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 steadily, growing 8 percent to $19 billion in 2007. Australia is currently the 15th largest export market for U.S. goods. Two-way annual goods trade in 2007 was $27.7 billion and two-way services trade in 2006 (latest data available) was $13.9 billion, an increase of approximately 113 percent and 144 percent respectively since 1994. U.S. exports of private commercial services to Australia were $9.1 billion in 2006, while U.S. imports of services were $4.8 billion. In 2006, the United States enjoyed a bilateral goods and services trade surplus with Australia of $14 billion.

U.S. exports of agricultural products to Australia totaled approximately $665 million in 2007. Top U.S. agricultural exports included pork, fresh fruit, pet foods, and processed fruit and vegetables. 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.

The FTA also further ensured a secure, predictable legal framework for U.S. investors operating in Australia. The stock of U.S. foreign direct investment (FDI) in Australia in 2006 was $122.6 billion, up 6 percent from 2005. U.S. FDI in Australia is concentrated largely in the non-bank holding companies, manufacturing, finance, mining, and banking sectors. A factor in the large increase was the reclassification of assets in Australia to U.S. ownership of a large media group.

The second annual FTA Review took place July 2007 in Sydney. The discussions focused on pharmaceutical market transparency, mutual recognition of professional services, government procurement, and trade in agriculture products. Implementation of the provisions of the FTA continued to proceed on track during 2007. To meet its FTA commitments, Australia joined the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty in July 2007. It also implemented amendments to the Australian Copyright Act in 2007, which are an important step forward in preventing the circumvention of technological protection measures (TPM) used in the protection of copyrights in Australia.

2. Morocco

The United States and Morocco signed a Free Trade Agreement (FTA) on June 15, 2004. The U.S. Congress subsequently approved 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 that is an important part of the Administration's effort to promote more open and prosperous Middle Eastern societies and to establish a Middle East Free Trade Area (MEFTA) by 2013. The FTA supports the significant economic and political reforms that are underway in Morocco, and creates improved commercial and market opportunities for U.S. exports to Morocco by reducing and eliminating trade barriers.

Since the implementation of the FTA, the U.S. goods trade surplus with Morocco has risen to nearly $700 million in 2007, nearly doubling the level of $357 million in 2006. U.S. goods exports in 2007 were $1.3 billion, up 53 percent from the previous year. Corresponding U.S. imports from Morocco were $648 million, up 24 percent. Morocco is now the 64th largest export market for U.S. goods.

In 2006 and 2007, U.S. and Moroccan experts discussed FTA implementation issues including the implementation of tariff-rate quotas, sanitary standards for U.S. exports of beef and poultry, and the interpretation of rule of origin requirements. These discussions will continue along with an expected Joint Committee meeting 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 2007, U.S. exports to Chile increased by 17 percent to $8.0 billion, while U.S. imports from Chile decreased by 6 percent to $9.0 billion.

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 anticompetitive business conduct, and requires effective labor and environmental enforcement.

The fourth meeting of the United States-Chile Free Trade Commission was held on November 29-30, 2007, during which the two countries evaluated progress on implementation of the agreement during 2007. The Commission reviewed the operation of the specialized committees established under the Agreement and concluded that good progress had been made. Convening during 2007 were the Committees on Trade in Goods, Sanitary and Phytosanitary issues, and Technical Barriers to Trade. The Committee on Trade in Goods met on three occasions and discussed common guidelines, advance rulings, changes to the rules of origin and tariffs as a result of changes to the Harmonized System, liberalization of the rules of origin, and tariff acceleration.

Concerns about degradation in Chile's protection of intellectual property rights (IPR) were reflected in the January 2007 decision to place Chile on the Special 301 Priority Watch List. There are substantive deficiencies in IPR laws and regulations as well as overall inadequate IPR enforcement. The predominant concerns involve patent and test data protection in the pharmaceutical sector and copyright piracy of movies, music and software. The United States will continue to work with Chile to improve enforcement and ensure full implementation of the FTA.

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. 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-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.

4. Singapore

The United States-Singapore Free Trade Agreement (FTA), the first comprehensive U.S. FTA with an Asian nation, has been in force since January 1, 2004. Since the FTA entered into force in 2004, exports from the United States to Singapore have increased 65 percent. Singapore is the United States' 14th largest trading partner, with two-way trade in goods totaling $46 billion in 2007. U.S. exports are concentrated in machinery and electrical machinery, aircraft, optic and medical instruments and oil and have experienced steady growth since the Agreement entered into force.

Two-way trade in services was $10.5 billion in 2006. U.S. foreign direct investment to Singapore was $60 billion in 2006 and increased by 10.9 percent from levels in 2005.

In May 2007, U.S. and Singaporean government officials met in Singapore for the third annual review of the FTA, noting that implementation of the FTA remained on track. They welcomed the growth in bilateral trade and investment since the FTA came into force. Officials discussed implementation issues in areas such as telecommunications and other service sectors, as well as ways to improve the transparency of rule-making in services sectors, and the enforcement of IPR provisions in the FTA. In accordance with its FTA commitments, Singapore enacted Phase III of its Competition Act in 2007.

The United States and Singapore 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 2007, 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-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. Established by Congress in 1996, the QIZ initiative allows products to enter the United States duty-free if manufactured in Israel, Jordan, Egypt, or the West Bank and Gaza. The program has succeeded in stimulating significant economic activity. In 2002, Jordanian exports under the QIZ agreement to the United States were $369 million; by 2006 they reached $1 billion, and in the first 11 months of 2007 they were $802 million.

