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# V. Other Multilateral Activities

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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 corrupt 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

The U.S. Government has been very active in promoting a trade policy agenda that pursues economic growth in the broader context of sustainable development, integrating economic, social, and environmental policies. To help ensure that trade and environmental policies are mutually supportive, the Bush Administration announced in April 2001 that it would continue the policy of conducting environmental reviews of trade agreements under Executive Order 13141 (1999) and implementing guidelines. The Order and implementing guidelines require careful assessment and consideration of the environmental impacts of trade agreements, including detailed written reviews of environmentally significant trade agreements. During 2001, as part of the review policy, USTR issued a draft review of the U.S.-Chile FTA. USTR also initiated an interagency environmental review of the WTO negotiations on agriculture and services and continued work on interagency environmental reviews of the Free Trade Area of the Americas (FTAA) and the U.S.-Singapore

FTA.

At the fourth WTO Ministerial Conference in Doha, Qatar (November 2001), the U.S. Government succeeded in securing a package of environmental elements that underscores the WTO's commitment to sustainable development and to the simultaneous advancement of trade, environment, and development interests. Specifically, the Doha agenda includes mandates to negotiate on rules to reduce or eliminate environmentally harmful and trade-distorting subsidies in fisheries and export subsidies in agriculture, as well as on improved market access for environmental goods and services. Members also agreed to strengthen the role of the Committee on Trade and Environment and to encourage trade and environment technical assistance, including in connection with environmental reviews of trade agreements. In addition, Members agreed to negotiations on the relationship between the WTO rules and specific trade obligations in multilateral environmental agreements (MEAs), as well on ways to enhance cooperation between the WTO and MEA secretariats.

The Doha Declaration also encouraged continued cooperation between the WTO and international environmental and developmental organizations, especially in the preparations for the World Summit on Sustainable Development to be held in Johannesburg, South Africa in September 2002. USTR is actively participating in preparations for the Summit, with a view to helping ensure that developing countries fully integrate into the world trading system in order to benefit from trade liberalization and growing trade opportunities. The Summit also provides an opportunity to

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promote the availability of trade capacity building assistance, including assistance to assure that trade is environmentally neutral or positive, for countries to improve environmental standards and regulations, and to stimulate greater access to environmental technologies for sustainable development.

Also in 2001, USTR obtained Congress' approval of the U.S.-Jordan FTA, which entered into effect on December 17, 2001. This FTA includes trade and environment provisions such as on effective enforcement of environmental laws, an initiative on technical environmental cooperation, transparency elements, and provisions liberalizing market access for environmental goods and services. USTR continued negotiations on FTAs with Singapore and Chile, and expects to address trade and environment issues, as appropriate, with those countries as talks make progress in early 2002.

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**

The WTO Committee on Trade and Environment (CTE) met three times in 2001, pursuant to its mandate as elaborated in the Uruguay Round Agreements. In preparation for the Doha Ministerial, the Committee reviewed the full range of trade and environment issues on its agenda and continued to deepen Members' understanding of these issues. The United States contributed to this process by, *inter alia*, playing a leadership role in working to build a consensus on the need for the WTO to address fisheries subsidies that contribute to overcapacity and overfishing, and on the trade and environmental benefits of liberalizing trade in environmental goods and services. These initiatives culminated in a successful launch of

negotiations on these topics at Doha. The United States also stressed the importance of public outreach to enhance understanding of the trading system, as well as the valuable role to be played by environmental reviews of trade agreements. In addition, Members held valuable information exchanges with the Secretariats of a number of MEAs, and furthered their understanding of the synergies between MEAs and the WTO.

USTR co-chairs U.S. participation in the OECD Joint Working Party on Trade and Environment (JWPTE), which met two times in 2001 to continue its analysis of the effects of environmental policies on trade and the effects of trade policies on the environment. These activities are discussed further in the OECD section below under *Environment and Trade*.

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, and the more recently concluded Cartagena Protocol on Biosafety and Stockholm Convention on Persistent Organic Pollutants. USTR also continues to be involved in the trade-related aspects of international forest deliberations, including in the newly-formed permanent United Nations' Forum on Forests – the successor to the Commission on Sustainable Development's *ad hoc* Intergovernmental Forum on Forests and in the International Tropical Timber Organization.

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

USTR continues to work actively with the

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agencies that lead U.S. participation in the institutions created by the NAFTA environmental side agreements, the North American Agreement on Environmental Cooperation (NAAEC) and the border environmental infrastructure agreement. These institutions were designed to ensure that expanded North American trade does not take place at the expense of the environment. The Border Environment Cooperation Commission and the North American Development Bank develop and finance needed environmental infrastructure projects along the U.S.-Mexico border.

