

**Remarks by Ambassador Rob Portman
United States Trade Representative
Before the Consumer Electronics Association
Ronald Reagan International Trade Center
Washington, DC
March 15, 2006**

Ambassador Portman: Thank you Liz. You do a great job; as do all of the USTR employees. She had to say great things about the agency since she was educated there then came to a trade association that really believes in trade. And Liz, I thank you for your leadership. I also want to thank Gary Shapiro for his work with us working closely with CEA. I also want to thank Mary Alexander of Panasonic who chairs the working group of CEA that focuses on trade.

We work with a lot of different organizations representing a lot of different industries and I will tell you as U.S. Trade Representative, it is always a pleasure to work with the Consumer Electronics Association. It's a shining example frankly of how U.S. companies can not only survive global competition but thrive – and thrive through global competition in part because of innovation and in part by keeping on the cutting edge of the needs of your consumers – but in part because of trade, because of competition. Sometimes it challenges you, doesn't it? But it makes you stronger and it makes our economy stronger and it enhances our productivity and our ability as Americans to benefit from global trade.

The consumer electronics global market is now roughly \$300 billion a year and growing. I am told U.S. sales now account for 40 percent of that. So to me, that means that the glass is 40 percent full. And it means we have an opportunity out there. It makes the case for trade. It means 60 percent is currently not being served – it's outside of our borders. And all the more reason for us to open more markets!

There are lots of examples of CEA examples. My fifteen year old son, Jed, who is with me this week on Spring Break from Ohio where I still keep my home and go home on weekends. He just bought an electric guitar, so I wanted to use an example he could relate to, and that's Gibson Guitar. [applause.] That might have been Henry Juskiewicz who said "Alright!" [laughter.] He might start strumming on a song if I'm not careful. But let me give you the example here. It's a company out of Nashville, Tennessee. 40% of their domestically produced product was exported in 2005 to Japan, Germany, UK, to Canada, one of our free trade partners, to Australia, one of our free trade partners. Again, great example; 40 percent of their product made right here in the United States being exported.

95 percent of the world's consumers who could be buying their products live outside our borders. And I make this point with every trade group that I talk to, including our farmers by the way, and our companies that are heavy manufacturers: 95 percent of our potential consumers live outside our borders, and we can never forget that. And if we do,

our economy will not continue to prosper. The main job we have at USTR, as I see it, is to break down barriers to be sure that U.S. companies will have a level playing field, an opportunity to compete, and again, for consumer electronics to thrive.

In the case of consumer electronics, this is particularly exciting. Many of the products your companies have created have in themselves created global markets. From podcasts to GPS to WIFI (why –fi) , your industry is speeding up the exchange of ideas, creating new consumer demand and revolutionizing daily life. Just a few years ago, when we saw someone walking down the street talking to himself, we gave him lots of room. Today we assume that person is on the telephone. That's how much life has changed.

It's an exciting time to be conducting business with the world and trade is a key element to our current strength and continued prosperity. Let me give you a couple of data points here. In the last ten years, freer trade has helped raise our GDP, the United States of America, by nearly 40 percent and boosted job growth by over 30 percent.

As a result of our openness to the world and free trade approach to commerce relative to other countries, the United States enjoys the world's highest real incomes. Liz talked about incomes in your sector. U.S. real per capita income is now over \$36,000 per year and exceeds the average for people living in other high income countries, OECD countries, by about 40 percent according to World Bank data.

And we are spending that income on an ever greater variety of reasonably-priced goods – from shoes for your children to fresh produce in the grocery store, in the winter by the way, to cell phones that some of you produce that can fit in your ear.

Today, I would like to bring you up to date on some of what our top trade priorities are at USTR because I want your assistance. I need your help to build support for them. I also want to talk to you a little about what the future might hold.

A top priority of ours of course is the completion of the WTO trade talks. Every generation, the world gets together and says how do we liberalize trade. And this is the Doha Development Agenda which was kicked off in 2001.