These various measures have played a significant role in boosting overall United States-Jordanian economic ties. U.S. goods exports in 2007 were $879 million, up 35 percent from the previous year. Corresponding U.S. imports from Jordan were $1.4 billion, down 5 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. 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. USTR continues to engage senior Jordanian officials, the private sector, and the International Labor Organization (ILO) to address labor issues in Jordan. USAID recently contributed $2.7 million to the ILO to begin a "Better Factories" project aimed at monitoring and improving labor conditions in QIZ apparel factories.

6. Israel

The 1985 U.S.-Israel Free Trade Agreement (FTA), the first FTA signed by the United States, continues to serve as a foundation for expanding trade and investment between the United States and Israel.

U.S. goods exports in 2007 were $13.0 billion, up 18 percent from the previous year. U.S. goods imports from Israel were $19.0 billion, up 8 percent. Israel is currently the 19th largest export market for U.S. goods. U.S. exports of private commercial services (*i.e.*, excluding military and government) to Israel were $3.0 billion in 2006 (latest data available), and U.S. imports were $2.3 billion. Sales of services in Israel by majority U.S.-owned affiliates were $1.0 billion in 2005 (latest data available), while sales of services in the United States by majority Israel-owned firms were $474 million. The stock of U.S. foreign direct investment (FDI) in Israel was $10.0 billion in 2006 (latest data available), up from $8.4 billion in 2005. U.S. FDI in Israel is concentrated largely in the manufacturing, information, professional, scientific, and technical sectors.

The United States and Israel convened in October 2007 the latest meeting of the Joint Committee (JC) established under the FTA to manage implementation of the agreement. The JC meeting reviewed a range of bilateral issues, including intellectual property rights, standards, and sanitary and phytosanitary matters, which will be discussed in greater detail in 2008.

In 1996, the two sides, recognizing that the FTA had not served to liberalize some aspects of bilateral agriculture trade, concluded an Agreement concerning certain aspects of Trade in Agricultural Products (ATAP), which provided for duty-free or other preferential treatment of certain agricultural products. The 1996 agreement was extended through 2003 and a new agreement was concluded in 2004. The 2004 agreement is scheduled to expire at the end of 2008. At the JC meeting in October 2007, the two sides initiated discussions on launching a new round of ATAP negotiations, which will commence early in 2008.

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.

In August 2005, President Bush signed the implementing legislation for the CAFTA-DR. During 2006, the agreement entered into force for the United States and El Salvador, Guatemala, Honduras, and Nicaragua. The CAFTA-DR entered into force for the Dominican Republic on March 1, 2007. Costa Rica approved the CAFTA-DR through a national referendum on October 7, 2007. However, the agreement has not yet entered into force for Costa Rica, pending their adoption of implementing legislation and regulations.

In 2007, the CAFTA-DR Parties agreed to amend several textiles-related provisions of the CAFTA-DR, including, in particular, changing the rules of origin to require the use of U.S. or regional pocket bag fabric in originating apparel. The textiles amendments have not entered into force.

The CAFTA-DR is the first free trade agreement between the United States and a group of smaller developing economies. This regional trade agreement will contribute to the transformation of a region that until recently was consumed by internal strife and border disputes. 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 signatory countries and further regional integration.

Central America and the Dominican Republic represent the third largest U.S. export market in Latin America, behind Mexico and Brazil. U.S. exports to the CAFTA-DR countries were valued at $22.1 billion in 2007. Combined total two-way trade in 2007 between the United States and Central America and the Dominican Republic was nearly $41 billion.

Under the CAFTA-DR, more than 80 percent of U.S. exports of consumer and industrial goods enter the Central American parties and the Dominican Republic duty-free, including yarns and fabrics, information technology products, agricultural and construction equipment, paper products, chemicals, and medical and scientific equipment. Remaining duties on consumer and industrial goods will be phased-out within 10 years.

Additionally, more than half of U.S. farm exports to Central America and the Dominican Republic receive duty-free treatment under the agreement, including high quality cuts of beef, cotton, wheat, soybeans, certain fruits and vegetables, processed food products, and wine. Remaining duties on nearly all U.S. farm products will be phased-out within 15 years to 20 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 the agreement, the United States provides duty-free treatment to nearly all Central American and Dominican Republic goods. Duty-free treatment for certain agricultural goods will be phased in over time, with the exception of sugar, where liberalization is being provided through a slowly expanding tariff-rate quota.

Under the CAFTA-DR, the Central American Parties and the Dominican Republic committed to provide, subject to very few exceptions, substantial market access across a broad range of services sectors, including financial services, telecommunications, express delivery, computer and related services, distribution services, professional services, advertising, audiovisual services, construction and engineering services, and energy services. The agreement disciplines the use of regimes to protect local dealers from competition, reducing significant barriers to distribution in the region. U.S. financial service suppliers will have rights to establish subsidiaries, joint ventures, or branches for banks and insurance companies on a non-discriminatory basis. The Costa Rican insurance market will be liberalized in a phased approach to give U.S. insurance suppliers full access to the market by 2011.

