

## **IV. OTHER MULTILATERAL ACTIVITIES**

The United States pursues its trade and trade-related interests in a wide range of other international fora. In addition to opening new trade opportunities, such efforts focus on establishing an infrastructure for international trade that is transparent, predictable and efficient, and prevents restrictive practices and other impediments to expanded trade and sustainable economic growth and prosperity. These efforts also are aimed at ensuring that U.S. strategies and objectives relating to international trade, environment, labor and other trade-related interests are balanced and mutually supportive.

### **A. Trade and the Environment**

As President Bush stated when he signed the Trade Act of 2002, “history shows that as nations become more prosperous, their citizens will demand, and can afford, a cleaner environment.” The United States, understanding that advancing trade and environmental objectives are mutually supportive, has been very active in promoting a trade policy agenda that pursues economic growth in a manner that integrates economic, social, and environmental policies.

As provided for in the Trade Act of 2002, and consistent with Executive Order 13141 (1999) and its implementing guidelines, the Administration conducts environmental reviews of ongoing trade negotiations. These reviews are the product of rigorous interagency consultations and continue to be an important dimension of trade policy formulation. The reviews identify environmental issues to be taken into account during trade negotiations and inform the public about trade and environment interactions in the context of specific negotiations. In 2006, the program of work on reviews included preparation and release of an interim review for the United States-Korea FTA; completion of final reviews for the United States-Oman FTA and United States-Peru TPA; and progress on the interim review for the WTO Doha Round. USTR and the Council on Environmental Quality (CEQ) also continued their joint effort to assess cumulative experiences with environmental reviews of trade agreements in order to provide a basis for gauging success.

The United States continues to take an active role in the WTO Committee on Trade and Environment (CTE) to put into effect our commitment to the simultaneous promotion of expanded trade, environmental improvement, and economic growth and development.

The Congress specified certain objectives with respect to trade and the environment in the Trade Act of 2002, and USTR took these into account in coordinating interagency development of negotiating positions. Also during 2006, USTR consulted closely with Congress on the environmental provisions of each FTA throughout negotiations.

In addition, USTR has participated both in multilateral and regional economic fora and in international environmental agreements, in conjunction with other U.S. agencies. USTR also has worked bilaterally with U.S. trading partners to avert or minimize potential trade frictions arising from foreign and U.S. environmental regulations.

#### **1. Multilateral Fora**

As described in more detail in the WTO section of this report (see Chapter II), the United States is active on all aspects of the Doha trade and environment agenda. In particular, the United States has contributed to the intensification of work on liberalization of trade in environmental goods in the Committee on Trade and Environment (CTE) in Special Session in 2006, including through a proposal for an ambitious tariff-cutting modality in the negotiations. The United States believes that increased market access for environmental goods is an effective means to enhance access to environmental technologies around the

world and has continued to advance innovative ideas for product coverage and modalities in these negotiations. In the Rules Negotiating Group, the United States continues to lead in pressing for stronger disciplines on fisheries subsidies, including the prohibition of the most harmful subsidies that contribute to overcapacity and overfishing.

With respect to the Doha trade and environment agenda that does not specifically involve negotiations, the United States played an active role, particularly in emphasizing the importance of capacity-building. This included environmental reviews of trade negotiations, and the role of the CTE in Regular Session in discussing the environmental implications of all areas under negotiation in the Doha Development Agenda.

USTR co-chairs United States participation in the OECD Joint Working Party on Trade and Environment (JWPTE), which met twice in 2006. 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. These activities are discussed further in the OECD section of this report (see Chapter IV, Section C).

USTR participates in U.S. policymaking regarding the implementation of various multilateral environmental agreements to ensure that the activities of these organizations are compatible with both U.S. environmental and trade policy objectives. Examples include the Convention on International Trade in Endangered Species of Wild Fauna and Flora, 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, international fisheries management schemes, the Cartagena Protocol on Biosafety and the Stockholm Convention on Persistent Organic Pollutants. USTR also participates in U.S. policymaking regarding activities related to the United Nations Environment Programme.

USTR leads United States participation in the International Tropical Timber Agreement (ITTA), a commodity agreement that includes, amongst its objectives, the sustainable management of tropical forests. Negotiations for a successor agreement to the ITTA, which was enacted in 1994, were concluded in 2006, and 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 deliberations, including the implementation of President Bush’s Initiative to Address Illegal Logging. In addition, USTR has participated extensively in U.S. policymaking regarding the compliance regimes of the International Commission for the Conservation of Atlantic Tuna and other regional fisheries management organizations.

## **2. Bilateral Activities**

The Bush Administration has continued to advance the policy of enhancing environmental cooperation with our new FTA partners. To complement negotiation of FTAs, the Department of State leads interagency efforts to negotiate parallel environmental cooperation mechanisms. For example, as a complement to the recently approved U.S.-Oman FTA, the United States and Oman negotiated a Memorandum of Understanding on Environmental Cooperation that establishes a Joint Forum on Environmental Cooperation to set priorities for future environment-related projects. Such cooperative activities are already underway in Oman. An Environmental Cooperation Agreement (ECA) with parties to the CAFTA-DR was completed in 2005. This ECA identifies several areas, such as institutional strengthening and enforcement of environmental laws, for priority attention and is innovative in its use of mechanisms to establish benchmarks and monitoring procedures to measure progress.