The Commission for Environmental Cooperation (CEC), governed by the trilateral Ministerial-level Council that implements the NAAEC, continues its efforts on numerous fronts and devotes a significant portion of its annual work program to trade and environment issues. The CEC work program encompasses four broad areas: environment, economy, and trade; conservation of biodiversity; pollutants and health; and law and policy. The CEC has undertaken a number of environmental projects, encompassing such diverse objectives as studying the market potential of shade-grown coffee, developing a draft plan to help control mercury levels in the environment, promoting efforts to protect the habitat for migratory birds, and initiating voluntary environmental management systems with the private sector. In 2001, the CEC held a symposium to study the environmental implications of the changing electricity market in North America.

The NAAEC allows citizens to make submissions to the CEC Secretariat to document alleged non-enforcement of environmental laws by one or more of the NAFTA Parties. If the Secretariat finds merit in such submissions, it may recommend the production of a factual record, which outlines the circumstances of each case. In 2001, the CEC Council instructed the CEC Secretariat to prepare factual records for five citizen submissions, three concerning the Government of Canada, one concerning the Government of Mexico, and one alleging failure

by the U.S. Government to effectively enforce section 703 of the Migratory Bird Treaty Act against a logging operation.

In 2001, USTR also participated in the NAFTA 10(6) group (named after the provision of the NAAEC addressing CEC cooperation with the NAFTA itself). The 10(6) group is composed of senior trade and environment officials from all three NAFTA governments, and meets to discuss issues of common concern.

USTR, along with other U.S. agencies, has also been engaged in examining the relationship between investment and the environment, including the need for clarification of NAFTA Chapter 11. (Chapter 11 sets out each government's obligations with respect to investors from other NAFTA countries and their investments in its territory.) *See* Chapter IV.

### **3. The Western Hemisphere**

To provide direction on ensuring mutually supportive economic and environmental policies, as was agreed at the 1994 Miami Summit of the Americas, U.S. negotiators worked over the past year within the framework of the Free Trade Area of the Americas (FTAA) negotiating groups to identify and pursue relevant trade-related environmental issues. Complementary environmental elements in the overall Summit of the Americas Plans of Action are intended to further regional cooperation.

The United States also will continue to support the FTAA Civil Society Committee to expand opportunities for expression of views to the FTAA Ministers by members of civil society throughout the Hemisphere, and will carefully consider civil society's submissions to that Committee on the full range of issues, including environmental concerns. The United States is taking into account the environmental implications of the FTAA negotiations through an environmental review, which was initiated in 2000.

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#### 4. Other Issues

##### Shrimp/Turtle WTO Dispute

As described in Chapter II, the WTO Appellate Body in the *Shrimp-Turtle* dispute found that the United States' implementation of its sea turtle protection law (known as the "shrimp-turtle" law) is fully consistent with WTO rules and complies with earlier recommendations of the Appellate Body. Malaysia, along with three other countries, had brought an initial challenge to the law in 1996. In a 1998 report, the Appellate Body did not find fault with the U.S. shrimp-turtle law, but did find that the United States had unjustifiably discriminated among exporting countries in applying the law. The United States took steps to implement those findings by modifying the application of the law in a manner that both enhanced sea turtle conservation and addressed the concerns of the Appellate Body.

At the request of Malaysia, in 2001 the original WTO panel considered whether the United States' implementation measures complied with the Appellate Body's 1998 recommendation. The panel's report, issued in June 2001, found that the United States had complied. On Malaysia's appeal, the Appellate Body in October 2001 agreed with the panel's conclusions. This outcome, along with that in the Asbestos dispute, provides further confirmation that WTO rules adequately safeguard Members' ability to protect the environment, health and safety.

##### Asbestos WTO Dispute

The United States participated as a third party in Canada's challenge to a French ban of chrysotile asbestos on health grounds. In 2000, the WTO dispute resolution panel had found that the French ban was inconsistent with WTO national treatment provisions but was justified under WTO exceptions as a measure necessary to protect human health. While supporting the panel's overall conclusion that the ban is consistent with WTO rules, the United States questioned the panel's finding that the ban violated WTO

national treatment provisions. In March 2001, the Appellate Body upheld the panel's conclusion that France's ban was WTO-consistent, but also agreed with the United States that the ban did not breach national treatment obligations.

#### **B. Trade and Labor**

The trade policy agenda of the U.S. Government includes a strong commitment to improving labor standards and protecting the rights of workers. To help assure that trade and labor policies are mutually supportive and reinforcing, during 2001 the Bush Administration worked to develop a "toolbox" of actions the United States could take, either as part of or parallel to trade negotiations, to protect children and ensure adherence to the fundamental rights of workers by our trading partners. Accordingly, USTR worked cooperatively with other USG Agencies in multilateral, regional and bilateral fora to promote labor standards.