The CAFTA-DR provides for improved standards for the protection and enforcement of a broad range of intellectual property rights, which are consistent with U.S. and international standards, as well as emerging international standards. The agreement also includes strong protections for digital products such as software, music, text, and video.

The agreement helps to establish a secure, predictable legal framework for U.S. investors, establishes strong anti-corruption obligations in matters affecting trade or investment, and guarantees U.S. firms transparent procurement procedures and non-discriminatory treatment in purchases of goods and services by Central American and Dominican Republic government entities.

The agreement also includes strong labor and environment obligations. In particular, each Party commits not to fail to effectively enforce its domestic labor and environment laws, through a sustained or recurring course of action or inaction, in a manner affecting trade between the Parties. Moreover, each Party must ensure that its domestic law provides access to fair, equitable, and transparent proceedings for the enforcement of labor and environment laws. The Parties recognize the importance of cooperation to help ensure the capacity of the Central American Parties and the Dominican Republic to meet their labor and environment obligations under the agreement. The labor chapter establishes a labor cooperation and capacity building mechanism to guide these efforts. In a parallel agreement, the CAFTA-DR Environmental Cooperation Agreement, the Parties established a framework for environmental cooperation. More broadly, the CAFTA-DR establishes a Committee on Trade Capacity Building to coordinate capacity building activities and to assist each Central American Party and the Dominican Republic to implement the agreement and adjust to liberalized trade.

For a description of capacity building activities in the CAFTA-DR Parties, see:

- Section IV.B.5.i (labor)
- Section IV.A.2 (environment)
- Section VI.A.5 (general)

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 FTA in July 2005. The U.S. Congress enacted legislation approving and implementing the FTA in December 2005, and the President Bush signed the legislation on January 11, 2006. The FTA entered into force on August 1, 2006.

The United States-Bahrain FTA generates 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 President Bush'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

The United States and Panama launched negotiations on a free trade agreement in April 2004 and concluded the negotiations in December 2006. The two governments signed the United States – Panama Trade Promotion Agreement (TPA) on June 28, 2007. Panama approved the TPA on July 11, 2007. The United States has not yet approved the agreement.

The TPA represents an historic development in our relations with Panama and achieves the goal expressed by Congress in the Caribbean Basin Trade Partnership Act, to conclude comprehensive, mutually advantageous free trade agreements with beneficiary countries of the Caribbean Basin Initiative trade preference program.

The TPA will create significant new opportunities for American workers, farmers, businesses, and consumers by eliminating barriers to trade with Panama. Approximately 88 percent of U.S. exports of consumer and industrial goods will become duty-free immediately when the TPA enters into force. All remaining tariffs on consumer and industrial goods will be eliminated within 10 years. By value, more than 60 percent of current U.S. farm exports to Panama will become duty-free immediately when the TPA takes effect. Duties on other U.S. agricultural products will be phased out within 15 years to 20 years.

Panama also implemented an expansive bilateral agreement reached with the United States on regulatory barriers to agricultural trade. Under this agreement, Panama recognized the equivalence of the U.S. meat and poultry inspection systems and of the U.S. regulatory system for processed food products, and agreed to provide access for all U.S. beef and beef products (including pet food), and all U.S. poultry and poultry products, consistent with international standards. Finally, Panama formalized its recognition of the U.S. beef grading system and cuts nomenclature, eliminated its onerous product registration procedures, and agreed to an automatic and cost-free registration process for the small group of U.S. agricultural products not exempted from this process.

The TPA will either open or lock in existing access to Panama's services markets in such priority U.S. services export sectors as financial services, telecommunications, express delivery, computer and related services, distribution services, professional services, advertising, audiovisual services, education and training, tourism, construction and engineering, energy services, and environmental services. The TPA will also help ensure a stable legal framework for U.S. investors in Panama. Except for certain specified exceptions, the agreement will commit Panama to allow U.S. investors to establish, acquire, and operate investments in Panama on the same basis as Panama's own investors or other foreign investors.

The TPA provides that U.S. suppliers will be permitted to bid on procurement above certain thresholds of most Panamanian government entities, including key ministries and state-owned enterprises, on the same basis as Panamanian suppliers. In particular, U.S. suppliers will be permitted to bid on procurement by the Panama Canal Authority, including for the $5.25 billion Panama Canal expansion project, which is expected to begin in 2008 and to be completed in 2014.

The TPA includes important disciplines relating to intellectual property rights, electronic commerce, customs administration, and dispute settlement. The TPA also includes strong labor and environment provisions, which fully reflect the Bipartisan Agreement on Trade Policy of May 10, 2007.

The United States had a goods trade surplus with Panama of $3.4 billion in 2007 and is Panama's largest trading partner. Total goods trade between the United States and Panama was $4.0 billion in 2007. Panama is a growing market for U.S. products. U.S. goods exports to Panama increased 39 percent from 2006 to 2007.

10. United Arab Emirates

The United States and the United Arab Emirates (UAE) initiated negotiation of a comprehensive bilateral Free Trade Agreement (FTA) in March 2005. Despite significant progress in a number of substantive areas, by early 2007, the two sides realized that conclusion of the negotiations would not be possible within the timeframe set by Trade Promotion Authority legislation (which expired on July 1, 2007).

Since early 2007, U.S. and UAE officials have inaugurated an enhanced "Trade and Investment Framework Agreement (TIFA)-Plus" forum in which they will pursue additional opportunities for strengthening trade and investment ties – building on the progress made during the FTA talks. The first meeting of the TIFA-Plus process took place in June 2007.