USTR has included in all of its recent FTAs environment chapters core obligations to promote high levels of environmental protection, ensure effective enforcement of environmental laws, and restrict FTA partner governments from inappropriately derogating from these laws to encourage increased trade or investment.

Additionally, all FTA environment chapters include provisions to advance public participation, remedial action for violations of environmental laws and measures to enhance environmental performance. CAFTA-DR, in particular, includes an innovative public submissions mechanism that allows members of the public to have independent review of their written submissions on enforcement matters and to promote action by the Environmental Cooperation Commission under the ECA that may build capacity to address enforcement problems. USTR is currently negotiating FTA environment chapters with the United Arab Emirates, Korea and Malaysia. USTR recently concluded an FTA with Panama that includes an environment chapter with provisions very similar to the ones contained in CAFTA-DR.

USTR also concluded Trade Promotion Agreements (TPAs) with Peru and Colombia. Both the Peru TPA and the Colombia TPA environment chapters include the core provisions of other FTAs and specific recognition of the importance of conserving and protecting biological diversity.

With respect to implementation of recently concluded FTAs, USTR has worked with the State Department, USAID and other agencies to follow up with implementation of eight environmental cooperation projects outlined in the United States-Chile FTA. The U.S.-Chile Environmental Affairs Committee met in October 2006 to discuss progress made on these projects. Additionally, USTR and other agencies focused in 2006 on implementation of other cooperation mechanisms, such as those involving Middle East FTA partners and Singapore. In 2006, the State Department and USTR worked with Central American countries and the Dominican Republic to finalize a work plan for the CAFTA-DR Environmental Cooperation Agreement (ECA) with a goal of continuing current and beginning new project implementation in early 2007.

In 2006, USTR concluded a Memorandum of Understanding (MOU) with Indonesia to enhance joint efforts between the two countries to combat illegal logging and associated trade. This agreement is the first of its kind for both countries and is designed to promote forest conservation 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. The MOU envisions ongoing action between U.S. and Indonesian authorities to share information on timber trade, including information on illegally-produced timber products, and cooperation in law enforcement activities. In order to guide implementation and identify priority actions that both countries will undertake, the agreement establishes a working group under the existing U.S.-Indonesia Trade and Investment Framework Agreement (TIFA).

### **3. The North American Free Trade Agreement (NAFTA)**

USTR continues to work actively with EPA and other agencies in the institutions created by the NAFTA environmental side agreement, the North American Agreement on Environmental Cooperation (NAAEC), and the border environmental infrastructure agreement. These institutions were designed to enhance the mutually supportive nature of expanded North American trade and environmental improvement. The Border Environment Cooperation Commission and the North American Development Bank develops and finances needed environmental infrastructure projects along the U.S.-Mexico border.

The trilateral Commission on Environmental Cooperation (CEC) has responsibility for implementation of the NAAEC. USTR has worked closely with EPA, as well as trade and environment officials in Canada and Mexico, and at 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.

## **B. Trade and Labor**

The trade policy agenda of the United States includes a strong commitment to protecting the rights of workers and promoting a level playing field for workers, both in America and in countries with which we trade. Expanded trade benefits all Americans through 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. 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. During this past year, USTR continued to consult with Congress on the labor provisions of each agreement throughout the negotiations. 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, in pursuing labor provisions in numerous free trade agreements consistent with the bipartisan guidance contained in the Trade Act of 2002.

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

The importance of the linkage between trade and labor is underscored by the fact that TPA contains labor-related clauses in three sections of the legislation: 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 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. 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 October 2005, the United States participated along with representatives from other ILO member countries, worker and employer organizations, non-governmental organizations, the WTO and the World Bank in the Tripartite Meeting on Promoting Fair Globalization in Textiles and Clothing in a Post-MFA Environment that was held in Geneva.

In 2005, the ILO released the document “A global alliance against forced labor” as part of its yearly “Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work.” In this document, the ILO proposed action by member states against forced labor. These recommendations included identification of labor market characteristics that facilitate forced labor, ensuring law enforcement agents have the capacity and resources to implement the law, and establishment of time-bound action programs to eliminate forced labor.

In 2006, as part of its yearly Global Report under the ILO Declaration, the ILO released “The end of child labour: Within reach.” In this report, the ILO concluded that significant progress is being made in global efforts to end child labor and set out an action plan for further progress by member states. The proposed action plan emphasizes supporting national responses to child labor, deepening and strengthening the worldwide movement as a catalyst and promoting further integration of child labor concerns within overall ILO priorities.

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 2006, 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 2006 amounted to \$53 million, helping to finance 17 projects in 19 countries.

### **3. Regional Activities**

The Inter-American Conference of Ministers of Labor (IACML) is a meeting of the Western Hemisphere's Labor Ministers, held about every two years under the auspices of the Organization of American States (OAS) in order to promote hemispheric cooperation on labor issues. Mexico is the current chair of the IACML. In 2005, the IACML endorsed Trinidad and Tobago as the incoming chair of the conference. Trinidad and Tobago will host the Fifteenth IACML in September 2007.

