III. BILATERAL AND REGIONAL NEGOTIATIONS AND AGREEMENTS

A. Free Trade Agreements

1. Australia

The United States-Australia Free Trade Agreement (FTA) entered into force on January 1, 2005. Since then, U.S. exports of goods to Australia have increased by $1.6 billion in 2005 and $1.9 billion[24] in 2006. U.S. goods imports from Australia totaled $8.1 billion[25] in 2006, a 10 percent increase from 2005. Australia is currently the 14th largest export market for U.S. goods. Two-way annual goods and services trade in 2005 was $35.2 billion, an increase of approximately 88 percent since 1994. In 2005, the United States enjoyed a bilateral goods and services trade surplus of $11.2 billion.

When the FTA entered into force, duties on more than 99 percent of tariff lines covering industrial and consumer goods were eliminated. Duties on remaining manufactured goods will be phased out over the next 10 years. The FTA has brought immediate benefits to key U.S. manufacturing sectors including autos and autos parts; aircraft; chemicals, plastics, and soda ash; construction equipment; electrical equipment and appliances; fabricated metal products; furniture and fixtures; information technology products; medical and optical equipment; non-electrical machinery; and paper and wood products. The FTA also mandated elimination of many non-tariff barriers that previously restricted or distorted trade flows.

On agricultural products, the FTA provided expanded export opportunities for a range of U.S. agricultural goods, while responding to U.S. import sensitivities. Duties on all U.S. agricultural exports to Australia were eliminated immediately upon entry into force of the FTA. U.S. duties are maintained on Australian sugar and certain dairy products. In addition, for certain products imported from Australia, such as beef, dairy, cotton, peanuts and certain horticultural products, the FTA includes preferential tariff-rate quotas and price- and/or quantity-based safeguards.

U.S. exports of agricultural products to Australia totaled over $500 million in 2006[26]. Top U.S. agricultural exports included red meats, including pork, fresh and processed fruit and vegetables, pet food and tree nuts. The FTA also established a new forum for scientific cooperation between U.S. and Australian authorities, which has been meeting since 2005 to address specific bilateral animal and plant health matters based on science and with a view to facilitating trade.

Under the FTA, services suppliers enjoy the benefits of expanded commitments for access to Australia's market. U.S. financial service suppliers already had a significant presence in the Australian market through subsidiaries, joint ventures and branches, and Australia agreed to provide new access for life insurance companies through branching. In addition, Australia and the United States agreed to high standards for regulatory transparency, including procedures applying to licensing systems. U.S. exports of private commercial services to Australia were $7.4 billion in 2005, while U.S. imports of such services were $4.7 billion.

The FTA also established a secure, predictable legal framework for U.S. investors operating in Australia. All U.S. investment in new businesses is exempt from screening under Australia's Foreign Investment Review Board. Thresholds for acquisitions by U.S. investors in nearly all sectors were raised

[24] Annualized 11 month data
[25] Annualized 11 month data
[26] Annualized 11 month data

significantly, from A$50 million to A$800 million (to be adjusted annually), exempting the vast majority of transactions from screening. Australia also has locked in existing good practice regarding the review of acquisitions in the banking and insurance sectors. The FTA provides for government-to-government dispute settlement procedures to resolve investment-related disputes. The stock of U.S. foreign direct investment (FDI) in Australia in 2005 was $113.4 billion, up 132 percent from 2003. U.S. FDI in Australia is concentrated largely in the non-bank holding companies, manufacturing, finance, mining, and banking sectors.

The FTA includes other measures to encourage trade and investment. On electronic commerce, this is the first FTA to include provisions on facilitating authentication of electronic signatures, encouraging paperless trade and establishing a program for cooperation on other electronic commerce issues. Regarding intellectual property rights, the FTA complements and enhances existing international standards for the protection of intellectual property and the enforcement of intellectual property rights, consistent with U.S. law. In addition, under the government procurement provisions in the FTA, U.S. suppliers have been granted non-discriminatory rights to bid on contracts to supply Australian government entities, including all major procuring entities and administrative and public bodies. The FTA requires that tendering procedures are conducted in a transparent, predictable, and fair manner. The FTA also proscribes anticompetitive business conduct, sets out basic procedural safeguards and rules against harmful conduct by government-designated monopolies, and establishes special rules covering state enterprises to deter abuse that may harm the interests of U.S. companies or discriminate in the sale of goods and services.

The FTA contains provisions relating to public health and pharmaceuticals, whereby the United States and Australia affirmed their commitment to several basic principles related to their shared objectives of facilitating high quality health care and improvements in public health. The FTA also requires that federal health care programs apply transparent procedures in listing new pharmaceuticals for reimbursement. In addition, the FTA established a Medicines Working Group to promote discussion and understanding of pharmaceutical issues. Australia has instituted procedures that have improved the transparency and accountability in the listing and pricing of pharmaceuticals under its Pharmaceutical Benefits Scheme, and companies have begun to take advantage of the independent review process for listing decisions that Australia established pursuant to the FTA.

Implementation of the provisions of the FTA has largely proceeded on track during 2006. Australia has made changes to a wide variety of laws to implement its commitments and has sought public comment on its draft legislation. U.S. industries were particularly interested in the implementation of Australia's FTA commitments with respect to copyright protection, and provided comments to the Australian government on its draft legislation. The amendments to the Australian Copyright Act are an important step forward in protection for copyright in Australia.

Australia committed in the FTA to undertake a review of its arrangements for the supply of blood fractionation services by January 1, 2007. Although this recently completed review recommended against opening the provision of blood fractionation services to foreign competition, pursuant to its commitment in the FTA, the Australian government has recommended that its states adopt the tendering process prescribed in the Government Procurement Chapter of the FTA for provision of these services.

2. Morocco

In April 2002, President Bush and King Mohammed VI agreed to pursue a Free Trade Agreement (FTA) between the United States and Morocco, and on June 15, 2004, the two countries signed an Agreement. The U.S. Congress subsequently ratified the Agreement, and in August 2005 President Bush signed the implementing legislation. The Moroccan Parliament passed the Agreement in early 2005 and the Agreement entered into force on January 1, 2006. The United States-Morocco FTA is a comprehensive agreement and is an important part of the Administration's effort to promote more open and prosperous Middle Eastern societies. The FTA supports the significant economic and political reforms underway in Morocco, and creates improved commercial and market opportunities for U.S. exports to Morocco by reducing and eliminating trade barriers.

Since the FTA was implemented, the U.S. goods trade surplus with Morocco has increased to $346 million[27] in 2006, an increase of $267 million from $79 million in 2005. U.S. goods exports to Morocco in 2006 were $846 million[28], up 61.1 percent from the previous year. Corresponding U.S. imports from Morocco were $499 million[29], up 12 percent.

In 2006, U.S. and Moroccan customs experts held meetings to discuss FTA implementation issues on the interpretation of rule of origin requirements. These discussions will continue along with discussions by the Agriculture Sub-Committee and a Joint Committee meeting, which will occur in the coming year.

3. Chile

The United States-Chile Free Trade Agreement, which took effect January 1, 2004, continues to fuel the growth in bilateral trade between the United States and Chile. In 2006, U.S. exports to Chile increased by 30.6 percent to $6.8 billion[30], while imports increased by 49.1 percent to $9.9 billion[31].

The United States-Chile FTA eliminates tariffs and opens markets, reduces barriers for services, provides cutting-edge protection for intellectual property, ensures regulatory transparency, guarantees non-discrimination in the trade of digital products, commits the Parties to maintain competition laws that prohibit anti-competitive business conduct, and requires effective labor and environmental enforcement.

The Agreement provides for the creation of a number of specialized committees to resolve problems, exchange information and promote trade. The Ministers concluded that good progress was being made in establishing those groups and in other technical aspects of implementation. For example, the United States-Chile FTA Sanitary and Phytosanitary Committee is providing a forum to resolve several outstanding issues in order to allow U.S. agricultural exporters to benefit from FTA tariff reductions.

During 2006, the United States and Chile held a series of meetings on implementation of Chile's FTA obligations in the area of intellectual property, specifically data protection. Several reports from the pharmaceutical industry have indicated that safety and efficacy information submitted for the approval of pharmaceutical products may not be adequately protected from unfair competition in Chile. USTR initiated a Special 301 Out-of-Cycle Review (OCR) regarding Chile's protection of intellectual property. As a result Chile was elevated from a Watch List country to a Priority Watch List country. The United States will continue to work with the Chilean government in this area.

The FTA establishes a cooperative mechanism to promote respect for the principles embodied in the ILO Declaration on Fundamental Principles and Rights at Work, and compliance with ILO Convention 182 on the Worst Forms of Child Labor. The first Labor Affairs Council meeting under the FTA was held in Santiago on December 15-16, 2004. Activities that have been conducted since the Agreement went into effect include the exchange of information on U.S. experience with the application of information technology to judicial proceedings, U.S. methodologies for collecting and using labor data in policy-

[27] Annualized 11 month data
[28] Annualized 11 month data
[29] Annualized 11 month data
[30] Annualized 11 month data
[31] Annualized 11 month data

making, and a training seminar for Chilean labor judges conducted by Department of Labor Administrative Law Judges in the context of the International Seminar on the Modernization of the Labor Justice system. This was held in Santiago in September of 2005.

In addition, the United States and Chile conducted the 3rd meeting of the Committee on Technical Barriers to Trade on June 9, 2006 in Geneva, Switzerland. Both delegations expressed the importance of continuing this dialogue and exchange of information aimed at implementing Technical Barriers to Trade, Chapter 7 of the Free Trade Agreement. The Environmental Affairs Council met in October 2006 to reinforce the importance of public participation in ensuring compliance with FTA obligations and in charting the progress of environmental cooperation activities.

The third meeting of the U.S. – Chile Free Trade Commission was held on January 24, 2007. At that time, the two countries will evaluate progress on implementation during 2006.

4. Singapore

The United States-Singapore Free Trade Agreement, the first comprehensive U.S. FTA with an Asian nation, has been in force since January 1, 2004. Since the FTA entered into force, exports from the United States to Singapore have increased 42 percent (through 2006[32]), with steady growth in medical devices, electrical and non-electrical machinery and construction equipment exports, and significant increases in pharmaceutical exports.

U.S. foreign direct investment to Singapore has increased by 22 percent, also through 2005. Singapore is the United States' 11th largest trading partner, with two-way trade of goods and services totaling $45 billion in 2005. U.S. exports are concentrated in machinery and electrical machinery; aircraft; optical and medical instruments; and plastics.

In March 2006, U.S. and Singaporean government officials met in Washington, D.C. for the second annual review of the FTA. The FTA's Joint Committee discussed implementation issues in areas such as telecommunications and media sectors, including ways to improve the transparency of rule-making in these areas. Singapore sought acceleration of certain tariff reductions under the FTA. In response, the U.S. Government sought public comments and is seeking advice on potential economic effects of such action from the International Trade Commission.

Implementation of the FTA remained on track in 2006. In accordance with its FTA commitments, Singapore enacted Phase II of its Competition Act in 2006. Phase III is expected to come into effect in 2007.

The United States and Singapore also continued their cooperative efforts in the WTO, as well as their joint efforts to promote trade and intra-regional integration in Southeast Asia through both APEC and ASEAN.

5. Jordan

In 2006, the United States and Jordan continued to benefit from their extensive economic partnership, including the United States-Jordan Free Trade Agreement (FTA), which went into effect in December 2001. While the FTA is a key part of the United States-Jordan economic relationship, it is just one component of close bilateral economic cooperation that began in earnest with joint efforts on Jordan's accession to the World Trade Organization (WTO) in 2000. U.S. efforts to support Jordan's rapid and successful WTO accession were followed on the bilateral front by the conclusion of the United States-

32 Annualized 11 month data

Jordan Trade and Investment Framework Agreement and a Bilateral Investment Treaty. Qualifying Industrial Zones (QIZs) are another important example of successful United States-Jordanian efforts to boost Jordan's economic growth and promote peace in the Middle East.

These measures have played a significant role in boosting United States-Jordanian economic ties. U.S. goods exports in 2006 were $649 million[33], up 0.8 percent from the previous year. Corresponding U.S. imports from Jordan were $1.4 billion[34], up 12.2 percent. While QIZ products continue to account for over 70 percent of Jordanian exports to the United States, FTA-related exports continue to increase steadily. In 2004, Jordanian goods exports to the United States under the FTA accounted for 2.0 percent of U.S. imports from Jordan. That amount grew to 18.0 percent in 2005 and 22 percent[35] in 2006. The growth in Jordan's FTA exports, which comprise a broader range of products than those exported by Jordanian QIZs, demonstrates the important role played by the FTA in helping Jordan diversify its economy.

In 2006, the United States and Jordan established a Labor Working Group and held senior level meetings to discuss Jordanian labor enforcement issues related to its FTA commitments in this area. U.S. and Jordanian experts also consulted on FTA implementation issues related to intellectual property. These discussions will continue between government officials, including a Joint Committee meeting, in the coming year.

6. Israel

The 1985 U.S.-Israel FTA, the first FTA signed by the United States, continues to serve as a foundation for the expanding trade and investment relationship between the United States and Israel. Israel is currently the United States' 20th largest goods trading partner with $30.2 billion[36] in total two way goods trade during 2006, up 14 percent from 2005.

Trade in services with Israel (exports and imports) totaled $5.1 billion in 2005 (latest data available). The FTA has helped foster significant investment between the two countries. The total stock of U.S. foreign direct investment (FDI) in Israel was $7.9 billion in 2005 (latest data available), a 15.6 percent increase from 2004, and is primarily concentrated in the manufacturing and information sectors. Israel's FDI in the United States was $4.4 billion in 2005 (latest data available), an increase of 12.7 percent from 2004. Israeli direct investment in the United States is focused in the banking, manufacturing and information sectors.

7. Central America and the Dominican Republic

On August 5, 2004, the United States signed the Dominican Republic – Central America – United States Free Trade Agreement (CAFTA-DR) with five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and the Dominican Republic.

During 2006, the agreement entered into force for five of the CAFTA-DR Parties. The CAFTA-DR entered into force between the United States and El Salvador in March 2006, Honduras and Nicaragua in April 2006, and Guatemala in July 2006. CAFTA-DR has not entered into force for the Dominican Republic at the time of this writing. Costa Rica's legislature has not yet ratified the agreement.

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33 Annualized 11 month data
34 Annualized 11 month data
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36 Annualized 11 month data

The CAFTA-DR expands economic freedom and opportunity for the region and supports regional stability, democracy and economic development. The CAFTA-DR is the first FTA between the United States and a group of smaller developing economies. This regional trade agreement will contribute to the transformation of a region that was consumed by internal strife and border disputes just a decade ago. This historic agreement will create new economic opportunities by eliminating tariffs, opening markets, promoting transparency and establishing state-of-the-art rules for 21st century commerce. It will facilitate trade and investment among the countries and further regional integration. The CAFTA-DR will not ease U.S. immigration laws and regulations.

Central America and the Dominican Republic represent the second largest U.S. export market in Latin America, behind only Mexico. The CAFTA-DR nations covered by this agreement purchased $19.7 billion[37] in U.S. exports in 2006. Combined total two-way trade in 2006 between the United States and the countries of Central America and the Dominican Republic was $38.4 billion.[38]

Throughout the negotiations, U.S. officials consulted closely with Congress, industry representatives, and labor and environmental groups to ensure the FTA advanced U.S. interests and reflected the goals contained in the Trade Act of 2002. President Bush notified Congress of his intent to enter into an FTA with Central America on February 20, 2004. On March 25, 2004, President Bush formally notified Congress of his intent to enter into an FTA with the Dominican Republic.

On August 5, 2004, U.S. Trade Representative Robert B. Zoellick signed the CAFTA-DR, which integrated the five Central American countries and the Dominican Republic into a single agreement.

During the summer of 2005, the U.S. Congress ratified CAFTA-DR, sending a powerful signal to the region and the world that the United States would continue to lead in opening markets and leveling the playing field worldwide.

Under the CAFTA-DR, more than 80 percent of U.S. consumer and industrial goods will enjoy tariff-free access to Central America and the Dominican Republic immediately upon entry into force, with remaining tariffs phased out over 10 years.

Key U.S. exports, such as yarns and fabrics, information technology products, agricultural and construction equipment, paper products, chemicals and medical and scientific equipment, will gain immediate duty-free access to Central America and the Dominican Republic. Virtually all Central American and Dominican nonagricultural goods will receive immediate duty-free access to the U.S. market.

More than half of current U.S. farm exports to Central America and the Dominican Republic become duty-free immediately upon entry-into-force, including high quality cuts of beef, cotton, wheat, soybeans, key fruits and vegetables, processed food products and wine. Tariffs on most U.S. farm products will be phased out within 15 years. U.S. farm products that will benefit from improved market access include pork, beef, poultry, rice, fruits and vegetables, corn, processed products and dairy products.

Under existing tariff preference programs, the United States provides duty-free treatment to over 99 percent of Central American and Dominican Republic agricultural exports into the U.S. market. This access will be maintained under the agreement.

Duty-free access for other products will be phased in over time, with the exception of sugar, where liberalization is handled through a slowly expanding tariff-rate quota. Under the agreement, the Central

37 Annualized 11 month data
38 Annualized 11 month data

American countries and the Dominican Republic will accord substantial market access across their entire services regime, subject to very few exceptions, including telecommunications, express delivery and computer and related services. The agreement disciplines the use of dealer protection regimes, reducing significant barriers to distribution in the region. It maintains market openness and prohibits cross-subsidies for express delivery services. U.S. financial service suppliers will have non-discriminatory rights to establish subsidiaries, joint ventures or branches for banks and insurance companies. The Costa Rican insurance monopoly will be privatized in a phased approach to give U.S. insurance suppliers full access to the market by 2011. The agreement offers state of the art protections for digital products such as software, music, text and video. Protection for patents and trade secrets meets or exceeds obligations under WTO TRIPS.

The Agreement establishes a secure, predictable legal framework for U.S. investors, sets strong anti-corruption rules in government contracting, and guarantees U.S. firms transparent procurement procedures to sell goods and services to Central American and Dominican government entities.

With respect to labor and the environment, all Parties commit to not fail to effectively enforce their domestic labor and environment laws. An innovative enforcement mechanism provides for monetary assessments to enforce this obligation where a dispute settlement panel finds a Party to be in breach and the Party fails to come into compliance in a reasonable period of time.

Under this mechanism, such assessments would be expended in the territory of the Party in question to help bring it into compliance with its labor or environment obligation. The commission that oversees implementation of the Agreement would decide collectively on the projects on which to spend the proceeds of an eventual assessment.

Under the CAFTA-DR, the Parties recognize the importance of cooperation on environmental matters and in a parallel agreement, the CAFTA-DR Environmental Cooperation Agreement, have established a framework for environmental cooperation. In addition, the agreement establishes a framework for a labor cooperation mechanism, and promotes internationally recognized labor standards. CAFTA-DR includes unprecedented provisions that improve access to procedures that provide for fair, equitable and transparent proceedings in the administration of labor laws, protecting the rights of workers and employers – including American investors.

As part of the capacity-building effort, the U.S. Department of Labor is funding an $8.75 million project to increase public awareness of labor laws, improve inspection systems and promote the use of alternative dispute resolution mechanisms in the CAFTA-DR countries. The Administration committed $20 million in FY2005 for labor and environment initiatives in CAFTA-DR countries and also sought $40 million in FY2006 for this purpose. For FY2006 the $40 million was appropriated in the form of $20 million in Economic Support Funds and $20 million in Developmental Assistance (DA).

8. Bahrain

On May 21, 2003, the United States and Bahrain announced their intention to negotiate a Free Trade Agreement (FTA). Bahrain's Parliament approved and the King of Bahrain ratified the Agreement in July 2005. The U.S. Congress enacted legislation approving and implementing the Agreement in December 2005, and the President signed the legislation on January 11, 2006. The Agreement entered into force on August 1, 2006.

The United States-Bahrain FTA will generate export opportunities for the United States, creating jobs for U.S. farmers and workers, while supporting Bahrain's economic and political reforms and enhancing commercial relations with an economic leader in the Arabian Gulf. On the first day the Agreement took effect, 100 percent of the two-way trade in industrial and consumer products began to flow without tariffs, and U.S. farmers have gained access to a new market for meats, fruits and vegetables, cereals, and dairy products. In addition, Bahrain opened its services market wider than any previous FTA partner, creating important new opportunities for U.S. financial service providers and companies that offer telecommunications, audiovisual, express delivery, distribution, healthcare, architecture and engineering services.

The U.S.-Bahrain FTA will also promote the President's policy of advancing economic reforms and liberalization in the Middle East and to establish a Middle East Free Trade Area (MEFTA) by 2013. The United States-Bahrain Bilateral Investment Treaty (BIT), which took effect in May 2001, covers investment issues between the two countries.

9. Panama

On December 19, 2006, the United States and Panama completed negotiations on a free trade agreement with the understanding that discussions would continue regarding labor. This comprehensive trade agreement will eliminate tariffs and other barriers to trade in goods and services, expand trade between the United States and Panama, and promote economic growth and opportunity.

The agreement will eliminate nearly 90 percent of Panama's tariffs on industrial goods immediately, with remaining tariffs phased out over 10 years. It will provide new economic opportunities for American workers, consumers, farmers and ranchers, manufacturers, and service providers, including significant opportunities to participate in the $5.25 billion expansion plan for the Panama Canal, due to begin in 2008 and finish in 2014. Under the agreement, more than half of current U.S. farm exports to Panama will enter duty-free immediately, including high quality beef, mechanically de-boned chicken, frozen whole turkeys and turkey breast, pork variety meats, whey, soybeans and soybean meal, crude vegetable oils, cotton, wheat, barley, most fresh fruits, almonds and walnuts, many processed food products, distilled spirits, wine, and pet food. In addition, on December 20, 2006, the United States and Panama signed a far-reaching bilateral agreement addressing a number of sanitary and phytosanitary and technical standards issues.

The United States had a goods trade surplus with Panama of $2.4 billion in 2006[39], and is Panama's largest trading partner. Total goods trade between the United States and Panama was $3.1 billion in 2006[40]. Panama is a growing market for U.S. products. U.S. goods exports to Panama increased 27 percent from 2005 to 2006[41].

The stock of U.S. foreign direct investment (FDI) in Panama for 2005 was $5.2 billion. U.S. FDI in Panama is concentrated largely in the finance and wholesale sectors.

10. United Arab Emirates

After consulting with Congress in September 2004, USTR announced on November 15, 2004, the United States' intent to negotiate a Free Trade Agreement (FTA) with the United Arab Emirates (UAE). Negotiations began in March 2005. Since mid-2006, the focus of negotiations has been on the provisions of the investment chapter. An FTA with the UAE would build on existing FTAs in the region to promote the President's Middle East Free Trade Area (MEFTA) initiative to advance economic reforms and openness in the Middle East and the Persian Gulf, and to establish a regional free trade area by 2013.

39 Annualized 11 month data
40 Annualized 11 month data
41 Annualized 11 month data

The successful conclusion of a comprehensive FTA would generate export opportunities for U.S. goods and service providers, solidify the UAE's trade and investment liberalization and strengthen intellectual property rights protections and enforcement.

11. Oman

On November 15, 2004, the Administration formally notified Congress of its intent to negotiate a Free Trade Agreement (FTA) with Oman. After seven months of negotiations, the completed FTA was signed on January 19, 2006. The U.S. Congress enacted legislation approving and implementing the Agreement in September 2006, and the President signed the legislation on September 26, 2006. The Sultan of Oman promulgated a Royal Decree ratifying the Agreement in October 2006. The FTA is expected to enter into force in 2007.

The U.S.-Oman FTA will build on existing FTAs to promote the President's initiative to advance economic reforms and openness in the Middle East and the Persian Gulf and to establish a Middle East Free Trade Area (MEFTA) by 2013. Implementation of the obligations contained in the comprehensive Agreement will generate export opportunities for U.S. goods and service providers, solidify Oman's trade and investment liberalization, and strengthen intellectual property rights protection and enforcement.

12. Thailand

The U.S. government held the seventh round of Free Trade Agreement negotiations with Thailand in January 2006, but negotiations were put on hold when the Thai parliament was dissolved in February 2006. The negotiations were suspended in the wake of the military-led coup in September 2006. The United States is prepared to continue FTA negotiations with Thailand once democracy is restored and will continue to strongly urge Thailand to lift martial law, restore civil liberties and maintain its current timeline regarding constitutional reform and elections.

Thailand is currently the United States' 20th largest trading partner and 24rd largest export market, with $31 billion in two-way trade in 2006[42]. Exports are concentrated in electrical and non-electrical machinery, medical instruments, precious stones and metals, and aircraft.

13. Republic of Korea

Free trade agreement negotiations were launched with Korea in February 2006. As the first FTA launched by the United States with a North Asian country, the United States-Korea FTA (KORUS FTA) will have significant economic, political and strategic benefits for both countries. For more details regarding the KORUS FTA, please see Chapter III.F.4.

14. Malaysia

The United States and Malaysia launched Free Trade Agreement negotiations in March 2006, and five rounds of negotiations have been held to date. Solid progress has been made so far, although some significant challenges remain. An FTA with Malaysia will encourage additional trade and investment, further deepening our already strong economic partnership – with more than $50 billion in two-way trade and $10 billion in foreign direct investment in 2005. The United States is the largest destination for Malaysian goods and is Malaysia's second-largest source of imports.

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[42] Annualized 11 month data

An FTA will reduce and eliminate trade barriers between the United States and Malaysia, increasing exports of manufactured goods and agricultural products. The FTA also will create opportunities in such sectors as telecommunications, financial services, energy, healthcare, professional and other service sectors. All of these are areas where Malaysia intends to further enhance its competitiveness. Malaysia's objectives for achieving this goal are outlined in its recently announced Ninth Economic Plan, which sets out a strategy for diversifying the economy, encouraging higher value-added exports, and further developing a knowledge-based and globally-competitive economy.

In addition to trade, an FTA will encourage greater liberalization of foreign investment between the United States and Malaysia. The United States already is the largest investor in Malaysia, and liberalization of Malaysia's investment regime will support the further development of the supply and processing chains between U.S. and Malaysian companies, supporting high-paying jobs in both countries. The FTA also will strengthen the framework necessary to further enhance trade and investment. While Malaysia already has taken some steps to strengthen its IPR and customs regimes, the United States will seek to include in this FTA provisions that bring Malaysia's intellectual property and customs regimes up to the standards set in other recent free trade agreements.

More broadly, the United States hopes this FTA will strengthen our cooperation with Malaysia in multilateral and regional fora, and reinforce a strong U.S.-ASEAN relationship, advancing our commercial and strategic interests in Asia. Malaysia is currently the United States' 10th largest trading partner. U.S. exports to Malaysia are concentrated in electrical and non-electrical machinery, medical instruments, aircraft and plastics.

15. Peru and Colombia

On November 18, 2003, the Office of the United States Trade Representative notified the Congress of the President's intent to initiate free trade agreement negotiations with Colombia, Peru and Ecuador, with Bolivia participating as an observer. Negotiations were launched on May 18, 2004, in Cartagena, Colombia.

On December 7, 2005, the United States and Peru announced the conclusion of negotiations on a comprehensive trade agreement. On April 12, 2006, the United States-Peru Trade Promotion Agreement (PTPA) was signed in Washington, D.C. by U.S. Trade Representative Portman and Alfredo Ferrero Diez Canseco, Peru's Minister of Foreign Trade and Tourism. Throughout the summer of 2006, both the Senate Finance Committee and the House Ways and Means Committee held hearings and mock mark-ups on the PTPA. Meanwhile, on June 28, 2006, the Peruvian Congress approved the PTPA by a vote of 79 to 14. The United States will continue working towards securing approval by the U.S. Congress.