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 President Bush signed the legislation on September 26, 2006. The Omani government is working to enact the necessary implementing legislation and regulations; the FTA is expected to enter into force in 2008.

The U.S.-Oman FTA will build on existing FTAs to promote President Bush'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 services providers, solidify Oman's trade and investment liberalization, and strengthen intellectual property rights protection and enforcement.

12. Thailand

The United States suspended Free Trade Agreement (FTA) negotiations with Thailand in 2006 following the dissolution of the Thai Parliament and the subsequent military-led coup. In December 2007, Thailand held Parliamentary elections, which are expected to result in the formation of a democratically-elected government in early 2008. The United States will continue to monitor and evaluate the political situation in Thailand and to consider appropriate steps to further strengthen our economic relations.

Although FTA negotiations were suspended, the United States continued to meet with Thai government officials during the year to discuss bilateral issues as well as ways to advance the Asia-Pacific Economic Cooperation (APEC) agenda and the WTO Doha Development Agenda negotiations. The serious deterioration of intellectual property rights (IPR) protection in Thailand led the United States to elevate Thailand to the Special 301 Priority Watch List of countries in 2007. The United States will continue to press the Thai government to strengthen its IPR regime and increase enforcement. The United States also raised concerns with the Thai government and in the WTO Customs Valuation Committee regarding its customs valuation practices and will continue to work with the Thai government to address its concerns on this issue.

13. Republic of Korea

After eight formal negotiating rounds, the first of which took place in June 2006, the United States and the Republic of Korea successfully concluded the negotiation of a free trade agreement on April 1, 2007. On June 30, 2007, the United States and Korea signed United States-Korea Free Trade Agreement (KORUS FTA), with United States Trade Representative Susan C. Schwab signing on behalf of the United States and Korea's Trade Minister Kim Hyun-chong signing on behalf of Korea.

The KORUS FTA is the most commercially significant free trade agreement the United States has concluded in nearly 15 years, providing preferential access for U.S. businesses, farmers, ranchers, services providers, and workers to the United States' seventh largest export market by eliminating tariffs and non-tariff measures on a wide range of U.S. manufactured and agricultural goods, and addressing market access limitations and other barriers that restrict trade in services.

In addition to strengthening our economic partnership, the KORUS FTA will help to solidify the two countries' long-standing alliance and underscore the U.S. commitment to, and engagement in, the Asia-Pacific region.

As stated by President Bush, the KORUS FTA will "promote economic growth and the creation of better paying jobs in the United States, and help American consumers save money while offering them greater choices. The agreement will also further enhance the strong United States-Korea partnership, which has served as a force for stability and prosperity in Asia."

For more details regarding the KORUS FTA, please see Section F in this chapter.

14. Malaysia

The United States and Malaysia launched Free Trade Agreement (FTA) negotiations in March 2006, and six rounds of negotiations have been held to date. Progress has been made, although significant challenges remain. An FTA with Malaysia would encourage additional trade and investment, further deepening our already strong economic partnership – with nearly $44 billion in two-way trade in goods in 2007, $2.5 billion in two-way trade in services in 2006, and $12.5 billion in foreign direct investment in 2006. The United States is the largest destination for Malaysian goods and is Malaysia's second-largest source of imports.

An FTA would reduce and eliminate trade barriers between the United States and Malaysia, increasing trade in manufactured goods and agricultural products. An FTA also would create opportunities in such sectors as telecommunications, financial services, energy, healthcare, and professional services. All of these are areas where Malaysia intends to further enhance its competitiveness.

In addition to trade, an FTA would encourage greater liberalization of investment between the United States and Malaysia. U.S. investors already are the largest source of investment in Malaysia, and liberalization of Malaysia's investment regime would support the further development of the supply and processing chains between U.S. and Malaysian companies, promoting high-paying jobs in both countries. An FTA also would strengthen the framework necessary to enhance future trade and investment.

While Malaysia already has taken some steps to strengthen its intellectual property rights (IPR) and customs regimes, including the inauguration of a dedicated IPR Court, the United States will seek to include FTA provisions that align Malaysia's intellectual property and customs regimes with the standards reflected in other recent free trade agreements negotiated by the United States.

More broadly, the United States seeks to strengthen 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' 16th largest goods trading partner. U.S. exports to Malaysia are concentrated in electrical and non-electrical machinery, optical and medical instruments, iron and steel, and aircraft.

15. Colombia

The United States and Colombia signed the United States-Colombia Trade Promotion Agreement (U.S.-Colombia TPA) in November 2006 and a Protocol of Amendment in June 2007. The Colombian Congress approved the agreement and protocol in 2007. The Administration will seek prompt Congressional approval of the agreement in 2008.

The U.S.-Colombia TPA will help bolster one of our country's strongest allies in the region. In 2000, much of Colombia was controlled by three terrorist groups and ruthless narcotics trafficking cartels. With U.S. assistance through Plan Colombia, the Colombian people are transforming their nation. They have achieved solid progress in economic growth, social development, and in reducing violence. Murders are down 40 percent since 2002, kidnappings are down 76 percent, and terror attacks are down by 61 percent. In addition, violence against trade unionists, among other groups, has dropped significantly. In 1999, the Colombian government instituted new programs to provide protection to roughly 10,000 members of vulnerable groups. The largest of these programs provides protection to almost 7,000 individuals, including over 1,300 trade unionists.

