the WTO Doha Development Round negotiations for semiconductors and other information technology goods; expanding participation in the Information Technology Agreement (ITA); initiatives to protect intellectual property rights and intensify enforcement activities against counterfeiting; enforcing WTO non-discrimination rules to prevent discrimination against foreign products; promoting fair and effective antidumping rules; decoupling rules of origin used for trade remedies from rules of origin for general customs purposes; and promoting sound environmental and safety practices.

E. Steel Trade Policy

In 2007, the Administration worked to address trade policy concerns related to the global steel sector, through the steel dialogue with China under the United States-China Joint Commission on Commerce and Trade (JCCT), activities in the OECD Steel Committee, and cooperation with North American governments and steel industries through the North American Steel Trade Committee (NASTC). The United States supported efforts by the OECD Secretariat to reach out to developing steelmaking economies, including participation in a major steel conference hosted by the OECD in Istanbul, Turkey,

in May 2007 to discuss consolidation in the global industry and its impact on production, trade and competition. In addition to continued work on subsidies and capacity issues, the Administration began working with steel industry representatives, the OECD Steel Committee, and the NASTC to examine issues related to global climate change regulation and the potential impact on trade and competitiveness in the steel sector.

The Administration obtained China's agreement to initiate a cooperative steel dialogue under the auspices of the JCCT in December 2005 in light of concerns that the growth of China's largely state-owned industry has been far outpacing growth in domestic demand. The steel dialogue is led by the Office of the U.S. Trade Representative (USTR) and the Department of Commerce (Commerce) on the U.S. side and by the Ministry of Commerce (MOFCOM) on the Chinese side. The Administration continued its dialogue with China in 2007. The third steel dialogue meeting took place in Washington in August and included the participation of industry representatives from both countries in addition to representatives of USTR, Commerce, MOFCOM, China's National Reform and Development Commission (responsible for steel development policies), and China's Ministry of Finance (responsible for administration of export taxes). In the steel dialogue and in other fora, U.S. officials have continued to voice concerns with various policies of China's government, including restrictions on the export of steelmaking raw materials, imposition of differential taxes on steel exports, which appear to encourage the export of value-added products, and restrictions on foreign investment in the steel sector.

After unprecedented export volumes in 2006 and continued high levels of exports in 2007, some Chinese steel products became the subject of new antidumping and countervailing duty investigations in a number of economies, including the United States, European Union, Canada, and Mexico. Beginning late in 2006, China took significant administrative measures affecting trade in steel and steelmaking raw materials with the stated intent of shifting its economy away from energy-intensive and polluting industries. These measures included: the closure of a limited number of steel mills deemed to be obsolete or polluting; stricter enforcement of environmental regulations applying to steel mills; and a combination of reductions of value-added tax rebates, export taxes on some products, and licensing of some exports.

The governments and steel industries of North America have continued their wide-ranging work to seek common policy approaches for enhancing the competitiveness of North American steel producers. To implement the "North American Steel Strategy" under the 2005 Security and Prosperity Partnership (SPP), the leaders of the United States, Canada, Mexico and NASTC developed coordinated positions on issues of importance to steel in multilateral fora, including the OECD Steel Committee and the WTO Rules Negotiations. Within the mandate of the NASTC, the three governments and steel industries have been tracking developments in certain steel-producing countries to identify and address, as appropriate, distortions in the global steel market. The Administration also continued working with the governments of Canada and Mexico to enhance the steel import monitoring systems maintained by all three NAFTA partners.

The Administration also continues to raise specific concerns with other countries bilaterally, at the OECD and in WTO accession negotiations, about policies that contribute to excess steel capacity and production, including subsidies, border measures on steel and steelmaking raw materials, and other trade-distorting practices.

F. Anti-Counterfeiting Trade Agreement

The United States is working to strengthen cooperation with our trading partners in the fight against counterfeiting and piracy. In October 2007, U.S. Trade Representative Susan C. Schwab announced a major new initiative, in partnership with several key trading partners, to fight counterfeiting and piracy by

seeking to negotiate an Anti-Counterfeiting Trade Agreement (ACTA). The ACTA effort brings together a number of countries that are prepared to embrace strong intellectual property enforcement in a leadership group to seek a new agreement calling for cooperation, strong enforcement practices, and a strong legal framework for IPR enforcement. Trading partners engaged in discussions so far have included Canada, the European Union (with its 27 Member States), Japan, Korea, Mexico, New Zealand, and Switzerland. The ACTA effort builds on international IP enforcement cooperation already developed under the Administration's Strategy Targeting Organized Piracy (STOP!) initiative, announced in 2004.