On February 27, 2006, the United States and Colombia announced their work had concluded on a comprehensive trade agreement, similar to the one reached with Peru. On November 22, 2006, Deputy U.S. Trade Representative John Veroneau and Jorge Humberto Botero, Colombia's Minister of Trade, Industry and Tourism, signed the United States-Colombia Trade Promotion Agreement (CTPA) in Washington, D.C. The United States and Colombia will work towards securing approval of the CTPA by their respective legislatures.

The United States has a vested interest in the security, stabilization and success of the Andean region, and stands to gain substantially from establishing stronger political and economic ties with Peru and Colombia. The Peru and Colombia agreements will eliminate tariffs and unfair trade barriers for U.S. manufacturers, workers, farmers and investors, allowing U.S. products and services to compete more effectively with other countries in the region. Additionally, both agreements will aid in promoting economic growth and prosperity in Peru and Colombia by attracting new investment and more jobs.

More importantly, the agreements will support and enhance the democratic and free market reforms that Peru and Colombia have undertaken in recent years.

Peru and Colombia are growing export markets for U.S. goods in Latin America. Together, they represent a market of approximately 73 million consumers. U.S. total goods exports to Colombia nearly $7 billion in 2006[43] and to Peru, nearly $3 billion. Colombia is currently the largest market for U.S. agricultural exports in South America. Through the implementation of the trade promotion agreements with Peru and Colombia, U.S. exports can be expected to rise significantly. The American Farm Bureau Federation estimates that U.S. farm exports to Peru and Colombia will increase by almost $1.5 billion per year after full implementation of these agreements.

Negotiations with Ecuador took place through March 2006, but no date has been set to continue the negotiations. Negotiations with Bolivia were not initiated.

16. North American Free Trade Agreement

a. Overview

On January 1, 1994, the North American Free Trade Agreement between the United States, Canada and Mexico (NAFTA) entered into force. NAFTA created the world's largest free trade area, which now links 439 million people producing $15 trillion worth of goods and services. The dismantling of trade barriers and the opening of markets has led to economic growth and rising prosperity in all three countries. The closer economic relationship promoted by NAFTA also includes supplemental labor and environmental agreements. The NAFTA has dramatically improved our trade and economic relations with our neighbors. The net result of these efforts is more economic opportunity and growth, greater fairness in our trade relations, and better protection of worker rights and the environment in North America.

Trade between the United States and its NAFTA partners has soared since the Agreement entered into force. U.S. two-way trade with Canada and Mexico exceeds U.S. trade with the European Union and Japan combined. U.S. goods exports to NAFTA partners more than doubled between 1993 and 2005, from $142 billion to $331 billion, significantly higher than export growth of 77 percent for the rest of the world over the same period.

By dismantling barriers, NAFTA has led to increased trade and investment, growth in employment, and enhanced competitiveness. From 1994 to 2004, cumulative foreign direct investment in the NAFTA countries has increased by over $1.8 trillion. Increased investment has brought more and better-paying jobs, as well as lower costs and more choices for consumers and producers.

b. Elements of NAFTA

i. Operation of the Agreement

The NAFTA's central oversight body is the NAFTA Free Trade Commission (FTC), chaired jointly by the U.S. Trade Representative, the Canadian Minister for International Trade, and the Mexican Secretary of Economy. The FTC is responsible for overseeing implementation and elaboration of the NAFTA and for dispute settlement.

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[43] Annualized 11 month data

The FTC held its most recent annual meeting in March 2006, in Acapulco, Mexico. At the meeting, the FTC reaffirmed its commitment to NAFTA as the cornerstone for strengthening North American competitiveness. The FTC initiated work that will focus on sectors and the removal of specific impediments to the free flow of goods, services, and capital between the NAFTA partners.

ii. Rules of Origin

In 2006, following approval by the NAFTA Free Trade Commission, the Parties implemented changes to the NAFTA rules covering approximately $15 billion in trilateral trade. The NAFTA Working Group on Rules of Origin is finalizing another set of changes to the rules of origin, which the Parties aim to implement in 2007. The next set of changes is expected to affect approximately $50 billion in trilateral trade. This work demonstrates that NAFTA continues to provide benefits to businesses, consumers, workers, and farmers.

c. NAFTA and Labor

The North American Agreement on Labor Cooperation (NAALC), a supplemental agreement to the NAFTA, promotes effective enforcement of domestic labor laws and fosters transparency in their administration. The NAALC established a trinational Commission for Labor Cooperation, comprised of a Ministerial Council and an administrative Secretariat. In addition, each NAFTA Party has established a National Administrative Office (NAO) within its Labor Ministry to serve as a contact point with the other Parties and the Secretariat, to provide publicly available information to the Secretariat and the other Parties, and to provide for the submission and review of public communications on labor law matters. The NAOs also coordinate, together with the Secretariat, the Council's Cooperative Activities program.

Two new submissions under the NAALC on labor law matters in the NAFTA Parties were presented in 2006, one with the Mexican NAO concerning collective bargaining rights in the public sector in North Carolina and one with the U.S. NAO concerning freedom of association and occupational safety and health for mine workers in Mexico. Both are pending consideration by the respective NAOs. In 2006, the U.S. NAO also continued to review a submission filed in late 2005 concerning labor law matters in the Mexican state of Hidalgo.

In 2006, as part of its research program, the NAALC Secretariat released a report on workplace violence in North America.

d. NAFTA and the Environment

A further supplemental accord, the North American Agreement on Environmental Cooperation (NAAEC), seeks to ensure that trade liberalization and efforts to protect the environment are mutually supportive. The NAAEC created the Commission for Environmental Cooperation (CEC), which is composed of: (a) the Council, made up of the Environmental Ministers from the United States, Canada, and Mexico; (b) the Joint Public Advisory Committee, made up of five private citizens from each of the NAFTA Parties; and (c) the Secretariat, made up of professional staff, located in Montreal, Canada. At the 2006 Council Session in Washington, D.C., the Council reviewed the work undertaken in support of its three strategic pillars: Information for Decision-Making, Capacity Building, and Trade and Environment. Specific information on the CEC's activities can be found in Chapter IV.

In November 1993, Mexico and the United States agreed on arrangements to help border communities with environmental infrastructure projects, in furtherance of the goals of the NAFTA and the NAAEC. The Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank) are working with more than 100 communities throughout the United States-Mexico border region to address their environmental infrastructure needs. In June of this year, the combined Board of

Directors for the NADBank and the BECC took steps to improve operations and to better serve the infrastructure needs of border communities. As of September 30, 2006, the NADBank had authorized $810 million in loans and/or grant resources to partially finance 95 infrastructure projects certified by the BECC with an estimated cost of $2.5 billion.

B. Regional Initiatives

1. Free Trade Area of the Americas (FTAA)

The United States and Brazil's Co-Chairmanship of the Free Trade Area of the Americas (FTAA) process entered its fourth year in 2006. As agreed at the Fourth Summit of the Americas of November 2005 ("Mar del Plata Summit"), the government of Colombia undertook consultations to facilitate the exploration of the two positions put forth at the Summit: the vast majority of leaders in the hemisphere, including President Bush, called for a continuation of the FTAA negotiations and the resumption of trade meetings. Other leaders indicated that the conditions were not yet in place for the achievement of the FTAA. All 34 leaders had agreed to explore these two positions in light of the outcome of the December 2005 World Trade Organization (WTO) ministerial meeting. Colombia's consultations were aimed to facilitate a meeting of trade officials; however, there was no agreement on the timing of a meeting and the FTAA negotiations remained suspended during 2006.

At the Mar del Plata Summit, twenty-nine leaders agreed to "continue to promote the established practices and activities in the FTAA process that provide transparency and encourage participation of civil society." During 2006, the FTAA process updated information on tariffs and trade flows prepared in the context of the FTAA Negotiating Group on Market Access, as agreed by Trade Ministers at their 1999 Ministerial meeting in Toronto, and disseminated that information to the public on the official FTAA website (www.ftaa-alca.org).

The twenty-nine leaders also agreed at Mar del Plata to instruct their representatives to the Tripartite Committee institutions to continue allocating the resources necessary to support the FTAA Administrative Secretariat. The Tripartite Committee institutions, along with the Government of Mexico, funded the Secretariat's operations during 2006.

Activities under the Hemispheric Cooperation Program (HCP), which is designed to assist countries in participating in the negotiations, preparing to implement the FTAA obligations, and adjusting to hemispheric integration, did not take place during 2006, pending resumption of the technical FTAA negotiations.

2. Enterprise for ASEAN Initiative

President Bush announced a major new initiative in October 2002, the Enterprise for ASEAN Initiative (EAI). The EAI is intended to strengthen U.S. trade and investment ties with ASEAN both as a region and bilaterally. With over $168 billion in two-way goods trade in 2006, the 10-member ASEAN group, collectively, already is the United States' fifth-largest trading partner. With continued economic growth in the ASEAN countries and a collective population of around 500 million, the United States anticipates significant opportunities for U.S. companies. This initiative will help boost trade and investment.

Under the EAI, the United States offers the prospect of bilateral free trade agreements (FTAs) with ASEAN countries that are committed to the economic reforms and openness inherent in an FTA with the United States. Any potential FTA partner must be a WTO member and have a trade and investment framework agreement (TIFA) with the United States. Since the launch of the EAI, the United States concluded an FTA with Singapore in 2003 and began FTA negotiations with Thailand in 2004 and with Malaysia in 2006. The United States has ongoing TIFA dialogues in place with Indonesia, the Philippines, and Brunei. In July 2006, the United States signed a TIFA with Cambodia. For ASEAN countries not involved in FTA negotiations, the United States is using the TIFAs to address bilateral trade issues, to seek ways to further deepen our trade and investment ties, and to coordinate on regional and multilateral trade issues.

U.S. and ASEAN officials have met annually since 2003 to discuss progress under the EAI. In November 2005, the United States and ASEAN countries took an additional step under the EAI and agreed to work together to conclude a region-wide United States - ASEAN Trade and Investment Framework Arrangement (TIFA). On August 25, 2006, the United States and ASEAN countries signed an Arrangement that will provide a basis for future dialogue on areas of mutual interest and a work plan, under which the United States and ASEAN have agreed to an initial work plan. This plan includes three projects related to trade facilitation: assistance with implementation of an ASEAN Single Window for customs clearance; contributions to development of an ASEAN harmonized pharmaceutical regulatory regime; and, development of a framework equivalency work plan on irradiation as a way to facilitate agricultural trade.

President Bush and ASEAN leaders in November 2005 issued their Joint Vision Statement on the ASEAN-U.S. Enhanced Partnership, which laid out a program to deepen U.S. – ASEAN ties. In August 2006, Secretary of State Rice and her ASEAN counterparts together signed a Plan of Action to implement the ASEAN-U.S. Enhanced Partnership in a way that is comprehensive, action-oriented, and forward-looking. The Plan of Action comprises political and security cooperation, economic cooperation, and social and development cooperation. The Plan of Action, along with the ASEAN – U.S. TIFA concluded under the EAI, provides a solid, mutually agreed basis upon which to strengthen U.S. relations with the ASEAN region.

3. Middle East Free Trade Area (MEFTA)

In May 2003, the President proposed the MEFTA initiative, a plan of graduated steps for Middle Eastern nations to increase trade and investment with the United States and others in the world economy. The first step is to work closely with peaceful nations that want to become members of the World Trade Organization (WTO) in order to expedite their accession. As these countries implement domestic reform agendas, institute the rule of law, protect property rights (including intellectual property), and create a foundation for openness and economic growth, the United States will take a series of graduated steps with countries in the region tailored to their level of development. The U.S. will expand and deepen economic ties through Trade and Investment Framework Agreements (TIFAs), Bilateral Investment Treaties (BITs), and comprehensive Free Trade Agreements (FTAs), and will enhance the Generalized System of Preferences (GSP) program for eligible countries.

USTR continued to make significant progress in implementing the MEFTA initiative in 2006. The United States - Morocco Free Trade Agreement (FTA) successfully entered into force on January 1, 2006 and the United States - Bahrain FTA entered into force on August 1, 2006. In addition, both houses of Congress passed FTA implementing legislation for an agreement with Oman. FTA negotiations with the United Arab Emirates continued in 2006. WTO implementation was the focus of the recently concluded Saudi Arabia accession (December 2005). The United States continues to actively support the WTO accession efforts of Lebanon, Algeria and Yemen. The United States also held Trade and Investment Framework (TIFA) discussions with other countries in the MEFTA initiative region in 2006 including Kuwait, and, in December 2006, signed a TIFA with Lebanon.

4. Asia-Pacific Economic Cooperation Forum

Overview

The Asia-Pacific Economic Cooperation (APEC) forum has been instrumental in advancing regional and global trade and investment liberalization since it was founded in 1989. It has provided a forum for Leaders to meet annually since 1993, when APEC Leaders met at Blake Island in the United States. President Bush has called APEC the "premier forum in the Asia-Pacific region for addressing economic growth, cooperation, trade and investment."

The United States worked closely with Vietnam, the APEC Chair in 2006, to lead APEC economies in pursuing an ambitious trade and investment liberalization agenda.

APEC helped to advance the World Trade Organization Doha Development Agenda (WTO/DDA) negotiations, promote regional economic integration, strengthen IPR protection and enforcement, and set high standards for FTAs. The United States will work with Australia, the APEC Chair in 2007, to develop concrete actions in each of these areas.

The 21 APEC economies collectively account for 46 percent of world trade and 57 percent of global GDP. The growth in U.S. goods exports to APEC clearly demonstrates the benefits of open markets and trade liberalization. Since 1994, U.S. exports to APEC economies increased by 99 percent. In 2005, two-way trade in goods and services with APEC economies totaled $1.9 trillion, an increase of 12 percent from 2004.

2006 Activities

WTO Leadership

APEC economies continued to exercise leadership in the WTO. In November 2006, APEC Leaders issued a strong political statement of support in Hanoi for the WTO/DDA negotiations. Their statement affirmed that APEC economies "are determined to resume without further delay negotiations to achieve a balanced and ambitious outcome that works for all WTO Members. Although agriculture remains the key to resolving the current impasse, we need to build an overall package covering market access for industrial goods and services, rules and trade facilitation." The APEC Leaders then reaffirmed their commitment to breaking the current deadlock and moving beyond their current positions in key areas of the Round. Earlier in the year (June 2006), APEC Trade Ministers unanimously endorsed a statement that committed the APEC economies "to summon the necessary political will to conclude the negotiations with an ambitious and balanced outcome across the board" and called on "other parties to do the same." The APEC Geneva Caucus, comprised of ambassadors to the WTO from APEC economies, continued to serve as an important link between APEC and the WTO.

Advancing Trade Liberalization in the APEC Region

<u>Promoting Regional Economic Integration/Free-Trade Area of the Asia Pacific</u>

In 2006, the United States worked to deepen its economic trans-Pacific ties through APEC. At the summit of APEC Economic Leaders in November 2006, the United States achieved agreement among the 21 APEC economies to further promote regional economic integration with an eye towards establishing a Free Trade Area of the Asia-Pacific (FTAAP) as a long-term prospect. As unprecedented economic developments in the Asia-Pacific are drawing economies closer together, a growing number of trade arrangements have emerged. To embrace the challenges and opportunities involved in these developments, the United States will work closely in 2007 with the other APEC economies to develop a number of initiatives to ensure APEC remains front-and-center in the trend toward economic integration in the Asia-Pacific region. This will be a high priority in the coming year and will culminate in an APEC report to the next Economic Leaders' summit in Sydney in September 2007.

Free Trade Agreements (FTAs) and Regional Trade Agreements (RTAs)

In 2006, APEC continued to address the growing number of FTAs and RTAs in the region and the need to ensure that APEC economies' agreements are trade-promoting and reflect high standards. In 2005, APEC economies agreed on model measures for trade facilitation FTA/RTA chapters--key elements that should be included in a high-quality FTA. In 2006, work was completed on model measures for six additional FTA/RTA chapters -- market access, government procurement, technical barriers to trade, transparency, dispute settlement, and cooperation/capacity building. APEC economies agreed to develop model measures for additional FTA/RTA chapters in 2007.

Intellectual Property Rights Protection and Enforcement

The APEC region is one of the world's most dynamic economic regions, and intellectual property protection and enforcement clearly have contributed to innovation, investment, and growth in the region. APEC continues to be at the forefront of combating piracy and counterfeiting in the region.

Building on the 2005 APEC Anti-Counterfeiting and Piracy Initiative, APEC economies endorsed two new IPR guidelines in 2006: one, to better inform citizens about the importance of IPR protection and enforcement, and another to help secure business supply chains against counterfeit and pirated goods. This work was done in close cooperation with Korea, Hong Kong, and Japan. These two new guidelines add to three other guidelines agreed in 2005 that are designed to reduce trade in counterfeit and pirated goods, reduce on-line piracy and protect against unauthorized copying in digital form, and prevent the sale of counterfeit and pirated products over the Internet. All five guidelines set high standards for IPR protection and enforcement in the APEC region.

Also building on the APEC Anti-Counterfeiting and Piracy Initiative, APEC agreed that central government agencies should use only legal software and other copyright materials and implement effective policies intended to prevent copyright infringement on their computer systems and via the Internet – a primary objective of this step is to reduce peer-to-peer related infringement.

In addition, the United States obtained APEC agreement to pursue further work in 2007 on IPR protection and enforcement in close consultation with the private sector.

Technology Choice

In 2006, the United States spearheaded the successful adoption of the Pathfinder on the APEC Technology Choice Principles, with 14 member economies joining. This new initiative is designed to promote principles of technology choice in a market-opening, trade-liberalizing manner that spurs the cycle of innovation and opportunity, and promotes economic development across the region. To encourage competition and promote efficiency, it is essential that market forces are allowed to determine the availability, commercialization, and use of technologies. The United States will encourage additional participation in 2007.

Trade Facilitation

This year, APEC concluded it had met its 2001 target of a 5 percent reduction in trade transaction costs by 2006 and endorsed a framework for achieving another 5 percent reduction by 2010. Economies will develop a detailed Trade Facilitation Action Plan for achieving that additional 5 percent cut for the 2007 Trade Ministerial. In 2007, APEC will also continue work on the single window initiative, launched in September 2006, and work to promote the implementation of global standards for supply chain security.

Private Sector Involvement

The APEC Business Advisory Council

The APEC Business Advisory Council (ABAC) was extremely active in 2006, offering recommendations and participating in government-business dialogues to advance several key APEC priorities including the WTO/DDA negotiations, high-quality FTAs, trade facilitation, IPR protection and enforcement, and life sciences.

ABAC conducted a study on the feasibility of an FTAAP, which concluded that while there are practical difficulties in negotiating an FTAAP at this time, APEC should consider more effective avenues for achieving free trade in the region. This timely study played an important role in the decisions of the APEC economies to place a greater emphasis on promoting regional economic integration in 2006 and beyond, and to consider establishing an FTAAP as a long-term prospect.

Life Sciences Innovation Forum

In 2006, APEC Ministers endorsed recommendations for a dialogue in 2007 between Life Sciences experts and senior finance and health officials to discuss innovative approaches to the health dimensions of economic challenges in the region, such as the risk of infectious disease pandemic, chronic disease, and aging populations. In addition, Ministers endorsed the establishment of public-private partnerships to develop pilot projects for disease management and wellness; identify and address enablers of investment in life sciences innovation in health systems; and assess research capacities with a view to developing scientific exchanges and training to enhance the region’s leadership in life sciences innovation and assure economic development. Four projects were approved for 2007, which will help economies to harmonize with international best practices and provide training to combat the counterfeiting of drugs and medical devices.

Automotive and Chemical Dialogues

The Automotive, Chemical, and Non-Ferrous Metals Dialogues are public-private sector dialogues in which government officials and senior industry representatives work together to map out strategies for increasing integration and liberalizing trade in the automotive, chemical and non-ferrous metals sectors in the APEC region.

In 2006, the Automotive Dialogue launched an initiative aimed at facilitating customs procedures through the use of expedited clearance and periodic filing for low-risk shippers. The Automotive Dialogue also approved an IPR Best Practices paper, which aims to provide member economies with a reference for their planning and implementing measures to protect IPR in the automotive and motorcycle industries, and the parts industries. APEC funding was approved for a Road Safety Summit in Australia in 2007 that will raise awareness of the importance of road safety. The Dialogue has also begun work in the areas of emerging fuels and environmental issues.

The Chemical Dialogue continued its examination of the potential negative impact of the EU’s proposed chemical regulations (REACH), particularly concerns related to the uncertainty over details of implementation (including the treatment of confidential business information) and the capacity of the region's chemical industry to comply with onerous testing requirements. Also in the regulatory area, the Chemical Dialogue shared information and raised awareness about chemical industry and individual government concerns with other product-related environmental regulations, such as the Restrictions on Hazardous Substances and the United Nations Environmental Programme's work to conclude a "Strategic Approach to International Chemicals Management."

APEC economies continued their work to adopt the UN Globally Harmonized System of Classification and Labeling (GHS). Ministers encouraged APEC economies to fully implement the GHS by 2008. The Dialogue also initiated work on Rules of Origin and Emergency Response.

C. The Americas

1. Canada

a. Softwood Lumber

The U.S.-Canada Softwood Lumber Agreement (SLA) was signed on September 12, 2006, and entered into force on October 12, 2006. Under the terms of the agreement, the United States and Canada ended a large portion of the litigation over trade in softwood lumber, and unrestricted trade will occur in favorable market conditions. When the lumber market is soft, Canadian exporting provinces can choose either to collect an export tax that ranges from 5 percent to 15 percent as prices fall or to collect lower export taxes and limit export volumes. The agreement also includes provisions to address potential Canadian import surges, provide for effective dispute settlement, revoke the antidumping (AD) and countervailing (CV) duty orders, refund the AD and CV duty deposits held by the United States, and discipline future trade cases. An industry-led binational council will also be established under the agreement to promote increased cooperation between the lumber industries in Canada and the United States and to strengthen and expand the market for softwood lumber products in both countries, and $450 million will be disbursed to promote meritorious initiatives in the United States.

b. Agriculture

Canada is the largest market for U.S. food and agricultural exports. For Fiscal Year 2006 (October 2005 to September 2006), U.S. agricultural exports to Canada grew by nearly 9 percent to a record breaking $11.6 billion. In fact, one of every six U.S. dollars of exported agricultural products goes to Canada.

As a result of the 1998 U.S.-Canada Record of Understanding on Agricultural Matters (ROU), the U.S.-Canada Consultative Committee (CCA) and the Province/State Advisory Group (PSAG) were formed to provide fora to strengthen bilateral agricultural trade relations and to facilitate discussion and cooperation on matters related to agriculture.

In 2006, the CCA met twice on issues covering livestock, fruits and vegetables, seed, processed food and plant trade, as well as pesticide and animal drug regulations and biotechnology. The most recent meeting, which was held in November 2006, reinforced the close working relationship between the two governments, as well as their respective agricultural sectors.

Canada has long maintained non-tariff barriers that prohibit the entry of bulk shipments of fruits and vegetables in packages exceeding certain standard sizes. Based on a request of the National Potato Council, the United States, in December 2003, requested negotiations with Canada to discuss ways to begin to address the burdensome ministerial exemption requirements specifically for potatoes. Since 2004, the United States and Canada have held several meetings regarding bulk restrictions for potatoes and will continue discussions in 2007.

c. Intellectual Property Rights (IPR)

Canada is a member of the World Intellectual Property Organization (WIPO), and adheres to several international agreements, including the Paris Convention for the Protection of Industrial Property (1971) and the Berne Convention for the Protection of Literary and Artistic Works (1971). In 1997, Canada signed the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty (together the WIPO Treaties), which set standards for intellectual property protection in the digital environment. However, it has not yet ratified either of these treaties. While ratification legislation was introduced in Canada's Parliament in 2005, it was not acted upon before Parliament dissolved; subsequently, no legislation was introduced in the new Parliament in 2006. U.S. intellectual property owners are concerned that weaknesses in Canada's border measures and general enforcement raise concerns about Canada's implementation of the requirements of the WTO TRIPS Agreement. Despite some progress made in enforcement measures taken over the past year, Canada remains a transshipment point for infringing products. The inability of Customs authorities to seize suspect goods without a court order has hampered their ability to stem the flow of pirate and counterfeit items.

Canada was involved in multilateral and bilateral talks on intellectual property rights during the year. In September 2006, as part of the Security and Prosperity Partnership of North America (SPP), Canada, Mexico and the United States discussed ways to join forces in combating piracy and counterfeiting in North America. Bilateral consultations between the U.S. and Canada on a full range of IPR issues, including the need to introduce new copyright legislation, were held in October 2006. That same month, the Government of Canada published data protection regulations, providing for eight years of data protection for pharmaceutical companies submitting drugs for regulatory approval.

2. Mexico

Mexico is the United States' 3rd largest single-country trading partner and has been among the fastest-growing major export markets for goods since 1993, with U.S. exports up 189 percent over the period. The NAFTA has fostered this relationship by virtue of the Agreement's comprehensive, market-opening rules. It is also creating a more equitable set of trade rules as trade barriers in Mexico are reduced and eliminated.

a. Agriculture

North American agricultural trade has grown significantly since the NAFTA was implemented. Mexico is currently the United States' second-largest agricultural export market. For 2006, U.S. agricultural exports to Mexico increased 14 percent above 2005's record level, to an estimated $10.8 billion (based on annualized data for the first 11 months of 2006).

The Administration has had notable success over the last year in addressing concerns over Mexico's antidumping regime. In November 2003, at the request of the United States, the WTO established a dispute settlement panel with regard to Mexico's antidumping order on long grain white rice and provisions of its foreign trade law that govern all antidumping proceedings. In June 2005, the WTO panel ruled in favor of the United States in all major areas of the dispute, determining that Mexico's antidumping duties and various provisions of its antidumping and countervailing duties laws are WTO inconsistent. Mexico appealed the panel's decision, and, in November 2005, the WTO Appellate Body upheld the earlier panel's findings. On September 11, 2006, Mexico published the final resolution of Mexico's antidumping investigation on U.S. long-grain white rice.

In January 2006, Mexico officially announced the termination of the investigation of dumping it had filed on behalf of the Mexican Pork Council against importers and exporters of U.S. pork, deeming that there was not sufficient evidence to impose compensatory duties.

Beyond dumping issues, in June 2004, the United States requested the formation of a WTO dispute settlement panel regarding Mexico's 20 percent tax on soft drinks made with any sweetener other than cane sugar, including high fructose corn syrup (HFCS). The tax had been in effect since January 1, 2002. In October 2005, the panel ruled in favor of the United States in all major areas of the dispute. In December 2005, Mexico appealed the decision, and in March 2006, the WTO Appellate Body ruled in favor of the United States. In response to the WTO ruling, Mexico's Congress repealed the tax on December 22, 2006, effective January 1, 2007.

Independent of the WTO action, the United States and Mexico reached an agreement on market access for sweeteners. The agreement provides Mexico duty-free access to the United States for 250,000 metric tons raw value of raw or refined sugar in FY 2007 and at least 175,000 metric tons raw value of raw or refined sugar for the first three months of FY 2008. Under the agreement, Mexico will provide reciprocal access for U.S. HFCS: 250,000 metric tons in FY 2007 and at least 175,000 metric tons for the first three months of FY 2008.

b. Cement

In March 2006, then-U.S. Trade Representative Rob Portman and Secretary of Commerce Carlos Gutierrez signed an agreement with Mexico to promote bilateral trade in cement and put an end to a long-standing dispute over cement trade. The agreement provides for increased imports of Mexican cement, encourages U.S. cement exports to Mexico, and settles outstanding litigation. The agreement also responds to concerns by consumers and builders, notably those rebuilding following the devastation of Hurricanes Katrina and Rita.