Real progress has been made but challenges remain. The people of Colombia are addressing these problems aggressively and decisively, but need the continued support of the United States. This agreement is a critical tool to provide jobs and economic alternatives for displaced persons, demobilized combatants and those seeking alternatives to narcotics trafficking.

Approval of the U.S.-Colombia TPA will be a critical signal of the United States' support for the Colombian people, who have chosen to strengthen ties with the United States in the belief that reciprocal market access will contribute to the overall growth and development of their country.

The U.S.-Colombia TPA will also provide the United States substantial commercial benefits. Colombia is a growing export market of approximately 42 million consumers for U.S. goods in Latin America. The United States' two-way trade with Colombia reached $17.6 billion in 2007, making Colombia our fourth largest trading partner in Latin America. U.S. goods exports to Colombia totaled $8.6 billion in 2007, an increase of 28 percent from 2006. The International Trade Commission estimates that the U.S.-Colombia TPA will increase U.S. exports to Colombia by $1.1 billion and U.S. GDP by $2.5 billion.

In 2007, 92 percent of U.S. imports from Colombia entered the United States duty-free under our most-favored nation tariff rates and various preference programs. Colombia's trade weighted average applied tariff rate on U.S. imports was 11.1 percent, while the equivalent U.S. rate on imports from Colombia was only 0.1 percent.

Our trade agreement with Colombia will further open this dynamic and growing economy. Colombia will provide immediate duty-free access for over one-half of its imports of U.S. agricultural products and over 80 percent of U.S. industrial and consumer products, with all remaining tariffs phased out over defined periods. Colombia is already the largest market for U.S. agricultural exports in South America. U.S. farmers and ranchers will benefit particularly from the immediate elimination of duties on high quality beef, cotton, wheat, soybeans, and many fruits and vegetables including apples, pears, peaches, and cherries. While negotiating the terms of the U.S.-Colombia TPA, the United States and Colombia also reached other agreements, under which Colombia reopened its market to U.S. beef and beef products for human consumption when accompanied by a sanitary certificate issued by the U.S. Department of Agriculture's Food Safety and Inspection Service (FSIS).

In addition, the agreement will remove barriers to U.S. services, provide a secure, predictable legal framework for investors, and strengthen protection for workers and the environment. This agreement includes state-of-the-art provisions relating to intellectual property rights, electronic commerce, customs administration and trade facilitation, and dispute settlement. The agreement also includes labor and environment provisions, which fully reflect the Bipartisan Agreement on Trade Policy of May 10, 2007.

16. Peru

The United States and Peru signed the United States-Peru Trade Promotion Agreement (PTPA) on April 12, 2006. The Peruvian Congress ratified the Agreement in June 2006 and a Protocol of Amendment in June 2007. On December 14, 2007 President Bush signed into law the United States-Peru Trade Promotion Agreement Implementation Act. The PTPA will enter into force once Peru has taken the necessary steps to ensure implementation of its obligations.

The United States has a vested interest in the security, stability, and success of the Andean region, and stands to gain substantially from establishing stronger political and economic ties with Peru. The PTPA will eliminate tariffs and trade barriers for U.S. manufacturers, workers, farmers and investors, allowing U.S. products and services to compete more effectively with those of other countries in the region. Additionally, the Agreement will aid in promoting economic growth and prosperity in Peru by attracting new investment and more jobs. More importantly, the Agreement will support and enhance the democratic and free market reforms that Peru has undertaken in recent years.

The United States' two-way trade with Peru doubled over the last four years to $9.3 billion in 2007, with U.S. goods exports to Peru reaching $4.1 billion. In 2007, 97 percent of U.S. imports from Peru entered the United States duty-free under our most-favored nation tariff rates and various preference programs.

Under the terms of the U.S.-Peru TPA, 80 percent of U.S. exports of consumer and industrial products to Peru will become duty-free immediately, with remaining tariffs phased out over 10 years. More than 90 percent of current U.S. farm exports will gain immediate duty-free access to Peru. Tariffs on most of the remainder of U.S. farm products will be phased out within 15 years, with all tariffs eliminated in 17 years. Peru has also agreed to eliminate its price band system on trade with the United States, and has addressed a number of significant sanitary and phytosanitary (SPS) and technical regulation issues that had impeded or stopped U.S. exports of beef, pork, poultry, and rice. In addition, the agreement will remove barriers to U.S. services, provide a secure, predictable legal framework for investors, and strengthen protection for intellectual property, workers, and the environment.

The PTPA is the first to incorporate the labor and environmental protections set out in the Bipartisan Agreement on Trade Policy of May 10, 2007.

The PTPA includes an enforceable reciprocal obligation for the countries to adopt and maintain in their laws and practice the principles concerning the fundamental labor rights as stated in the 1998 ILO Declaration on Fundamental Principles and Rights at Work, including a prohibition on the worst forms of child labor. There is also an obligation to effectively enforce labor laws related to those rights and to working conditions. These labor obligations are subject to the same dispute settlement procedures and enforcement mechanisms as commercial obligations.