Expanded trade benefits all Americans through lower prices and greater choices among imports. Many other American workers benefit from expanded employment opportunities created by trade liberalization. However, these gains may come at the expense of some American workers in sectors adversely affected by trade flows. Because such workers should be fairly compensated and given the resources – especially training or re-training – to adjust to new jobs, the reauthorization of and improvements to the system of Trade Adjustment Assistance (TAA) is also an integral part of the Administration's international trade agenda. The Administration continues to consult with Members of Congress concerning the exact form these improvements to TAA should take.

#### **1. 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 core labor

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standards. At the 2001 Doha WTO Ministerial, we supported a similar proposal which was put forth by the EU. Unfortunately, at Doha as at earlier meetings, a vocal group of developing countries adamantly opposed this proposal. The text of the Doha Ministerial Declaration, adopted by consensus, therefore 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.”

The work underway at the ILO referenced in the WTO Doha Declaration is that which is being done by the Working Party on the Social Dimensions of Globalization of the ILO’s Governing Body. The ILO is unique among international organizations in that it has a tripartite (Government, employer and worker representatives) membership in all of its committees and constituent bodies. Thus the Working Party on the Social Dimensions of Globalization has a representative not only of the U.S. Government, but also the U.S. Council for International Business and the AFL-CIO. At its November 2001 meeting, the Working Party had before it papers on the impact of expanded trade on employment that were prepared by the ILO secretariat, the WTO, and UNCTAD. The efforts of the Working Party to analyze the relationships between trade, investment and labor, and to draw policy conclusions from that analysis, are continuing.

The United States remains the largest donor to the work of the ILO. The U.S. has been particularly supportive of two ILO initiatives: the International Program for the Elimination of Child Labor (IPEC), and work to implement the 1998 *ILO Declaration on Fundamental Principles and Rights at Work*. Recognizing that all child labor will never be eliminated until poverty is eliminated, IPEC/ILO 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.

## **2. Regional Activities**

The Declaration and Plan of Action of the Third Summit of the Americas, held in Quebec City, Canada, charged the Inter-American Conference of Ministers of Labor (IACML) with addressing the labor dimensions of economic integration and globalization. USTR therefore joined the Departments of Labor and State on the U.S. Delegation to the XII IACML meeting in Ottawa, in October 2001. Ongoing efforts of the IACML will take place in two working groups: One will focus on the labor dimensions of the Summit of the Americas process, including the Free Trade Area of the Americas (FTAA). The second working group will focus on capacity-building of Labor Ministries, including improving the ability of Ministries to effectively promote the *ILO Declaration on Fundamental Principles and Rights at Work*. Each of these working groups will involve the ILO, the Organization of American States, the Inter-American Development Bank, and the UN’s Economic Commission for Latin America and the Caribbean in their work.

The U.S. Government also promoted attention to labor standards and issues of workforce quality at the 2001 APEC Labor Ministerial meeting, held in Kumamoto, Japan. Other regional trade and labor activities carried out under NAFTA/NAALC and the OECD are noted in those sections of this report.

## **3. Bilateral Activities**

Perhaps the most significant bilateral action involving the interaction of trade and labor came with Congressional approval of the U.S.-Jordan Free Trade Agreement. Article 6 of that Agreement commits each Party to strive to ensure that the principles of the *ILO Declaration on Fundamental Rights* are recognized and protected by domestic law, to effectively enforce its labor laws, and to not waive or derogate from domestic labor laws to encourage trade. The US-Jordan FTA marks the first time such labor-related

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obligations have been incorporated into an American trade agreement. During 2001 USTR continued FTA negotiations with the Governments of Chile and Singapore, and expects appropriate labor provisions to be included in those agreements.

At the end of 2001, negotiations were concluded which extended the bilateral textile agreement with Cambodia. A unique aspect of the Cambodian textile agreement is that import quotas for several categories of textiles may be increased dependent upon the efforts of the government to effectively enforce its domestic labor laws and protect the fundamental rights of Cambodian workers.

A final aspect of trade and labor bilateral activities relates to the worker rights provisions of U.S. trade preference programs. Early in 2001 incidents were reported of continuing acts of violence against workers and trade union organizers in Guatemala. It was also confirmed, through the good offices of the ILO, that Guatemala's labor laws did not adequately protect those workers' rights contained in provisions of the U.S. Generalized System of Preferences (GSP) and Caribbean Basin Trade Promotion Act (CBTPA). USTR and our Embassy in Guatemala City made it clear to the government that GSP and CBTPA benefits would be withdrawn unless its labor law was amended and violence against workers and their representatives was ended. These actions were taken, and Guatemala continues to participate in U.S. trade preference programs, although careful monitoring of the workers' rights situation there continues.

When CBTPA eligibility was reviewed and approved in 2000, three other countries were noted to have problems with respect to meeting their obligations to effectively provide for internationally recognized worker rights: El Salvador, Honduras and Nicaragua. Therefore, in July of 2001 USTR led a mission to those countries which also included worker rights specialists from the Departments of State and Labor. In each of the countries, meetings were

held with Government officials from the Trade and Labor Ministries, trade unionists, NGOs, and employers. Results of the visits concluded that CBTPA trade benefits would be maintained, but that we would continue to pay careful attention to the protection of worker rights in those countries, particularly in their *maquiladora* sectors.