3. Brazil and the Southern Cone

a. MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay)

The Common Market of the South, referred to as "MERCOSUR" from its Spanish acronym, is the largest trade bloc in Latin America. As a customs union, MERCOSUR applies a common external tariff (CET) to products of nonmembers. Its original members (Argentina, Brazil, Paraguay, and Uruguay) make up over one-half of Latin America's gross domestic product. On December 9, 2005, Venezuela joined MERCOSUR as a full member, but it has yet to make certain policy changes that will grant it full voting rights.

On December 30, 2005 Bolivia was invited to join as a full member. Bolivia is currently an associate member along with Peru, Colombia, Ecuador and Chile. Associate members benefit from certain preferential access to MERCOSUR markets, but maintain their own external tariff policies.

MERCOSUR became operative on January 1, 1995, and covers some 85 percent of intra-MERCOSUR trade, with each member allowed to maintain a list of sensitive products that remain outside the duty-free arrangement. Full CET product coverage, scheduled for implementation in 2006, was delayed.

b. Argentina

U.S. goods exports to Argentina continued their recovery after a substantial decline in recent years. A key factor in the Argentine economy is its trade with Brazil, its largest trading partner. U.S. exports to

Argentina increased by 15.3 percent to $4.8 billion[44] in 2006, while exports decreased by 14.2 percent to $3.9 billion[45].

Concerns remain as to whether Argentina's IPR regime meets certain TRIPS standards, such as obligations concerning the protection of data submitted to support the approval of pharmaceuticals. Failure to provide adequate protection for copyright and patents has led to Argentina's placement on the Special 301 Priority Watch List. GSP benefits for certain products remain suspended.

c. Brazil

The United States exported goods valued at an estimated $19.2 billion[46] to Brazil in 2006. Brazil's market accounts for 22 percent of U.S. exports to Latin America and the Caribbean, excluding Mexico and 59 percent of U.S. goods exports to MERCOSUR.[47] In 2006, the United States and Brazil met under the auspices of the Bilateral Consultative Mechanism to discuss intellectual property rights, WTO negotiations, SPS issues, and the other issues concerning our bilateral and multilateral trade agenda.

The Administration engaged intensively with the Brazilian government on the issue of copyright protection as a result of the review of Brazil's benefits under the GSP trade program that was prompted by an International Intellectual Property Rights Association petition charging that Brazil had failed to offer adequate protection to copyrighted material.

Positive initiatives taken by the Brazilian government under the auspices of the U.S.-Brazil Bilateral Consultative Mechanism (BCM), in particular the formation of a public-private National Anti-Piracy Council, the development of a national action plan to combat piracy, and increased police actions, led to closure of the GSP Review in early January 2006.

In October 2006, the BCM met to review progress on issues of bilateral interest and to take stock of progress on efforts to combat piracy. While the recent progress is significant in improving Brazil's institutional capacity to combat piracy, the Administration will continue to work with Brazil in the BCM to seek further improvements.

d. Paraguay

With a population of just over six million, Paraguay is one of the smaller markets in Latin America. Paraguay is a major exporter of, and a transshipment point for, pirated and counterfeit products in the region, particularly to Brazil.

In 2006, the Bilateral Council on Trade and Investment met to discuss a wide range of issues including efforts to increase transparency in government-business relationships, implementation of the IPR MOU (see next paragraph), ongoing cooperation toward a strategic plan for Paraguay to develop non-traditional exports, and other issues concerning our bilateral and multilateral trade agenda.

In January 1998, the USTR identified Paraguay as a Priority Foreign Country under the Special 301 provisions of the Trade Act of 1974. The USTR initiated an investigation of Paraguay in February 1998. During investigations under Special 301, Paraguay indicated that it had undertaken a number of actions to improve IPR protection. In 1998, in light of commitments made by Paraguay in a bilateral Memorandum

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[44] Annualized 11 month data
[45] Annualized 11 month data
[46] Annualized 11 month data
[47] Defined as Merc 6—Argentina, Brazil, Paraguay, Uruguay, Bolivia, and Chile.

of Understanding (MOU), USTR concluded its Special 301 investigation. In 2003, the two governments revised and extended the term of the MOU. Paraguay has made a significant effort to implement the MOU, signed in March 2004, and met regularly with the United States under the auspices of the Bilateral Council on Trade and Investment to discuss MOU implementation.

e. Uruguay

Uruguay has the smallest population among MERCOSUR members (3.4 million). U.S. exports to Uruguay increased by 36.9 percent to $488 million[48] in 2006, while imports decreased by 29.4 percent to $517 million.[49]

In 2005, the United States and Uruguay signed a Bilateral Investment Treaty (BIT), the first BIT concluded by the United States on the basis of its 2004-model BIT text. As in the investment chapters of recent bilateral FTAs, the United States-Uruguay BIT includes several key provisions that respond to the investment negotiating objectives set forth by Congress in the Trade Promotion Act of 2002. The core provisions of the United States-Uruguay BIT will give U.S. investors a number of critical protections when they establish businesses in Uruguay, including non-discriminatory treatment, the ability to transfer funds relating to their investments, and access to binding international arbitration of investment disputes. The U.S.-Uruguay BIT entered into force on November 2, 2006.

In the past 12 years, Uruguay's exports to the United States have increased 208 percent, while U.S. exports to Uruguay have increased at a steady, but less dramatic rate of 56 percent. The U.S. – Uruguay Joint Commission on Trade and Investment met three times in 2006. The two parties agreed to negotiate a new Trade and Investment Framework Agreement (TIFA) to better address mutual interest in deepening the trade relationship. The new TIFA was signed by the parties in January 2007.

f. Chile

The United States-Chile Free Trade Agreement entered into force on January 1, 2004 and provides the framework for our bilateral trade relations. Developments in 2005 with respect to the United States-Chile FTA are discussed in Chapter III, section A.

4. The Andean Community

a. Trade Promotion Agreement Negotiations

On November 18, 2003, after consulting with relevant congressional committees and the Congressional Oversight Group, the Office of the United States Trade Representative notified the Congress of the President's intent to initiate free trade agreement negotiations with Colombia, Peru, Ecuador, and Bolivia. Negotiations were launched on May 18, 2004 in Cartagena, Colombia. On December 7, 2005, the United States and Peru concluded negotiations on the U.S.-Peru Trade Promotion Agreement (PTPA); and on February 27, 2006, the United States and Colombia completed their work on the U.S.-Colombia Trade Promotion Agreement (CTPA). Negotiations with Ecuador took place through March 2006, but no date has been set to continue the negotiations. Negotiations with Bolivia were not initiated.

See Chapter III, Section A for a description of these negotiations.

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48 Annualized 11 month data

49 Annualized 11 month data

b. Andean Trade Preference Act

The United States trade relationship with the Andean countries is currently conducted in the framework of the unilateral trade preferences of the Andean Trade Preference Act (ATPA), as amended by the Andean Trade Promotion and Drug Eradication Act (ATPDEA). Congress enacted the ATPA in 1991 in recognition of the fact that regional economic development is necessary in order for Bolivia, Colombia, Ecuador and Peru to provide economic alternatives to the illegal drug trade, promote domestic development, and thereby solidify democratic institutions.

The original ATPA expired in 2001. The ATPDEA, which was signed into law on August 6, 2002 as part of the Trade Act of 2002, restored the benefits of the ATPA, providing for retroactive reimbursement of duties paid during the lapse. In addition, while the original ATPA excluded from duty-free treatment products in several sectors including textiles, apparel, footwear, articles of leather, and tuna in airtight containers, the ATPDEA expanded the list of items eligible for duty-free treatment by about 700 products.

The most significant expansion of benefits in the ATPA, as amended by the ATPDEA, was in the apparel sector. Apparel assembled in the region from U.S. fabric, fabric components or components knit-to-shape in the United States may enter the United States duty-free in unlimited quantities. Apparel assembled from Andean regional fabric or components knit-to-shape in the region may enter duty-free subject to a cap. The cap was set at 2 percent of total U.S. apparel imports, increasing annually in equal increments to 5 percent.

The ATPA, as amended, was set to expire on December 31, 2006, but on December 9, 2006, Congress passed the Andean Trade Preferences Extension Act. The Act granted a straightforward six-month extension of ATPA for Peru, Colombia, Ecuador, and Bolivia from January 1, 2007 through June 30, 2007. An additional six-month extension will be granted to a beneficiary country if the United States and that country both complete their legislative process to approve a trade promotion agreement.

5. Central America and the Caribbean

a. Free Trade Agreement with Central America and the Dominican Republic

See Chapter III, Section A for a discussion of this topic.

b. Caribbean Basin Initiative

The Caribbean Basin Initiative (CBI) currently provides beneficiary countries and territories with duty-free access to the U.S. market. They are: Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

During 2006, the trade programs collectively known as the CBI remained a vital element in U.S. economic relations with its neighbors in Central America and the Caribbean. CBI was initially launched in 1983 through the Caribbean Basin Economic Recovery Act (CBERA). It was substantially expanded in 2000 through the United States - Caribbean Basin Trade Partnership Act (CBTPA). The Trade Act of 2002 increased the type and quantity of textile and apparel articles eligible for preferential tariff treatment accorded to designated beneficiary CBTPA countries. Among other actions, the Trade Act of 2002 extended duty-free treatment for clothing made in beneficiary countries from both U.S. and regional inputs, and increased the quantity of clothing made from regional inputs that regional producers can ship duty-free to the United States annually.

Since its inception, the CBERA program has helped beneficiaries diversify their exports. On a region-wide basis, this export diversification has led to a more balanced production and export base and has reduced the region's vulnerability to fluctuations in markets for traditional products. Since 1983, the year prior to the implementation of the CBI, total CBI country non-petroleum exports to the United States have more than tripled. Light manufactures, principally printed circuit assemblies and apparel, but also medical instruments and chemicals, account for an increasing share of U.S. imports from the region and constitute the fastest growing sectors for new investment in CBERA countries and territories.

In 2006, the Administration continued to work with Congress, the private sector, CBI beneficiary countries and other interested parties to ensure a faithful and effective implementation of this important expansion of trade benefits. The United States has concluded negotiations, signed and ratified a free trade agreement (CAFTA-DR) with several CBI beneficiaries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic), as called for in the legislation. The agreement locks in preferential market access benefits for the Central American countries and the Dominican Republic while simultaneously opening their markets to U.S. products. In co-production arrangements with CAFTA-DR countries, the remaining CBI beneficiary countries will be able to continue to count inputs from the former beneficiaries toward qualifying for CBI benefits.

In December 2006, the United States completed FTA negotiations with Panama, another CBI beneficiary, subject to further discussions regarding labor.

Apparel remains one of the fastest growing categories of imports from the CBI countries and territories - growing from just 5.5 percent of total U.S. imports from the region in 1984, to nearly 40 percent in 2005, valued at $10 billion.

c. The Caribbean

The Dominican Republic: The Dominican Republic is the largest single U.S. trading partner in the CBI region, with bilateral trade of nearly $10 billion in 2006[50]. The Dominican Republic continued to lead all countries in taking advantage of the CBI, as it has done in virtually every year since the program became effective, accounting for 25.0 percent of U.S. imports under CBI provisions.

Reflecting the importance of this trade relationship, the United States undertook negotiations with the Dominican Republic, between January and March 2004 to integrate that country into the free trade agreement already negotiated with Central America. On August 5, 2004, the United States, the Dominican Republic and five Central American countries together signed the CAFTA-DR (see Chapter III, Section A for a discussion of the developments with respect to CAFTA-DR in 2006).

Following entry into force of CAFTA-DR, the benefits received under CBI will be locked into place permanently. Moreover, the Dominican Republic inputs will continue to count as qualifying when incorporated into products of remaining CBI beneficiaries. Textile and apparel goods that are co-produced in Haiti and the Dominican Republic will also continue to qualify for duty-free treatment under the CBI program.

The Dominican Republic does not belong to any regional trade association, but has negotiated trade agreements with its partners in Central America and CARICOM. Unilateral liberalization and fiscal reform efforts have made the Dominican Republic one of the fastest growing economies over the last

[50] Annualized 11 month data

decade and an economic engine in the Caribbean Basin. The Dominican Republic's strong trade relations within the Caribbean, including with neighboring Puerto Rico, and with Central America establish it as an economic bridge within the region.

CARICOM: Members of the Caribbean Community and Common Market (CARICOM) are: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago. In theory, CARICOM is a customs union rather than a common market. CARICOM welcomed Haiti back into the Community earlier this year.

The nations of CARICOM launched a Caribbean Single Market Economy (CSME) in January 2006, which creates a bloc to allow for the free movement of goods, services and labor across the region. Full members of the CSME include: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago.

The U.S.-CARICOM Trade and Investment Council met in October 2006 to expand economic opportunity, growth and stability in the region.

Trinidad and Tobago accounts for about three quarters of U.S. imports from CARICOM countries, with petroleum, natural gas and petro-chemicals dominating such trade. Of those CBTPA beneficiary countries not currently covered by CAFTA-DR, the Dominican Republic and Haiti export the greatest amount of apparel products to the United States. Jamaica also supplies bauxite and sugar to the United States. Although a few countries have successfully attracted investment in electronics assembly, more progress is needed in developing educational, energy and port infrastructure to lure additional investment and take advantage of proximity to the U.S. market.

The United States and the CARICOM are working together on the Doha Development Agenda. In addition, the United States works with CARICOM countries on trade capacity building initiatives.

D. Europe and Eurasia

1. European Union

Overview

The U.S. economic relationship with Europe is the largest and most complex in the world. Due to the size and the highly integrated nature of the transatlantic economic relationship, serious trade issues inevitably arise. Even when small in dollar terms, especially compared with the overall value of transatlantic commerce, these issues can nonetheless take on significance for their precedent-setting impact on U.S. trade policies.

U.S. trade relations with Europe are dominated by our relations with the European Union (EU). The EU expanded to 27 countries on January 1, 2007 with the accession of Romania and Bulgaria to encompass a market of nearly 500 million consumers with a total gross domestic product of $13 trillion. U.S. goods exports in 2006[51] were $237 billion and U.S. exports of private commercial services (i.e., excluding military and government) to the European Union (25) were $128 billion in 2005 (latest data available).

[51] Annualized 11 month data

In the past year, USTR actively engaged with the European Commission and EU Member States on the full range of U.S. trade concerns, and also expanded cooperative efforts to enhance the transatlantic economic relationship. Key issues addressed include:

a. Enhancing Transatlantic Economic Relations

The huge size, advanced integration, and generally robust health of the transatlantic trade and investment relationship have provided an anchor of prosperity for both sides of the Atlantic, even as economic conditions in other parts of the world fluctuate. Recognizing the benefits of preserving and enhancing these productive ties, the United States and the EU for some time have been interested in exploring ways to create new opportunities for transatlantic economic activity.

At the June 2004 U.S.-EU Summit, Leaders agreed to the Joint Declaration on Strengthening Our Economic Partnership, which initiated a government discourse with business, labor, consumer and other elements of civil society on concrete ways for governments to improve U.S.-EU economic interaction. The results of these stakeholder consultations yielded the U.S.-EU Initiative to Enhance Transatlantic Economic Integration and Growth, which was announced at the June 2005 U.S.-EU Summit. The Summit also yielded a declaration on U.S.-EU cooperation against Global Piracy and Counterfeiting, which is viewed as an important step for promoting enhanced cooperation on IPR matters.

The Economic Initiative includes a forward-looking agenda of cooperative activities intended to expand economic opportunity, promote prosperity, and maintain the health and safety of our citizens. At the U.S.-EU Economic Ministerial in November 2005, the governments issued a detailed work program listing specific initiatives U.S. and European officials have agreed to pursue in 11 different areas, including: regulatory and standards cooperation; open and competitive capital markets; transparency in the fight against malpractice; innovation and the development of technology; trade, travel and security; energy efficiency; protection of intellectual property rights; investment; competition policy and enforcement; procurement; and services. The June 2006 Summit noted implementation progress on this multi-year program and in other areas of transatlantic cooperation. USTR and other agencies continue to work closely with European counterparts to advance this Initiative in 2007, and expect to continue to aggressively pursue regulatory and standards cooperation to address U.S. concerns.

b. Regulatory Cooperation

Trade obstacles arising from divergences in U.S. and EU regulations and the lack of transparency in the EU rulemaking and standardization processes are an increasingly important focus of our cooperation and dialogue with the EU. USTR continued to expand our efforts during 2006 to enhance U.S.-EU regulatory cooperation and reduce unnecessary "technical" barriers to transatlantic trade. Through increased regulatory cooperation, we aim to promote quality regulation, minimize U.S.-EU regulatory divergences and facilitate transatlantic commerce.

At the June 2005 U.S.-EU Summit, the United States and European Commission issued the Roadmap for U.S.-EU Regulatory Cooperation to significantly expand and deepen the scope of transatlantic regulatory cooperation and promote a stronger economic relationship. Under this framework, U.S. and European officials advanced U.S.-EU regulatory cooperation during 2005 and 2006 in three principal ways: First, we established the U.S.-EU High-Level Regulatory Cooperation Forum through which U.S. and European regulators exchange views, share experiences, and learn from each other regarding general or crosscutting regulatory cooperation approaches and practices of mutual interest. Based on initial Forum meetings in Brussels in January 2006 and Washington D.C. in May 2006, we developed a set of Best Cooperative Practices to guide regulators and complement U.S.-EU Guidelines on Regulatory Cooperation and Transparency. Second, the U.S. Office of Management and Budget and relevant experts in the European Commission initiated an expert dialogue to address horizontal regulatory management issues (e.g., transparency, risk assessment, impact assessment, public consultation) in order to improve our understanding of each others' regulatory systems and practices. Third, U.S and European regulators pursued a broad range of specific cooperation activities in 15 different sectors, including: pharmaceuticals, auto safety, information and communications technology, cosmetics, consumer product safety, food safety, nutritional labeling, consumer protection enforcement, unfair commercial practices, marine equipment, eco-design of electrical/electronic products, chemicals, energy efficiency, telecommunications equipment and medical devices. The June 2006 U.S.-EU Summit noted progress on the Roadmap. We continue to build on these activities by pursuing cooperation on new topics in 2007.

c. Subsidies for Large Commercial Aircraft

The United States has long expressed its concerns with European government subsidization of large commercial aircraft (LCA) development by Airbus. The issue has acquired new urgency in recent years as Airbus sought and received substantial new subsidies (so-called “launch aid”) for the Airbus A380 super jumbo aircraft and commitments of further launch aid subsidies for its new A350 passenger aircraft. At a time when Airbus is delivering more aircraft than its U.S. rival, the Boeing Company, the United States believes that there is no justification for continued subsidies to Airbus. In 2004 and 2005, USTR attempted to work with the European Commission to establish a new agreement aimed at eliminating LCA subsidies. The Commission’s reluctance to negotiate such an agreement led the United States to request initiation of dispute settlement procedures at the WTO (as the United States believes Airbus subsidies violate the WTO Agreement on Subsidies and Countervailing Measures). The EU requested its own WTO dispute settlement proceeding claiming alleged U.S. federal and state government subsidies to Boeing. Although the United States would prefer to reach a negotiated solution, it is prepared to see its WTO case through to completion if necessary.

d. WTO Information Technology Agreement

The United States has expressed concerns about EU proposals to apply duties as high as 14 percent on imports of several technologically-sophisticated versions of products covered under the WTO Information Technology Agreement (ITA). Such products include certain set-top boxes (e.g., cable boxes), flat panel displays for computers, digital cameras, and certain multifunction units (e.g., “all-in-one” printer/copier/scanner devices). All ITA Members, including the EU, committed to bind and eliminate customs duties on these products when coverage for the ITA was finalized in 1996. However, the EU continued to draft proposals in 2006 which would limit duty-free treatment to less technologically sophisticated versions of these products, many of which are no longer sold in today’s marketplace. The product definitions proposed by the EU are not found in the ITA and are so narrow that almost none of today's models of the aforementioned ITA products would be guaranteed duty-free treatment if imported into the EU. The United States has raised its concerns both bilaterally and in the ITA Committee in Geneva and will continue to press the EU to abide by the letter and spirit of the ITA.

e. Geographical Indications

As a result of a WTO dispute launched by the United States, the WTO Dispute Settlement Body (DSB) ruled on April 20, 2005 that the EU’s regulation on food-related geographical indications (GIs) is inconsistent with the EU’s obligations under the TRIPS Agreement and the GATT 1994. The DSB ruled that the EU’s GI regulation impermissibly discriminates against non-EU products and persons and also agreed with the United States that the regulation could not create broad exceptions to trademark rights guaranteed by the TRIPS Agreement.

The DSB recommended that the EU amend its GI regulation to come into compliance with its WTO obligations. The EU adopted an amended GI regulation in March 2006. The United States has highlighted certain questions and concerns with regard to the revised EU regulation and its compliance with the DSB findings and recommendations, and continues to monitor implementation in this dispute. Separately, the United States continues to have concerns about the EU's regime concerning geographical indications for wine and spirits – including Council Regulation 1493/99.

f. Agricultural Biotechnology

In May 2003, the United States initiated WTO dispute settlement proceedings with respect to the EU's *de facto* moratorium on approvals of agricultural biotechnology products and the existence of individual Member State marketing prohibitions on agricultural biotechnology products previously approved at the EU level. In September 2006, the WTO dispute settlement panel ruled in favor of the United States, finding that both the EU's moratorium and the Member State prohibitions were inconsistent with WTO rules. The WTO formally adopted the panel report on November 21, 2006. On December 19, 2006, the EU notified the WTO that it intended to comply with the panel findings, and that it would need a "reasonable period of time" to do so.

In April 2004, EC Regulations 1829/2003 and 1830/2003 governing the traceability and labeling of biotechnology food and feed entered into force. The regulations include mandatory traceability and labeling requirements for all agricultural biotechnology and downstream products. In some cases, these directives have severely restricted market access for U.S. farmers and food suppliers.

Beginning in May 2004, following the adoption of new biotechnology regulations, the EU began to approve a limited number of the many pending biotechnology product applications. These limited approvals, however, have not resulted in a complete removal of the *de facto* moratorium. Many important biotechnology product applications continue to face unjustified, politically-motivated delays. Despite the lack of any science-based health or safety concerns, and despite positive reviews by the EU's own scientific committees, the EU has yet to assemble in the Council of Ministers a qualified majority of EU Member States to support product approvals. As a result, the EU continues to hold applications back from final decision. Even when applications are sent to the Council, the result is lengthy periods of additional delay, after which the applications are sent back to the Commission for final decision.

Furthermore, several EU member States, including Austria, France, Germany, and Greece, continue to maintain their unjustified, WTO-inconsistent national bans on certain biotechnology products that had been approved by the EU prior to the adoption of the moratorium.

g. Customs Administration Procedures

While the customs law of the EU is set forth in the Community Customs Code, the EU does not in fact currently operate as a single customs administration. Administration of the Community Customs Code is the responsibility of EU Member State customs administrations, which do not have identical working practices and are not obliged to follow each other's decisions.

The difficulties presented by non-uniform administration are exacerbated by the absence of any forum for prompt EU-wide review and correction of customs decisions. Review by the European Court of Justice of national decisions regarding customs administrative matters may be available in some cases, but generally only after an affected party proceeds through multiple layers of Member State domestic court review. Obtaining corrections with EU-wide effect for administrative actions relating to customs matters may take years.

Given the growing negative consequences of deficiencies in the EU's customs administration and review procedures, the United States in September 2004 initiated WTO consultations on these matters. Subsequently, in March 2005, a dispute settlement panel was formed to consider U.S. complaints. On

June 16, 2006, the panel circulated its report, in which it found a lack of uniform administration in certain specified instances and found no breach of the EU's obligations with respect to prompt review and correction of customs determinations. The United States and EU each appealed from different aspects of the panel report. The panel and Appellate Body reports were adopted at the December 11, 2006 meeting of the DSB. The reports as adopted included a finding that the EU is in breach of its obligation of uniform administration with respect to rules pertaining to the tariff classification of certain liquid crystal display monitors.

h. Foreign Sales Corporation (FSC) Tax Rules

On October 14, 2004, Congress passed the American Jobs Creation Act (AJCA), designed in part to repeal provisions of the FSC Repeal and Extraterritorial Income Exclusion Act (ETI Act) that had been found to constitute a WTO-inconsistent export subsidy. Unfortunately, in November 2004, the EU asked the WTO once again to review the U.S. compliance efforts in the FSC dispute. The EU based its request on its dissatisfaction with transition provisions in the AJCA that provided for a general two-year phase-out of the ETI provision and the grandfathering of certain pre-existing binding contracts. The EU did so notwithstanding the fact that such transition provisions are standard in major U.S. tax legislation and that the grandfathering provision, in particular, was of relatively limited commercial value. The EU adopted a Regulation that provided for the lifting of sanctions on U.S. products in the form of additional duties as of January 1, 2005. However, the Regulation, which entered into force on February 1 (Council Regulation (EC) No 171/2005), provides for the automatic re-imposition of sanctions should the WTO find continued non-compliance by the United States. In that event, sanctions would resume on January 1, 2006, or 60 days after (whichever date is later) the WTO Dispute Settlement Body rules that the AJCA is inconsistent with U.S. WTO obligations. On September 30, 2005, a WTO panel found that the transition provisions of the AJCA were inconsistent with U.S. WTO obligations.

On November 14, 2005, the United States appealed the panel report. The Appellate Body circulated its report on February 13, 2006, upholding the legal findings and conclusions of the panel. The DSB adopted the report on March 14, 2006. On May 17, 2006, the President signed legislation that repealed the grandfathering provisions. The transition provision expired by operation of law at the end of 2006. (For more information on this dispute, see Chapter II.)

i. Chemicals

In December 2006, after three years of negotiation within the European Union, the EU reached internal agreement on its comprehensive new regulatory regime for all chemicals (known as Registration, Evaluation and Authorization of Chemicals or "REACH") that will impose extensive additional testing and reporting requirements on producers and downstream users of chemicals. This expansive EU regulation could impact virtually all industrial sectors, including the majority of U.S. manufactured goods exported to the EU. The REACH regulation is to enter into force on June 1, 2007.

While supportive of the EU's objectives of protecting human health and the environment, the United States stressed that the EU regulation adopted a particularly complex and burdensome approach, which appeared to be neither workable nor cost-effective in its implementation, and could adversely impact innovation and disrupt global trade. Many of the EU's trading partners expressed similar concerns.

We will continue to monitor closely the implementation of this EU regulation, and remain engaged constructively with the EU to ensure that U.S. interests are protected.

j. Ban on Growth Promoting Hormones in Meat Production

The EU continues to ban the import of U.S. beef obtained from cattle treated with growth-promoting hormones. In 1996, the United States challenged this ban in the WTO and in June 1997, a WTO panel ruled in favor of the United States on the basis that the EU's ban was inconsistent with the EU's obligations under the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) because the EU failed to base its ban on a scientific risk assessment. This finding was upheld by the WTO Appellate Body in 1998, and in 1999, the WTO authorized the United States to suspend concessions to the EU because the EU failed to comply with the WTO rulings.

In September 2003, the EU announced the entry into force of an amendment to its original hormone directive, which recodified the ban on the use of estradiol for growth promotion purposes and established provisional bans on the five other growth hormones included in the original EU legislation. The EU argued that it was in compliance with the earlier WTO ruling based on this amended Directive.