The IACML responds to the labor mandates agreed to by President Bush and other heads of state in the Summit of the Americas process. A number of outcomes from the Fourteenth IACML, hosted by Mexico in September 2005, were incorporated into the IV Summit of the Americas in November 2005, where President Bush met with the heads of state of governments of the Americas to discuss the topic, "Creating Jobs to Fight Poverty and Strengthen Democratic Governance."

The Plan of Action of Mexico, endorsed by the Labor Ministers in 2005, provides for the continued examination of the labor dimensions of free trade agreements and regional integration processes within IACML Working Group 1, with a focus on decent work as an instrument of development and democracy. Working Group 1 is chaired by Argentina and vice-chaired by Costa Rica and Chile. Working Group 2 focuses on strengthening the capacities of Labor Ministries to respond to the challenges of promoting decent work in the context of globalization, including an emphasis on the *ILO Declaration on Fundamental Principles and Rights at Work*. This working group is chaired by El Salvador and vice-chaired by Uruguay and the United States. 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 and the Trade Union Technical Advisory Committee, participate in IACML meetings and activities.

In 2006, the IACML work program examined efforts to measure progress in combating child labor (in the context of the Summit of the Americas commitment to eradicate the worst forms of child labor by 2020), employment services, effective enforcement of national labor laws, policies to promote decent work, developments in occupational safety and health, and country programs to protect the labor rights of migrant workers.

The Secretariat of the Commission for Labor Cooperation, comprised of representatives from the United States, Canada and Mexico, and established under the North American Agreement on Labor Cooperation (NAALC), continued its efforts to support the IACML process in 2006 through work by an expert working party to examine employment services opportunities in furtherance of the Plan of Action of Mexico.

Other regional trade and labor activities carried out under NAFTA/NAALC and the OECD are noted in those sections of this report.

## 4. Bilateral Activities

### i. FTAs

The Administration continued to negotiate bilateral trade agreements that fully incorporate the congressional guidance on trade and labor contained in TPA. During 2006, Congress approved an FTA with Oman and USTR signed FTAs with Peru and Colombia and concluded negotiations with Panama. The Bahrain FTA entered into force on August 1, 2006. The Oman and Bahrain FTAs mark further progress on the President's commitment to creating a Middle East Free Trade Area (MEFTA) by 2013.

The FTA process has helped to encourage many of our trading partners to adopt new labor law reforms. For example, reform of the labor code languished in the Moroccan Parliament for 20 years before United States-Morocco FTA negotiations helped provide the momentum for Morocco to update its labor code. Labor reforms made during the negotiation of the U.S.-Bahrain FTA fully supported and complemented the democratic reforms by the Kingdom of Bahrain. Bahrain enacted significant labor law reforms in 1993 and 2002 to allow for independent labor unions for the first time since the early 1970s; it also implemented additional statutory reforms in 2006 to further support trade union rights.

Oman undertook significant labor law reform in 2003, allowing for the creation of trade unions for the first time. During Congressional consideration of the Oman FTA, the Government of Oman made several commitments to the United States to enact additional labor law reforms to ensure respect for core labor standards. The Government of Oman enacted relevant reforms in July and December 2006, and further reforms related to the commitments are expected in early 2007.

In each of these FTAs, the parties reaffirm their obligations as ILO members and commit to strive to ensure that internationally recognized labor rights and the principles in the *ILO Declaration on Fundamental Principles and Rights at Work* are recognized and protected by domestic labor laws. Each party is obligated not to fail to effectively enforce its labor laws, recognizing the discretion parties have in matters such as allocation of resources. Each party also is committed to designate an office within its labor ministry to serve as a contact point for purposes of the labor chapter.

On December 21, 2006, the Bureau of International Labor Affairs (ILAB) of the U.S. Department of Labor established the Office of Trade and Labor Affairs (OTLA) and designated it 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). OTLA will maintain the designation as the National Administrative Office under the NAALC. ILAB published new procedural guidelines for public submissions under trade agreements 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, our FTAs permit a party to ask a dispute settlement panel to determine whether the other party has violated its obligation not to fail to effectively enforce its labor laws in a manner affecting trade. If a panel determines that the respondent party has violated this obligation, and if the parties are unable to agree on an action plan for bringing that party into compliance, then the panel may establish a monetary assessment to be paid by that party, based on criteria such as the trade effect and pervasiveness of the violation. Any monetary assessment for a labor violation would be paid into a fund established by a joint commission (consisting of representatives of both parties to the agreement) and expended at the direction of the joint commission for appropriate labor initiatives, including efforts to improve or enhance labor law enforcement. If a party fails to pay an assessment within a reasonable period, the other party may take appropriate steps to collect the assessment, including suspending tariff concessions under the FTA

sufficient to collect the assessment, bearing in mind the agreement's objective of eliminating barriers to bilateral trade while seeking to avoid unduly affecting parties or interests not party to the dispute.

We continue to include a labor cooperation mechanism in each agreement to help ensure the longer-term capacity of our trading partners to effectively enforce labor laws, including capacity building programs designed to strengthen the ability of our partners to better protect worker rights.

Capacity building initiatives related to U.S. free trade agreements include a regional project in Central America that was expanded to include the Dominican Republic and Panama to increase workers' and employers' knowledge of their national labor laws, strengthen labor inspections systems, and bolster alternative dispute resolution mechanisms. This project was funded through an \$8.75 million grant from the U.S. Department of Labor.