### **C. Organization for Economic Cooperation and Development**

The Organization for Economic Cooperation and Development (OECD) is a key forum for the discussion of economic and social issues confronting its 30 members. The OECD includes the United States, Canada, Mexico, the countries of Western Europe, Japan, Australia, New Zealand, the Czech Republic, Korea, Hungary, Poland and Slovakia, whose accession was completed in December of 2000. Argentina and Russia have formally applied to join. The OECD has a major cooperation program with Russia, the purpose of which is to support Russia's efforts to establish a market economy and its eventual membership in the OECD.

The OECD was founded in 1960 as the successor to the Organization for European Economic Cooperation, which oversaw European participation in the Marshall Plan. Its fundamental objective is "to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries while maintaining financial stability and thus to contribute to the world economy." This objective is pursued through in-depth analysis of economic problems confronting the developed market economies and the development of cooperative solutions to many of these problems. Members have negotiated binding agreements in certain areas not adequately addressed in other fora. 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 World Trade Organization (WTO).

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## 1. Work Program

In 2001, the OECD Trade Committee continued to address a number of issues of significance to the multilateral trading system. The Committee and the trade-related work of other OECD bodies have become more diverse, dealing with traditional trade issues as well as those which have been traditionally within the purview of domestic policy discussions. Major projects include studies on the benefits of ongoing trade liberalization in services, an extensive review of regional trade agreements, and preparations for work related to the fourth WTO Ministerial Conference held in Doha, Qatar in November.

## 2. Competition Policy and Trade

The Joint Group on Trade and Competition continued work on issues at the intersection of trade and competition policy with the aim of providing an improved analytical foundation for the consideration of this topic in the OECD as well as other fora, such as the WTO. This forum has helped to promote mutual understanding and interaction between the trade and antitrust "cultures", as well as better clarity and coherence – if not always convergence – of approaches toward issues of common interest.

The OECD Joint Group on Trade and Competition met twice in 2001. Pursuant to its mandate to undertake further work on the development dimension of trade and competition, the Joint Group used the conceptual approaches taken by both trade policy and competition policy experts to discuss the potential role of "special and differential treatment" at the trade, competition, and development interface. Substantive work, as well as roundtable discussions, were also undertaken on both the Economic Effects of International Exhaustion of Intellectual Property Rights (parallel imports) as well as competition dimensions of trade in Electronic Commerce. In February of 2002, the renewal of the Joint Group's two-year mandate will be discussed.

## 3. Development and Trade

A number of recent Trade Committee reports have made an important contribution in informing public debate on the implications of further trade liberalization by analyzing the contribution that expanded international trade can make to economic development and other broader economic and social goals. Previous work in 1998 through 2000 concluded that open trade and investment have been beneficial for development, particularly when accompanied by a coherent set of growth-oriented macroeconomic and structural policies, capacity-building, adequate social policy and good governance. In particular, open economies have grown significantly faster than closed economies over sustained periods of time. In turn, this higher growth is associated with a reduction in poverty.

In 2000, the Committee began work on a more detailed follow-up study on the relationship between international trade and economic development in non-OECD countries. As a result, in autumn of 2001, the OECD published a major new study on *The Development Dimensions of Trade* which reviewed the economics of trade and growth, the relationship of developing countries to the multilateral trading system, and the contribution of development co-operation to economic advancement and integration. To ensure adequate review, input was sought from developing country representatives, an informal meeting of the Working Party was organized with participants from 14 non-member economies and UNCTAD, and its findings were the subject of an OECD Global Forum for Trade hosted by the Government of Chile in Santiago during June of 2001.

In addition, the Trade Committee continued its dialogue with transition countries with a view to encouraging their integration into the multilateral trading system. In 2001, the Committee focused on developments in Russia's trade policy and trade in services in the Baltic countries. The dialogue with Russia included discussion of the role of Russia's regions in trade policy, regional

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co-operation in Russia's Far East, and trade-related aspects of regulatory reform. A Round Table on the Interface between the Central and Sub-National Levels of Government in Russia's Trade Policy was organized in Vladivostok, Russia on October 11-12, 2001. The Trade Directorate also organized a Policy Meeting on the Economic and Business Environment for Trade in Services in the Baltic States in Tallinn, Estonia on December 13-14, 2001.