At present, the United States continues to apply 100 percent duties on $116.8 million of U.S. imports from the EU. In November 2004, the EU requested WTO consultations with the United States on this matter, claiming that U.S. sanctions were no longer justified. The first panel meeting was held in September 2005. A second set of meetings with the panel and a group of scientific experts was held in September-October 2006. The United States maintains that the amended EU measure cannot be considered to implement WTO recommendations and rulings on this matter, and that the U.S. sanctions remain authorized. The panel's decision is not expected until early Summer 2007.

k. Poultry Meat

U.S. poultry meat exports to the EU have been banned since April 1, 1997, because U.S. poultry producers currently use washes of low-concentration anti-microbial treatments (AMTs), such as chlorine, to reduce the level of pathogens in poultry meat production, a practice not permitted by the EU sanitary regime. In December 2005, the European Commission's Food Safety Authority completed studies of four AMTs and found them to be safe, and in February 2006, the European Commission's Health and Consumer Protection Directorate General circulated the first draft of its proposal to allow those substances to be used on poultry meat in the EU market. That draft regulation proposed to ban the use of more than one AMT and require poultry treated with AMTs to be rinsed after treatment. These two requirements are not consistent with U.S. production methods and will limit most U.S. exporters' ability to trade poultry to the EU under this regulation but would nonetheless mark a lifting of the ban on U.S. poultry exports. In 2007, the United States will continue to push for a regulation allowing the use of AMTs to be finalized in the EU legislative process.

l. Wine

Since the mid-1980s, U.S. wines have been permitted entry to the EU market through temporary exemptions from certain EU wine regulations. One such regulation requires wines imported into the EU to be produced using only certain wine-making practices. Other regulations require extensive certification procedures for imported wines and prohibit the use of wine names and grape varieties as regulated in the United States.

Without derogations from these regulations, many U.S. wines would be immediately barred from entering the EU. U.S. wines that are produced with practices for which there are no EU derogations are already barred. For over six years the United States and the EU negotiated an agreement to address this and other issues.

On March 10, 2006, the United States and the European Community signed an agreement on wine-making practices and labeling of wine, aimed at facilitating bilateral trade in wine valued at $2.8 billion annually. The Agreement provides for acceptance of existing wine-making practices and addresses a number of labeling issues, helping to create marketing certainty for U.S. and EU wine exporters, and entered into effect upon signature.

The agreement provides for: (1) recognition of existing wine-making practices; (2) a consultative process for accepting new wine-making practices; (3) the United States limiting the use of certain "semi-generic" terms in the U.S. market; (4) the EU allowing under specified conditions for the use of certain regulated terms on U.S. wine exported to the EU; (5) recognizing certain names of origin in each other's market; (6) simplifying certification requirements; and (7) defining parameters for optional labeling elements of U.S. wines sold in the EU market. The Agreement also provides for a second phase of negotiations to address other outstanding U.S.-EU wine trade issues. The Agreement does not address the use of "geographical indications," a form of intellectual property. The United States and the EU held discussions to address implementation of the Phase I Agreement and to initiate the second phase of negotiations in June, September and December 2006.

m. EU Enlargement

On March 22, 2006, the United States and the European Communities signed a bilateral agreement within the framework of the GATT related to the May 2004 enlargement of the European Union. As part of the agreement, the EC opened new country-specific tariff-rate quotas for U.S. exports of boneless ham, poultry, and corn gluten meal. It expanded existing global tariff-rate quotas for food preparations, fructose, pork, rice, barley, wheat, maize, preserved fruits, fruit juices, pasta, chocolate, petfood, beef, poultry, live bovine animals and sheep, and various cheeses and vegetables. It permanently reduced tariffs on protein concentrates, fish (hake, Alaska Pollack, surimi), chemicals (polyvinyl butyral), aluminum tube, and molybdenuym wire. These unilateral EU concessions went into effect in July 2006.
Similarly, in advance of the January 1, 2007 accession of Romania and Bulgaria to the European Union, the United States entered into negotiations with the European Communities in December 2006 within the framework of GATT provisions relating to the expansion of customs unions. The two new EU members were required to change their tariff schedules to conform to the EU's common external tariff schedule, resulting in increased tariffs on certain imported products. Under General Agreement on Tariffs and Trade 1994 (GATT 1994) Articles XXIV:6 and XXVIII, the United States is entitled to compensation from the EU to offset all of these changes. The expansion of EU quotas to account for the addition of Romania and Bulgaria to the European Union common market is another key element of the negotiations. This round of enlargement also presents issues for exporters to Romania and Bulgaria of key commodities such as pork, which will face a significant increase in applied tariff rates and the imposition of quotas. In 2007, the United States will seek to conclude an appropriate bilateral compensation agreement with the European Commission and ensure that its benefits are implemented as soon as possible.

2. European Free Trade Association (EFTA)

The United States continues to broaden our economic engagement with the countries of Switzerland, Norway, Iceland and Liechtenstein and explore ways to foster closer U.S.-EFTA trade. On May 25, 2006, the United States and Switzerland established a "Trade and Investment Cooperation Forum" to discuss bilateral trade and related issues, and to examine ways to strengthen our economic relationship.

On March 1, 2006, two mutual recognition agreements (MRAs) between the United States and Norway, Iceland and Liechtenstein entered into force. These MRAs parallel existing U.S. agreements with the European Community – one covering telecommunications equipment, electro-magnetic compatibility

(EMC) and recreational craft; and the other covering marine equipment. These agreements permit approved U.S. laboratories to conduct required conformity assessment procedures (e.g., product tests) for designated products according to EFTA requirements (U.S. requirements in the case of marine equipment), and vice versa. This saves manufacturers the time and expense of additional product testing, lowers prices for consumers and conserves regulators' resources.

3. Turkey

a. General

Turkey maintains high tariff rates on many agricultural and food products to protect domestic producers. It also uses its import licensing regime to manage trade. In 2006, the U.S. brought a WTO dispute against Turkey regarding its regime for the importation of rice; the case is proceeding in Geneva. Turkey also levies high duties, as well as excise taxes and other domestic charges, on imported alcoholic beverages that significantly increase wholesale prices. Turkey does not permit any meat or poultry imports.

b. Investment

While Turkey's legal regime for foreign investment is liberal, private sector investment is often hindered, regardless of nationality, by: excessive bureaucracy; political and macroeconomic uncertainty; weaknesses in the judicial system; high tax rates; a weak framework for corporate governance; and frequent, sometimes unclear, changes in the legal and regulatory environment.

c. Intellectual Property

Turkey does not have a patent linkage system in place to prevent generic drugs that infringe the Turkish patents of U.S. pharmaceutical companies from receiving marketing approval in Turkey. Turkey has a Registration Regulation for protecting confidential test data which provides a six-year term of data exclusivity protection for pharmaceutical test data, however the regulation contains several provisions that may not be consistent with TRIPS requirements. The U.S. is addressing these issues with the Turkish government. Improving enforcement against copyright piracy and trademark infringement in Turkey also remains an issue.

4. Southeast Europe

a. EU Accession

The United States has been strongly supportive of the integration of Bulgaria and Romania into the EU. As with previous accessions, USTR and other U.S. agencies worked with Bulgaria and Romania to ensure that the accession process does not adversely affect U.S. commercial interests in the region. (See EU Enlargement in the EU Section.)

Croatia, Macedonia, and Albania have concluded Stabilization and Association Agreements (SAAs) with the EU, which indicate their desire for EU membership. These Agreements provide for the reduction to zero of virtually all tariff rates on industrial goods and preferential rates and quotas for many agricultural goods traded between the EU and these countries. Subsequent agricultural agreements (the Zero-Zero Agreements) have further reduced tariffs on the majority of agriculture goods. U.S. goods continue to face generally higher MFN tariff rates in these countries, creating a tariff differential *vis-à-vis* EU goods. Negotiations are ongoing for a EU SAA with Bosnia and Herzegovina, Serbia, and Montenegro.

b. Generalized System of Preferences

Most of the countries in this region participate in the U.S. Generalized System of Preferences (GSP) program, including Serbia and Montenegro, which were granted eligibility in 2005. As required by the GSP statute, once a country has joined the EU, it loses its GSP eligibility. Thus, Romania and Bulgaria were removed from the GSP on January 1, 2007, when they joined the EU.

The GSP statute provides that a country may not receive GSP benefits if it affords preferential treatment to the products of a developed country, other than the United States, that has a significant adverse effect on U.S. commerce. As noted above, the United States has consulted with several countries concerning their granting of preferential tariffs to EU exports compared with U.S. exports, pursuant to their Europe Agreements with the EU and will continue to monitor the impact of these agreements on U.S commercial interests.

c. Intellectual Property Rights (IPR)

USTR closely monitors WTO Members' compliance with the TRIPS Agreement and works with countries to improve enforcement of their IPR legislation, as well as to counter trends such as increasing copyright piracy and trademark counterfeiting. USTR has worked to encourage Bulgaria to reestablish strong IP protection after piracy and counterfeiting problems began growing in recent years. A top USTR priority in 2006 remained protecting the confidential data submitted by pharmaceutical firms to government health authorities to obtain marketing approval.

d. Bilateral Investment Treaties

The United States has Bilateral Investment Treaties (BITs) in force with Albania, Bulgaria, Romania, and Croatia.

5. Russia

The United States has established strong bilateral trade and investment links with Russia, based on a 1992 bilateral trade agreement concluded in accordance with the Trade Act of 1974. The United States also extends Generalized System of Preferences (GSP) benefits to Russia. In response to petitions from the U.S. copyright industry, USTR continued a review in 2006 to determine Russia's eligibility to receive GSP benefits.

Multilaterally, the United States has encouraged Russia's accession to the World Trade Organization (WTO) as an important way to support economic reforms. On November 19, 2006, the United States and Russia signed a bilateral market access agreement on goods and services, which included significant benefits and market openings in areas of longstanding interest to the United States. Russia has completed its bilateral market access negotiations with most other interested WTO Members, and is now focused on multilateral negotiations on its terms for accession, as well as completing its implementation of WTO provisions. Russia must also complete negotiations with WTO Members on levels of funding for certain programs supporting its agriculture sector.

a. Jackson-Vanik Amendment

Russia (as is the case with several of the other countries in the region – see below) receives conditional Normal Trade Relations (NTR) tariff treatment pursuant to the provisions of Title IV of the Trade Act of 1974, also known as the Jackson-Vanik amendment. Under the Jackson-Vanik amendment, the President is required to deny NTR tariff treatment to an economy that was not eligible for such treatment in 1974 and that fails to meet the statute's freedom of emigration requirements contained in the legislation. This provision is subject to waiver, if the President determines that such a waiver will substantially promote the legislation's objectives. Alternatively, the President can determine that the country is in full compliance with the legislation's emigration requirements. The country must also have a trade agreement with the United States, including certain specified elements, in order to obtain conditional NTR status. The President has determined that Russia is in full compliance with Title IV's freedom of emigration requirements and the United States and Russia have had a qualifying trade agreement in effect since 1992.

If a country is still subject to Jackson-Vanik at the time of its accession to the WTO, the United States needs to invoke the "non-application" provisions of the WTO. In such cases, the United States and the other country in effect have no "WTO relations." In such a situation, the United States is unable to bring a WTO dispute based on a country's violation of the WTO or of commitments the country undertook as part of its WTO accession package, and U.S. exporters are not able to benefit from many of the market opening tariff and services commitments that Russia undertook as part of the bilateral market access agreement. Congressional action is required to terminate the application of Jackson-Vanik to a country. The Administration continues to consult with the Congress and interested stakeholders regarding the status of our WTO negotiations and the termination of application of Jackson-Vanik and the provision of Permanent Normal Trade Relations status to Russia.

b. Intellectual Property Rights (IPR)

U.S. industry continues to be concerned about the IPR situation in Russia. A number of Members of Congress have written to USTR in support of those concerns. U.S. copyright industries estimate they lost in excess of $1.9 billion in 2005 due to copyright piracy in Russia (films, videos, sound recordings, books and computer software). In 2006, Russia's optical disc production capacity continued to be far in excess of domestic demand, with pirated products apparently intended not only for domestic consumption, but also for export. Internet piracy continued to be a serious concern. Criminal investigations are ongoing against operators of the Russia-based download website www.allofmp3.com, which offers global distribution of pirated music and is the most notorious of several problem websites operating from within Russia.

USTR is working to ensure that Russia takes appropriate actions to protect intellectual property rights across the board. On November 19, 2006, the U.S. Government and the government of Russia concluded an agreement that sets out a blueprint for actions that Russia will take to address piracy and counterfeiting and improve protection and enforcement of intellectual property rights, both stated priorities of the government of Russia. As part of the agreement, the government of Russia has committed to fight optical disc and Internet piracy, protect pharmaceutical test data, deter piracy and counterfeiting through criminal penalties, strengthen border enforcement and bring Russian laws into compliance with WTO and international IPR norms. This binding agreement is an integral part of the United States-Russia WTO bilateral market access agreement, and Russia's implementation of commitments on IPR will be essential to completing the final multilateral negotiations on the overall accession package.

In addition, the United States is reviewing Russia's status as a beneficiary country under the U.S. Generalized System of Preferences (GSP) Program. Russia has also been on the Special 301 Priority Watch List since 1997 and will be subject to the annual review in 2007.

The most significant legislative development in 2006 was the Duma's consideration and adoption of Part IV of the Civil Code, which will replace most of Russia's IPR legislation with a single code. The Code and implementing regulations to be developed over the next year will go into effect on January 1, 2008. While Russian government ministries and the Duma took some steps to address some concerns of certain rights holders and the U.S. Government regarding the new legislation, Part IV still contains provisions that raise serious concerns regarding consistency with WTO and other international agreements. The government of Russia has pledged to ensure that Part IV and its other IPR measures will be fully consistent with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) upon Russia's accession to the WTO. In September 2006, amendments to the Law on Copyright and Related Rights came into effect, providing rights holders control over Internet distribution of their work.

Russia continues to deny national treatment for the protection of geographical indications. As well, Russia has committed to implement Article 39.3 of the TRIPS Agreement to protect against unfair commercial use of undisclosed data submitted to government authorities to obtain marketing approval of pharmaceutical and agricultural chemical products. Russia currently does not provide such protection for pharmaceutical products. In late 2005, the government of Russia proposed legislative changes to address these concerns. Unfortunately, these changes were not considered by the Russian Duma in 2006. Russia has committed in the November 2006 bilateral agreement and in statements to WTO members to amend its Law on Medicines to take this action before accession to the WTO.

Poor enforcement of IPR is a pervasive problem. The prosecution and adjudication of intellectual property cases remains sporadic and inadequate; there is a lack of transparency and a failure to impose deterrent penalties. Russia's customs administration also needs to significantly strengthen its enforcement efforts. Russian authorities initiated some enforcement actions in 2006, which included raids on some optical disc production facilities and investigation of internet sites. The November 2006 bilateral agreement calls for specific actions to improve IPR enforcement. USTR will continue its work on enforcement of intellectual property rights and Russia's compliance with its bilateral obligations through the U.S. - Russia Bilateral Working Group on Intellectual Property Rights.

c. Market Access for Poultry, Pork and Beef

The United States was actively engaged with the Government of Russia throughout 2006 to ensure that U.S. producers of poultry, pork, and beef continue to have access to the Russian market and that Russia appropriately implements the U.S.-Russian Bilateral Meat Agreement on poultry, pork and beef that entered into force in 2005. The Meat Agreement established tariff-rate quotas (TRQs) for poultry, pork and beef, a 15.0 percent tariff for imports of U.S. high quality beef and other provisions related to importing meat and poultry into Russia. The WTO bilateral market access agreement sets out a framework, including the time tables, tariff rates and TRQ parameters, for WTO negotiations on how such goods will be treated post-2009.

d. Sanitary and Phytosanitary Restrictions

Sanitary and phytosanitary (SPS) restrictions have had a major negative affect on U.S. trade, with products deemed as "sensitive" by Russia being blocked, seemingly without a scientific basis. As part of the bilateral WTO market access agreement, Russia and the United States signed bilateral agreements to address SPS issues related to trade in frozen pork, certification of pork, beef and poultry facilities, trade in beef and beef by-products and products of modern biotechnology. In addition to these specific issues, the government of Russia in 2006 issued a decree allowing the adoption of international standards, guidelines and recommendations, such as those set by internationally recognized bodies such as Codex Alimentarius, the Office of International Epizootics (OIE). These international standards, guidelines and recommendations formed the basis for addressing specific SPS issues.

e. Product Standards, Certification, and Licensing

U.S. companies cite product certification requirements as a principal obstacle to U.S. trade and investment in Russia. In the context of Russia's WTO accession negotiations, USTR is urging Russia to put in place the necessary legal and administrative framework to establish transparent procedures for developing and applying standards, technical regulations and conformity assessment procedures to better comply with WTO rules.

In addition, import licenses and activity licenses to produce or distribute products such as alcoholic beverages, pharmaceuticals and products containing encryption technology are required to import these products. As part of the bilateral WTO market access agreement, Russia agreed to establish a streamlined interim system for the import of goods containing encryption technology; implement transparent, nondiscriminatory and WTO-compatible procedures; and allow importation of most commercially-traded information technology and telecommunications goods after a one-time notification, or in some cases, with no licensing or evaluation requirements at all. The U.S. Government will continue to work on addressing the licensing barriers to trade in products with encryption capabilities and the other products subject to licensing requirements.

f. Services

As a result of the bilateral market access agreement with the United States, U.S. services suppliers will benefit in a wide range of sectors, including banking and securities, insurance, telecommunications, audio-visual services, distribution, express delivery, energy services, environmental services and professional services, when the WTO agreement enters into effect. Russia will provide a significant level of market access and national treatment for insurance companies, including 100 percent foreign ownership of non-life insurance firms, upon accession. On banking and securities, Russia has agreed to bind most existing market access and to offer some liberalization of treatment of foreign bank subsidiaries.

6. Ukraine

The United States has established strong bilateral trade and investment links with Ukraine, including negotiating a bilateral trade relations agreement and a bilateral investment treaty (BIT). The U.S.-Ukrainian BIT took effect on November 16, 1996. The BIT guarantees U.S. investors the better of national and MFN treatment, the right to make financial transfers freely and without delay, international legal standards for expropriation and compensation and access to international arbitration. There are a number of longstanding investment disputes faced by several U.S. companies. These disputes mainly date from the early 1990s and the initial opening of the Ukrainian economy to foreign investors. In most cases, however, there has been little progress toward resolution under subsequent Ukrainian governments.

The United States also extends Generalized System of Preferences (GSP) benefits to Ukraine and on February 17, 2006, the Department of Commerce designated Ukraine a “market economy” for purposes of the application of the U.S. anti-dumping and countervailing duty statutes.

Multilaterally, the United States has encouraged Ukraine’s accession to the World Trade Organization (WTO) as an important way to support economic reforms. On March 6, 2006, the United States and Ukraine signed a WTO bilateral market access agreement on goods and services, which included significant benefits and market opening in areas of longstanding interest to the United States. Ukraine has almost completed its bilateral market access negotiations with other interested WTO Members, and is now focused on completing its implementation of WTO provisions and resolving outstanding issues involving WTO rules.

Ukraine must also complete negotiations on levels of funding for certain programs supporting its agriculture sector before it becomes a WTO Member.

a. Jackson-Vanik Amendment

On March 23, 2006, President Bush signed a bill terminating the application of the Jackson-Vanik amendment to Ukraine and providing for Permanent Normal Trade Relations (PNTR) tariff treatment.

b. Intellectual Property Rights

The United States withdrew Ukraine's benefits under the Generalized System of Preferences (GSP) program in 2001 and imposed trade sanctions and elevated Ukraine to the Special 301 Priority Watch List in 2002 as a result of Ukraine's record of not protecting intellectual property rights (IPR), such as widespread piracy of copyrighted goods such as compact discs (CDs) and digital video discs (DVDs). The United States lifted sanctions on August 30, 2005, after the Ukrainian Government made significant improvements to IPR protection over a number of years, culminating in the passage of amendments to the "Laser-Readable Disk Law" in July 2005. In recognition of Ukraine's efforts to improve the enforcement and protection of intellectual property rights, on January 23, 2006, the United States also reinstated GSP benefits for Ukraine and lowered Ukraine's designation under Special 301 from Priority Foreign Country to Priority Watch List.

In January 2006, the government of Ukraine agreed to work with the U.S. Government and with the U.S. copyright industry to monitor the progress of future enforcement efforts through the Enforcement Cooperation Group (ECG). This bilateral group conducted successful dialogues in the summer and fall of 2006 that brought additional IPR concerns to Ukraine's attention, particularly the non-transparent operation of copyright royalty-collecting societies in Ukraine.

c. Sanitary and Phytosanitary Issues

The March 2006 WTO bilateral market access agreement with the United States addresses the terms of U.S. exports of beef, beef products, and pork to Ukraine. The two sides signed detailed veterinary certificates related to such goods. As agreed, Ukrainian authorities have issued instructions allowing the import of U.S. origin beef and pork, and the United States is monitoring resulting trade flows. Allowing trade in these products to flow is required for Ukraine to adhere to its commitments under the bilateral agreement.

In the past, Ukraine has blocked the importation of U.S. beef and beef products due to concerns over the use of growth promoting hormones as well as bovine spongiform encephalopathy (BSE). The United States is working with the government of Ukraine to ensure that any measures undertaken by Ukraine are consistent with World Organization for Animal Health (OIE) standards. Under Ukraine's domestic legislation, its Law of Veterinary Medicine addresses this issue.

U.S pork exports to Ukraine have historically been hampered by regulations concerning trichinae. The United States is working with Ukraine to take the necessary steps to align Ukrainian standards for trichinae with international norms.

d. Grain Exports

Ukraine is the sixth largest wheat exporter in the world. In September and October 2006, the government of Ukraine implemented new policies to restrict wheat, barley, and corn exports, following failed attempts to convince grain traders to sell wheat to the State Grain Reserve at below-market prices. The government of Ukraine said that a grain shortage would result should exports continue to flow freely, although national grain reserves were not significantly below historical levels. The measures brought grain exports to a near standstill and resulted in major financial losses for grain traders, including some

U.S. companies. The Ukrainian government's provision at the end of 2006 of export licenses for wheat exports, the volumes of which fall far short of historical trade, does not address the strong concerns expressed by the United States and other foreign governments. This issue remained unresolved at the end of 2006, but USTR and other U.S. agencies will continue to press the government of Ukraine for a workable long-term solution.

7. Central Asia and the Caucasus

The United States continues actively to support political and economic reforms in Central Asia and the Caucasus region, which includes Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

The United States has been working – bilaterally and multilaterally – to construct strong trade and investment links with this region. Bilaterally, the United States has concluded trade agreements to extend Normal Trade Relations (NTR, formerly referred to as "most favored nation" or "MFN") tariff treatment to these countries and to enhance intellectual property rights protection. The United States also has extended GSP duty-free benefits to certain exports from eligible beneficiary developing countries and has negotiated bilateral investment treaties (BITs) to guarantee compensation for expropriation, transfers in convertible currency, and the use of appropriate dispute settlement procedures. The United States has some form of bilateral investment agreement with every country in the region. The United States currently has BITs in force with Armenia, Azerbaijan, Georgia, Kazakhstan, and Kyrgyzstan, and has signed a BIT with Uzbekistan, which has not yet entered into force.

Multilaterally, the United States has encouraged accession to the WTO as an important method of supporting economic reform. Now that much of this framework is in place, the U.S. Government is working to ensure that these countries satisfy their bilateral and multilateral trade obligations.

In 2005, the United States signed a multi-party Trade and Investment Framework Agreement (TIFA) with five Central Asia countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). This Agreement provides a regional forum for discussion of trade and investment with a view to improving the regional investment climate and liberalizing and increasing trade between the United States and the region. The TIFA Council first met in Washington, DC, in 2005 and then in Almaty, Kazakhstan in July 2006.

a. Jackson-Vanik Amendment

Several countries in Central Asia and the Caucasus receive conditional NTR tariff treatment pursuant to the provisions of Title IV of the Trade Act of 1974, also known as the Jackson-Vanik amendment (see description of Jackson-Vanik above in Russia section). The President has determined that all the republics of Central Asia and the Caucasus, with the exception of Turkmenistan, are in full compliance with Title IV's freedom of emigration requirements. Turkmenistan receives NTR tariff treatment under an annual Presidential waiver. Turkmenistan became subject to the annual waiver in 2003, following the re-imposition of an exit visa requirement.

Pursuant to specific legislation, the President has terminated application of title IV to Kyrgyzstan, Georgia and Armenia. These countries now receive permanent normal trade relations (PNTR) treatment and the United States applies the WTO to these countries.

The Administration continues to consult with the Congress and interested stakeholders with a view to removing other countries in the region that comply fully with the Jackson-Vanik amendment's freedom of emigration provisions from the coverage of title IV's provisions.

b. Intellectual Property Rights (IPR)

Since the United States concluded bilateral agreements covering IPR protection throughout the region, USTR has worked to ensure compliance by these countries with their IPR obligations. In 2000, the transitional period granted to developing countries and formerly centrally-planned economies for compliance with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) expired. Accordingly, USTR has conducted a close examination of compliance of WTO Members in the region with the TRIPS Agreement. The United States has cooperated with, and provided technical assistance to, the countries in the region to help improve the level of IPR protection. Copyright and trademark piracy has been a widespread and serious problem throughout the region. Customs and law enforcement authorities in the region are making slow progress in upgrading these countries' enforcement efforts, but continued close monitoring and technical assistance are still warranted.

c. Generalized System of Preferences (GSP)

Armenia, Georgia, Kazakhstan, Kyrgyzstan and Uzbekistan are beneficiaries under the GSP program. In 2004, Azerbaijan submitted an application, which is under consideration, for designation as a beneficiary developing country under the GSP program. Tajikistan and Turkmenistan have not yet applied to be designated as eligible beneficiaries in the GSP program. USTR also conducts annual reviews of country practices, as required by statute, and in response to petitions received from interested parties, to determine beneficiaries' continued eligibility to receive GSP benefits.

Country practice petitions have been accepted regarding concerns about the IPR regimes of Kazakhstan and Uzbekistan. Because of improvements made in IPR enforcement by the government of Kazakhstan, the review of the IPR petition was closed in 2006. Review of the petition for Uzbekistan, including bilateral consultations, is continuing.

8. WTO Accessions

Please see Chapter II.J.6 for the discussion of WTO accessions relevant to the region.

E. Mediterranean/Middle East

Overview

Strong trade relations with the countries of Northern Africa and the Middle East can help advance important U.S. commercial and foreign policy interests. The events of September 11, 2001, highlighted the importance of supporting peace and stability in the region by fostering economic development. The Free Trade Agreements (FTAs) in force with Israel, Jordan, Morocco and Bahrain; the FTA concluded with Oman; and the ongoing FTA negotiations with the United Arab Emirates, together with the Trade and Investment Framework Agreements (TIFAs) established with most countries in the region, provide the context for our bilateral trade policy discussions with these countries. These discussions are aimed at increasing U.S. exports to the region, improving economic prosperity for countries in the region and assisting in the development of intra-regional trade.

1. Egypt

During 2006, Egypt continued to implement significant economic reforms long urged by the United States in such areas as privatization, customs administration, banking and tax reform. Qualifying Industrial Zones (QIZs) designated in Egypt by USTR in December 2004 and November 2005 continue to prove effective in fostering expanded economic and trade ties between Egypt, Israel and the United States. In 2005, Egypt's QIZ exports accounted for 13 percent of total Egyptian exports to the United States, a figure which more than doubled to 28 percent[52] in 2006.