G. Import Safety

To address growing concerns about the safety of imported products, President Bush established by Executive Order a working group on Import Safety (the Working Group). The Working Group is chaired by the Secretary for Health and Human Services and comprises senior Administration officials from a broad array of Federal agencies, including USTR. In September 2007 the Working Group – after conducting a comprehensive review of current practices – issued a Strategic Framework. The Strategic Framework outlines key principles for continual improvement in import safety. The Strategic Framework advocates a strategy that shifts the primary emphasis for import safety from intervention to prevention with verification. Three organizing principles form the keystones of the Strategic Framework: prevention; intervention; and response. Within each of these organizing principles are six cross-cutting building blocks: (1) Advancing a Common Vision; (2) Increasing Accountability, Enforcement, and Deterrence; (3) Focusing on Risks Over the Life Cycle of an Imported Product; (4) Building Interoperable Systems; (5) Fostering a Culture of Collaboration; and (6) Promoting Technological Innovation and New Science.

With the benefit of additional agency debate and public comment, in November 2007 the Working Group issued an Action Plan detailing 14 recommendations and 50 action steps – both long- and short-term – to implement the Strategic Framework. The Action Plan follows the Strategic Framework's organizing principles of prevention, intervention, and response and draws on its six cross-cutting building blocks. The Action Plan emphasizes a cost-effective, risk-based approach to continually improving import safety, focusing on identifying and addressing problems where they are most likely to occur. It is an approach that moves from a “snapshot” assessment at the border to an ongoing “video” that involves building in safety at every step of the process. Implementation of the Action Plan contemplates intensified efforts with the private sector and our trading partners to ensure that products reaching consumers in the United States are safe. The Action Plan's 14 recommendations and 50 action steps, as well as the Strategic Framework, can be accessed at www.importsafety.gov.

In addition to active participation in the Working Group's activities, USTR has continued to address the safety of imported products through its work on sanitary and phytosanitary (SPS) issues. An integral part of U.S. free trade agreements (FTAs) – including agreements with Korea and Panama signed in 2007 – are chapters concerning SPS measures. Each SPS chapter has among its stated objectives the protection of human and animal health. These chapters, among other things, establish standing committees of the parties to enhance cooperation and consultation on SPS matters and improve the parties' understanding of each other's SPS requirements, as well as to identify appropriate areas for capacity building and technical assistance in countries such as Panama and Peru.

Work with U.S. trading partners continues outside our FTAs as well. In the lead-up to the December 2007 meeting of the Strategic Economic Dialogue with China, USTR also contributed to the U.S. Department of Health and Human Service's efforts to conclude two memorandums of agreement (MOA) with China aimed at improving the safety of Chinese products exported to the United States. The MOAs adopt an innovative approach to improving the safety of products imported from China, including the use of foreign certification. Furthermore, in November 2006 Colombia's Commerce Minister and Deputy

USTR Veroneau signed an exchange of letters committing to intensify technical and scientific cooperation dedicated to protecting human and animal health, including by further developing Colombia's SPS regulatory system. In addition, as part of the United States – India Trade Policy Forum, the United States and India in 2008 will expand the dialogue on import safety to bring together U.S. and Indian experts on ways to improve the safety of India's food and pharmaceutical exports to the United States.

The World Trade Organization SPS and Technical Barriers to Trade (TBT) Committees provide an additional forum for the United States to exchange information with its trading partners on countries' respective health and safety requirements and address concerns about their implementation. In 2007 alone, the United States Government obligated over \$7 million in SPS trade capacity building assistance, for a total of \$57 million since 2000, and over \$5.2 million in TBT trade capacity building assistance, for a total of over \$26 million in such assistance since 2000. These capacity building efforts provide an opportunity for the United States to work with its trading partners to ensure that SPS and product safety requirements are based on the best available scientific and technical information and in accordance with their health and safety objectives. For example, the U.S. Department of Agriculture supplies in-depth training to trading partners regarding food safety policy development, risk analysis and program implementation, as well as training on the importation of products to the United States and inspection techniques in order to reduce the number of shipments detained for phytosanitary infractions. The U.S. Agency for International Development provides assistance to foreign regulators to enable such government agencies to: develop systematic, transparent, consensus-based standards; make information on current and upcoming industry standards available through a website; and to undertake a proactive and sophisticated interface with domestic and international businesses.

In the area of intellectual property rights (IPR), USTR, with the help of other federal agencies, works with U.S. trading partners to address product counterfeiting by promoting stronger IPR laws and law enforcement around the world. For example, on October 23, 2007 USTR announced that the United States and some of its key trading partners will seek to negotiate an Anti-Counterfeiting Trade Agreement (ACTA). As noted in the Action Plan, strong IPR enforcement is essential to the protection of public health and safety.