#### **4. Criminalization and Non-tax-deductibility of 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 29 members of the OECD and five non-members in 1997. (The non-members were Argentina, Brazil, Chile, Bulgaria, and Slovakia (now an OECD member).) In summer 2001, Slovenia, also a non-member, became the thirty-fifth country to sign the Convention. The Convention requires the parties to criminalize bribery of foreign public officials in executive, legislative, and judicial branches, levy significant penalties on those who bribe, and implement adequate accounting procedures to make it harder to hide illegal payments. As of February 1, 2002, 32 of the 35 signatories had 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 have lost international contracts allegedly worth billions of dollars every year due to bribery payments to corrupt officials. Such payments also distort investment and procurement decisions of developing countries, undermine the rule of law and create an unpredictable environment for business.

The signatories to the Convention commenced the second phase of monitoring - the evaluation of enforcement - in November 2001. The first phase

of monitoring - the review of the adequacy of implementing legislation (which commenced in April 1999) - is almost complete; implementing legislation of thirty countries has been reviewed. The OECD Convention signatories are also studying whether the Convention's coverage should be extended to several related issues, including bribery of foreign public officials as a predicate offense for money laundering legislation, the role of foreign-subidiaries and offshore financial centers in bribery transactions, and bribery of foreign political parties and candidates.

The OECD also has recommended that member countries eliminate tax deductibility of bribes. All thirty-five signatories have agreed to implement this recommendation. While most signatories have reported that such bribes are non-deductible, we will continue to work with the OECD to develop more reliable methodologies for monitoring implementation of this recommendation.

#### **5. Dialogue with Non-OECD Members**

The OECD has continued its contacts with non-member countries to encourage the integration of developing and transitional economies into the multilateral trade regime, such as the Central and Eastern European Countries, the Newly Independent States of the Former Soviet Union (NIS), and the Dynamic Non-Member Economies or "DNMEs" (leading developing economies in Asia and South America).

In 2000, the Committee focused on developments in Russia's trade policy and the progress in trade liberalization of all transition countries over the previous ten years. The dialogue with Russia included discussion of proposed reforms in its trade regime, the interface between the central and sub-national levels of government in trade policy, and trade-related aspects of regulatory reform. This work was continued in 2001 (see section above on Trade and Development).

The OECD also maintained its commitment to

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dialogue with Civil Society Organizations in 2001. For example, the Trade Committee held its third annual consultation with civil society in October, which provided a renewed opportunity to exchange views between OECD Members and civil society. This year's consultation theme was "To Doha and Beyond," with a focus on trade and sustainable development. In November of 2001, the Joint Working Party on Trade and Environment (JWPTE) held its seventh consultation with civil society and exchanged views on the outcome of the Doha Ministerial.

## **6. Environment and Trade**

The OECD Joint Working Party on Trade and Environment (JWPTE) met two times in 2001 to continue its analysis of the effects of environmental policies on trade and the effects of trade policies on the environment. The JWPTE has successfully deepened its capabilities, having moved from identifying broad effects to analyzing effects in specific market sectors. This year the JWPTE completed important work on methodologies for assessing the environmental effects of trade liberalization in the services sector, which will prove useful as USTR undertakes assessment of the effects of WTO negotiations on services. The JWPTE has also worked to forge tools for enhancing the compatibility of trade and environment policies, and this year compiled a synthesis of case studies examining national application of transparency and consultation procedures, with a view to disseminating best practices to member countries early next year.

Building upon the development initiatives agreed upon at Doha, the JWPTE agreed to undertake work on the development dimension of trade and environment, beginning with an examination of how developed country environmental measures may affect developing country exports. The OECD will then solicit developing country views through a workshop in 2002 and seek to address issues identified.

## **7. Export Credits**

The OECD Arrangement on Guidelines for Officially Supported Export Credits places limitations on the terms and conditions of government supported export credit financing so that competition among exporters is based on the price and quality of the goods and 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, a stand-alone policy-level body of the OECD, are responsible for implementing the nearly 25-year old Arrangement and for negotiating further disciplines to reduce subsidies in official export credit support.

In 2001, Participants renewed for another year an agreement to prevent tied aid from being offered in select countries of the former Soviet Union, in order to keep these newly opened markets free from the trade distorting effects of tied aid. While the Arrangement has reduced overall tied aid drastically and European tied aid was at its lowest level in history, Japan emerged as the largest provider of tied aid in 2001 - accounting for 70 percent of all such aid. Participants also began considering in 2001 a proposal to apply the tied aid disciplines to untied aid, which is a form of aid financing that is currently not disciplined multilaterally but which can have trade distorting effects. Japan is the largest provider of untied aid.

Participants were unable to conclude negotiations to bring discipline to agricultural export credits (currently excluded from the Arrangement) after several years of negotiations. This was due to Canada's inability to accept the proposed disciplines. The issue will now be addressed in the WTO, but bilateral contacts will continue in hopes of reaching consensus on the issue.

Participants are addressing a number of other

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issues, including a review of market window behavior. Market windows are quasi-governmental financial institutions that support national exports and yet are unbound by multilateral rules.