Despite joint efforts to address issues affecting U.S. companies, Egypt's intellectual property regime remained an area of concern for the United States in 2006. In April 2006, Egypt was maintained on the Special 301 Priority Watch List due to marketing approvals granted for locally produced copies of patented United States pharmaceutical products, as well as deficiencies in Egypt's copyright enforcement regime, judicial system and trademark enforcement. The Egyptian Government in 2006 took the long-awaited step of expanding the enforcement role of the Ministry of Communications and Information Technology, a measure that has the potential to improve protection for U.S. copyrights. The United States will continue to look for Egypt to address intellectual property issues that are important for continued economic development and the expansion of the U.S.-Egypt trade relationship.

2. WTO Accessions

Please see Chapter II.J.6 for the discussion of WTO accessions relevant to the region.

3. Qualifying Industrial Zones

a. Egypt

Qualifying Industrial Zones (QIZs) are established pursuant to legislation passed by the Congress in October 1996, authorizing the President to proclaim elimination of duties on articles produced in the West Bank, Gaza Strip, and goods produced in qualifying industrial zones in Jordan and Egypt that have Israeli content . The President delegated the authority to designate QIZs to the USTR. Until December 2004, all QIZs had been established in Jordan. 2004 saw the expansion of the QIZ initiative to include Egypt.

In December 2004, USTR designated three QIZs in Egypt: the Greater Cairo QIZ, the Alexandria QIZ and the Suez Canal Zone QIZ. In November 2005, at the request of Egypt and Israel, USTR approved a new zone – the Central Delta QIZ – as well as the expansion of the already designated Greater Cairo and Suez Canal Zone QIZs.

Approval of Egypt's and Israel's QIZ requests reflects continuing U.S. support for expanded economic and political ties between the two countries. In addition, the QIZs are expected to further Egypt's efforts to liberalize its economy and integrate economically with its regional neighbors and in the global market. With the QIZs accounting for 26 percent of the U.S.'s $2.4 billion in imports from Egypt in 2006, a 100 percent increase over 2005, important progress is being made towards realizing these objectives.

b. Jordan

Qualifying Industrial Zones (QIZs) continue to play a major role in Jordan's economy. Thirteen QIZs have been established in Jordan since 1998. The duty free benefits provided by QIZs remain particularly important for Jordanian products for which duty free treatment has not yet been phased-in under the United States-Jordan FTA. QIZs played an important role in helping to boost Jordan's exports to the United States from $16 million in 1998 to $1.3 billion in 2005. As of October 2006, Jordan's QIZ exports were up 8.3 percent over the prior year.

In 2004, USTR designated two QIZs in Jordan (the Resources Company for Development and Investment Zone (RCDI) and Al Hallabat Industrial Park). The Zarqa Industrial Zone was designated in 2001, and

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five QIZs were designated in 2000: The Investors and Eastern Arab for Industrial and Real Estate Investments Company Ltd. (Mushatta International Complex), El Zay Ready Wear Manufacturing Company Duty-Free Area, Al Qastal Industrial Zone, Aqaba Industrial Estate, and the Industry and Information Technology Park Company (Jordan CyberCity Company). Four QIZs were designated in 1999 (Al-Tajamouat Industrial City, Ad-Dulayl Industrial Park, Al-Kerak Industrial Estate, and Gateway Projects Industrial Zone). The first QIZ in Jordan, Irbid, opened in 1998.

The steady growth of QIZs illustrates the economic potential of regional economic integration. In addition to the competitive benefit of duty-free status for QIZ exports to the United States, QIZs increasingly offer participating companies the advantages of modern infrastructure and strong export expertise and linkages. This evolution should serve to increase the economic benefits generated by QIZs.

To address allegations reported during the year of workers' rights violations in QIZs, the United States and Jordan held senior-level meetings and established a working group under the Joint Committee of the United States-Jordan FTA to address labor law and enforcement in Jordan.

F. Asia

1. Australia

A discussion of U.S.-Australia relations during 2006 can be found in Section A, describing the U.S.-Australia FTA.

2. New Zealand

The United States and New Zealand held discussions in June under the Trade and Investment Framework Agreement (TIFA), consulting on a range of bilateral issues including agriculture, sanitary and phytosanitary standards, biotechnology, intellectual property protection, pharmaceutical policy, customs cooperation and other issues. The two governments also agreed to establish a separate dialogue on agricultural issues under the TIFA. In addition, the United States and New Zealand continued to consult closely on advancing the APEC agenda and bringing the WTO Doha Development Agenda negotiations to a successful conclusion.

New Zealand is our 53rd largest trading partner. Two-way trade totaled $6 billion[53] in 2006. U.S. goods exports totaled $3 billion[54] in 2006, up 11.8 percent from the previous year. Exports are concentrated in the machinery, aircraft and electrical machinery sectors.

3. The Association of Southeast Asian Nations (ASEAN)

a. Cambodia

The United States and Cambodia signed a Trade and Investment Framework Agreement (TIFA) on July 14, 2006. The TIFA will provide a formal mechanism for the United States and Cambodia to engage on economic and trade issues of mutual interest, including Cambodia's domestic reform program and implementation of its WTO commitments.

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[53] Annualized 11 month data
[54] Annualized 11 month data

Cambodia became the 148th member of the WTO on October 13, 2004. Ministers at the WTO Cancun Ministerial Meeting approved terms of accession for Cambodia in September 2003, but Cambodia did not complete its domestic ratification procedures until September 2004.

b. Indonesia

i. General

The United States has worked throughout 2006 to enhance its TIFA dialogue with Indonesia, seeking to help strengthen Indonesia's economy and encourage liberalization and other economic reforms that would generate additional trade and foreign investment. U.S. and Indonesian trade officials met several times in 2006 to discuss the range of outstanding issues affecting the U.S.-Indonesian economic relationship. They discussed the need to address unresolved bilateral issues and exchanged views on developments in regional and multilateral fora such as APEC and the WTO, as well as steps to create conditions that will allow for the consideration of a possible future free trade agreement. Indonesia is currently our 40th largest goods export market and total two-way goods trade reached $16.5 billion[55] during 2006.

ii. Intellectual Property Rights (IPR)

The United States has continued to urge Indonesia to take steps to strengthen its IPR regime. Based on an improved level of enforcement, among many factors, USTR lowered Indonesia to the Special 301 Watch List in November 2006 following an Out-of-Cycle Review. Remaining concerns over weaknesses in Indonesia's efforts in this area led the United States to provide Indonesia with a suggested IPR Plan of Action. The plan proposes areas where additional improvement in strengthening intellectual property protection is needed, including enforcement, counterfeiting and trademark violations, and prosecution and deterrent sentencing of intellectual property cases. On enforcement, the United States, in 2006, encouraged Indonesia to fully and actively enforce the 2005 Optical Disc Regulations, which offer a mechanism to better control the production of pirated optical disc media. The United States also encouraged Indonesia to take steps to improve inter-ministerial coordination on efforts to combat IPR piracy and to strengthen the legal framework and enforcement mechanisms to protect IPR.

iii. Combating Illegal Logging

In 2006, the United States 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 MOU establishes a working group under the TIFA.

iv. Textiles

The United States continues to raise concerns about Indonesia's 2002 Textiles Decree, which effectively precludes the importation of certain textiles into Indonesia other than directly by local manufacturers for use as inputs into other products. In September 2006 the United States and Indonesia signed a Memorandum of Understanding (MOU) to prevent the illegal transshipment of textiles and apparel through Indonesia to the United States. The MOU provides for customs cooperation, identification of

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55 Annualized 11 month data

textile and apparel manufacturers, and joint verification visits to provide each country's government with the information necessary to stop textile and apparel transshipments. The United States is Indonesia's largest market for exports of textile and apparel products. In 2005, textile and apparel imports from Indonesia were valued at $3 billion, making Indonesia the United States' fifth largest textile and apparel supplier in value terms. The MOU will facilitate textiles and apparel trade by helping both governments better distinguish between legitimate transactions and shipments that circumvent trade rules and procedures.

v. Sanitary and Phytosanitary Standards

The United States continued to press Indonesia in 2006 to address its concerns about a sanitary and phytosanitary (SPS) issue regarding U.S. fruit and vegetable imports. In May 2005, Indonesia issued a proposed regulation, Decree 37, which imposed new requirements for fresh fruit and vegetable imports. The proposal inaccurately represented the presence of fruit flies in the United States. Although the United States corrected this information in its August 2005 response to the proposed regulation, Decree 37 became effective on March 27, 2006 without modification of the U.S. pest status. The final regulation requires imports of fruit fly host commodities to originate from fruit fly free areas or to be treated as a condition of entry. Eleven U.S. fruit products were affected by Decree 37, including apples and grapes. Indonesia is the seventh largest market for U.S. apples with imports of over $20 million in 2005. In December 2006, following a Ministry of Agriculture inspection visit, Indonesia declared California as a pest-free area for the Mediterranean fruit fly for grapes, opening the way to renewed grape exports. In 2005, the United States exported over $15 million worth of grapes to Indonesia, its ninth largest market. The United States will continue to press Indonesia to permit resumption of U.S. fruit exports on the basis of sound science and in conformance with international SPS standards.

c. Laos

The United States - Laos Agreement on Trade Relations (BTA) came into effect on February 4, 2005, after domestic ratification procedures were completed in both countries. The BTA normalized trade relations between the two countries. Under the BTA, the United States extended normal trade relations status (NTR) to products of Laos. Laos agreed to implement a variety of reforms to its trade regime, including MFN and national treatment for products of the United States, transparency in rule making, establishment of a regime to protect intellectual property rights, and implementation of WTO-compliant customs regulations and procedures.

The United States is working closely with Laos to implement the terms of the BTA and is continuing to work with Laos to support its accession to the WTO. The second meeting of the Working Party for Laos' accession met in November 2006.

d. Malaysia

The United States and Malaysia launched FTA negotiations in March 2006. A discussion of U.S. – Malaysian engagement during 2006 can be found in Chapter III, Section A.16.

e. The Philippines

i. General

The United States furthered its dialogue with the Philippines in 2006, holding several rounds of consultations under the bilateral TIFA which was signed in 1989. The two sides have used these meetings to make progress in addressing outstanding concerns. In addition, the United States used these meetings to urge the Philippines to resist taking any steps that might run counter to continued progress toward liberalizing its trade and investment regime. The United States has also asked the Philippines to reaffirm its support for global trade liberalization as outlined in the WTO Doha Development Agenda. The Philippines is currently the 19th largest export market for U.S. goods. Based on annualized data from January through November of 2006, U.S. goods exports in 2006 were $7.7 billion, up 11.9 percent from the previous year and U.S. imports from the Philippines were $9.8 billion, up 5.9 percent. The stock of U.S. foreign direct investment (FDI) in the Philippines in 2005 was $6.6 billion (latest data available), up from $6.0 billion in 2004. U.S. FDI in the Philippines is concentrated largely in the manufacturing, finance, and nonbank holding companies sectors.

ii. Intellectual Property Rights (IPR)

The Philippines continued to make some progress in its efforts to strengthen IPR protection in 2006. As a result, the United States announced in February 2006 that following an "Out-of-Cycle Review" (OCR) it had elected to lower the Philippines to the Special 301 Watch List from the Priority Watch List. The OCR concluded that throughout 2005 and into 2006, the Philippines had bolstered implementation of its special legislation that was passed to stop illegal production of pirated optical discs by controlling the licensing of, and conducting raids against, pirate optical disc production facilities. In addition, Philippine authorities conducted numerous raids on retail stores selling pirated and counterfeit goods. The Philippine government also measurably improved coordination of government agencies responsible for IPR enforcement. However, the OCR also concluded that sustained effort and continued progress on key IPR issues will be essential to avoid a future return to the Priority Watch List. To support the Philippines' efforts to strengthen its IPR regime, the United States provided Philippine officials with an IPR Action Plan intended to assist with prioritizing areas where further action is needed to improve the level of IPR enforcement, including a call for prosecutions of IPR-related crimes that result in deterrent-level sentences being handed down and actually served by offenders. The United States continues to monitor closely efforts by the Philippine Government to further improve its IPR enforcement regime.

In 2006, the Philippine Intellectual Property Office (IPO) continued work aimed at interagency coordination and cooperation on IPR enforcement. The Optical Media Board (OMB) significantly increased the number of raids it carried out against IP pirates in 2006. Nonetheless, pirated optical media continues to be widely available across the Philippines, indicating that additional enforcement action remains necessary. In addition, the Philippines has been slow to prosecute IPR offenders and impose deterrent penalties. The IPO, in 2005, proposed the creation of three Special IP Courts, but these Courts have not yet been established.

Other concerns regarding the protection of intellectual property rights in the Philippines remain. The United States has been closely monitoring proposals pending in the Philippine Congress to amend the Intellectual Property Code in ways that could weaken patent and trademark protections for pharmaceuticals. The Philippines has yet to pass copyright amendments, pending in its Congress as of January 2007, which would update its domestic law to address electronic commerce piracy.

iii. Telecommunications

The United States continues to monitor developments in the telecommunications sector, although no significant changes took place in 2006. The U.S. and Philippine governments successfully worked together to begin reopening U.S. access to the Philippines telecommunications networks. In February 2003, Philippine telecommunications companies blocked access to their networks to incoming call traffic from certain U.S. and other foreign telecommunications companies that were unwilling to agree to tariff increases the Philippine companies wanted to impose. Senior U.S. government officials, including from USTR and the FCC, raised concerns over this action with Philippine officials. In November 2003, some telecommunications connections between the two countries were restored and ongoing negotiations resulted in a complete restoration of telecommunications links in 2004.

iv. Customs

The Philippines has made progress over the last several years toward bringing its customs regime into compliance with its WTO obligations, but the United States has continued to have concerns about inconsistent application of customs rules and procedures, undue and costly processing delays, and the role of the Philippine private sector in the valuation process. The Philippines has outlined steps it has taken and plans to take to strengthen the enforcement and consistency of its customs rules and improve enforcement against IPR piracy at the border. The United States will continue to closely monitor this issue.

v. Sanitary and Phytosanitary (SPS) Issues

Throughout 2006, the United States requested that the Philippines reform the manner in which it administers its Veterinary Quarantine Clearance (VQC) certificate program. Currently, VQCs are issued in fixed tonnage amounts that do not necessarily match the tonnage of a given shipment of U.S. meat and poultry exports to the Philippines. VQCs issued with fixed tonnage assigned to them force importers to waste VQC allotments because excess VQC tonnage can not be reclaimed in any way. This practice impedes the flow of U.S. meat and poultry exports that otherwise meet Philippine VQC standards. The United States will continue to press the Philippines to permit VQCs to be issued to match the tonnage of incoming shipments or for importers to be able to "carry over" any unused tonnage to subsequent shipments of U.S. meat and poultry.

f. Singapore

The United States and Singapore negotiated a bilateral Free Trade Agreement (FTA), which was signed in May 2003 and entered into force on January 1, 2004. United States-Singapore trade issues, including FTA implementation issues, are discussed in the section on bilateral and regional FTA negotiations (see Chapter III, section A.4).

g. Thailand

The United States and Thailand initiated negotiation of an FTA in mid-2004. A discussion of U.S. – Thai engagement on trade issues during 2006 can be found in Chapter III, section A.14.

h. Vietnam

The United States worked closely with Vietnam throughout 2006 on continued implementation of the Bilateral Trade Agreement (BTA) and concluding Vietnam's accession to the World Trade Organization. Vietnam is currently our 43rd largest trading partner. Two-way trade totaled $9.9 billion in 2006 based on annualized 11 month trade data, an increase of 420 percent from 2001. Exports are concentrated in the machinery and electrical machinery, plastics, and civil aircraft sectors.

The BTA entered into force on December 10, 2001. After the BTA entered into force, the United States extended NTR treatment to products of Vietnam subject to the conditions set out in the so-called Jackson-Vanik provisions of the Trade Act of 1974. In the BTA, Vietnam committed to make sweeping economic reforms, which have created trade and investment opportunities for both U.S. and Vietnamese companies over the past five years. Implementation of the BTA, in conjunction with technical assistance from the

United States, supported Vietnam's entry into the WTO and increased the country's capacity to undertake the broad reforms necessary to meet the requirements of the WTO.

The Joint Committee established by the BTA has met annually in formal session since implementation of the Agreement, most recently in June 2006. The primary purpose of the Joint Committee is to review implementation of the provisions of the BTA. The United States will continue to work with the Vietnamese to ensure continued compliance with the BTA commitments.

Vietnam concluded its bilateral and multilateral negotiations for WTO membership in 2006. In May 2006, the United States and Vietnam completed a bilateral market access agreement on goods and services, forming part of the terms of Vietnam's accession to the WTO. Throughout 2006, the United States worked intensively with Vietnam and Members of the Working Party on Vietnam's accession to the WTO to conclude negotiations on the remaining outstanding multilateral issues and to complete the Working Party Report. This work was completed in late 2006 and on November 7 the WTO General Council formally invited Vietnam to become the body's 150th member. Vietnam's National Assembly ratified the terms of accession in late November and Vietnam became a member of the WTO on January 11, 2007.

On December 8, 2006 the United States Congress passed legislation authorizing the grant of permanent normal trade relations to products of Vietnam. On December 29, 2006, President Bush signed a proclamation terminating application of the Jackson-Vanik provisions of the Trade Act of 1974 to Vietnam and extending permanent normal trade relations tariff treatment to the products of Vietnam.

4. Republic of Korea

The United States launched negotiations on a free trade agreement (FTA) with Korea on February 2, 2006. As the most commercially significant free trade negotiation launched by the United States in over 15 years, since talks with Mexico and Canada, the United States-Korea FTA (KORUS FTA) will have significant economic, political, and strategic benefits for both sides.

Korea is the world's 8th largest economy and is the United States' 7th largest trading partner, 7th largest export market and the 6th largest agricultural export market. The KORUS FTA will serve to improve upon these established ties by promoting exports of U.S. industrial and agriculture goods through eliminating Korea's tariffs on U.S. products. The amount of two-way trade between the U.S. and Korea, now valued at $73 billion annually, is expected to grow as a result of an FTA. The FTA will provide an opportunity to eliminate or reduce tariff and non-tariff measures that impede access for industrial and agricultural goods to the Korean market, as well as reduce or eliminate restrictions that make it difficult for U.S. service providers to operate in the Korean market. It will promote bilateral investment by establishing rules that reduce or eliminate trade-distorting barriers to investment in Korea. In addition, the agreement provides the opportunity to further enhance Korea's customs administration and intellectual property regimes, and stands to address unjustified sanitary and phytosanitary barriers. The Korea FTA will also provide the opportunity to address anti-competitive business conduct, strengthen transparency in Korea's regulatory processes, and reduce non-tariff barriers, including those in the automotive and pharmaceutical sectors.

In addition to strengthening our economic partnership, the KORUS FTA will help to solidify the two countries' long-standing diplomatic relationship – serving as a pillar of our bilateral relations for generations to come. In addition, as the first U.S. FTA with a North Asian partner, the KORUS FTA promises to serve as a model for trade agreements for the rest of the region, and will underscore the U.S. commitment to and engagement in the Asia-Pacific region.

Five rounds of KORUS FTA negotiations were completed in 2006 and substantial progress was made in most of the areas of negotiations during this time. Under the talks, there are 17 negotiating groups and 2 working groups on automotives and pharmaceuticals/medical devices. The KORUS FTA is the first U.S. FTA negotiation to dedicate specific working groups to these issues. While no chapters of the agreement were closed, a good part of the FTA text was agreed upon on an *ad referendum* basis by the end of 2006. However, many sensitive issues remain to be resolved. The United States is seeking to conclude the agreement by the end of March 2007, in order to complete the agreement under the current Trade Promotion Authority. To that end, additional meetings will take place in 2007, at both the working and higher levels.

In 2006, Korea played a largely constructive role in the World Trade Organization (WTO) Doha Development (DDA) negotiations prior to the suspension, particularly in the areas of non-agricultural market access, services, and trade facilitation. Furthermore, Korea continued to cooperate closely with the United States in the Asia-Pacific Economic Cooperation (APEC) forum to help promote trade and investment liberalization in the region, particularly with regard to strengthening intellectual property rights protection and enforcement.

Non-FTA Issues

Beef: In September 2006, Korean announced the partial reopening of its market to U.S. beef exports. The market had been closed since December 2003, following the detection of an imported cow with Bovine Spongiform Encephalopathy (BSE) in Washington State.

Under the current import protocol, de-boned muscle meat from animals 30 months and younger is eligible for entry into Korea. Prior to the resumption of trade, the United States made multiple requests for a copy of the import inspection protocol that would be applied to shipments of U.S. beef upon arrival in Korea, in an effort to avoid potential misunderstandings that could jeopardize the newly re-opened market. No protocol was provided. Three shipments of de-boned muscle meat were exported to Korea in the fall of 2006. Each was rejected by Korean authorities following the detection of material Korea defined as non-compliant, but which Korea acknowledged presented no human health risk. No additional shipments were exported to Korea, and the market remains effectively closed.

The United States continues to work with Korea to fully reopen its beef market consistent with international guidelines.

5. India

a. General

In 2006, the United States and India completed an active year on trade policy. The agenda was wide-ranging, commensurate with India's dynamic and growing economy, the significant opportunities for bilateral trade that U.S. and Indian companies are enthusiastically pursuing, and the many challenges U.S. investors continue to face as India gradually opens its markets and liberalizes its economy. These efforts included work to identify areas for cooperation and focused on issues such as India's tariff and tax regime, intellectual property rights, investment climate and subsidies. India continues to limit market access in various sectors, including through high taxes and tariffs, non-transparent procedures, differential treatment of imports, and non-tariff technical measures. Our discussions also addressed WTO-related trade issues, though the bulk of such dialogue occurs in the multilateral context, mainly in Geneva. Bilateral trade doubled in the three years preceding President Bush's historic visit to India in March 2006, and President Bush and Prime Minister Singh announced in March our governments' intention to double trade again in the next three years to approximately $50 billion. That said, the current total amount of bilateral trade is not consistent with the size and potential of both the U.S. and the Indian economies, and both governments agree that trade and investment flows should be much greater.

b. Trade Dialogue

During President Bush's historic visit to India in March 2006, then United States Trade Representative Rob Portman and India's Minister of Commerce and Industry Kamal Nath convened the second ministerial-level meeting of the United States-India Trade Policy Forum (TPF). President Bush and Prime Minister Singh launched the TPF in 2005 as the premier mechanism for the two countries to discuss bilateral trade and related issues with a goal to expand commercial interaction between India and the United States. The discussions also address multilateral issues such as the ongoing Doha Development Round negotiations. The Trade Policy Forum is part of the overall Economic Dialogue between India and the United States. Ambassador Schwab and Minister Nath convened the third ministerial meeting in June 2006. They will continue to oversee the Forum and guide its work. Through regular dialogue both sides hope to remove impediments to bilateral trade, seek early resolution of concerns and anticipate potential problems.

The Trade Policy Forum serves as the umbrella for five Focus Groups covering Agriculture, Tariff and Non-Tariff Barriers, Services, Investment, and Innovation and Creativity (covering intellectual property rights issues). In 2006, the U.S. and Indian Focus Group co-chairs met regularly to address priority issues such as foreign direct investment caps, intellectual property rights, telecommunications policy and market access for products as diverse as automobiles and agricultural products. In 2006, Deputy U.S. Trade Representative Karan Bhatia and India's Commerce Secretaries (S.N. Menon and current Secretary Gopal Pillai) co-chaired three deputy-level meetings of the Forum and supervised the ongoing Focus Group discussions. In 2007, the Trade Policy Forum's Focus Groups will continue to meet regularly by digital videoconference and face-to-face meetings. The TPF will also meet as necessary throughout the year in New Delhi and Washington, DC, at the ministerial and deputy-levels. USTR also will continue to work with India to find common ground to ensure an ambitious outcome of the Doha Round.

6. Pakistan

Both U.S.-Pakistan trade and U.S. investment in Pakistan grew in 2006. Work continues with the government of Pakistan to enhance and expand the bilateral trading relationship, including by helping Pakistan to create a climate conducive to increased foreign investment.

In 2006, bilateral efforts included two ministerial-level meetings. USTR Susan Schwab met with Pakistan's Commerce Minister Humayun Khan in August 2006, and again in September 2006 in Cairns, Australia. In October, AUSTR Douglas A. Hartwick co-chaired the second meeting of the U.S.-Pakistan Trade and Investment Framework Agreement (TIFA) Council with Pakistan's Commerce Secretary Syed Asif Shah. The TIFA Council meeting, which took place in Islamabad, focused on a number of priorities in the bilateral economic relationship, including Reconstruction Opportunity Zones (ROZs), GSP, textiles, workers rights, services, facilitation of Afghan-Pakistan transit trade, and agriculture.

In March 2006, the President announced his intention to request Congress to authorize the creation of Reconstruction Opportunity Zones (ROZs) in Afghanistan and in Pakistan's border regions. USTR and the Department of State have led the effort to develop this initiative, which is intended to bring development and job creation to geographic areas that are among the most critical in the global war on terror. The creation of ROZs will encourage investment by granting duty-free entry to the United States for certain goods produced in designated territories. In support of this effort, USTR officials held consultations with the governments of Afghanistan and Pakistan and visited both regions. In 2007, the Administration will work closely with Congress and private sector stakeholders to implement this important initiative.

The government of Pakistan continued to take noticeable steps during 2006 to improve copyright enforcement, especially with respect to optical disc piracy. Nevertheless, Pakistan does not provide adequate protection of all intellectual property. Book piracy, weak trademark enforcement, lack of data protection for proprietary pharmaceutical and agricultural chemical test data, and problems with Pakistan's pharmaceutical patent protection remain serious barriers to trade and investment. However, Pakistan took significant steps to shut down optical disc production and exports of pirated optical discs over the last two years, and it created the Intellectual Property Rights Organization (IPO). In April 2006, in recognition of the government of Pakistan's efforts, USTR lowered Pakistan from the Special 301 Priority Watch List to the Watch List. USTR officials engaged the Pakistani Ministry of Health and IPO throughout 2006 to see that they met other commitments, particularly in areas of patent linkage and data protection.

In 2006, USTR continued bilateral efforts to finalize a Bilateral Investment Treaty (BIT), which would provide U.S. investors in Pakistan with significant legal protections. A small but significant number of differences have persisted on issues of considerable importance to the United States. Discussions on the BIT are expected to continue in 2007.

7. Afghanistan

In March 2006, the President announced his intention to request Congress to authorize the creation of Reconstruction Opportunity Zones (ROZs) in Afghanistan and in Pakistan's border regions. USTR and the Department of State have led the effort to develop this initiative, which is intended to bring development and job creation to geographic areas that are among the most critical in the global war on terror. The creation of ROZs will encourage investment by granting duty-free entry to the United States for certain goods produced in designated territories. In support of this effort, USTR officials held consultations with the governments of Afghanistan and Pakistan and visited both regions. In 2007, the Administration will work closely with Congress and private sector stakeholders to implement this important initiative.

USTR officials met twice with Afghan Minister of Commerce Mohammed Amin Farhang in 2006. Topics discussed included ROZs, Afghanistan's accession to the WTO, diversification of the economy, and the need for Afghanistan to maximize its use of the GSP program. USTR supported efforts to assist Afghanistan's economic integration into the South and Central Asia regions, including finding opportunities for Afghanistan to participate in regional conferences and raising with neighboring governments the critical need to facilitate Afghanistan's transit trade.

In 2007, in addition to efforts to put in place ROZs, USTR will hold high-level trade discussions under the auspices of the U.S.-Afghanistan Trade and Investment Framework Agreement and will conduct training for Afghan officials for future WTO accession.

8. People's Republic of China

When China acceded to the WTO on December 11, 2001, it committed to implement over time a set of sweeping reforms that required it to lower trade barriers in virtually every sector of the economy, provide national treatment and improved market access to goods and services imported from the United States and other WTO members, and protect intellectual property rights. Five years later, the deadlines for almost all of China's commitments have passed, and China's transition period as a new WTO Member is now essentially over.