The Agreement commits the parties to effectively enforce their own domestic environmental laws and adopt, maintain, and implement laws, regulations, and all other measures to fulfill obligations under seven multilateral environmental agreements. All obligations in the environment chapter are subject to the same dispute settlement procedures and enforcement mechanisms as commercial obligations. The chapter includes a groundbreaking Annex on Forest Sector Governance and provides for concrete steps that the parties will take to enhance forest sector governance in Peru and promote legal trade in timber products. The chapter includes provisions recognizing the importance of conserving and protecting biodiversity, and creates a public submissions process with an independent secretariat for environmental matters to ensure that views of civil society are appropriately considered. There is also an environmental cooperation agreement that provides a framework for undertaking environmental capacity building in Peru.

The U.S.-Peru TPA provides for improved standards for the protection and enforcement of a broad range of intellectual property rights, which are consistent with both U.S. standards of protection and enforcement and emerging international standards. Such improvements include state-of-the art protections for digital products such as U.S. software, music, text, and video; stronger protection for U.S. patents, trademark and test data, including an electronic system for the registration and maintenance of trademarks; and further deterrence of piracy and counterfeiting by criminalizing end-user piracy.

17. 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 440 million people producing $16 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 2007, from $142 billion to $385 billion, higher than U.S. export growth of 140 percent to 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 2005, 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.

The FTC held its most recent annual meeting in August 2007, in Vancouver, Canada. At the meeting, the FTC agreed to develop a work plan to enhance North American competitiveness. The Commission also agreed to undertake work to facilitate trade in four specific industry sectors: swine, steel, consumer electronics, and chemicals. Finally, the FTC launched an analysis of the free trade agreements that each country has negotiated subsequent to the NAFTA, beginning with those in the western hemisphere.

ii. Rules of Origin

On July 1, 2007, the NAFTA partners implemented liberalizing changes to the NAFTA rules of origin. These changes cover approximately $15 billion in annual trilateral trade. At its August 2007 meeting, the FTC agreed on another set of liberalizing changes to the NAFTA rules of origin. The changes cover over $100 billion in annual trilateral trade. The NAFTA partners will work to implement these new rules in 2008. This work demonstrates that NAFTA continues to provide benefits to businesses, consumers, workers, and farmers.

iii. 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 NAOs, and to provide for the submission and review of public communications on labor law matters. The NAOs, together with the Secretariat, also carry out the Council's Cooperative Activities program.

No new submissions on labor matters were filed under the NAALC in 2007. Several pending submissions from previous years were addressed by the U.S. and Mexican NAOs. In August 2007, the U.S. NAO released its public report of review of U.S. Submission 2005-03 (Hidalgo), requesting consultations with the Mexican NAO on several issues relating to labor law enforcement. The U.S. NAO declined for review U.S. Submission 2006-01 concerning freedom of association and occupational safety and health for mine workers in Mexico. In October 2007, the Mexican NAO requested responses from the U.S. NAO to questions related to two submissions filed in Mexico, the first concerning H2-B Visa workers (filed in 2005) and the second concerning the collective bargaining rights of public sector employees in North Carolina (filed in 2006).

In 2007, as part of its research program, the NAALC Secretariat released a report on High Performance Work Systems in North America as well as the third edition of Labor Markets in North America, describing economic conditions and the characteristics of the labor market in the three countries. In addition, as part of its cooperative activities program, the Secretariat hosted a tri-national workshop on Mine Safety and Health issues in Guadalajara, Mexico in October, 2007.

iv. 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 2007 Council Session in Morelia, Mexico, the Council reviewed the work of the CEC, established the organization's goals for the coming year and, *inter alia*, reaffirmed their interest in addressing trade and environment in an integrated manner. 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 130 communities throughout the United States-Mexico border region to address their environmental infrastructure needs. In June of 2007, 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, 2007, the NADBank had authorized $891.2 million in loans and/or grant resources to partially finance 108 infrastructure projects certified by the BECC with an estimated cost of $2.79 billion.

B. Regional Initiatives

1. Free Trade Area of the Americas (FTAA)

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 did not yet exist for the achievement of the FTAA. All 34 leaders 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 and 2007.

2. U.S. - ASEAN Trade and Investment Framework Agreement (TIFA)

The ten-member ASEAN group of countries collectively is the United States' fifth largest trading partner and trade continues to grow steadily, with $172 billion in two-way goods trade in 2007. With rapidly growing economies and a collective population of around 500 million, the ASEAN market provides significant potential opportunities for U.S. companies.

In October 2002, President Bush announced the Enterprise for ASEAN Initiative (EAI), which is intended to strengthen U.S. trade and investment ties with ASEAN both as a region and bilaterally. Under the EAI, the United States offered 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 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 and Malaysia. The United States concluded TIFAs with Brunei, Cambodia and Vietnam, adding to its existing TIFAs with Indonesia and the Philippines. For ASEAN countries with which we are not negotiating an FTA, the United States is using regular meetings under our TIFAs to address bilateral trade issues, further deepen our trade and investment ties, and coordinate regional and multilateral trade issues.

In August 2006, the United States and ASEAN concluded a Trade and Investment Framework Agreement. This regional TIFA represents the commitment by both the United States and ASEAN countries to build upon the already strong trade and investment ties between us and to promote ASEAN regional economic integration. The TIFA includes a work plan, under which the two sides are working on priority projects. In November 2007 Ambassador Susan C. Schwab met with ASEAN Trade Ministers to assess the progress made on the existing TIFA work plan projects: an ASEAN Single Window for Customs Clearance; development of an ASEAN harmonized pharmaceutical regulatory regime; and development of a framework equivalency work plan on irradiation to facilitate agriculture trade. In addition to noting the completion of the SPS project, the participants discussed the development of new cooperative projects for the coming year including a joint agreement to pursue ASEAN-wide participation in the plurilateral Multi-Chip Integrated Circuit Agreement (MCP) and other projects.