The Administration committed an additional \$20 million in FY2005 for labor and environment initiatives in CAFTA-DR countries. For FY2006, the Administration requested and successfully 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 FY2005 funds and \$21.1 million of FY2006 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 FY2007, the Administration again requested \$40 million for labor and environment initiatives in the CAFTA countries. An interagency group comprised of the Departments of State and Labor, USTR, USAID and other agencies was established to program the funds.

The United States is in the process of identifying additional appropriate projects at this time, in concert with the CAFTA-DR countries. Several labor programs are also being carried out in Morocco, Oman, Bahrain and Jordan 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 Korea, Malaysia and the United Arab Emirates include discussion of labor provisions and adherence to internationally recognized labor rights.

## **ii. Other Bilateral Agreements and Programs**

In November 2000, the U.S. Department of Labor 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.

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 working rights in Ecuador were filed in 2005 and the Trade Policy Staff Committee (TPSC) continued to review worker rights conditions in that country in 2006. 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 2006 GSP Annual Review process, USTR concluded reviews of country practice petitions concerning worker rights in Swaziland and Uganda. These petitions requested GSP trade benefits be

withdrawn from the two countries, but the USTR found both countries to be taking steps to afford internationally recognized labor rights. The review of Swaziland's GSP beneficiary status stemmed from a 2002 petition submitted by the AFL-CIO. In the past several years, Swaziland has made steady progress on worker rights, including ratifying a new Constitution, amending the Industrial Relations Act to strengthen the Conciliation, Mediation, and Arbitration Commission, participating in a U.S. DOL-funded regional project to increase awareness of, and compliance with, labor laws, and participating in a regional ILO project to eliminate the worst forms of child labor. The AFL-CIO submitted a worker rights petition concerning Uganda in June 2005. Since that time, Uganda has put forward labor reform laws for ratification by its parliament addressing the issues raised in the AFL-CIO petition, and the garment employers and workers have signed a first-ever agreement recognizing a workers union. Also in 2006, the President restored GSP least developed beneficiary status to Liberia. Under newly elected Liberian President Ellen Sirleaf Johnson, the Liberian government made progress restoring many of the labor rights that had been curtailed during the regime of Charles Taylor, including repealing a prohibition on the right to strike, and working with the ILO to improve worker rights.

### **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. In 2005, these countries accounted for 58 percent of world Gross Domestic Product (GDP (in purchasing-power-parity terms)), three-quarters of world trade, 96 percent of world official development assistance, and 18 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 2006, the OECD completed comprehensive reviews of the economies of Russia and Brazil, 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.

Angel Gurría, former Foreign Minister and Finance Minister of Mexico, became the new Secretary-General of the OECD, effective June 1, 2006, replacing Donald J. Johnston of Canada, who retired after 10 years in the post. The Secretary-General oversees the work of the OECD's Secretariat, and chairs the OECD's decision-making Council.

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 under 25 percent. The overall budget for 2006 was projected to total 336 million euros (approximately \$434 million).

## 1. Trade Committee Work Program

In 2006, 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 continued progressive trade liberalization in a rules-based environment. The Trade Homepage on the OECD website ([www.oecd.org/trade](http://www.oecd.org/trade)) contains up-to-date information on published analytical work and other trade-related activities.

Several major analytical pieces were completed under the Trade Committee during 2006. These included the studies *Trading Up: Economic Perspectives on Development Issues in the Multilateral Trading System*, which considers trade and development from an economic perspective, examining welfare and economic adjustments from liberalization, and related policy options, and *Liberalization and Universal Access to Basic Services: Telecommunications, Water and Sanitation, Financial Services and Electricity*, which examines how trade liberalization can contribute to achieving basic access to these services.

The Trade Committee also released a number of Working Papers on topics such as “South-South Trade in Goods” and “South-South Services Trade” which highlighted that South-South trade barriers, particularly tariff barriers, are still much higher than those governing South trade with other partners. In addition, the Trade Committee released case studies that examined how two member countries and two non-members had identified complementary measures to ensure the maximum realization of benefits from the liberalization of trade in goods and services. Work on “Dynamic Gains from Trade” found robust evidence that open economies are richer and more productive than those that are closed to trade. 2006 also saw the release of a study on “China’s Trade and Growth” and their impact on selected OECD countries, including the United States, was also published in 2006. This work was shared with Chinese government officials and academics at a November OECD-China seminar in Beijing.

Work in the Trade Committee on trade in services continued to provide analysis and background relevant to the WTO negotiations and trade liberalization in general. In 2006, the OECD published a number of papers on services. Two of them – “Logistics and Time as a Barrier to Trade” and “Business Services, Trade and Costs” – highlighted the linkages between the services sector and the manufacturing and agricultural sectors. In addition, the papers demonstrated how services liberalization can benefit all three sectors of the economy. The papers included examinations of developed and developing countries. Also touching on issues of interest to developing countries were papers on “Special and Differential Treatment under the GATS” and “The Linkages between Open Services Markets and Technology Transfer.” The latter report found that services liberalization in key sectors in developing countries can have a significant impact on technology diffusion.