China has taken significant and often impressive steps to reform its economy since acceding to the WTO. During this period, China has repealed, revised or enacted more than 1,000 laws, regulations and other measures in an effort to bring its trading system into basic compliance with WTO standards. China has also taken steps to implement numerous specific commitments pursuant to schedules set forth in its WTO accession agreement. Each year, China has made annual reductions in its tariff rates, eliminated non-tariff barriers, expanded market access for foreign services providers and improved transparency. All of these steps were designed to deepen China's integration into the international trading system, as well as to facilitate and strengthen economic reforms that China began 20 years earlier. The United States – including U.S. workers, businesses, farmers, service providers and consumers – has benefited significantly from these steps and continues to do so as U.S.-China trade grows.

Nevertheless, despite significant progress in many areas, China's record in implementing WTO commitments is decidedly mixed. China continues to pursue problematic industrial policies that rely on trade-distorting measures such as local content requirements, import and export restrictions, discriminatory regulations and prohibited subsidies, all of which raise serious WTO concerns. China's shortcomings in enforcing laws in areas where detailed WTO disciplines apply, such as intellectual property rights (IPR), have also created serious problems for the United States and its other trading partners.

U.S. industry traces many of the United States' most difficult trade issues with China to excessive Chinese government intervention in the market through policy directives and the actions of individual officials. This government intervention, evident in many areas of China's economy, is a reflection of China's historic yet unfinished transition from a centrally planned economy to a free-market economy governed by the rule of law. To some extent, these difficulties were anticipated. During the fifteen years of negotiations leading up to China's WTO accession, the United States and other WTO members were aware of the state's large role in China's economy and carefully negotiated conditions for China's WTO accession that would, when implemented, lead to significantly reduced levels of government intervention in the market and distortions in trade flows attributable to such intervention.

Noteworthy progress was made as a result of economic reforms adopted by China before and in the first few years after its accession to the WTO. But, there are indications that progress toward further market liberalization slowed in 2006.

U.S. industry expressed concern about an upsurge in industrial planning measures as tools of economic development by central government authorities in 2006, as China appeared to want to expand the government's role in directing the economy and in developing internationally competitive Chinese enterprises, while also restricting the role of international companies in certain sectors. U.S. industry believes that China's continued and expanding use of government intervention and industrial policies has the potential to create sharp frictions in bilateral economic relations.

Developments evidencing the reduced momentum for economic reforms in 2006 make clear that China has not yet fully institutionalized market mechanisms, and that some Chinese government agencies and officials have not yet fully embraced the key WTO principles of market access, non-discrimination, national treatment and transparency. A lack of consensus within China's government and competing Chinese government priorities – including differences in views and approaches among China's central, provincial and local governments – have also contributed to the reduced momentum for economic reforms, as have systemic rule of law problems.

Recognizing these challenges, USTR announced, in a "top-to-bottom" review of U.S.-China trade relations issued in February 2006, that it would adopt a dual-track approach to resolving its WTO concerns. The United States will continue to seek cooperative and pragmatic resolutions through bilateral dialogue with China, including the Joint Commission on Commerce and Trade (JCCT) and the U.S.-

China Strategic Economic Dialogue ("SED"), as well as *ad hoc* bilateral meetings and a variety of sector-specific dialogues. However, when bilateral dialogue fails to succeed in addressing U.S. concerns, the United States will not hesitate to exercise its WTO rights through the initiation of dispute settlement against China, as it would with any other mature WTO trading partner.

The United States achieved some important successes through bilateral dialogue in 2006, including at a JCCT meeting in April. At that meeting, China made several commitments related to IPR protection and enforcement and it also committed to eliminate duplicative testing and certification requirements applicable to imported medical devices, to make adjustments to its registered capital requirements for telecommunications service providers and to allow the resumption of trade in U.S. beef and beef products upon finalization of a protocol. China also reaffirmed past commitments to technology neutrality for 3G telecommunications standards and to ensuring that foreign express couriers would not be negatively impacted by new rules in the postal area. In addition, China committed to commence, by no later than December 31, 2007, formal negotiations to join the WTO's Government Procurement Agreement. Since the JCCT meeting in April, the United States has been working with China to make sure that it implements all of these commitments.

However, to date, other issues have evaded bilateral consensus, despite extensive dialogue. Issues like IPR criminal enforcement thresholds, certain market access concerns and WTO prohibited subsidies have resisted resolution in 2006. Although the United States has been making earnest efforts to resolve these concerns through bilateral discussions, it will have to pursue other options if the bilateral approach is not fruitful.

U.S. preparation for the pursuit of formal WTO dispute settlement facilitated resolution of one dispute in 2006, and another Chinese measure is now the subject of formal WTO dispute settlement. In January 2006, after the United States informed China that it would be filing a formal request for WTO consultations in a challenge to antidumping duties that China had imposed on imports of unbleached kraft linerboard from the United States, China rescinded the antidumping duties. This result enabled U.S. industry to obtain a faster resolution to this problem than would have been possible if the dispute settlement process had needed to run its course. In March 2006, the United States, acting in coordination with the European Communities (EC) and Canada, commenced a WTO dispute settlement case challenging Chinese rules that brought back prohibited local content requirements in the auto sector through the imposition of measures that discriminated unfairly against imported auto parts. More recently, in November 2006, the United States informed China that it would be filing a WTO consultations request with regard to certain IPR enforcement issues, but then agreed to hold off, with the support of U.S. industry, when China asked for further bilateral discussions.

Overall, several areas continue to cause particular concern for the United States and U.S. industry in terms of China's full adherence to its WTO commitments. The key concerns in each of these areas are summarized below.

Intellectual Property Rights

Since its accession to the WTO, China has been able to put in place a relatively good set of laws and regulations aimed at protecting the intellectual property rights of domestic and foreign rights holders. However, some critical measures – such as those establishing high thresholds for criminal prosecution – still need to be revised, and China's enforcement of its laws protecting the intellectual property rights covered by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) has often been ineffective. With many in U.S. industry reporting no significant reduction in IPR infringement levels again in 2006, counterfeiting and piracy in China remain at unacceptably high levels and cause serious economic harm to U.S. businesses in virtually every sector of the economy.

In 2006, the Administration continued to place the highest priority on improving IPR enforcement in China. One key focus of the United States' bilateral engagement with China continued to be on working with China to improve its IPR enforcement regime so that significant reductions in IPR violations in China could be realized. The United States sought to build on its earlier engagement with China at the April 2004 and July 2005 JCCT meetings, and it placed China on the Special 301 Priority Watch List in 2005. Through the JCCT process in 2006, which included a meeting in April, China agreed to take some immediate steps to address particular problems and committed to take additional future actions. During the run-up to the JCCT meeting, China took enforcement actions against plants that produce pirated optical discs, and it issued new rules that require computers to be pre-installed with licensed operating system software. At the JCCT meeting itself, China committed to ensure the legalization of software used in Chinese enterprises, to pursue increased cooperation to combat pirated goods displayed at trade fairs in China and to intensify efforts to eliminate infringing products at major consumer markets in China. The two sides further agreed that they would increase cooperation between their respective law enforcement and customs authorities and that the United States would provide China with additional technical assistance to assist it in fully implementing the World Intellectual Property Organization (WIPO) Internet treaties, which address the increasingly important area of copyright protection over electronic information networks.

Despite this progress, China continues to deflect calls from the United States and other WTO members for better utilization of criminal remedies to combat rampant IPR infringement in China, claiming that its combination of administrative, civil and criminal enforcement is increasingly effective. The available statistics on continuing massive IPR infringement in China raise obvious questions about this claim. The United States and other WTO members have been unable to review details concerning China's administrative, civil and criminal enforcement system because of China's lack of transparency. In an attempt to better assess this situation, the United States, Japan and Switzerland submitted requests to China under Article 63.3 of the TRIPS Agreement in October 2005, seeking detailed information from China on its IPR enforcement efforts over the prior four years. China has provided only limited information in response, hampering the United States' ability to evaluate what steps are being taken to try to address the rampant IPR infringement found throughout China.

The United States remains committed to working constructively with China to significantly reduce IPR infringement levels in China and continues to devote extra staff and resources, both in Washington and in Beijing, to address the many aspects of this issue. At the same time, when bilateral discussions prove unable to resolve key differences on particular issues, the United States remains prepared to take action, including WTO dispute settlement, where appropriate, to ensure that China develops and implements an effective system of IPR enforcement, as required by the TRIPS Agreement.

Industrial Policies

China has continued to resort to industrial policies that limit market access for non-Chinese origin goods and foreign service providers and that provide substantial government resources to support Chinese industries and increase exports. In some cases, the objective of these policies seems to be to promote the development of Chinese industries that are higher up the economic value chain than the industries that make up China's current labor-intensive base. In other cases, China appears simply to be protecting less competitive domestic industries.

In 2006, examples of these industrial policies remained evident. One obvious example is China's regulations on auto parts tariffs, issued in 2005, which serve to prolong prohibited local content requirements for motor vehicles – a matter that is currently the subject of a WTO dispute brought by the United States, the EC and Canada. Other examples include the telecommunications regulator's continuing interference in commercial negotiations over royalty payments to intellectual property rights holders in the area of 3G standards; the continuing pursuit of unique national standards in many areas of high technology that could lead to the extraction of technology or intellectual property from foreign rights holders; a July 2005 industrial policy that calls for the state's management of nearly every major aspect of China's steel industry; export restrictions on raw materials like coke; and excessive government subsidization benefiting a range of domestic industries in China. Worrisome new measures in 2006 include new requirements for state control of "critical" equipment manufacturers, revised rules for foreign mergers and acquisitions that confer broad and vaguely defined powers on the government to block investments in a range of industries, and plans to steer government purchases to domestic manufacturers to promote innovation in Chinese enterprises. Some of these policies appear to conflict with China's WTO commitments in the areas of market access, national treatment and technology transfer, among others.

The United States and China made little progress in resolving U.S. concerns regarding these industrial policies in 2006. China did reaffirm its commitment to technology neutrality for 3G telecommunications standards, but serious disagreements over a number of other industrial policies remain, including China's continued use of prohibited subsidies. The United States will again press China on these matters in 2007 and will take further appropriate actions seeking elimination of these policies, including WTO dispute settlement, where appropriate.

Trading Rights and Distribution Services

China was scheduled to phase in two key WTO commitments by December 11, 2004. These commitments called for full liberalization of trading rights – the right to import and export – and distribution services, including wholesale and retail services, franchising services and related services. Although delay and confusion initially characterized China's efforts to implement its distribution services commitments, China was able to largely overcome these problems in 2006, prodded by consistent and determined U.S. engagement. U.S. companies and individuals in most sectors are now not only able to import and export goods in China directly, without having to use a middleman, but are also able to establish their own distribution networks within China. Many in U.S. industry consider trading rights and distribution services to be the most important of the WTO commitments China has so far implemented.

Nevertheless, some problems still remain in critical areas. In particular, China continues to maintain import and distribution restrictions on several types of products, including foreign publications such as books, periodicals and audio and video products, in apparent contravention of China's trading rights and distribution services commitments. These restrictions reduce and delay market access for these copyrighted products, creating additional incentives for infringement in China's market. Another key area involves China's commitment to open its market for sales away from a fixed location, also known as "direct selling." Initially delayed, China's implementation of this commitment has since proceeded slowly and has subjected foreign direct sellers to unwarranted restrictions on their business operations. The United States will continue to pursue these important issues in 2007 to ensure that China fully meets its commitments and will take further appropriate actions seeking the revision or elimination of problematic policies, including through WTO dispute settlement, where appropriate.

Agriculture

U.S. agricultural exports to China in 2005 totaled $5.2 billion, with China becoming the United States' fourth largest agricultural export market. The past year was even more successful. U.S. exports of agricultural commodities, particularly cotton and wheat, have continued to increase dramatically in recent years, and China remained the leading export destination for U.S. soybeans – well exceeding $2 billion for the fourth year in a row.

While U.S. exports of agricultural commodities largely fulfill the potential envisioned by U.S. negotiators during the years leading up to China's WTO accession, China's WTO implementation in the agricultural sector continues to be plagued by uncertainty, largely because of selective intervention in the market by China's regulatory authorities. As in past years, capricious practices by Chinese customs and quarantine officials can delay or halt shipments of agricultural products into China, while sanitary and phytosanitary (SPS) standards with questionable scientific basis and a generally opaque regulatory regime frequently bedevil traders in agricultural commodities, who require as much predictability and transparency as possible in order to preserve margins and reduce the already substantial risks involved in agricultural trade. As a result, trade with China in the agricultural sector remains among the least transparent and predictable of the world's major markets.

In 2007, the United States will continue to pursue vigorous bilateral engagement with China in order to obtain progress on its outstanding concerns, particularly with regard to China's ban on the importation of U.S. beef and beef products. This issue is emblematic of the problems that U.S. exporters face with non-transparent application of SPS measures, many of which appear to lack scientific basis and impeded market access for many U.S. agricultural products in 2006, particularly exports of consumer-ready and value-added products.

Services

Overall, the United States enjoyed a substantial surplus in trade in services with China in 2006, as in prior years, and the market for U.S. service providers in China remains promising. However, in some sectors, the expectations of the United States and other WTO members when agreeing to China's commitments to increase market access and remove restrictions have still not been fully realized. Chinese regulatory authorities continue to frustrate efforts by U.S. providers of banking, insurance, motor vehicle financing, telecommunications, construction and engineering, legal and other services to achieve their full market potential in China through the use of an opaque regulatory process, overly burdensome licensing and operating requirements, and other means.

In 2006, U.S. engagement led to some positive developments. China's insurance regulators continued to participate in a dialogue on insurance issues, and China made a commitment at the April 2006 JCCT meeting to adjust capital requirements for telecommunications services providers, although it has been slow to follow through on that commitment. China also reiterated its commitments at the April 2004 and July 2005 JCCT meetings not to negatively affect the regulatory environment for foreign providers of express delivery services via new postal rules being drafted.

At the same time, some new concerns arose in 2006. Xinhua, the Chinese state news agency, issued rules in September 2006 imposing new restrictions on foreign providers of financial information services, in apparent contravention of China's WTO obligations. In addition, a variety of problematic proposals were circulated by Chinese regulators as China prepared to implement important financial services commitments scheduled to be phased in by December 11, 2006. In 2007, the United States will continue to engage China and will closely monitor developments in these areas in an effort to ensure that China fully adheres to its commitments.

Transparency

One of the fundamental principles of the WTO Agreement, reinforced throughout China's WTO accession agreement, is transparency. Adherence to this principle permits markets to function effectively and reduces opportunities for officials to engage in trade-distorting practices behind closed doors. While China's transparency commitments in many ways require a profound historical shift, China made important strides to improve transparency across a wide range of national and provincial authorities during the first four years of its WTO membership, although two shortcomings stood out. By the beginning of 2006, China had still not adopted a single official journal for publishing all trade-related measures, and it had yet to regularize the use of notice-and-comment procedures for new or revised trade-related measures prior to implementation, despite having made commitments to do so. In March 2006, after the United States elevated this issue to the JCCT level, China finally adopted a single official journal, although much work remains for China to ensure full participation by all relevant government entities. The United States has also pushed China to adopt a mandatory notice-and-comment practice, but, to date, this practice remains optional in China. As a result, in 2006, many of China's regulatory regimes continued to suffer from systemic opacity, frustrating efforts of foreign – and domestic – businesses to achieve the potential benefits of China's WTO accession.

Conclusion

In 2007, the Administration will continue its relentless efforts to ensure China's full implementation of specific WTO commitments and full adherence to China's ongoing obligations as a WTO member, with particular emphasis on reducing IPR infringement levels in China and on pressing China to make greater efforts to institutionalize market mechanisms and make its trade regime more predictable and transparent. Throughout this process, the Administration will use a dual-track approach. The Administration remains committed to working cooperatively and pragmatically with China to ensure that the benefits of China's WTO membership are realized by U.S. workers, businesses, farmers, service providers and consumers and that problems in our trade relationship are appropriately resolved. The new, high-level U.S.-China Strategic Economic Dialogue, which began in December 2006, demonstrates that commitment and promises to provide a useful framework for understanding and supporting, at a broader level, key bilateral problem-solving efforts, such as the JCCT process and other bilateral dialogues. When bilateral dialogue is not successful, however, the Administration will not hesitate to employ the full range of enforcement tools available as a result of China's accession to the WTO, whether it be the dispute settlement procedures at the WTO or the strict enforcement of U.S. trade laws to ensure that U.S. interests are not harmed by unfair trade practices.

9. Japan

Economic reforms that spur business, trade and investment are necessary to help keep Japan on a positive growth track as well as to promote an open business environment that affords U.S. companies new opportunities to serve consumers in Japan's market. The United States therefore welcomes Prime Minister Shinzo Abe's commitment to pursue reform and continues to urge Japan to accelerate and broaden its regulatory and structural reform program in ways that promote competition and create new markets. The United States engaged Japan during 2006 to resolve important bilateral trade issues, while also working more closely to advance mutual trade priorities in the Asia-Pacific region and around the globe.

Overview of Accomplishments in 2006

U.S.-Japan Economic Partnership for Growth

The U.S.-Japan Economic Partnership for Growth (the Partnership) is the primary vehicle governing our bilateral trade and economic relations by providing multiple fora through which to achieve progress that strengthens our economic ties and promotes growth in our economies. Both countries cooperate under the Partnership to coordinate international trade and economic policies, promote structural and regulatory reform, facilitate foreign direct investment, and remove trade barriers. Functionally, the main elements of the Partnership in 2006 are as follows: Subcabinet Economic Dialogue, the Regulatory Reform and Competition Policy Initiative (Regulatory Reform Initiative), the Investment Initiative, the Financial

Dialogue, and the Trade Forum. Highlights of activities under the Partnership during 2006 include the following:

a formal meeting of the Subcabinet Economic Dialogue took place in Tokyo in December 2006 to coordinate and provide direction to our overall policies on bilateral, regional, and multilateral affairs and to outline areas to strengthen our cooperation in the coming months and years. The Subcabinet participants emphasized the need to achieve concrete progress during 2007 on issues of importance to our bilateral economic ties as well as to our mutual interests in the Asia-Pacific region including the protection of intellectual property rights, the facilitation of secure trade, and the promotion of greater transparency in regulatory and policy processes. Less formal consultative meetings of the Subcabinet Dialogue were convened in June and October 2006;

under the Regulatory Reform Initiative, the Fifth Report to the Leaders presented to President Bush and Prime Minister Junichiro Koizumi on June 29, 2006, reflected progress across several industry sectors as well as on cross-cutting issues that affect the overall business and trade environment in Japan. The United States continued to urge Japan to make further progress on reform in its December 2006 recommendations, which will be addressed during the first half of 2007; and

in 2006, the United States and Japan convened two working-level meetings of the Investment Initiative and raised a number of topics, including mergers and acquisitions, medical and educational services, and labor mobility. This Initiative also co-sponsored investment promotion seminars in both countries to promote better understanding and support for foreign direct investment (FDI) among regional government and business leaders.

a. Regulatory Reform

The Regulatory Reform Initiative's June 2006 Report to the Leaders identified a range of new measures taken by Japan to help boost competition, open up new business opportunities, and remove barriers that have favored incumbent Japanese entities. Progress was made across a number of sectors, such as medical devices and pharmaceuticals, telecommunications, agriculture, information technologies, and financial services. In addition, Japan implemented new measures in areas that impact multiple industries, including distribution, competition policy, transparency, privatization of public corporations, and commercial law.

The United States continued to urge Japan to make further progress in its comprehensive set of reform recommendations released in December 2006. These recommendations placed a greater emphasis on reforms in the areas of agriculture as well as transparency in regulation and policy-making, in addition to continuing to call on Japan to implement further reforms in areas such as Japan Post privatization and in specific industry sectors such as medical devices and pharmaceuticals.

Initial Working Group meetings to discuss the December 2006 recommendations will take place in early 2007, to be followed by additional Working Group meetings and a bilateral High-Level Officials Group in the spring. The Initiative's Sixth Annual Report to the President and Prime Minister will be completed sometime during mid-2007 to detail progress made under this year's Initiative, including specific measures to be taken by each government.

Highlights of the June 2006 Report to the Leaders as well as key reform recommendations submitted to Japan in December 2006 are summarized below:

i. Sectoral Regulatory Reform

Telecommunications: Establishment of a pro-competitive telecommunications services market in Japan based on transparent regulation is the primary focus of the United States in advocating regulatory reform for this sector in Japan. Despite significant progress, Japan's telecommunications regulator, the Ministry of Internal Affairs and Communications (MIC), continues to defer to the interests of Nippon Telegraph and Telephone (NTT) at the expense of business and residential users and to the detriment of promoting competition in the telecommunications services market. While the competitive provision of broadband services is encouraging, the inability of new entrants to make significant inroads into NTT's control of 95 percent of subscriber telephone lines and 55 percent of mobile customers continues to impair the introduction of innovative, low-cost services to business and residential users in Japan, one of the world's largest and most advanced telecommunications markets.

The June 2006 Report to the Leaders highlighted measures taken by Japan to promote further competition in this sector. These measures included policy deliberations on new competition rules for networks migrating to Internet Protocol (IP), guidelines for Mobile Virtual Network Operators (MVNOs), and technical requirements for broadband mobile wireless access systems. Although the United States was disappointed by Japan's decision to delay until 2010 an important discussion on NTT's reorganization, the original proposal by NTT in 2005 to merge its operations was derailed by opponents who proposed to split NTT's operations further.

MIC continues to grapple with NTT's loss of business to wireless and voice-over-the-Internet while maintaining its universal service obligations. In 2005, MIC implemented a more rational rate structure for wireline interconnection rates by phasing out fixed costs that have been unnecessarily charged to competitors. The United States had pressed Japan for many years to remove these costs from the formula because they distort the rates for wholesale access to the network, calculated on a per-minute basis. In 2006, the interconnection rates for local and tandem switches decreased 5.1 percent and 3.5 percent, respectively. MIC, however, is allowing NTT a five-year transition period, which delays the much-needed reductions for competitors. MIC is expected to continue studying how to revise or replace the rate structure, and the United States will continue discussions with MIC to ensure any changes will improve the competitive environment.

The mobile wireless sector also remains an area of concern. NTT DoCoMo, designated since 2002 as a "dominant carrier," reduced its interconnection rates by only 2.6 percent (the lowest decrease in five years) and overall rate levels in Japan remain high. The high cost of connecting international calls to a mobile subscriber in Japan is passed along to U.S. consumers in the form of surcharges. The United States will continue to press Japan for measures that may have an impact on these rates, such as encouraging competition and preventing anticompetitive behavior by DoCoMo towards new market entrants.

In its December 2006 Regulatory Reform submission, the United States urged Japan to take measures to ensure market-based technology decisions, strengthen competitive safeguards on dominant carriers, and streamline certification processes for telecommunications equipment. These recommendations will be discussed at the next meeting of the Telecommunications Working Group.

In 2006, the United States and Japan reached tentative agreement on the text for a Mutual Recognition Agreement (MRA) for conformity assessment procedures for telecommunications equipment. After the MRA is implemented, U.S. manufacturers will have the option of certifying equipment for Japan's technical regulations at designated U.S.-based testing laboratories. This is expected to facilitate faster and more efficient trade in telecommunications equipment with Japan.

Information Technologies: The Information Technologies Working Group (ITWG) under the U.S.-Japan Regulatory Reform Initiative (RRI) promotes vibrant Information Technology (IT) and electronic commerce policies that benefit both Japan and the United States. It also works to support Japan's intellectual property strategy goals, and to advance policies and practices to address challenges posed by digital communication in the modern age. In 2006, Japan continued its work to implement new policies and reforms related to IT and electronic commerce, as evidenced by the completion of several new plans for IT-related policies, including the New IT Reform Strategy, Priority Policy Program 2006, and e-Government Promotion Plan. In addition, Japan continued efforts to strengthen its Copyright Law and achieve numerous other goals related to the creation, protection, and enforcement of intellectual property rights.

In the June 2006 Report to the Leaders, Japan expressed its intention to foster a regulatory environment that promotes the utilization of IT, including electronic commerce, and to provide meaningful opportunities for interested parties to contribute to IT policy formulation. It reaffirmed the importance of technology neutrality for encouraging innovation, indicated that it would cooperate with the private sector in standards development, and recommitted to harmonizing its policies for electronic commerce and related Internet technologies with international practice. In addition, Japan recognized the need to ensure that its Revised Administrative Procedure Act provides meaningful opportunities for input into the administrative rulemaking process, including for the IT and electronic commerce sectors.

With regard to protecting intellectual property, Japan and the United States reaffirmed in the 2006 Report to the Leaders their commitment to intensify cooperation to strengthen intellectual property rights protection and enforcement in Asia and around the world. This is part of a broader effort by the United States and Japan to cooperate on IPR that also included stepping up efforts to address shared problems in China and advancing implementation of the APEC Anti-Counterfeiting and Piracy Initiative.

In addition, Japan is undertaking a sweeping review of its Copyright Law to address issues stemming from the burgeoning use of digital technology. The United States hopes that this review will result, among other things, in decisions to implement a statutory damages system and extend the term of protection for sound recordings and all copyrighted works.

In the 2006 Report to the Leaders, Japan also acknowledged the private sector's leadership role in online consumer protection and management of personal data. Japan took several steps towards improving transparency and understanding related to implementation of Japan's Law on the Protection of Personal Information (Privacy Law). Japanese officials participated in a third public-private sector roundtable in June 2006 to educate U.S. and Japanese industry on the Privacy Law, and Japan also offered to take steps to clarify that failure to adhere to voluntary guidelines would not result in penalties to firms. Japan convened various working groups to devise strategies to combat online fraud and to help generate public awareness. Japan is vigorously enforcing its amended law on Regulation of Transmission of Specified Electronic Mail (Anti-Spam Law), and promoted international anti-spam activities in close cooperation with the private sector and the U.S. Government. In April 2006, the governments of the United States and Japan collaborated to support the U.S.-Japan Financial Technology Seminar to discuss how best to combat online fraud.

Japan took significant steps to improve information security as well. It affirmed the importance of private sector input in the development of guidelines for local governments' information security policy by holding a public comment period on a draft of these guidelines in fall 2006. Japan also confirmed it would work with the private sector to develop and disseminate voluntary best practices for information security.

The United States and Japan also discussed emerging issues such Japan's work on IT-related financial reforms, health IT, and e-accessibility. Japan affirmed the private sector's lead role in promoting IT investments in financial services and indicated it was working to promote consistency among IT-related financial reforms and other IT and electronic commerce regulations and policies. Japan acknowledged the importance of observing technology neutrality, to the extent practicable, in policymaking for health IT. Japan agreed to continue to exchange information with the United States on e-accessibility issues.

Japan improved government IT procurement processes by: (1) implementing components of the Inter-Ministerial Task Force for Information Systems Procurement (Task Force) 2002 memorandum on government IT procurement reform; (2) clarifying and limiting liability in certain procurement contracts; and (3) developing rules for investigations of extremely low-priced bids. In addition, Japan has developed legislation for fiscal year 2007 that will make it possible for contractors to obtain ownership rights to intellectual property created through government-sponsored development of IT systems, including software. Japan acknowledged the need to sign contracts as soon as possible after winning bidders are chosen.

Building on these accomplishments, the United States, in its December 2006 recommendations, urged Japan to take steps designed to foster the growth of Japan's IT sector and create greater opportunities for U.S. companies. These recommendations focus on increasing the transparency of Japan's IT and electronic commerce policy-making processes; strengthening intellectual property rights protection and enforcement; ensuring an effective review of the implementation of the Privacy Law; enhancing online security; promoting the use of IT for delivery of health services; sharing information on e-accessibility; and carrying out reforms of government IT procurement.