3. Middle East Free Trade Area (MEFTA)

In May 2003, President Bush 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 facilitate 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 pursue specific strategies to enhance trade and investment relations with them, each strategy tailored to the relevant country's level of development. In particular, the United States will expand and deepen economic ties through Trade and Investment Framework Agreements (TIFAs), Bilateral Investment Treaties (BITs), comprehensive Free Trade Agreements (FTAs), and other measures as appropriate. Bilateral FTAs with Israel, Jordan, Morocco, Bahrain, and Oman have already been concluded (see relevant FTA sections above).

In 2007, USTR continued to work with trading partners in the region to implement the MEFTA initiative. The United States and the United Arab Emirates decided early in 2007 that the timing was not conducive to concluding their FTA negotiations and have since sought to pursue trade and investment enhancement through their "TIFA-Plus" process; the first meeting of this new format was held in June. The United States continues actively to support the WTO accession efforts of Lebanon, Algeria, and Yemen, and has also taken steps to reinvigorate dialogues with other key trading partners in the region, including Egypt and Saudi Arabia.

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 Australia, the APEC Chair in 2007, 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 intellectual property rights (IPR) protection and enforcement, spotlight the need for work on food and product import safety, advance trade in environmental goods and services, and set high standards for FTAs. The United States will work with Peru, the APEC Chair in 2008, to develop concrete actions in these areas.

The 21 APEC economies collectively account for 46 percent of world trade and 56 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 2006, the U.S. goods and services trade with APEC economies totaled $2.1 trillion, an increase of nearly 11 percent from 2005.

2007 Activities

WTO Leadership

APEC economies continued to exercise leadership in the WTO. In September 2007, APEC Leaders issued a strong statement pledging to demonstrate the "political will, flexibility and ambition to ensure the Doha Round negotiations enter their final phase" in 2007. Furthermore, they pledged to take steps to "resume negotiations on the basis of the draft texts tabled by the chairs of the negotiating groups on agriculture and non-agricultural market access." APEC Leaders defined a successful Doha agreement as one that "delivers real and substantial market access improvement for agricultural and industrial goods and for services."

Advancing Trade Liberalization in the APEC Region

Promoting Regional Economic Integration/Free-Trade Area of the Asia Pacific: In 2007, the United States continued work to deepen its economic trans-Pacific ties through APEC. At the summit of APEC Economic Leaders in Sydney, Australia, the United States promoted, and leaders endorsed, a 25-page Regional Economic Integration Report (REI Report) that included numerous agreed actions designed to keep APEC in the middle of the trend toward economic integration in the Asia-Pacific. Enshrined in this report is a mandate for APEC to intensively explore the prospects for a Free Trade Area of the Asia-Pacific (FTAAP) as a long-term prospect. Further, as 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 2008 with the other APEC economies to advance the agreed actions in the REI Report so as to ensure that APEC remains at the forefront of the trend toward economic integration in the Asia-Pacific region.

Free Trade Agreements (FTAs) and Regional Trade Agreements (RTAs): In 2007, 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" or key elements that should be included in trade facilitation chapters of high-quality FTAs/RTAs. In 2006, work was completed on model measures for six additional FTA/RTA chapters, including trade in goods, technical barriers to trade, transparency, government procurement, cooperation, and dispute settlement. In 2007, an additional three sets of model measures were agreed upon – sanitary and phytosanitary measures, electronic commerce, and rules of origin.

Fostering Food and Product Import Safety: APEC economies highlighted the importance of addressing the emerging and serious problem of food and product import safety in 2007. APEC Leaders and Ministers established a clear mandate in Sydney to expand APEC's existing work program for harmonizing food safety regulations with international standards to all traded products. In this regard, APEC economies agreed in 2007 to deepen cooperation, improve on current standards and practices, and strengthen scientific risk-based approaches to food and other product safety to facilitate trade and ensure the health and safety of consumers.

Intellectual Property Rights Protection and Enforcement: APEC is one of the world's most dynamic economic regions, and intellectual property rights (IPR) protection and enforcement have contributed to innovation, investment, and growth among the Asia-Pacific member economies. APEC continues to be at the forefront of combating piracy and counterfeiting in this region.

In 2007, APEC adopted a number of U.S.-championed proposals to improve IPR border enforcement and streamline the patent application process. In addition, APEC Leaders and Ministers highlighted the need for work to address the growing problem of notorious markets that sell infringing goods and combat satellite and cable signal theft which costs copyright owners and the cable and broadcast industries significant revenues. The United States also worked through APEC and encouraged its members – some of whom have major IPR enforcement challenges – to put in place legal regimes and enforcement systems to better address these serious issues.

Environmental Goods and Services: The United States launched an initiative in 2007 on environmental goods in APEC. The work is focused on building a better understanding throughout the Asia-Pacific region of cutting-edge environmental technologies and to promote momentum for WTO trade liberalization in environmental goods and services. APEC Leaders underscored the importance of this work and also called on member economies to advance this work during 2008.