The Arrangement is saving U.S. taxpayers about \$800 million annually in reduced appropriations because Ex-Im Bank (the U.S. export credit agency) no longer has to offer loans with low interest rates and long repayment terms. In addition, the "level playing field" created by the Arrangement's tied aid disciplines has allowed U.S. exporters to increase their exports by about \$1 billion a year. These exports would have cost taxpayers about \$300 million in annual appropriations to Ex-Im Bank if the United States had to create its own tied aid program in order to compete.

The Export Credit Group, the Participants' primary working group, reached agreement to try to ensure that export credits to heavily indebted poor countries (HIPC) are not provided for unproductive purposes. Export Credit Group members agreed on a transparency exercise whereby members will report semi-annually on the financing that they have provided to these countries (2 year repayment term or greater).

In 2001, the Export Credit Group also made progress on the issue of bringing environmental considerations into the financing decisions of export credit agencies, although agreement has not yet been reached because the U.S. was unwilling to accept the draft proposal – believing it inadequate. Until agreement is reached, most members have stated their intention to implement unilaterally the provisions of the current draft proposal.

## **8. Investment**

The OECD continued its work on international investment issues. A key area of focus was follow-up work in regard to the OECD Guidelines. A prominent event in this regard was the First Annual Meeting of the National Contact

Points (NCP) of the OECD Guidelines for Multinational Enterprises. This meeting provided an opportunity to take stock of the first year of NCP activity since completion of the review of the Guidelines and to reflect on directions for future activity. Discussions centered around institutional arrangements, information and promotion, and implementation of the Guidelines in specific instances. The OECD also organized the Global Forum on International Investment which was developed in order to foster an open and inclusive dialogue on emerging investment issues.

The Committee also continued its outreach to non-Members. Examples of this work include the OECD-Ukraine Roundtable on the Ukraine Investment Policy Review and conferences on foreign direct investment (FDI) in the Caribbean Basin and Latin American and FDI in South East Europe (SEE). The latter conference highlighted the crucial role of FDI in the SEE countries and outlined a strategy for achieving a favorable investment environment in the region. Additionally, the OECD also organized meetings on foreign investment in China which were part of the ongoing OECD-China policy dialogue on investment issues.

In addition to these events the CIME also held regular meetings where issues such as the costs and benefits of investment and investment incentives were addressed.

## **9. Labor and Trade**

In 1996, the OECD released a report on "Trade, Employment, and Labor Standards," which examined the relationship between core labor standards and economic development and trade. These core labor standards are: freedom of association, collective bargaining, elimination of exploitative forms of child labor, prohibition of forced labor, and non-discrimination in employment. The report concluded that a mutually reinforcing relationship exists between core labor standards and trade liberalization. It refuted the long-standing argument that

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adherence to such standards negatively affects the economic performance of developing countries; indeed, it reinforces long-term development prospects. In May 1999, the OECD Trade Committee asked the Secretariat to prepare an update of the 1996 report, which would review factual developments and summarize relevant economic literature since the report was issued. The 124-page updated report was approved and presented to the International Labor Organization's Working Party on the Social Dimension of Globalization. It can be purchased and downloaded from the OECD's online book store, at [www.oecd.org](http://www.oecd.org).

### **10. Regional Economic Integration**

The OECD has initiated work to study the nature and implications of Regional Trade Agreements (RTAs) and their impact on trade. As part of this work, a report was produced aiming to provide a review of the main findings of empirical work already undertaken outside the OECD on the effects of RTAs on flows of trade and investment, and their impact on economic welfare. The OECD declassified that study in 2001.

As a follow-up to the study on trade and other economic effects of RTAs, work has been launched by the Trade Committee to construct a database that structures the available evidence on empirical effects of RTAs in a systematic manner. The purpose of the RTA-database is to facilitate analysis of patterns across both issues and RTAs, and allow comparisons between studies, thereby helping to differentiate between areas of broad consent among researchers and those where further empirical clarification of effects seems desirable.

Furthermore, the Trade Committee decided in 2001 to investigate the relationship between the rules-based multilateral trading system and regional trade agreements. The Committee launched a comparative analysis of WTO and selected RTA provisions in various policy areas, such as tariffs, rules of origin, services,

competition, investment, environmental protection, standards and dispute settlement. The objective of the analysis is to examine the extent to which existing RTAs draw on existing multilateral trade rules, or go beyond such rules, and whether RTAs have taken consistent or differing approaches on particular policy areas. This work will continue in 2002 with a view to exploring the synergies between regionalism and multilateralism, and clarifying some of the implications of regionalism for the functioning of the multilateral trading system.