As the name of that Round suggests, a chief goal is to help developing countries raise their standards of living, to help them through trade, to reform, to become successful stakeholders in the global trading system. Within the Doha Round, there are three major areas. One is agriculture. One is services. And the third is manufacturing, or non-agricultural market access, NAMA. Liz talked a little about NAMA a moment ago in terms of reducing barriers to trade and the need for reducing tariffs on the products that you sell.

Agricultural market access has become a linchpin for success in the Round. That is in part because of some developing countries, who were key to the initiation of this Round, care deeply about agriculture. There, they have a comparative advantage and want to see

the barriers reduced. It's also where the biggest barriers are and where the biggest gains will come from – particularly for developing countries.

Many developing countries have insisted that wealthier countries, including the United States, make deeper cuts in not just tariffs but also in trade-distorting domestic support in agriculture. They will open up their markets more to the non-agricultural market access, the third category I talked about, but only if they see progress in the agricultural area. The same with services. They will open them up more on services, but only if they see openings in other areas, including agriculture.

So, the United States has been a facilitator in these talks. We've been strongly advocating big ambition in all areas. We are willing to reduce our trade distorting support and the President's been brave in taking that issue on. It's a tough issue politically. The President has also taken a leadership role in terms of reducing barriers to trade across the board. That would be reducing tariffs in agriculture, but also in non-agricultural market access and reducing barriers to services.

In January, trade ministers from key WTO members agreed to move “in concert” – that is to work together to put all these offers – agriculture, NAMA, services – and mix them together to make progress. The United States has prepared again to take a leadership role, but we are still waiting for other countries to do more to match the offers we have put on the table, frankly, and to move this process forward.

As the negotiation continues on the NAMA front, our focus on sectorals is extremely important to us and Liz talked a little about that. We believe it is essential to achieving meaningful trade liberalization in electronics and electrical products and we'll continue to try to create a WTO consensus around that issue.

We've found that in the past, through sectoral initiatives, where like-minded countries together move for substantial reductions, or even to zero tariffs, we can make more progress, almost leapfrog the formula cuts that might come with overall WTO resolution.

So, we have a lot of work to do in terms of the global trade talks. We have some pressure on us. April 30th is the new deadline. It has been put in place to gather the structure, the formula to reduce tariffs in agriculture, in NAMA. And the United States, again you'll be glad to know, aims for an ambitious result across the board. Why? We believe it is best for the global economy and it's best for development to help development grow and achieve the benefits of the increasingly integrated global market place. We also believe it's best for us for U.S. jobs and for U.S. growth. And your companies will be at the forefront of that.

In terms of our other agenda items, we continue to move ahead aggressively with regard to bilateral and regional trade openings.

This organization was very helpful in the Central American Free Trade Agreement. Passage of that, as you know, was difficult. We started off a little behind and we caught

up when we passed that with a vote to spare. Thanks to the efforts of this organization, frankly, because without every organization in town that supports trade and supports prosperity, when there's only a one vote margin, everyone can take credit. So, CEA deserves its credit.

As a result of the Central American Free Trade Agreement, Nicaragua and Honduras joined the Information Technology Agreement, or ITA, in the WTO last fall. That's good news for all of us. The Dominican Republic and Guatemala will complete the process soon. In addition, Peru and Colombia will join the ITA as part of our recently concluded free trade agreements with them. We just concluded Colombia a couple of weeks ago, Peru about two months ago. And again, as part of our agreement our free trade discussions, we insisted, we were able to achieve their commitment to join the ITA.

In the last six weeks, as some of you know because you've supported us, we launched new free trade agreement talks with two major economies in Asia: Korea and Malaysia. In those accords, we will look at phasing out tariffs on consumer electronics not covered by ITA. These free trade agreements will also address investment, distribution, telecomm and financial services, and help make consumer electronics companies supply chains more efficient.