Medical Devices and Pharmaceuticals: Japan's regulatory and reimbursement pricing systems unnecessarily slow the introduction of innovative U.S. medical devices and pharmaceuticals in Japan and do not adequately create incentives for the development of innovative products. The United States raised these issues with Japan in 2006 in the Medical Devices and Pharmaceuticals Working Group, which meets under both the Regulatory Reform Initiative and the Market-Oriented, Sector-Selective Agreement.

Companies often introduce innovative medical devices and drugs in the United States and Europe several years before marketing them in Japan because of Japanese regulatory delays, among other factors. Japanese patients may wait years for innovative medical technologies and pharmaceuticals that are available elsewhere. Japanese regulators have acknowledged the need to reduce delays in the introduction of new devices and drugs in Japan. Japan changed its Pharmaceutical Affairs Law in 2005 and created the Pharmaceuticals and Medical Devices Agency (PMDA) in 2004, in part, to speed approvals of new products. Those changes have not been successful yet, so the U.S. Government continued to urge Japan to speed approvals by increasing regulatory resources, sharing information with industry, and streamlining reviews. In the June 2006 Report to the Leaders, the United States and Japanese governments noted the efforts by PMDA and the Ministry of Health, Labor and Welfare (MHLW) to speed the introduction of safe, effective, and innovative devices and drugs. In the subsequent December 2006 Regulatory Reform Initiative submission, the United States recommended that Japan reform regulations and practices that impede the development and introduction of devices and drugs in Japan. Specifically, the United States recommended that Japan increase regulatory agency staffing, eliminate application backlogs, and improve the environment for clinical trials. The U.S. Government also raised concerns about Japan's regulation of nutritional supplements, over-the-counter medicines, and cosmetics and quasi-drugs.

As Japan confronts the problems of a rapidly aging society, it is also examining ways to limit the growth of healthcare spending through means such as changes to reimbursement pricing policies for devices and drugs. In 2006, the U.S. Government opposed a Japanese proposal to double the frequency of revisions to device and drug reimbursement prices to once a year out of concern the proposal would reduce incentives for companies to develop innovative products. In December 2006, MHLW decided not to conduct a price revision in Japan Fiscal Year 2007, but the United States continues to monitor the situation, as media reports indicate the proposal might be revived. In the 2006 Report to the Leaders, MHLW noted that the U.S. Government opposed Japan's proposal for an annual pricing system. In its 2006 Regulatory Reform Initiative submission, the United States urged Japan to consider the budgetary and health benefits of pricing systems that reward development of innovative products and to improve transparency and industry's ability to offer input on pricing policies and decisions.

Financial Services: Japan has made significant progress in recent years in allowing new financial products, increasing competition within and between financial industry segments, and enhancing accounting and disclosure standards. Foreign financial service providers reach customers in most segments of the Japanese financial system.

The Financial Instruments and Exchange Law, enacted by the Diet in June 2006, amends the Securities and Exchange Law and other related laws so that investment advisors, investment trust management companies and securities companies will become subject to the same supervision as financial instrument firms. Under the amended law, the Financial Services Agency (FSA) will publish relevant draft cabinet and ministerial ordinances through the public comment process. The amended Administrative Procedure Law, effective in April 2006, establishes a minimum 30-day public comment process as a statutory procedure.

In December 2006, the Diet approved revisions to the Money Lending Business Law. The revised law will lower the maximum allowable interest charges on uncollateralized consumer loans, and introduce a legal limit on the total amount of consumer loans that individuals can borrow from moneylenders. The bill also calls for designated credit bureau establishments to share credit information among moneylenders. It contains a clause requiring the government to review the status of lending rates and business conditions of moneylenders within 30 months after the revised Law takes effect.

In its December 2006 Regulatory Reform recommendations, the United States commended Japan on its progress on financial services regulatory reforms and called on Japan to continue such reforms to support further development of the Japanese financial markets, thereby allowing Japan to take full advantage of international financial expertise and to support future Japanese growth. These recommendations include: (1) expanding the body of published written interpretations of Japan's financial laws; (2) publishing and updating the Financial Inspection Basic Policy and inspection manuals, and using private sector outreach to make the inspection process more transparent and predictable; (3) providing sufficient opportunity for thoughtful comment on all the forthcoming implementing regulations related to the Financial Instruments and Exchanges Law; (4) creating a legal and regulatory framework for a credit bureau system with fair and open access to full-file credit information; (5) specifying the scope of all required firewalls and firewall maintenance "best practices" in detailed written guidance; (6) expanding the use of corporate defined contribution pension programs; (7) harmonizing the regulatory framework governing investment advisory and investment trust management activities, and eliminating inconsistencies and duplications; (8) allowing mergers and reducing obstacles to the early termination of investment trusts; and (9) reviewing the revisions to the institutional investor disclosure rules for large shareholdings. These issues were discussed in January 2007 at the sixth meeting of the U.S.-Japan Financial Services Working Group in Tokyo.

ii. Structural Regulatory Reform

Competition Policy: A key goal of our Regulatory Reform efforts is to ensure that steps to deregulate and introduce competition into Japan's economy are not undone by anticompetitive actions by firms and trade associations resistant to such steps. An active and strong antitrust enforcement policy in Japan is needed to eliminate and deter anticompetitive behavior, including stronger measures to dismantle Japan's bid-rigging (dango) system.

Japan took some very important steps in 2006 aimed at strengthening competition in the Japanese market and ensuring that Japan Fair Trade Commission (JFTC) enforcement actions are applied in a fair and transparent manner. In January 2006, JFTC introduced an Antimonopoly Act (AMA) Leniency Program that encourages firms to report the existence of cartels and bid rigging agreements to JFTC by eliminating administrative fines and criminal penalties for the first reporting company and reducing administrative fines for up to two additional reporting companies. JFTC also introduced a procedure aimed at strengthening due process rights of the subjects of its investigations. Under the new procedure, JFTC will, before issuing any cease and desist or surcharge payment order for violation of the AMA, allow the subject companies to review the evidence obtained by JFTC and to present their own evidence and views to JFTC. Proposed recipients of warnings for suspected violations of the AMA or the Premiums and Misrepresentations Act will be provided a draft of the proposed warning and will be given the opportunity to submit any views and evidence on their behalf before a final decision is made by JFTC.

Japan also strengthened measures in 2006 aimed at preventing bid-rigging. The Ministry of Land, Infrastructure and Transport (MLIT) established an administrative leniency program that will encourage reporting of bid-rigging and complement the JFTC Leniency Program. The MLIT program cuts in half the period of suspension from bidding for companies that were admitted to JFTC's Leniency Program. MLIT also doubled to 12 months the minimum period of suspension from bidding for firms that commit a second serious bid-rigging violation within ten years. Furthermore a Cabinet Decision was issued in May 2006 that will help address Japan's bid-rigging problem by expanding the open bidding system, strictly implementing suspensions from bidding for firms engaging in bid-rigging, and requiring greater government efforts to eliminate and prevent government-led bid-rigging.

Transparency: The United States welcomed Japan's implementation of a revised Public Comment Procedure (PCP) in April 2006. This reform requires ministries and agencies to solicit comments on proposed rule changes for a minimum of 30 days, in principle. This step represents a significant improvement in Japan's formal procedures. Monitoring of the new system since its implementation, however, has indicated the PCP is not yet being evenly applied by related government entities. In its December 2006 recommendations, the United States therefore urged Japan to take further steps to improve the PCP as well as to take additional steps to improve the transparency of its regulatory and policy-making processes by: 1) implementing rules relating to government-appointed advisory groups to ensure they are consistently, as appropriate, open to opportunities for interested parties to express views and be informed of deliberations; 2) requiring ministries and agencies to make public in writing their regulations and any statements of policy or generally applicable interpretations regarding those regulations; 3) soliciting public comments, to the extent possible, on draft legislation prepared by ministries and agencies; and 4) ensuring adequate periods for companies to comply with new regulations. The United States also seeks a stronger partnership with Japan to promote high standards of transparency throughout the Asia-Pacific region, including implementation of APEC transparency standards by Member Economies.

Other Government Practices: The United States also urged progress on a variety of other government practices in the Regulatory Reform Initiative during 2006, including in the areas of agriculture and insurance-related practices.

In the 2006 Report to the Leaders, progress was demonstrated regarding Japan's revision of quarantine and inspection practices for imported produce to help bring Japan into conformity with certain international standards. The United States also urged Japan, in its December 2006 recommendations, to make further progress in agriculture by implementing international standards in plant quarantine and in other measures, including biotech products; implementing international standards in animal health and related measures; ensuring measures that enforce maximum pesticide residue levels are the least trade restrictive possible; and completing review of food additives recognized as safe by a Joint FAO/WHO Evaluation Committee.

The 2006 Report to the Leaders also reported progress in the insurance sector including: 1) implementation of amended regulations to further broaden the scope of insurance products available through banks; and 2) steps to bring certain unregulated insurance cooperatives (kyosai) under the oversight of the Financial Services Agency, a measure that should strengthen the stability of the insurance market and consumer protection. (*For additional discussion of insurance-related issues, see 'Bilateral Consultations – Insurance' section below.*)

Privatization – Japan Post: Japan's privatization of public corporations continued to feature prominently in the United States' Regulatory Reform recommendations. A particular focus was placed on Japan Post privatization and reform, where the United States continued to call on Japan to implement measures that ensure that a level playing field is established between Japan Post (and its successor entities) and private sector competitors in the banking, insurance, and express delivery markets. The United States, furthermore, continued to urge Japan to ensure that a level playing field is actually created between the postal financial institutions and private financial institutions before the postal financial institutions are permitted to introduce new lending services, underwrite new or altered insurance products, or originate non-principal-guaranteed investment products. The United States also emphasized the importance of clarity and transparency in the reform process, asking Japan to ensure that the process, including with respect to advisory bodies, is made fully transparent and that meaningful opportunities are made available to interested parties to express views before decisions are made.

With respect to insurance and banking, the United States welcomed confirmation by Japan in the 2006 Regulatory Reform Initiative Report to the Leaders that the new Japan Post entities, from October 2007, will be held to the same regulations, laws, and ordinances as other private sector companies, including the Banking Law and Insurance Business Law. The United States also welcomed confirmation that postal savings and insurance products will no longer be subject to government guarantees and that the new postal financial institutions will be required to meet the same licensing, disclosure, and supervisory requirements as private sector financial institutions. When fully implemented, these and other steps confirmed by Japan are important elements in the establishment of a level playing field. In its December 2006 Regulatory Reform recommendations, the United States continued to urge Japan to implement additional steps to ensure the Japan Post privatization law's objective of creating equivalent conditions of competition between the new entities and the private sector is ultimately achieved. These include ensuring fair and transparent selection of private sector financial products for distribution through the Post Office network and steps to ensure cross-subsidization does not occur among the newly created entities, among other issues. The United States looks to Japan to finish the job of ensuring equivalent conditions of competition are firmly established before the new postal entities are permitted to introduce their own new financial products.

In addition, the United States urged Japan to ensure fair competition in its express delivery sector by taking a number of steps to put Japan Post's express delivery services on an equal footing with private service suppliers. The United States welcomed confirmation by Japan in the 2006 Report to the Leaders that it will apply ordinary freight transportation laws and ordinances to Japan Post's international and domestic physical distribution services as well as to deliveries of postal items via truck and similar methods. Japan also confirmed that Japan Post and successor entities will be made subject to the same aviation safety and security laws and regulations as those applied to private companies. Japan furthermore indicated it will require the new postal delivery company to disclose profits and losses for different operations in a manner that will allow for an objective evaluation of whether cross-subsidization is occurring among them. While these and other steps represent progress, the United States continues to call on Japan to take additional measures that are vital to ensure a level playing field is actually established. The United States is placing particular emphasis in this area on customs treatment for Japan Post's Express Mail Service (EMS).

As Japan moves forward with these reforms, the United States continues to stress the importance of ensuring full transparency, including by related government-appointed advisory groups, to ensure interested parties are able to be fully aware of progress in the reform process as well as have meaningful opportunities for input before decisions and recommendations are made. During 2006, Japan took a number of steps to help promote transparency in the reform process, and the United States has encouraged Japan to continue with these as well as take additional steps to ensure transparency is fully achieved.

Legal Services and Judicial System Reform: The creation of a legal environment in Japan that supports regulatory and structural reform and meets the needs of international business is a critical element for Japan's economic health and restructuring. The Japanese legal system must be able to respond to the market's need for the efficient provision of international legal services, and provide a sound and effective foundation for the conduct of business transactions in an increasingly deregulated environment.

In 2006, Japan's Ministry of Justice continued to study whether to permit registered foreign lawyers to form legal professional corporations in Japan and whether to allow foreign law firms to establish multiple offices in Japan without forming a separate Japanese professional corporation. Japan has committed to inform the United States of its findings and conclusions by April 2007. In addition, the United States continued to closely monitor the implementation of the amendments to the Foreign Lawyers Law that came into effect in 2005 that permit foreign lawyers to employ or to enter into partnership arrangements with Japanese lawyers to ensure that such implementation fosters the market liberalizing objectives of those amendments.

Commercial Law: Reform of Japan's commercial law to permit the use of modern merger techniques is necessary to facilitate merger and acquisition activities by both foreign and domestic firms in Japan. The Japanese economy also will benefit from additional measures to improve corporate governance, since good corporate governance systems encourage increased productivity and economically sound business decisions as management strives to maximize shareholder value. However, good corporate governance requires active shareholder participation, particularly by large institutional investors such as pension funds and mutual funds, and the dissemination of information to shareholders that will allow them to make informed decisions.

Japan took some important steps in 2006 toward facilitating foreign merger and acquisition (M&A) activities in Japan and to protect the interests of stockholders. Corporate Code revisions permitting short-form (squeeze out) mergers came into effect in May 2006 and Japan continued to prepare for the May 2007 introduction of triangular mergers that use foreign shares as consideration. However, as of the end of 2006, it was not clear whether rules implementing the introduction of triangular mergers, in particular tax deferral rules, would be sufficiently flexible to allow this new merger tool to work in a manner that facilitates foreign M&A activities in Japan.

The Securities and Exchange Law was amended in June 2006 to modernize tender offer rules. Persons making tender offers will now be permitted to withdraw or modify the offer in response to certain anti-takeover measures by the target. A target of tender offers is also now required to issue a public statement indicating the position of its board of directors with regard to the tender offer, and the basis for that position. Japan's Ministry of Justice (MOJ) also promulgated new regulations that require companies to specify in their annual report any anti-takeover measures that have been adopted along with an explanation as to why those measures do not undermine the interests of the company and its shareholders.

In March 2006 the MOJ issued an internal notification ("tsutatsu") clarifying the interpretation of Article 821 of the Corporate Code – dealing with quasi-foreign companies – to ensure that this provision does not adversely affect the operation of foreign companies that are duly registered in Japan and that conduct their operations in a lawful manner, and the House of Councilors of the Japanese Diet adopted an ancillary resolution that confirms that objective.

In the area of strengthening corporate governance, Japan took measures to promote active proxy voting by institutional investors, including by encouraging the Investment Trust Association to amend its rules to require mutual fund managers to disclose the results of their proxy voting records. Japan also recognized the importance of enhancing corporate governance of listed companies in Japan, including through dialogue with the stock exchanges on the role that such exchanges can play in realizing that goal. In that regard, in March 2006 the Tokyo Stock Exchange (TSE) adopted rules requiring listed companies to publish their corporate governance structures, including whether they have outside directors or have adopted anti-takeover measures. The TSE rules also provide for the delisting of companies that adopt anti-takeover measures that seriously harm the rights of shareholders.

Distribution: The efficiency of Japan's distribution system is hampered by high airport user fees, relatively inefficient and costly customs procedures, and excessive rules on the activities of private express delivery companies. In addition, the enforcement of parking regulations under the Revised Traffic Law, combined with a severe shortage of designated commercial parking spaces, has significantly increased the cost of doing business for express mail providers. Finally, revisions made to the Central City Invigoration Law and the City Planning Law in May 2006 have the potential to significantly erode retailers' ability to open larger stores that meet customers' needs.

The June 2006 Report to the Leaders nevertheless noted a number of steps by Japan intended to have a positive impact on its distribution sector. The United States welcomes the recent reductions in landing fees by Narita International Airport Corporation. Those reductions, however, have been offset in part by higher airport user fees, and Japan's international airports remain among the most expensive in the world. Transparency remains a concern, including with regard to changing operating rules at Haneda Airport and a costly runway extension project at Narita. Another significant measure Japan took in 2006 was to acknowledge that airport user fees should be determined in accordance with International Civil Aviation Organization principles.

The United States welcomes Japan's efforts over the past year to revise the Road Transport Vehicle Law (RTVL) in May 2006 to create a one-stop omnibus registration system for automobiles. However, with the new system not scheduled to be introduced until late 2011, the registration system will continue to be a burden on operators of fleet vehicles.

The United States continued its focus on seeking improvements in Japan's distribution sector in its December 2006 reform recommendations. Reform recommendations included urging Japan to: ensure transparency in the setting of user fees at Japan's international airports; take additional steps to streamline customs procedures; speed the implementation of the revised Road Transport Vehicle Law; and ensure new regulations or other measures are not implemented that would limit the ability of large-scale retailers to open stores in Japan.

b. Bilateral Consultations

i. Insurance

Consultations under the 1994 and 1996 bilateral insurance agreements take place on an annual basis, and remain a key forum to address developments and lingering concerns in this important market for U.S. companies. Because of passage of legislation to reform and privatize Japan Post in the last quarter of

2005, bilateral consultations for 2005 took place in January 2006, while consultations for 2006 took place in December. The United States also urged progress on insurance-related issues in the U.S.-Japan Regulatory Reform Initiative, as well as in other fora through 2006.

During both of these consultations, the United States continued to call on Japan to create a fully level playing field in Japan's insurance market by eliminating the tax, regulatory, supervisory, and other advantages that Japan Post has had over private sector companies. The United States also continued to urge Japan to ensure a level playing field is actually created between the postal financial institutions and private financial institutions before the postal insurance business is permitted to introduce its own new or altered insurance products. (*For detailed discussion of Japan Post insurance issues, see section titled 'Privatization – Japan Post' above*.)

The United States welcomed initial steps, effective December 2005, to further open the sale of insurance products through banks, and continued to urge Japan to fully liberalize the bank sales channel by no later than 2007. The United States also welcomed confirmation from Japan that it recognizes the importance of implementing related consumer protection rules in a way that does not favor one product or one services supplier over another.

The United States continued to raise its concerns about Japan's insurance cooperatives (kyosai), particularly as kyosai have been expanding their product range and customer reach. Kyosai are able to compete directly with the private sector, but are not required to meet the same tax, legal, supervisory, and regulatory obligations as private companies. Japan's steps to regulate and supervise some kyosai that heretofore were completely unregulated in the marketplace are welcome, and the United States urged that these initial steps be strengthened to bring about consistent treatment between kyosai and private sector insurance suppliers. With respect to kyosai regulated by ministries and agencies other than the FSA, the United States remains concerned by their continuing expansion in the insurance market and urged Japan to bring these kyosai under the same regulatory standards and obligations, including full supervision by the FSA, as those applied to the private sector.

In 2005, Japan reformed its insurance policyholder protection system and also renewed the operation of the Life and Non-life Policyholder Protection Corporations (PPCs). In the 2006 consultations, the United States welcomed Japan's confirmation that interested parties would be provided meaningful opportunities to express views to related officials as well as advisory committees when plans to review the current system get underway, likely to occur during 2007. The United States also urged Japan to ensure full transparency, including meaningful opportunities for interested parties to express views, as it reviews the Insurance Contracts Law for possible amendment.

ii. Government Procurement

Public Works (Design/Construction): U.S. firms remain largely excluded from Japan's massive ($156 billion) public works market, obtaining far less than 1 percent of projects awarded. A number of Japanese practices inhibit the effective participation of U.S. design and construction firms in this sector, including rampant bid rigging, use of arbitrary qualification and evaluation criteria that exclude U.S. firms, and unreasonable restrictions on the formation of joint ventures.

The United States urged Japan to take steps to address the systemic problems faced by U.S. firms, including complying with a 1994 bilateral agreement on public works. The United States asked Japan to develop procedures to simplify the qualification process for foreign firms, to ensure that procurements list all of the qualifying criteria for a project, and to address problems such as excessively high Business Evaluation scores. The United States, moreover, urged Japan to address bid-rigging and to ensure that the procurement procedures set forth in the 1988 U.S.-Japan Major Projects Arrangement (MPA) are used for all upcoming procurements for the Central Japan International Airport project.

iii. Investment

Japan's inward direct investment remains the lowest of major OECD countries. Former Prime Minister Koizumi had set a target of doubling Japan's stock of foreign direct investment (FDI) to 2.5 percent of gross domestic product (GDP) over a five year period ending in 2006. Despite progress over the last few years, pullouts by a few large investors resulted in a trend toward new outflow of FDI in 2006 and looked to leave Japan short of this target. In his first major policy speech to the Diet, Prime Minister Abe reaffirmed his predecessor's commitment to raise foreign investment in Japan and announced his intention to re-double FDI to 5 percent of GDP by the end of 2010. Amendments to Japan's Corporate Law that will facilitate foreign investment by permitting the use of cross-border stock swaps in the context of triangular mergers appeared headed for implementation in May 2007, after a year's delay to allow domestic firms to consider adopting anti-takeover measures allowed under the revised law. However, opposition to rules that would facilitate tax treatment for such mergers from major players in Japan's business community left the terms of implementation uncertain as of December 2006. The United States continued to urge Japan to ensure the triangular merger tool is made truly effective through adoption of tax deferral provisions that are made available to all potential foreign investors.

The United States continued to press for early amendment of Article 821 of the new Corporate Law, which went into effect in May 2006. Although the Upper House of the Diet clarified that the provision was not meant to affect legitimate foreign investment, it poses a legal liability for foreign companies by appearing to prohibit branches of foreign corporations from engaging in transactions in Japan on a continuous basis. Some foreign firms chose to incur the substantial legal cost and business disruption of incorporating in Japan prior to entry into force, while others, for whom incorporation is not an option, have no alternative but to live with the risk. The Ministry of Justice issued an administrative circular in April 2006 that instructs local Legal Affairs Bureaus that Article 821 should not be interpreted to prohibit branches otherwise operating within the law.

Other provisions in the revised Corporate Law have begun to raise public and business understanding of investment and corporate governance issues. More than 100 Japanese corporations adopted takeover defensive measures based on provisions that came into effect in May 2006. In some high-profile cases, Japanese companies used poison pills and similar tools to turn back takeover attempts by other Japanese companies. While unsuccessful, actions by mainstream Japanese companies to initiate hostile takeover attempts appear to indicate a softening of business opposition to the idea of such actions. Moreover, some in Japan's investment community, including institutional investors, have begun to question the value of anti-takeover measures to shareholders and to ask for review before the measures are adopted.

The United States continues to watch developments in this area closely. Investment issues are discussed under the Investment Initiative, which meets regularly and presents an annual report to the President and Prime Minister. A working group met in June and October 2006 to discuss implementation of the new Corporate Law, upcoming labor market reforms, and developments in educational and medical services. The Japanese government granted an additional U.S. university with "foreign university Japan campus" status, but the United States continues to seek a solution to tax provisions that put these campuses at a disadvantage to Japanese universities.

c. Sectoral Issues

i. Agriculture

Japan slipped from being the United States' second largest export market to its third largest export market (behind Canada and Mexico) for food and agriculture products this past year. Although Japan took steps to facilitate agricultural trade during this period, it maintains many tariff and non-tariff barriers on imports in this sector.

Beef: On December 12, 2005, Japan partially reopened its market to U.S. beef after a nearly two-year ban resulting from the December 2003 discovery of a single imported cow with Bovine Spongiform Encephalopathy (BSE) in Washington State. Japan suspended imports of U.S. beef again on January 20, 2006, after a shipment of U.S. veal was rejected for containing a vertebral column (which is not allowed under Japanese regulations). On July 27, 2006, Japan lifted the January suspension after intensive engagement among officials and technical experts from both governments at various levels.

The full reopening of the Japanese market remains a top priority of the Administration. With the most recent reopening, the United States is able – under a special marketing program – to export beef to Japan from cattle 20 months of age and younger. However, only a small percentage of the cattle slaughtered in the United States qualify for export under this program. It is estimated that U.S. beef exports to Japan over 2006 will be worth nearly $50 million. Prior to the ban, U.S. beef and beef product exports to the Japanese market (the largest export market for U.S. beef) totaled roughly $1.3 billion annually.

The United States continues to place a high priority on fully opening Japan’s market to U.S. beef, and continues to urge Japan to implement the BSE guidelines of the World Organization for Animal Health (OIE), thereby allowing imports of cattle of any age as well as meat and meat products from those animals. The United States will continue to work toward achieving this important objective.

Other Sanitary and Phytosanitary (SPS) Measures: Japan's use of sanitary and phytosanitary measures continues to create barriers to certain U.S. agricultural goods, such as in the areas of Maximum Residue Limits (MRL) and chipping potatoes.

On May 29, 2006, Japan implemented new regulatory requirements expanding MRL standards (Positive List) for food that may contain pesticide residues. Although the United States has worked closely with the Ministry of Health, Labour, and Welfare (MHLW) to ensure the transition to the Positive List system does not unnecessarily disrupt U.S. exports, there remain outstanding issues with Japan's MRL policies, including the seemingly arbitrary and trade restrictive manner in which MHLW imposes penalties on foreign suppliers in the event of a violation. Import violations are treated more strictly than domestic violations. Detection of a single MRL violation in an imported product results in a significantly increased inspection and testing regime for all imports of similar food products from the country where the food product in question originated. A 100 percent testing regime is imposed after a second violation. Domestic violations, however, are addressed on a more favorable company-by-company basis. To remedy these concerns, the United States has and will continue to urge Japan to implement an import inspection and testing regime that is risk-based, and no more trade restrictive than necessary to protect human health.

On December 5, 2006, Japan’s Ministry of Agriculture, Forestry and Fisheries (MAFF) invited public comments on proposed regulations for the resumption of imports of U.S. chipping potatoes. This announcement stemmed from an agreement reached in October to resume trade in potatoes in 2007. Imports of U.S. chipping potatoes halted in April after a brief reopening of the market when authorities in

Idaho discovered a pest cyst nematode (white potato cyst) in the state's crop that had not been previously discovered in the United States.

Progress was also made with respect to Japan's revision of quarantine and inspection practices for imported produce *(as highlighted under the Regulatory Reform section above).*

Rice: The United States continues to express concerns over U.S. access to Japan's rice market. Although the United States has supplied about half of Japan's rice import needs since 1995 when it opened its market under its WTO minimum market access agreement, only a minor share of U.S. rice imported under the tariff rate quota (TRQ) is allowed to be sold into the private sector immediately upon entry. Very small quantities are occasionally released from government stocks and eventually permitted to enter the industrial food-processing sector. Since Japan started applying tariffs to rice imports in 1999, only a minuscule amount has been imported outside of the TRQ, because such imports are subject to a duty of 341 yen per kilogram, equivalent to about 1100 percent *ad valorem* at January 2005 prices and exchange rates.