In June 2006, the OECD held a workshop on trade in services, organized in Geneva in conjunction with UNCTAD. The purpose of the event was to help officials of WTO Members, and particularly developing countries, gain greater insight into issues of importance in services sectors, and how they might be approached in the GATS negotiations. The sectors covered included business support services; logistics and related services; construction and related engineering services; energy services; and environmental services.

In conjunction with the Trade Committee, the Committee on Agriculture prepared *Agriculture Policy and Trade Reform: Potential Effects at Global, National, and Household Levels*, which found that gains to developing countries from agricultural trade reform in OECD countries would come “almost entirely” from tariff cuts, versus cuts in domestic support. Working together, the Trade Committee and the Development Cooperation Directorate produced *The Development Dimension: Aid for Trade: Making it Effective*, which reviews the effectiveness of existing aid programs and advocates that reinforcing mutual

accountability at the local level along with a global review mechanism will enhance the impact of Aid for Trade.

A Global Forum on Trade was held in October 2006 in Mexico, which provided an opportunity to discuss the issues of market access and development, touching on global (MFN) liberalization, North-South trade and South-South trade, trade in services, and regional trade liberalization. Several regional trade-related events were also held, including a regional forum on “Maximizing the Developmental Benefits of Trade Facilitation,” held in Cameroon in September, gathering over 100 private sector and government representatives from Western and Central Africa, and a regional workshop on agriculture and trade, organized in conjunction with the WTO in Argentina in October, with participation from 20 countries in Latin America and the Caribbean. U.S. Government representatives participated in all three events, as well as in an OECD-APEC Global Conference on “Removing Barriers to SME Access to International Markets,” held in Athens in November, 2006.

The Trade Committee also laid the groundwork for a meeting of OECD member country trade ministers in May 2006. U.S. Trade Representative Susan C. Schwab (then nominee for U.S. Trade Representative) 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 adopted in 2006 a new strategy for 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.

In 2006, the Trade Committee and its Working Party continued its discussion on how to enhance outreach to non-members. A new, more pro-active strategy for outreach was adopted in October 2005, and was followed in March 2006 by a decision to invite 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. Thailand and Malaysia were invited to participate as *ad hoc* observers in the Trade Committee’s June 2006 meeting, while China and India were invited to the October meeting. The current regular observers in the Trade Committee are Argentina, Brazil, Chile, Hong Kong China, and Singapore. These five observers, plus China, Egypt, Guyana, India, Kenya, Pakistan, Russia, South Africa and Zambia, also accepted the OECD’s invitation to participate in the trade ministers’ meeting at the May 2006 Ministerial Council Meeting, which focused on the follow-up to the WTO Ministerial Meeting in Hong Kong China. Dialogue with non-member countries is also a key motivation for the outreach events described earlier.

## **3. Technical Assistance and Capacity Building**

The OECD Trade Committee provided leadership in 2006 for expanded dialogue and coordination on the Aid for Trade (A4T) discussions underway at the WTO

In November 2006, the OECD Development Assistance Committee (DAC) organized the “OECD Policy Dialogue with non-members on Aid for Trade: From Policy to Practice,” in Doha, Qatar. The event brought together policy makers from OECD and developing countries to advance the Aid for Trade agenda. Participants affirmed their commitment to build on the WTO A4T task force’s October 2006 recommendations and the Paris Declaration on Aid Effectiveness.

The DAC composed a number of discussion papers that sought to assist the A4T discussions in the WTO and develop guidelines for delivering A4T assistance. Additionally, DAC papers provided useful perspectives on the connection between A4T discussions and new policy commitments. One paper targeting trade facilitation, “Making Technical Assistance and Capacity Building for Trade Facilitation Effective and Operational”, connects potential commitments from the WTO Trade Facilitation Negotiating Group with the A4T discussions. Importantly, the DAC contributed to strengthening international best practices for delivering technical assistance, including the need for sufficient country demand, needs assessments, long run outlooks, and donor coordination.

#### **4. Competition Policy and Trade**

The OECD sponsored a Global Forum on Trade and Competition on February 10, 2006, at which approximately twenty non-OECD countries and international organizations participated. Developing countries presented case studies involving antitrust matters that may have affected trade or development. References to competition in the Millennium Development Goals were discussed, and representatives from CARICOM and the Andean Community described the competition provisions in their regional agreements.

The mandate of the OECD’s Joint Group on Trade and Competition was not renewed. The U.S. opposed renewal in both the Trade and Competition Committees, noting that trade and competition discussions were a low priority in both committees, that attendance at recent Joint Group meetings had been poor, and that work on trade and competition policy could continue, as warranted, without the Joint Group as a formal institution. For instance, in 2006, a project was launched to examine how pro-competitive reforms in developing countries influence trade.

#### **5. Environment and Trade**

The OECD Joint Working Party on Trade and Environment (JWPTE) met twice in 2006 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/DDA, including in key sectors such as renewable energy. The JWPTE continued its work to support the trade and environment-related elements of the September 2002 World Summit for Sustainable Development plan of implementation, focusing on successful transfer of environmentally-sound technologies. Papers on “Building Capacity to Monitor Water Quality: A First Step to Cleaner Water in Developing Countries,” and on “The Impact of Monitoring Equipment on Air Quality Management Capacity in Developing Countries,” were completed and published.