We are also looking forward to congressional approval of the free trade agreement with Oman soon. We hope this spring. And right after that, we hope Peru and then Colombia. So, we've got lots on our plate. But, we're working hard not just on the multilateral front with the WTO, but also working continually on the bilateral front and the regional front. And we are frankly, giving Congress lots to chew on right now in terms of the trade agenda, and I think that's important. And the fast-moving, again, increasingly integrating global economy, the United States cannot afford to be on the sidelines. We need to be aggressive. We need to be opening markets. We need to be sure that the United States has a strong presence, including in important markets like Asia, which is why the Korean and Malaysian FTAs are a top priority of mine.

In addition, we continue to look for creative ways to increase trade in IT and electrical products, such as our recently concluded Multi-Chip Processor Agreement. So, where we see the ability to reach an agreement with countries even outside of the formal FTA structure or WTO structure, we'll do so and continue to be proactive.

Of course, even as we pursue agreements to help level the playing field for U.S. businesses and workers, we also have to focus on increasingly, I believe, on compliance to make sure that the United States is enforcing the free trade agreements, WTO rights and generally our trade laws.

Last month, as some of you know, I presented a top-to-bottom review of our trade policy with China. I believe it is a thorough and balanced report. It makes clear that trade with China is mutually beneficial. Remember, U.S exports to China have more than doubled in the last five years. In 2005 again, you had a 20 percent growth in our exports to China.

To use our previous example, Gibson has identified China as a fast-growing consumer market as young Chinese take to western pop culture and Rock and Roll. There are huge opportunities here clearly. China is developing the largest middle class in the world.

However, Chinese imports, as you know, continue to enter the United States in far greater numbers than our exports, and our trade relationship in my view is not balanced at this point. Nor is it viable over the long run. The trade deficits that we've seen cannot be sustained over the long haul. After years of engagement, China and the United States have entered a new phase of their relationship. We talked about this a lot in the report. Our report concludes that China must live up to its WTO obligations, but also its responsibilities as a major beneficiary in the global trading system. We will continue to welcome CEA's input on constructive ways to create a more balanced and more sustainable trading relationship and one that is continually mutual beneficial with China.

As CEA companies demonstrate everyday, opening up new markets and expanding trade is good for the bottom line. It's also good for your workers. It's also good for consumers.

And yet, many people out there seem to think that trade is not a good idea. Increasingly, we see in some of the public discussions, including the public airwaves, this thought that trade is responsible for us losing jobs and that trade is responsible for wages shrinking. That facts state otherwise. The United States is enjoying high growth; we had 8.5% growth last year, perhaps bigger growth this year. Unemployment is 4.8% - a historical low. We've created over 2 million jobs in the last year in this country; we're relatively a lead economy, as I said. It's working for us. It's incumbent upon all of us, I think, to counter the perception I talked about earlier, and restore the faith in trade among people across the country and among their representatives in Congress.

President Bush has offered a compelling vision of how more open trade can create more opportunity. He hasn't been shy about talking about this. You saw in the State of the Union where he talked about the importance of America continuing its leadership role in the global economy, as well as creating more democracy- freedom- around the globe. I'm doing my part; the trade negotiator, typically, does not do a lot of public advocacy of the importance of trade. But, I think we're at a point in our history where it needs to be done. I think it's important that we be out there, all of us, talking about the benefits of trade. We need to set the record straight; we need to emphasize the fact that trade plays a key role in growing our economy and in growing jobs. And without marketing trade, the United States will fall behind.

I need your help to do that. I need your continued help here in Washington. CEA has played a key role, and you must continue to do that. I know sometimes, when you're focused on your day-to-day business issues, and you see what's going on here in this town, you probably think, "Gee, why are we spending time worried about public policy?" You must continue to focus on it because it's important; it creates the environment for success. It enables you to be innovative and creative and entrepreneurial, and see the fruits of your labor. So, I urge you to continue to support good public policy here in

Washington, but I urge you to do more. To get the consensus on trade back where it ought to be, you need to talk to your shareholders. Make sure you're communicating with them as to the importance of open markets, and the importance of the United States continuing the leadership role. Your workers need to know. As I said earlier, you've added jobs- I think 33,000 new jobs last year alone in your industries- and these jobs are dependent on an open trading system, and dependent on the United States continuing to be proactive and aggressive and engaging the global economy, not retrenching and building walls. Their jobs are at stake. The world benefits a lot from advances in consumer electronics. People are more connected than ever. It's a great impact on the economies of so many countries, including the United States.