### **11. Regulatory Reform**

The OECD has an ongoing work program focusing on how governments can improve their regulations and regulatory processes. It began conducting reviews of regulatory reform efforts in member countries in 1998, based in part on self-assessment. The United States has supported the OECD's regulatory reform efforts as a way to raise the profile of the problems posed by the regulatory regimes of many OECD countries to our exporters' market access; to demonstrate that the benefits of regulatory reform (e.g., creation of due process and transparency) can lead to greater market openness and competition and more effective achievement of important policy goals; to encourage consideration of discussion among OECD members regarding possible solutions to market access problems caused by regulation and regulatory heterogeneity; and to promote growth in member economies through domestic efficiency gains and thereby increase demand for U.S. exports.

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

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equivalence of other countries' procedures for conformity assessment where appropriate, and application of competition principles.

Since 1998, the OECD completed country reviews of regulatory reform in the United States, Japan, Mexico, the Netherlands, Korea, Spain, Denmark, Hungary, Greece, Italy, Ireland, and the Czech Republic. In 2001, the United Kingdom, Poland, Canada and Turkey were reviewed by the Committee.

## 12. Services

With services negotiations ongoing in the WTO, services work in the OECD revolved around several challenging issues for these negotiations. A major study, *Open Services Markets Matter*, provides governments with a resource to draw upon in consultations with domestic stakeholders. The study focuses on three main areas: (i) the economy-wide benefits of services trade and investment liberalization for both developed and developing countries and for consumers, identifying practical examples and drawing on available empirical research; (ii) specific concerns raised by anti-GATS critics, including that the GATS threatens the provision of essential public services and governments' right to regulate service activities; and (iii) key negotiating challenges under GATS, especially for developing countries. A *Policy Brief* with the main findings was made available at the WTO Ministerial meeting in Doha, Qatar, and the study itself will be published in early 2002.

Significant work was also undertaken on movement of services providers under mode 4 of the GATS, looking at issues in mode 4 trade for both sending and receiving countries; defining and measuring mode 4; and current GATS commitments and how these could be improved in negotiations. Further work is underway on approaches to the movement of service suppliers in selected regional trade agreements; the economic effects of temporary foreign workers in host and origin countries; progress in mutual recognition agreements; and further

consideration of improvements to GATS commitments on mode 4.

In 2001, the OECD published *Trade in Services: Negotiating Issues and Approaches*, which reports on the results of work in its services project. A third Services Experts Meeting is planned for March 4 and 5, 2002. Initial work was also undertaken on non-tariff barriers in the new economy, with work on regulation of services traded electronically planned for 2002.

## 13. Shipbuilding

The OECD Council Working Party on Shipbuilding has intensified its efforts to seek viable policy alternatives that would alleviate market distortions and establish a "level playing field" amongst the world's shipbuilders. This activity has been given the highest priority in that Working Party, in response to the instruction given by the OECD Council meeting at Ministerial level in May 2001 "to redouble its efforts to explore solutions to bring about normal competitive conditions in shipbuilding, and encourage shipbuilding countries outside the OECD to participate in this work." The Working Party is organizing an Industry Hearing in March of 2002 at which principal industry representatives will be invited to provide their views on possible actions governments should take to address the industry's problems.

In order to enhance the dialogue with partners outside the OECD, the Working Party organized a Workshop on Shipbuilding Policies on December 19 and 20, 2001. The Workshop brought together a number of non-OECD countries with important shipbuilding capacity, including China, now the world's third largest ship producer. Representatives at the Workshop covered nearly 95% of the world's shipbuilding market. At that Workshop, there was strong support from participants for the OECD efforts to seek viable policy alternatives to create a more competitive market, and there were positive signs that some non-OECD economies may participate if effective disciplines can be found.

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## 14. Steel

On June 5, 2001 President Bush announced a comprehensive strategy to respond to the challenges facing the U.S. steel industry. Included in this strategy were: (1) negotiations with U.S. trading partners to seek the near-term elimination of inefficient excess capacity in the steel industry worldwide; and (2) negotiations with our trading partners to develop rules that will govern steel trade in the future and eliminate the market-distorting subsidies that gave rise to the industry's current condition. These negotiations were launched at special high-level OECD meetings on steel held in September and December of 2001.

At the first high level OECD meeting on steel held in September, thirty-nine participating governments agreed that a global excess of inefficient steelmaking capacity is a central problem affecting steel trade. The governments issued a communique recognizing the problems caused by the global excess of inefficient steelmaking capacity, and committed to taking concrete actions to reduce global excess.

The participants at the September meeting on steel also recognized the differences among governments regarding definitions of inefficient or excess capacity, and acknowledged that in market-oriented economies, decisions to reduce capacity will be decided by individual firms, not governments. Therefore, the participating governments agreed to proceed with a "self assessment" in which each government would consult with its industry to assess what changes in steelmaking capacity have recently occurred or are anticipated to occur due to market forces.

This initiative was continued at a second high-level meeting held at the OECD in December. Participating governments reported that market forces and policy measures have recently resulted in, or will result in, the projected closure of at least 61 to 65 million metric tons of capacity by the end of 2003, a further 9.5 million tons of capacity by 2005, and another 23 million tons by

2010.