10. Taiwan

During 2006, the United States and Taiwan continued to work together to enhance economic cooperation through our Bilateral Trade and Investment Framework Agreement (TIFA) process, and to address shortcomings in several areas related to Taiwan's implementation of its WTO commitments in 2006. The United States and Taiwan held a meeting of the TIFA Joint Council in Taipei, on May 25-26, 2006. These WTO implementation issues include ensuring market access for rice and improving intellectual property rights protection. In addition, the United States worked with Taiwan bilaterally to ensure market access for American beef and more transparent pharmaceutical pricing and reimbursement procedures.

a. Beef

On January 25, 2006, Taiwan again lifted its ban on U.S. boneless beef from cattle less than 30 months of age with labels of approval from the USDA. After reopening the market to U.S. beef in April of 2005, Taiwan re-imposed its import suspension in June 2005, after the discovery of a second case of Bovine Spongiform Encephalopathy (BSE) in the United States. Specified Risk Materials identified by the World Health Organization like brains, spinal cords, and certain bones are prohibited entry. Non-ruminant products for feed use such as tallow, lard, poultry and porcine meal are banned, while limited exceptions for pet food have been approved after a thorough case-by-case review or plant clearance process. The United States is continuing to work with Taiwan to achieve market access for the full range of beef and beef products.

b. Rice

In 2006 the United States and Taiwan made substantial progress in resolving outstanding differences on Taiwan's rice procurement arrangements. However, certain other countries that also supply rice to the Taiwan market have not yet agreed to the proposed modifications to Taiwan's rice import system. As a result, Taiwan will continue its current system while working toward final resolution of this issue. Taiwan is a leading Asian market for U.S. rice exports. Despite concerns associated with the rice tender process, U.S. suppliers won a majority of the tenders conducted in 2006. The United States will continue to work with Taiwan and other interested suppliers to the Taiwan market to achieve improvements to the rice import system.

c. Intellectual Property Rights (IPR)

IPR protection continues to be an important issue in the U.S.-Taiwan trade relationship. In December 2004, Taiwan was moved from the Special 301 Priority Watch List to the Watch List after an out-of-cycle review (OCR) determined that Taiwan had made sufficient progress to warrant improved status. The United States recognizes Taiwan's continuing efforts to take measures to improve enforcement of IPR in 2006, including intensifying raids against manufacturers and retailers. The United States strongly encouraged Taiwan's passage of legislation to create a specialized court for intellectual property matters and its training of judges and prosecutors on these matters.

Following these improvements, the United States will continue to monitor further developments in this area. Chief among these developments should be the passage and implementation of effective legislation to address liability of Internet Service Providers (ISP) as well as the dismantling of unauthorized peer-to-peer (P2P) file sharing systems, which is expected to occur in 2007. In addition, preliminary versions of draft patent law amendments permitting compulsory licensing do not appear to be TRIPS-consistent, and Internet piracy and illegal peer-to-peer downloading have been serious concerns.

To deter Internet piracy, the Taiwan Intellectual Property Office (TIPO), in May 2005, initiated an "implementation plan for strengthening preventive measures against Internet infringement." However, efforts to use the legal system to shut down or restrict the activities of such services have had mixed success. Taiwan needs to take further effective actions against piracy of copyrighted works over the Internet, and to continue strengthening its enforcement efforts so as to effectively reduce piracy and counterfeiting. The United States will continue to follow closely Taiwan Customs' efforts to stop exports of counterfeit materials to ensure that these efforts are as effective as, or more effective than, Taiwan's recently abolished Export Monitoring System. Adequate resources must also be devoted, especially at high levels within the Ministry of Education, to improve enforcement against the unauthorized use of copyright material that occurs on and around university campuses and the Internet piracy that is endemic on university networks.

d. Pharmaceuticals

Continuing concerns in the pharmaceutical sector in Taiwan include pharmaceutical pricing, transparency and the domestic regulatory regime. Through the TIFA process, the United States has been encouraging Taiwan to adopt a system of actual transaction pricing to address the significant gap between the amount that the Taiwan's Bureau of National Health Insurance (BNHI) reimburses for a pharmaceutical product and the price actually paid to the provider of that product. This gap distorts pharmaceutical trade and prescription patterns in Taiwan. These distortions are compounded by another aspect of the Taiwan health care system, which permits doctors to both prescribe and dispense pharmaceuticals. Research-based pharmaceutical companies see separating these functions as essential to resolving the long-term pricing problem. In 2006, the United States worked with Taiwan to delay the full implementation of its pharmaceutical price-volume survey (PVS) which was created to rein in health care expenditures but which initially appeared disproportionately to affect foreign firms.

Production and sale of counterfeit pharmaceuticals in Taiwan also remains a concern. The United States is encouraging Taiwan's Ministry of Justice and Department of Health to work together to take action to resolve this problem.

11. Hong Kong (Special Administrative Region)

a. Intellectual Property Rights (IPR)

The Hong Kong government continues to maintain a robust IPR protection regime. Hong Kong's IPR enforcement efforts have helped reduce losses by U.S. companies, but end-user piracy, the rapid growth of peer-to-peer downloading from the Internet, and the importation and transit shipments of infringing products remain continuing problems. The software industry estimates that Hong Kong’s software piracy rate was 54 percent in 2005, placing Hong Kong well above the software piracy rates in other advanced economies, resulting in business and entertainment industry losses of approximately $147 million.

In 2006, the Hong Kong government took some steps toward addressing each of these problems. In October, it partnered with software industry representatives to launch a pilot program to provide free on-site audits for companies to determine if they are unknowingly using unlicensed software and to assist violators in purchasing licenses to guarantee the use of genuine computer products. Hong Kong officials have also established a joint task force with copyright industry representatives to track down online pirates using peer-to-peer networks for unauthorized file sharing and, in February, started a pilot "Youth Ambassador Against Internet Piracy Scheme." About 200,000 "youth ambassadors" participated in the program and, by July 2006, Hong Kong Customs reported that it had received 1,200 reports of suspected BitTorrent seed files involving pirated copyright work from the youth ambassadors. Over 60 percent of the infringing files were removed, and a great majority of the remaining files were invalidated. Hong Kong Customs also continues to routinely seize IPR infringing products from mainland China.

The Hong Kong government also introduced in March 2006 the Copyright (Amendment) Bill and extended the expiry date of its existing Copyright Ordinance through July 2007, to give lawmakers more time to examine the proposed Copyright (Amendment) Bill and industries sufficient opportunity to express their views. U.S. Government and industry have been concerned over possible loopholes in the proposed Bill concerning digital rights management and circumvention of technical prevention measures, fair use provisions for copyrighted works, and business end-user software piracy. Industry also has been concerned over the issue of parallel imports for optical discs in the Bill. In December, the Hong Kong government published a public consultation “Copyright Protection in the Digital Environment” document to address the challenges of the digital era and ensure that amendments to the Hong Kong Copyright Ordinance cover issues related to internet piracy. U.S. officials will continue to monitor progress on the development of Hong Kong’s Copyright (Amendment) Bill legislation and urge Hong Kong authorities to sustain their IPR protection efforts and address problem areas.

b. Beef

Hong Kong banned imports of U.S. beef in December 2003 following an imported case of Bovine Spongiform Encephalopathy (BSE). After two years of intensive efforts on the part of the U.S. government and industry, the Hong Kong government announced the partial reopening of its market, with certain restrictions, in December 2005. Excessive restrictions, however, have discouraged most qualified U.S. beef exporters from shipping to Hong Kong. It is estimated that the two-year ban cost U.S. exporters approximately $160 million. The U.S. Government continues to press Hong Kong to normalize trade and implement import requirements consistent with international standards.

12. Sri Lanka

Sri Lanka continued to recover from the 2004 tsunami. Nevertheless, U.S. exports to Sri Lanka increased approximately 28 percent in 2006 over 2005, signaling the continued potential for U.S. goods in the Sri Lankan market.

In early December 2006, Deputy U.S. Trade Representative Karan Bhatia and Sri Lanka's then Minister of Trade, Commerce, Consumer Affairs and Marketing Development, Jeyaraj Fernandopulle, met in Colombo, Sri Lanka, to co-chair the fifth Joint Council meeting under the U.S.-Sri Lanka Trade and Investment Framework Agreement. The delegations addressed issues that would contribute to enhancing bilateral trade and investment relations, including pursuing sound policies to improve Sri Lanka's macro-economy, lowering market access barriers (such as tariffs), protecting intellectual property rights and facilitating investment flows. The United States and Sri Lanka also expressed their desire to see a successful and ambitious outcome to the Doha Development Round. USTR will continue to pursue these issues at the staff level in the coming year.

13. Iraq

In 2006, USTR continued to assist Iraq in its accession to the WTO, and provided guidance, upon request, on key legislation the government of Iraq is seeking to implement in the areas of investment, customs, and services. USTR also conducted an orientation on the U.S. GSP program for Iraqi officials in May 2006. In 2007, the United States will continue to work to find new ways to expand bilateral trade and investment as a means to enhance Iraq's economic development.

G . Africa

1. African Growth and Opportunity Act

On December 20, 2006, President Bush signed the Africa Investment Incentive Act (AIIA), which included significant enhancements to the textile and apparel provisions of the African Growth and Opportunity Act (AGOA). The AIIA extends to 2012 the AGOA "third-country fabric" provision that allows lesser-developed AGOA beneficiary countries duty-free entry into the United States for qualifying AGOA apparel made of fabric from any source. It also introduces an exception to the third-country fabric provision for apparel made from yarn and fabric that are made in sub-Saharan Africa and are in "abundant supply" and readily available in commercial quantities. For lesser-developed AGOA beneficiary countries, the AIIA also expands the list of items eligible for duty-free treatment to include certain non-apparel textile products.

The AGOA legislation provides incentives to promote economic reform and trade expansion in sub-Saharan Africa, including duty-free access to the U.S. market for almost all products made in beneficiary sub-Saharan African countries.

AGOA requires the President to determine annually whether sub-Saharan African countries are, or remain, eligible for benefits based on their progress in meeting criteria set out in the legislation. These criteria include the establishment of a market-based economy and the rule of law, the elimination of barriers to U.S. trade and investment, the implementation of economic policies to reduce poverty, the protection of internationally recognized worker rights, and the establishment of a system to combat corruption. Additionally, countries cannot engage in: (1) violations of internationally recognized human rights; (2) support for acts of international terrorism; or (3) activities that undermine U.S. national security or foreign policy interests.

An interagency AGOA Implementation Subcommittee, chaired by USTR, conducts the annual eligibility review, drawing on information from the private sector, non-governmental organizations, U.S. Government agencies, and prospective beneficiary governments. Following the eligibility review in the fall of 2006, and after receiving the recommendation of the U.S. Trade Representative, the President issued a Proclamation on December 29, 2006 listing the 38 sub-Saharan African countries that meet

AGOA's requirements for eligibility in 2007. Liberia was determined to be meeting the eligibility criteria and was designated as a beneficiary country for the first time.

As of December 2006, 26 AGOA-eligible countries had instituted acceptable customs measures to prevent illegal trans-shipment and, accordingly, had been certified for AGOA's textile and apparel benefits; of these, 17 countries have met the requirements for handmade, hand-loomed, or folkloric items, and two countries (Nigeria and Tanzania) have qualified to export ethnic-printed fabric under AGOA.

AGOA also institutionalizes a process for strengthening U.S. trade relations with sub-Saharan African countries by establishing a regular ministerial level forum with AGOA-eligible countries. AGOA establishes a U.S.-Sub-Saharan Africa Trade and Economic Cooperation Forum – informally known as "the AGOA Forum" – to discuss expanding trade and investment relations between the United States and sub-Saharan African countries, and implementation of AGOA. The fifth meeting of the Forum was held in June 2006 in Washington. Participants included the U.S. Secretaries of State and Agriculture, the U.S. Trade Representative, the Deputy Secretary of Commerce, the Administrator of the U.S. Agency for International Development, the CEO of the Millennium Challenge Corporation, the U.S. Global AIDS Coordinator, and Ministers of Trade, Foreign Affairs, and/or Finance from almost all AGOA-eligible countries. The next AGOA Forum will be held in Accra, Ghana in July 2007.

AGOA and related Generalized System of Preferences (GSP) provision imports from AGOA-eligible countries were valued at $34.1 billion in the first nine months of 2006, 28 percent more than in the first nine months of 2005.[56] Petroleum products continued to account for the largest portion of AGOA imports with a 93 percent share of overall AGOA imports. AGOA non-oil imports also continued to grow, totaling $2.4 billion, an 8 percent increase over the previous year, with notable increases in key non-oil sectors. For example, AGOA imports of transportation equipment increased by 99 percent to $405.7 million, due to an increase in the import of passenger vehicles and parts from South Africa. Agriculture imports increased 41 percent to $254.8 million. AGOA textile and apparel imports decreased by 14 percent to $941.8 million, but some AGOA countries (e.g. Ethiopia and Botswana) held steady or even increased their exports of apparel in 2006, despite increased global competitive challenges in this sector. The top five AGOA beneficiary countries were Nigeria, Angola, South Africa, Chad, and Gabon, followed by the Republic of Congo, Lesotho, Kenya, and Madagascar.

2. Africa and the WTO

Supporting African countries' integration into the global economy is one of the main elements of the Administration's Africa trade policy. An important step toward this end is encouraging fuller participation in the WTO by African Members, including the undertaking of greater commitments under WTO agreements. Accordingly, the United States consults closely with the 38 sub-Saharan African Members of the WTO and provides technical assistance to facilitate African participation in WTO negotiations and agreements.

The United States has provided technical assistance and trade capacity building support on a range of issues such as trade facilitation, services, and sanitary and phytosanitary measures, in coordination with the WTO, the World Bank and other international financial institutions, the Integrated Framework, and via bilateral assistance. The United States also provided technical assistance to support WTO accession of two African countries – Cape Verde and Ethiopia – engaged in that process.

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[56] Note that AGOA imports are imports for consumption, while all other import figures are general imports. Imports for consumption include only those goods as they enter the U.S. economy for consumption. General imports include all goods as they cross the U.S. border, including those destined for bonded warehouses or foreign trade zones.

WTO issues continued to be a major topic of USTR's engagement with African countries in 2006. Deputy USTR Bhatia attended the African Union Trade Ministerial in Nairobi in April 2006. U.S. Trade Representative Schwab co-chaired, with Kenyan Trade Minister Kituyi, a roundtable discussion on Doha at the June 2006 AGOA Forum in Washington. Doha was also a major topic of discussion during TIFA Council meetings in 2006 with Ghana, Nigeria, Mozambique, Rwanda and the West African Economic and Monetary Union.

Among the Doha issues that figured prominently in U.S.-African discussions in 2006 were agriculture (including cotton), non-agricultural market access (NAMA), and development-related issues, including Aid for Trade and duty-free, quota-free market access for LDC products in developed country markets. The handling of cotton involved particularly high-level engagement. Ambassador Schwab and Agriculture Secretary Johanns discussed the issue with the trade ministers of the "Cotton-4" countries (Benin, Burkina Faso, Mali, and Chad) during their October 2006 visit to Washington. Ambassador Bhatia was also in regular contact with the "Cotton-4" Ministers of Trade during the year. Assistant U.S. Trade Representative Liser represented the United States at a June 2006 World Bank conference in Burkina Faso on the development aspects of cotton.

3. COMESA[57]

The Common Market for Eastern and Southern Africa (COMESA) is the largest regional economic organization in Africa, with twenty member states and a population of over 374 million. The United States and COMESA signed a TIFA agreement in 2001 and have subsequently held three TIFA Council meetings, most recently in Washington in June 2005. The next TIFA Council meeting is expected to be held in early 2007. U.S. trade capacity building assistance to COMESA, delivered mainly through USAID's regional mission and the East and Central Africa Global Competitiveness Hub in Kenya, has helped COMESA to advance its internal free trade area and to harmonize its Members' policies in telecommunications, services, and investment, as well as to increase trade linkages between the United States and COMESA countries under AGOA. Fourteen COMESA members are AGOA-eligible and nine qualify for textile and apparel benefits. Ambassador Carmen Martinez, the U.S. Representative to COMESA (and U.S. Ambassador to Zambia), led the U.S. delegation to the 2006 COMESA Summit in Djibouti.

Total two-way trade between COMESA and the United States was valued at $20.5 billion in the first eleven months of 2006, a 22 percent increase over the same period in 2006. Egypt and Angola were the two largest markets for U.S. goods. The leading U.S. exports to COMESA countries were aircraft and machinery. U.S. imports from COMESA were dominated by oil imports from Angola but also included apparel, diamonds, and coffee. In the first eleven months of 2006, U.S. imports from COMESA under AGOA, including its GSP provisions, were valued at $11.2 billion, an increase of 32 percent over the same period in 2005, due mainly to an increase in the value of oil imports.

4. Ghana

The United States and Ghana strengthened trade relations in 2006. In July, the United States and Ghana met under the auspices of the U.S.-Ghana Trade and Investment Framework Agreement (TIFA) to discuss a wide range of issues including WTO negotiations, intellectual property rights, and ongoing cooperation toward a strategic plan for Ghana to develop non-traditional exports under AGOA. A number of bilateral issues have been resolved through the TIFA process.

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[57] COMESA members are Angola, Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

Total two-way trade between Ghana and the United States was valued at $435 million in the first eleven months of 2006, a 12 percent decrease over the same period in 2005. Ghana is the sixth largest sub-Saharan African market for U.S. goods. The leading U.S. exports to Ghana were machinery, vehicles, and wheat. U.S. imports from Ghana are primarily cocoa, oil, timber, and apparel. In the first eleven months of 2006, U.S. imports from Ghana under AGOA, including its GSP provisions, were valued at $43.4 million, a 22 percent decrease over the same period in 2005.

5. Mauritius

In September 2006, Deputy U.S. Trade Representative Karan Bhatia and Mauritian Foreign Affairs, International Trade, and Cooperation Minister Madan Murlidhar Dulloo signed a Trade and Investment Framework Agreement (TIFA) aimed at strengthening and expanding trade and investment ties between the United States and Mauritius. The TIFA provides a formal mechanism to address bilateral trade issues and helps enhance trade and investment relations between the United States and Mauritius. The TIFA encourages new trade and investment opportunities in both countries by establishing a cooperative forum for implementing specific strategies to enhance the U.S.-Mauritius trade and investment relationship.

Total two-way trade between Mauritius and the United States was valued at $234 million in 2006, down 7 percent from 2005, primarily due to decreases in Mauritian textile and apparel exports that were balanced by increases in Mauritian exports of jewelry, eyewear, and agricultural products. The leading U.S. exports to Mauritius are jewelry and diamonds. U.S. imports from Mauritius are primarily apparel, fish, diamonds, perfumes, and sugar. In the first eleven months of 2006, U.S. imports from Mauritius under AGOA, including its GSP provisions, were valued at $147.1 million, a 4.7 percent increase over the same period in 2005.

6. Mozambique

The United States and Mozambique signed a U.S.-Mozambique Trade and Investment Framework Agreement (TIFA) in July 2005. At the last United States-Mozambique TIFA Council meeting in October 2006, the United States and Mozambique worked together on critical issues such as market access, the WTO Doha Development Agenda, AGOA implementation and trade capacity building. The TIFA encourages new trade and investment opportunities in both the United States and Mozambique, and provides a formal mechanism to implement specific strategies to enhance the U.S.-Mozambique trade and investment relationship.

In February 2005, the government of Mozambique ratified the U.S.-Mozambique Bilateral Investment Treaty (BIT), which had been pending since 1998. The United States had ratified the BIT in 1998. The BIT entered into force in March 2005.

Total two-way trade between Mozambique and the United States was valued at $65 million in 2006, a 13 percent decrease over the same period in 2005. This decrease was primarily due to a drop in Mozambican exports of sugar and tobacco to the United States. The leading U.S. exports to Mozambique are petroleum coke, wheat, tractors, and used clothing. U.S. imports from Mozambique are primarily sugar, shrimp, tobacco, and cashew nuts. In the first eleven months of 2006, U.S. imports from Mozambique under AGOA, including its GSP provisions, were valued at $5.8 million, a 30 percent decrease over the same period in 2005.

7. Nigeria

Nigeria is the United States' largest trading partner in sub-Saharan Africa, due to the high level of petroleum imports from Nigeria. Total two-way trade was valued at $30.8 billion in 2006, a 19 percent increase over 2005. The leading U.S. exports to Nigeria were machinery, wheat and motor vehicles. U.S. imports from Nigeria were oil and rubber products. Nigerian exports to the United States under AGOA, including its GSP provisions, were valued at $23.9 billion during the first eleven months of 2006, a 19 percent increase over the same period in 2005, due to an increase in oil exports. The United States was the largest foreign investor in Nigeria in 2005.

In June 2006, the United States met with Nigeria under the existing Trade and Investment Framework Agreement (TIFA) to advance the ongoing work program and to discuss improvements in Nigerian trade policies and market access. Among other topics discussed were investment issues and cooperation to develop a strategy for Nigeria to diversify its export base, especially in the area of manufactured goods. Under the auspices of the TIFA, the United States and Nigeria pledged to work together on critical issues such as the WTO Doha Development Agenda, intellectual property rights, and trade capacity building. In 2006, Nigeria continued to implement reforms aimed at improving its trade and investment environment, including the removal of certain textile items from its list of import bans. However, the United States continues to be concerned about Nigeria's use of protective import bans on certain products, including sorghum, millet, wheat flour, rice, meats, and bulk vegetable oil.

8. Rwanda

In June 2006, Deputy U.S. Trade Representative Karan Bhatia and Rwandan Minister of Trade Protais Mitali signed the U.S.-Rwanda Trade and Investment Framework Agreement (TIFA). The TIFA provides a formal mechanism to address bilateral trade issues and to help enhance trade and investment relations between the United States and Rwanda. The first TIFA Council meeting under the new agreement was held on October 31, 2006 in Kigali, Rwanda, and was co-chaired by Ambassador Bhatia and Minister Mitali. Among the topics discussed were the WTO's Doha Round, means to enhance Rwanda's use of AGOA, trade capacity building assistance, measures to improve the business environment and improve investment flows, and issues related to trade-related infrastructure. Exploratory discussions on a possible Bilateral Investment Treaty between Rwanda and the United States were held in Kigali in November 2006.

Total two-way trade between Rwanda and the United States was valued at $19.2 million in 2006, a 14 percent increase over 2005. The leading U.S. exports to Rwanda are vegetable fats and oils, cereal foods, and beans. U.S. imports from Rwanda include coffee, tungsten ores and concentrates, and basketry. In the first eleven months of 2006, U.S. imports from Rwanda under AGOA, including its GSP provisions, were valued at $758,000, more than an eight-fold increase over the same period in 2005, largely due to imports of tungsten ores and concentrates.

9. South Africa

The United States and South Africa enjoy a broad and mutually beneficial trade and investment relationship. This relationship has been encouraged by a Trade and Investment Framework Agreement (TIFA) signed in February 1999; the start, in June 2003, of free trade agreement negotiations with the Southern African Customs Union (SACU), of which South Africa is a member; a proposed U.S.-SACU Trade and Investment Cooperation Agreement; and AGOA.

Two-way goods trade between the United States and South Africa increased 22 percent in 2006, to $12 billion. South Africa is the largest and most diversified supplier of non-fuel, AGOA-eligible products. In the first eleven months of 2006, U.S. imports from South Africa under AGOA and related GSP provisions were valued at $1.6 billion with imports of a wide-range of goods including minerals and metals, agricultural products (including fresh citrus fruits and wines), chemicals, transportation equipment, textiles, and apparel. Leading U.S. exports to South Africa include motor vehicles, tractors, aircraft, machinery, and medical equipment.

South Africa continues to play an important role in the WTO/DDA negotiations. South Africa, with a strong interest in agricultural liberalization, is a member of the Cairns Group of nations, and also belongs to the G-20 coalition of advanced developing countries. South Africa and the United States continue to consult closely on issues related to the WTO/DDA despite differences on certain issues.

The United States has been one of the largest single-country sources of new foreign investment in South Africa since South Africa's 1994 transition to democracy. There are an estimated 600 U.S. companies (including subsidiaries, joint ventures, local partners, agents, franchises, and representative offices) doing business in South Africa. As with any trade and investment relationship as diverse and vibrant as this one, certain disputes have arisen between the United States and South Africa. These include concerns related to South Africa's September 2006 antidumping order against imports of certain U.S. poultry products, concerns regarding restrictions placed on U.S. exports of soda ash, and ongoing problems related to South Africa's basic telecommunications monopoly, Telkom, and its failure to provide facilities necessary for U.S. value-added network services (VANS) providers to operate and expand.

The United States continues to consult with South Africa about the specifics of its Black Economic Empowerment (BEE) policies, which are intended to promote the economic empowerment of the historically disadvantaged majority population in South Africa. U.S. companies generally support the objectives of BEE, particularly its emphasis on development and on moving historically disadvantaged people into the mainstream of the national and global economy, but some have expressed concern about the scope and implementation of BEE policies. For example, there are concerns about BEE policies requiring the transfer of equity to historically disadvantaged companies, particularly among wholly-owned U.S. subsidiaries that have no equity to transfer. U.S. companies have expressed concern as to the details associated with BEE implementation, interpretation, and policy.

Foreign investors in South Africa have cited the uncertainty of South African policies (BEE and others) as the number one risk of doing business in the country. BEE guidelines for multinationals, released in December 2005, have provided companies with more details, and companies have sought further clarification through their comments to the South African government. The United States continued to discuss all of these issues with South Africa in 2006.

10. Southern African Customs Union

The United States and the Southern African Customs Union (SACU) – comprised of Botswana, Lesotho, Namibia, Swaziland, and South Africa – launched free trade agreement (FTA) negotiations in 2003. Active FTA negotiations were suspended in April 2006, largely due to divergent views on the scope and level of ambition for the FTA. The FTA remains a longer-term objective for both the United States and SACU.

In November 2006, the United States and SACU agreed to pursue a new type of agreement – a proposed Trade and Investment Cooperation Agreement (TICA) – that could help lead the United States and SACU to an FTA in the longer term. The proposed TICA would establish a forum for consultative discussions on a wide range of trade issues, including but not limited to FTA issues; develop sector-specific work plans that should lead to increased U.S.-SACU trade and investment in the near term; and put in place the "building blocks" for an FTA in the longer term.

The SACU countries are key beneficiaries of AGOA, with U.S. imports from SACU under AGOA valued at $2.2 billion in the first eleven months of 2006, and they comprise the largest U.S. export market in sub-Saharan Africa, with $4.2 billion in U.S. exports in the first eleven months of 2006.

11. West African Economic and Monetary Union (UEMOA)

Members of the West African Economic and Monetary Union (also known by its French acronym, UEMOA) are Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. UEMOA has established a customs union, eliminated internal duties, and is making progress in addressing key non-tariff barriers. Six[58] of the eight UEMOA member countries are eligible for AGOA. Five of these countries – Benin, Burkina Faso, Mali, Niger, and Senegal – are eligible to receive AGOA's textile and apparel benefits.

UEMOA entered into a TIFA with the United States in April 2002. At the most recent TIFA Council meeting in June 2006, Assistant U.S. Trade Representative Liser and UEMOA Commission President Cisse discussed export diversification; the WTO's Doha Development Agenda, including the handling of cotton in these negotiations; transport issues; and trade capacity building.

Total two-way trade between UEMOA and the United States was valued at $1.3 billion in the first eleven months of 2006, a 5 percent decrease over the same period in 2005. Cote d'Ivoire remained the largest UEMOA market for U.S. goods. The leading U.S. exports to UEMOA are motor vehicles and electrical machinery. U.S. imports from UEMOA are primarily cocoa and petroleum products. In the first eleven months of 2006, U.S. imports from UEMOA under AGOA, including its GSP provisions, were valued at $14.9 million, an exponential increase from only $841,000 during the same period in 2005, mainly due to the first AGOA shipment of groundnut oil from Senegal.

[58] AGOA beneficiaries are Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, and Senegal.