I look forward to continued work with you to open markets for the incredible innovations that you have yet to show us. Some of them are up your sleeve today. I'm not going to tell your competitors about them. But there's more to come: there's more innovation, there's more creativity, and we must be sure that we have our minds on creativity as the opportunity through markets and free trade to be able to achieve the benefits for your workers, for our economy, and indeed for the global economy.

Thank you very much.

[applause].

Moderator: Mr. Ambassador, if you have time, would you mind taking some questions?

Ambassador Portman: I'd love to.

****Question and Answer Portion****

Question: And thank you very much for your comments. I really appreciate them. We are a small company and we do a lot of exporting. Right now about 35 percent of our gross revenues are, it sort of goes up and down with the value of the dollar.

But there are two things I was hoping that you --

Ambassador Portman: Sorry, our economy is doing so well with the dollar it's actually gone up about two percent in the last year.

It's amazing when you look at the numbers, the current account deficit numbers from yesterday for instance, the dollar increases in value because people continue to want to invest in this country. It's a reflection of the fact that we are a country that believes in open trade. And it makes it hard for you to export sometimes.

Question: A weak dollar does help our exports.

But there are two things I was hoping you would comment on for me. One is the whole deal with the World Trade Organization and the Foreign Sales Corporation Tax, and the impending sanctions that are being threatened. It's very confusing to me because it seems like the WTO is almost at odds with itself about what America should do, and I would like to know what you're going to do about it and what position you would take.

The second thing I was hoping you would comment on is the Dubai port fiasco. I happened to be in Dubai when this was all happening, and the articles I was reading in their English newspapers were about us, and we are not looking very good to a very, very wonderful country. As a matter of fact we're looking very stupid. I was wondering what your thoughts were or what, anything we could do to change these misperceptions within the government and within our culture.

Ambassador Portman: Thanks, Kathy. I'll let Gary answer the tough question. [Laughter].

With regard to FSC-ETI, as you may know I'm a former Member of Congress, a recovering Member. I was just up there in fact for a wonderful address by the President of Liberia who we're doing more trading with now, by the way. So I went through all this as a member of the Ways and Means Committee and was very involved in changing our laws to address the concerns which were raised by the WTO in a case that was filed by the European Union. And frankly, it was difficult. Politically difficult, hard to get the votes. But we were able to change our laws, first to make the ETI change which was not considered acceptable, so we went through it again, changed our laws again to pull back the tax benefits for our exporters. And yes, we have a transition period, and there's a slight grandfather provision. But we have taken the tough steps here in this country as compared to many other countries who when they have a WTO case filed against them and they lose do not take the steps. I would refer you to the beef hormone case in the European Union. They lost the case and still have not changed their practices with regard to us sending our beef exports to the European Union.

But we stepped up to the plate. We changed our laws. And yet even now, having changed our laws, we find out there is still intent on behalf of our trading partners and with the European Union to continue sanctions against the United States to the tune of billions of dollars a year. The original one was \$4.2 billion, now they're talking about \$2.6 billion, I think. I'm not sure. I could be off by a couple of hundred million there. But it's about \$2.5 billion. I just think that's a mistake.

We are phasing out an existing benefit by the end of this year and there will be a grandfather for some companies, because frankly there were contracts already entered into. The Congressional Budget Office indicates that will be not billions of dollars a year, but \$75 million a year. That's their estimate. The CBO, you know, is a non-partisan entity that analyzes these things. The Treasury Department has some new numbers, I'm told, that may be even less than that. The European Union says they have a right to continue to retaliate and would raise tariffs on US products to the tune of these billions of dollars, which I just hope they don't do. I think it would be unreasonable

given the efforts that we have made. Frankly, it doesn't reward good behavior. In other words, when I'm on the Hill now everyone says why did we go through all that if they continue to retaliate against us?