The participants also concurred on the longer-term need to address subsidies and other market distorting practices and measures. The governments agreed to discuss in meetings during 2002 how these distortions may be addressed.

### 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. Chinese Taipei subsequently endorsed the objectives of the Joint Statement and became the fifth party. The 1999 Joint Statement on Semiconductors reflects over a decade of progress under three previous semiconductor agreements toward opening up the Japanese market to foreign semiconductors, improving cooperation between Japanese users and foreign semiconductor suppliers, and eliminating tariffs in the top five semiconductor producers (the United States, Japan, Korea, the European Union, and Chinese Taipei).

The 1999 Joint Statement includes the essential elements of the 1996 accord such as regular meetings among governments and between governments and industry representatives.

In May 2001, industry CEOs representing all five parties held their second World Semiconductor Council (WSC) meeting under the 1999 Joint Statement. The WSC was created under the 1996 Joint Statement to provide a forum for industry representatives to discuss and engage in cooperation concerning global issues such as standardization, environmental concerns, worker health and safety, intellectual property rights, trade and investment liberalization, and worldwide market development. Membership in the WSC requires that the governments of national/regional industry associations must have eliminated semiconductor tariffs, or committed to eliminate these tariffs expeditiously.

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The 1999 Joint Statement also requires that governments and other authorities meet at least once a year to receive and discuss the recommendations of the WSC regarding policies of governments and authorities that may affect the future outlook and competitive conditions within the global semiconductor industry. In June 2001, the United States hosted the second such meeting. At that meeting, the WSC recommended that government authorities pursue the following policies: promotion of open and competitive markets around the world; avoidance of specific intervention by government in the operation of individual companies; protection of intellectual property rights; non-discrimination for foreign products in all markets; an end to investment restrictions tied to technology transfer requirements; swift accession of China and Chinese Taipei to the WTO; expanded participation in the Information Technology Agreement (ITA); revitalization of efforts to conclude ITA II; adoption of a growth-promoting, transparent, non-discriminatory and market-oriented approach to electronic commerce and maintenance of the internet as a tariff-free environment; and adoption of environmental regulations based on scientific assessments of the risks posed by the targeted materials and their likely substitutes. The WSC also presented a White Paper on the industry's concerns about proposals to ban the use of lead in semiconductors and efforts underway within industry to reduce the use of lead in electronic products and to develop safe alternatives. The WSC has also invited China to become a party to the Joint Statement. China is expected to become the second-largest market for semiconductors within a decade. Japan will host the next meeting of governments and other authorities in September 2002.

Foreign market share in the Japanese market, which had exceeded 30 percent in every quarter during 1997 and 1998, averaged 29 percent in 1999 and remained at about that level in 2000. The U.S. Government monitors foreign market share in the Japanese market on a quarterly basis, and once a year reports the average annual

foreign share in the Department of Commerce "U.S. Industry and Trade Outlook." Market share data for 2001 is not yet available.

#### **E. Steel**

On June 5, 2001 President Bush announced a comprehensive strategy to respond to the challenges facing the U.S. steel industry. This strategy is designed to restore market forces to world steel markets and to eliminate the practices that harm the U.S. steel industry and its workers.

The Administration's initiative contains three elements. First, the President directed the United States Trade Representative to request the initiation of an investigation of injury to the steel industry by the International Trade Commission under section 201 of the Trade Act of 1974. Second, the President directed the United States Trade Representative, in cooperation with the Secretaries of Commerce and the Treasury, to initiate negotiations with our trading partners seeking the elimination of inefficient excess capacity in the steel industry worldwide. Finally, the President directed the United States Trade Representative, together with the Secretaries of Commerce and the Treasury, to initiate negotiations on the rules that will govern steel trade in the future and to eliminate the underlying market-distorting subsidies that led to the current conditions in the first place.

On June 22, 2001, the United States Trade Representative requested, on behalf of the Administration, that the U.S. International Trade Commission (ITC) initiate a comprehensive investigation of injury to the industry under section 201 of the Trade Act of 1974.

On October 22, the ITC determined that imports of 12 groups of products, valued at over \$10 billion a year, were harming U.S. manufacturers and workers. These products accounted for approximately 74%, by volume, of United States steel imports.

On December 19, the ITC issued a report

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containing its recommendation as to what action the President should take in response to the import surge. On January 3, 2002, USTR requested additional information from the ITC, which responded on February 4, 2002. The President has until 30 days after that response to decide on what action, if any, should be taken under Section 201.

The negotiations on inefficient excess capacity were launched at special high-level OECD meetings on steel held in September and December of 2001. (*See steel discussion in preceding section of activities of OECD.*)

The President's three-part strategy was designed to help U.S. industry meet the challenges it faces while restoring market forces to global steel trade. It will encourage the elimination of excess inefficient capacity and subsidies and other market distorting practices in the global steel industry.