The JWPTE also continued its work on environmental aspects of regional trade agreements (RTAs). In June 2006, the JWPTE hosted an informative workshop involving many OECD and 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 and national experiences will be published in early 2007, and is expected to highlight 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. The CoAg has two flagship publications – a 10-year *Agricultural Outlook* and a review of *Agricultural Policies in OECD Countries* – usually published in June, with the releases often involving presentations by the Secretariat on Capitol Hill and elsewhere in Washington. The *Agricultural Outlook* is published

every year, while the agricultural policies reports alternate annually between a full *Monitoring and Evaluation* report and a brief *At a Glance* overview. Publication of the 2006 *At a Glance* report, which covers agricultural policies and support in OECD countries, plus Brazil, China and South Africa, through 2005, was delayed over a dispute on how to uniformly measure decoupled subsidies in OECD member nations. 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. Results from most other analytical reports prepared throughout the year are compared to that baseline.

Other work overseen by the CoAg during 2006 included a paper on “Commodity Market Impacts of Trade and Domestic Agricultural Policy Reform,” which is a companion to the study “Agricultural Non-Reciprocal Tariff Preferences by the Quad Countries.” Both are part of a major effort to evaluate preferences and to start looking at preference erosion. “Agricultural Market Impacts of Future Growth in the Production of Biofuels,” was a notable 2006 publication and represented a CoAg effort to look at policies and plans for biofuel production across OECD and some non-OECD countries and to provide some initial analysis regarding implications for land use and commodity prices. Further work on that subject is planned for 2007 and 2008. As part of its on-going work on the relationship between agriculture and the environment, the OECD published *Water and Agriculture: Sustainability, Markets and Policies* in 2006 and completed work on *Environmental Indicators for Agriculture*. CoAg also released several smaller studies related to various aspects of agricultural policy such as policy-related transaction costs, decoupling, and policy financing. Though not released before the end of the year, in 2006, CoAg carried out a major study of Mexico’s agricultural policy. The Mexican government both requested the study and provided financing for it.

During 2006, CoAg sponsored two Global Forums. The May event covered “Constraints to Agriculture in Sub-Saharan Africa,” while the November meeting provided updates on agricultural policy in eight key non-member countries. In addition, CoAg sponsored regional outreach efforts in Latin America and Africa, and a half dozen workshops at various locations, including China.

## **7. Labor and Trade**

A reassessment of the *OECD Jobs Strategy* was a joint project of the Employment, Labor and Social Affairs (ELSA) and Economics (ECO) Directorates, and was completed in 2006. The original *Jobs Strategy* dated to 1994. The purpose of the reassessment was to take stock of progress in implementing recommendations since 1994, and to assess whether recommendations needed to be changed or expanded upon. A major motivation for the exercise was the rapid globalization of the past decade. Employment and Labor Ministers, or their surrogates, discussed the *Jobs Strategy* at a Ministerial meeting held in Toronto on June 16, 2006. At that meeting, Ministers agreed that all four pillars of the restated *Jobs Strategy* were central to the design of effective economic and labor market reforms. Extensive analytical work supporting the *Jobs Strategy* was published in June in the 2006 edition of the *OECD Employment Outlook*.

The Trade Union Advisory Committee (TUAC) to the OECD, made up of over 56 national trade unions centers from OECD member countries, has played a consultative role in the operation of the OECD and its various committees since 1962. As part of the OECD Ministerial Council meeting in May 2006, joint consultations were held with TUAC and BIAC (the Business and Industry Advisory Committee). TUAC submitted a statement to the May 2006 OECD Ministerial Council meeting, emphasizing the need to rebalance growth among OECD regions at high levels of employment and income, and to correct the imbalance between profits and wages and between high and low incomes.

In 2006, joint work continued between ELSA and the Trade Committee on the Globalization and Structural Adjustment project. The third part of this project (abbreviated GSA-3) is on the effect of globalization on labor market adjustment. OECD analysts are developing multiple indicators of various facets of international competition and assessing their relationship to, among other things, employment by demand and skill level; labor reallocation across firms within industries and the frequency with which individual workers of varying characteristics experience job loss or changes in industry; and associated effects on these workers' earnings growth. Two regional case studies will be prepared to complement the statistical analyses. GSA-3 will yield a number of outputs in 2007, including a policy paper in May; input into the discussion paper for the Ministerial Council's planned discussion of globalization and equity; and, detailed analytical contribution to the 2007 *OECD Employment Outlook*.

## 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 service 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 28-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 obligated to create its own tied aid program.

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 \$5.5 billion in 2005. For the first half of 2006, the Participants provided \$1.6 billion in tied aid. This represents only 64 percent of tied aid levels in the first half of 2005, suggesting that the 2006 annual levels will also be less than 2005 annual levels. 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.