So I hope we can work something out where given the fact that the transition ends this year, and the fact that the grandfather provision is very minor, we work with the WTO first and then our transatlantic trading partners. We do a lot of trade. Most of it's dispute free every day. But we're working on it.

The USTR is taking a very strong advocacy approach on behalf of US companies and on behalf of US workers to be sure that we're not penalized.

The second issue, the Dubai ports. It's interesting you were there. I am fascinated by the reaction that you perceived when you were there. My sense is, from talking to the Foreign Minister last week and I'll have further discussions next week with Dubai officials from the United Arab Emirates, that they do have a sense of what this is about which is security. It's not about trade. I think it's a message that is extremely important for us to convey not just to United Arab Emirates, but to all of our trading partners.

The United States welcomes investment. We are open to investment. In fact I spend a lot of time, as you know, trying to open other markets to invest in. We need to be very careful as we focus on legitimate security concerns that we not give the wrong impression.

The issue, again, having been a Member involved in some of these discussions over the years including I was a member of the original Homeland Security Committee on the Hill to create the department. The issue was security, more specifically port security. As you know, this has been a politically charged issue. Recall the 2004 campaign. Port security was a subject of political angst. It's something that is sort of a raw nerve politically. It is not an indictment generally of investment from the UAE or any country. It is instead a concern, a political concern, that has been out there for some time as to our homeland security and specifically as to the ports issue, how we should best secure our ports.

So I hope it's not been misinterpreted. I hope it hasn't been, as you say when you were in Dubai, even as a broad US direction regarding investment. It is not. The US needs to be and is open to investment. 5.3 million Americans work for foreign owned companies. Foreign investment is critical to our economic strength. By the way, US investment abroad is even greater. Our foreign direct investment exceeds that in the United States. We want to be sure that we have the ability to invest.

There are US companies, you should know, that actually manage ports. It's not a big business for the United States, but there's a company I know that manages ports in Mexico and in Panama. We want to be sure we have the ability to do that.

I hope that as we begin to work through this issue over the next few months that we send a message loud and clear to United Arab Emirates and other countries, that this is a

specific security concern and we will work through this one, but that it is not a change in US policy, and that we welcome investment.

Specifically with regard to United Arab Emirates, we have ongoing free trade discussions with them. We have completed free trade agreements recently with Morocco that went into effect this year. With Bahrain, that free trade discussion was actually passed by the US Congress at the end of last year and will be fully implemented shortly. The next in line we had hoped was United Arab Emirates, and we continue to have that hope. They're not yet at the point of concluding those negotiations. We still have some outstanding issues including intellectual property and some market opening issues, but we're having very productive discussions with them and those discussions continue. It will continue next week.

So we are not backing away from our free trade agreement with Oman. We are not backing away from any country that's open to investment and trade, and we want to be sure that message is sent loud and clear.

Question: Ambassador, two questions, one topic. The topic is China.

If you could address question one, what are the short and long term needs that we intended to bring our trade with China into balance, as you mentioned. And number two, how do we get a consistent, long term US message to China? We have this problem where we are beating the Chinese upon all sorts of issues, everything from religious kinds of issues to piracy to trade development. The message keeps getting to be very very [inaudible]. How do we address both of those issues?

Ambassador Portman: It's a good question. As I said at the outset, I believe this Top to Bottom Review we conducted, which took several months, by the way. We took our time. We got a lot of input from other agencies but also from the public and from the Hill, from China experts. We basically concluded that the economic relationship is mutually beneficial. As I said earlier and you know, the exports to China are important to our economy. Of our large markets in the world China is our fastest growing export market now. The potential, as I said, is enormous there so we want to be sure that we are not shooting ourselves in the foot by putting in place policies which would enable China to put up walls to our exports. And some of the policy proposals out there, as you know, would put up walls in our own country which is a WTO member [inaudible] China to reciprocate. That would be a mistake because an escalating trade tariff increase would be a negative for both economies.