*Untied* aid practices by other governments have also raised competitive concerns for U.S. exporters but, unlike *tied* aid, there have been no multilateral rules governing their administration. (Untied aid has averaged over \$7 billion annually since 1995, and was as high as \$14 billion in 1996.) However, in 2004, the United States achieved a path-breaking transparency agreement that convinced other Participants to participate in a pilot agreement for untied aid financed projects that required: (1) broad, *ex ante* notification of untied aid projects; (2) a minimum bidding period of 45 days for procurement competition; and, (3) *ex post* reporting of bid winners in order to collect data to assess whether or not procurement under such untied aid credit programs creates trade distortions. The two-year pilot agreement was set to expire at the end of 2006. Lacking adequate data to evaluate the outcome of the bidding process for these projects, OECD Participants agreed – at the urging of the United States – to extend the transparency agreement until December 2008.

The United States also took the lead in achieving agreement, in May 2006, on a strengthened Action Statement on Bribery, which governs export credit agencies' anticorruption practices. However, the biggest challenge facing Participants is on how to address developing country concerns that the Participants – the wealthiest countries – are not taking developing country concerns into account when setting the rules for the provision of export credits. WTO disputes over export credits for aircraft have highlighted the need for aircraft-manufacturing Participants to consult with Brazil on aircraft financing even though Brazil is not an OECD member. Thus, the Participants have launched a formal review of the OECD agreement on official export financing for aircraft, with Brazil participating as a full partner in the negotiations. The Administration is coordinating closely with U.S. exporters on these negotiations.

The Participants will continue to work with non-OECD members to improve and refine the Arrangement rules to ensure a level playing field for all governments providing official export credit support.

## **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 increasing developments among members and key non-members regarding the protection of national security or other important national interests in relation to foreign investment, the OECD investment committee has begun work to survey practice in this area and evaluate its implications for sustaining and promoting an open investment policy among OECD members and non-members. In June, September and December of 2006, 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) were invited 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 concerned changes in 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 issue. The OECD plans to continue work on this important topic throughout 2007 and beyond.

In 2006, the OECD continued its investment policy dialogue with non-members. This included an Investment Policy Review of the Russian Federation. The review was Russia's first since 2004, and contained analyses of Russia's capital control regime as well as a survey of Russia's approach to the use of international investment agreements. The OECD also continued work on the Middle East-North Africa Initiative (MENA), which aims to mobilize private investment for the benefit of economic development in Middle Eastern countries. With the MENA Investment Ministerial held in Jordan in June 2006, the OECD-MENA Initiative moved from its initial stocktaking phase to the implementation phase. Ten countries have completed investment reform action plans; others are working on them.

Similarly, the OECD hosted a roundtable for the NEPAD-OECD Africa Investment Initiative that explored how private investment could be used within the context of the African Peer Review Mechanism. The Investment Committee completed work this past spring on a multi-year effort, in conjunction with key non-member governments and in consultation with other OECD bodies, to develop

a comprehensive Policy Framework for Investment (PFI) that will be the cornerstone of future OECD outreach with non-member governments and cooperative programs with APEC, the World Bank, and other institutions promoting improved policies to encourage foreign and domestic investment. The Framework will assist countries in analyzing ten broad policy areas – ranging from investment and trade to competition and corporate governance – that have an important impact on the ability of countries to encourage foreign and domestic investment. Egypt, Costa Rica, and Vietnam – in conjunction with APEC – were the first countries to implement the PFI in a review of the country's investment policies. The PFI also formed a major part of last year's NEPAD-OECD Africa Investment Initiative roundtable.

In addition to the PFI, 2006 saw the debut of the OECD Principles for International Investor Participation in Infrastructure. This instrument is an OECD effort designed to promote linkage between a country's investment climate and its infrastructure investment. It describes ways that governments can foster a climate of cooperation between investors, authorities and stakeholders on infrastructure projects, and addresses challenges of maintaining responsible business conduct in the infrastructure sector. The OECD Investment Committee will incorporate the Principles for International Investor Participation in Infrastructure into its 2007 work.

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. The Committee concluded its examination of the role of private firms in countries characterized by weak governance and completed work on a tool to assist firms in assessing the risks facing operations in such challenging environments. With the involvement of its Business and Industry Advisory Committee, the Committee complemented this work in 2006 with the preparation of a practical resource guide to help firms identify sources of information on experiences in confronting operational challenges in specific contexts. 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 continued in its efforts to address market-distorting steel subsidies at the OECD. A number of non-OECD steel-producing countries, including India and China, have been active in the OECD steel activities. The OECD Secretariat implemented its plans to enhance outreach to non-members by organizing a May 2006 joint workshop on steel and raw material issues with the government of India and the International Iron and Steel Institute, a global industry association, held in New Delhi, India.

## **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 2006, the Trade Committee carried out a review of regulatory reform in Sweden from the perspective of market openness, and a report on regulatory reform in Korea as part of a monitoring exercise that reviews the progress and new challenges since the initial report on regulatory reform in Korea was published in 2000. The Trade Committee discussed a preliminary report on enhancing China's trade openness through better regulations, which will feed into the overall regulatory reform review of China begun in 2006.

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, which updated the Recommendations for Regulatory Reform that the OECD had adopted in 1997. These principles, in turn, fed into the APEC-OECD Integrated Checklist on Regulatory Reform, which was approved by the Special Group on Regulatory Policy in the OECD in March 2005, and was endorsed by APEC Ministers Responsible for Trade in June 2005. The Integrated Checklist was discussed at a September 12, 2006, meeting of the APEC Economic Committee, at which the United States was one of three economies to present a response to the Checklist.