So we need to be careful how we approach China in terms of policy issues. But as I also said, we do have an imbalance in the current trade relationship. How do we address it? Frankly...

[break in audio].

...it should be [inaudible] relatively more difficult to export and makes it relatively inexpensive. So [inaudible] the real issue. It affects trade. The rate at which it affects trade is to some people not a debate. It doesn't affect trade.

The final one is trade policy. Here the USTR has [inaudible] and China has a huge ways to go. I'll mention just three areas very quickly. Intellectual property. Here the United States is disproportionately impacted. Why? Because we have a lot of knowledge-based exports, including yours. But think about it. Software. I think China is number two in the world now in terms of computer purchases, hardware, this stuff, and yet about number 25 in terms of software. There's a reason for that. You can buy whatever we have here, Microsoft is on this computer right now. You can buy it on the street corner for a fraction of the cost that it cost to produce it and do the research and innovation and development. And that's not fair. That disproportionately impacts US exports. That's the point. It's not fair, but it also hurts us. We would have greater exports.

Movies. The US has a comparative advantage in movies. I talked about the changing taste in China where in relation to Gibson Guitar. The same is true with regard to movies and entertainment. We may not all be great fans of what comes out of Hollywood these days, but it's a comparative advantage we have. But in China there's very little market. Why? Because you can get it on the street for a fraction of the cost. The week it comes out here in the United States for premier; Blockbuster films first showing.

Recordings. The US recording industry is renowned worldwide. We have a comparative advantage yet in China we can't take advantage of that.

So whether it's your industry or other industries, intellectual property, piracy in China is a huge problem for us. We believe they are not doing enough to make their changes in laws and regulations, but more significantly in enforcement. They're not enforcing the laws.

Who here has been to Beijing or Shanghai in the last year. Keep your hand up if you have seen piracy in action. I think everybody's hand stayed up.

Second, market access. We still do not have the access to the Chinese market that I...

[break in audio].

...increased the domestic service budget with regard to piracy. We have through the STOP program, which is a program which was initiated a few years ago by the Commerce Department, the USTR and others, the State Department and others, we have found better ways to cooperate with our trading partners. So that just as we did with port security we were able to identify more of the problem overseas and pinpoint the problem more. So those are the kinds of measures we ought to be taking. I'll now look at it more closely after your question, but I don't think there should be any legislation that would impede the free flow of commerce. I think just the opposite. I think if we can get some

of this counterfeit under control it will help in terms of legitimate [inaudible]. But I'll take a careful look at it now that you've raised the question.

I want to thank you all for working with us on that legislation and also on the STOP program and what we're doing with regard to China and Russia and other countries throughout the world. We use the 301 process aggressively at USTR. That's our ability to rank countries based on their degree of good laws and regulations, but also enforcement of intellectual property rights. In fact in many cases, Ukraine is a good example of that, we listed them as a country that had major problems. They passed legislation to correct many of those problems. We were then able to reward them by moving them down to a country that did not have [inaudible] problems, and it results in more US investment in that country.

So we continue to work with the CEA and others constructively to identify the problems, and then to address them in ways that I think are mutually constructive.

When China looks back ten years from now having, I think, made substantial progress in piracy by that time, I certainly hope so, I think they will wish they'd done it sooner, because it's Chinese entrepreneurs and innovators, Chinese companies, song writers, movie makers, who are being penalized along with US exporters. You cannot have a successful and healthy economy unless you get this under control. So I don't think it's just a US issue. I think we have to do a better job explaining to our trading partners why it's also in their interest as these economies mature and modernize, that they have a system of enforcement and intellectual property that allows their economies to prosper.

Thanks very much. Thank you all for your time.

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