## **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 were Argentina, Brazil, Chile, Bulgaria, and Slovakia (now an OECD member). In 2001, non-member Slovenia became a party to the Anti-Bribery Convention, and, in 2004, Estonia (also a non-member) acceded to the Convention.

The Convention requires parties to criminalize the bribery of foreign public officials in executive, legislative, and judicial branches; to impose dissuasive penalties on those who offer, promise or pay bribes; and to implement adequate accounting procedures to make it harder to hide illegal payments. All 36 parties 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 2006, all parties had undergone a review of their respective national legislation implementing the Convention (i.e., Phase 1 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 2006, Phase 2 reviews had been completed for 27 countries. Information on these reviews is available on the internet at [www.export.gov/tcc](http://www.export.gov/tcc) and [www.oecd.org](http://www.oecd.org). The United States has successfully pressed for an accelerated Phase 2 monitoring schedule and ensured that there are sufficient OECD budget funds to support it. The Working Group on Bribery will undertake seven more Phase 2 country reviews in 2007 with the goal of completing the first country enforcement review cycle in early 2008. The United States is working to ensure that an effective peer-review monitoring process remains in place to ensure needed action by other parties to the OECD Anti-Bribery Convention.

## **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 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 subsequently endorsed the objectives of the Joint Statement and became the Agreement's fifth party.

Major outcomes in 2006 included the accession of the People's Republic of China (the PRC) as the sixth party to the Joint Statement, revision of the 1999 Joint Statement to better reflect activities and initiatives agreed or underway and to reflect the PRC's status as a party, and implementation of the landmark 2005 agreement to reduce duties to zero on multichip integrated circuits (MCPs). The PRC's accession to the Joint Statement reflects the increasing importance of China as a producer and consumer of semiconductors. The PRC's market for semiconductors is estimated at approximately \$42 billion in 2006. All major semiconductor producers are now parties to the Joint Statement.

Implementation of the MCP agreement reduces to zero the duty on an evolutionary new semiconductor, which was not yet in existence when duties on most other semiconductors were eliminated in 1996 through the Information Technology Agreement. The global market for MCPs was over \$4 billion in 2004, and is expected to increase to nearly \$8 billion by 2008. The five parties had each reduced their MCP duties to zero by April 1, 2006. The agreement was implemented in the United States by Presidential proclamation. The PRC is expected to join the MCP agreement.

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 2006, the WSC held its seventh annual meeting. Specific topics discussed by the WSC include 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 Government/Authorities Meeting on Semiconductors (GAMS) at least once a year to receive and discuss the WSC recommendations. The seventh GAMS was held in September 2006, hosted by Japan. At that meeting, the GAMS discussed WSC recommendations relating to expanded participation in the MCP agreement; improving market access through the Doha 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; enforcing WTO non-discrimination rules to prevent discrimination against foreign products; promoting fair and effective antidumping rules; the growing cost burden on the semiconductor industry of copyright levies on digital equipment; 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 2006, the Administration worked to address concerns related to the rapidly changing trade situation in the global steel sector, continuing its work at the Organization for Economic Cooperation and Development (OECD), the North American Steel Trade Committee (NASTC), and beginning a new steel dialogue with China under the U.S.-China Joint Commission on Commerce and Trade (JCCT).

The Administration continued to work with the OECD Secretariat and governments of other steel-producing economies to engage on policy issues affecting the global steel industry. These included issues related to capacity expansion, government subsidies in the steel sector, the environmental impact of steelmaking technologies and raw materials. The United States supported efforts by the OECD secretariat to reach out to developing steelmaking economies, including the organization of a major steel conference held in May 2006 in New Delhi, India, jointly hosted by the OECD, the Government of India and the International Iron and Steel Institute, a global steel industry association.

The explosive growth of China's steel production and exports emerged as a major development for U.S. and global steel producers in 2006. In light of concerns that the growth of China's largely state-owned industry was not responding to a slowdown in demand, in December 2005, the Administration obtained China's agreement to initiate a cooperative dialogue under the auspices of the JCCT. The Steel Dialogue is led by the Department of Commerce and the Office of the U.S. Trade Representative on the U.S. side and by the Ministry of Commerce on the Chinese side. It represents an effort to increase Chinese government and industry understanding of market-oriented behavior and the problems that subsidies and other government intervention in the steel sector can cause in world steel markets. Two meetings of the dialogue took place in 2006, and included participation by industry representatives from both countries and the National Reform and Development Commission, the Chinese ministry responsible for steel development policies.

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) initiative by the leaders of the United States, Canada and Mexico, NASTC developed coordinated positions on issues in multilateral fora of importance to steel, 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 Canadian and Mexican governments to enhance compatibility of the steel import monitoring systems maintained by all three NAFTA countries.

The Administration also continues to raise specific concerns with other countries bilaterally, at the OECD, and in WTO accession negotiations about steel policies that contribute to excess capacity and production, including subsidies, border measures on steel and steelmaking raw materials, and other trade distorting practices. After extensive bilateral consultations with China in 2006, on February 2, 2007, the United States requested formal WTO consultations with China regarding subsidies which appear to be prohibited by the WTO's Agreement on Subsidies and Countervailing Measures.