Technology Choice: In 2007, the United States expanded membership in the Pathfinder Initiative on the APEC Technology Choice Principles by one economy, brining the total membership in this initiative to 15 economies. China, Korea, Indonesia, Thailand, Brunei, and Russia have yet to join. The United States will continue to advance this initiative in 2008, which 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.

Trade Facilitation: APEC Leaders endorsed an action plan in 2007 that includes a commitment to achieving a 5 percent decrease in trade transaction costs by 2010. This commitment builds on the success of APEC's first five-year action plan that resulted in a 5 percent reduction in trade transaction costs by 2006. In 2008, the United States will work with APEC economies to carry forward the APEC mandate of further reducing trade transaction costs, while also continuing to work on the single window initiative (launched in September 2006) and the development of an Investment Facilitation Action Plan by 2010 (launched in September 2007) to reduce impediments to cross-border investment flows in the Asia-Pacific region.

Private Sector Involvement

The APEC Business Advisory Council: The APEC Business Advisory Council (ABAC) was extremely active in 2007, 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 climate change.

Life Sciences Innovation Forum: In 2007, the fifth Life Sciences Innovation Forum (LSIF) examined the challenges of aging demographics and the associated rise in chronic disease in the APEC region, as well as ways of addressing these in an integrated way that brings together economic (including trade), financial, science and health policy considerations. As one way to begin addressing this challenge, APEC Ministers called on the LSIF to undertake in 2008 a multidisciplinary study on the role of, and returns on, investment in health systems and to examine ways of sustaining innovation in the region. In addition, APEC Ministers supported LSIF's ongoing capacity-building work to help economies harmonize their regulatory regimes for pharmaceuticals and medical devices with international best practices and to provide training to combat the counterfeiting of drugs and medical devices.

Automotive and Chemical Dialogues: The Automotive and Chemical 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 and chemical sectors in the APEC region.

In 2007, the Automotive Dialogue continued its work with the APEC Sub-Committee on Customs Procedures to facilitate customs procedures for low-risk shippers through the use of expedited clearance. In other customs-related work, the Customs Import Automation Product in the Philippines was implemented. This initiative will also be linked to the Philippine National Single Window and ASEAN Single Window projects of the Philippine Bureau of Customs. The Automotive Dialogue held a seminar on intellectual property rights in November 2007, and has begun planning for a second such seminar. The Automotive Dialogue also sponsored a Road Safety Summit to highlight the industry's efforts to promote enhanced road safety. A Data Collection Workshop will be held in 2008 as a follow-up to the Road Safety Summit. The Dialogue continues its work in the areas of emerging fuels and environmental issues.

The Chemical Dialogue continued to express concern with the potential adverse impact of the EC's proposed chemical regulations (REACH). The Chemical Dialogue also shared information and raised awareness about chemical industry and individual government concerns with other product-related environmental regulations, and continued work to standardize labeling of chemicals through adoption of the UN Globally Harmonized System of Classification and Labeling (GHS), simplify Rules of Origin for chemicals, and contribute to APEC discussions on Emergency Response.

C. The Americas

1. Canada

a. Softwood Lumber

The Softwood Lumber Agreement (SLA) was signed on September 12, 2006, and entered into force on October 12, 2006. Pursuant to a settlement of litigation, the U.S. Department of Commerce revoked the antidumping and countervailing duty orders on imports of softwood lumber from Canada (the settlement ended a large portion of the litigation over trade in softwood lumber). Upon revocation of the orders, U.S. Customs and Border Protection ceased collecting cash deposits, and returned previously-collected deposits, with interest, to the importers of record.

The SLA provides for unrestricted trade in softwood lumber in favorable market conditions. When the lumber market is weak, 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 SLA also includes provisions that address potential Canadian import surges, provide for effective dispute settlement, and monitor administration of the agreement through the establishment of a Softwood Lumber Committee. The Committee met in February 2007 and October 2007 and the United States and Canada discussed a range of SLA implementation issues and Canadian provincial assistance programs for softwood lumber industries.

On March 30, 2007, the United States requested formal consultations with Canada to resolve concerns regarding several Canadian federal and provincial programs, as well as Canada's interpretation of the agreement's provisions adjusting softwood lumber export levels, including the level triggering the agreement's mechanisms on import surges. After formal consultations failed to resolve these concerns, on August 8, 2007 the United States requested international arbitration under the terms of the agreement to compel Canadian compliance with its obligations relating to export volume caps, proper application of the import surge mechanism, and anti-circumvention.

b. Agriculture

Canada is the largest market for U.S. food and agricultural exports. For fiscal year 2007 (October 2006 to September 2007), U.S. agricultural exports to Canada grew by nearly 14 percent to a record-breaking $13.2 billion.

As a result of the 1998 U.S.-Canada Record of Understanding on Agricultural Matters (ROU), the U.S.-Canada Consultative Committee on Agriculture (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. During 2007 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 December 2007, reinforced the close working relationship between the two governments, as well as their respective agricultural sectors.

Progress was made in 2007 concerning Canada's long-standing, non-tariff barriers that prohibit the entry of bulk shipments of fruits and vegetables in packages exceeding certain standard sizes, with the implementation of the Technical Arrangement Concerning Trade in Potatoes between the United States and Canada. This arrangement will provide U.S. potato producers with predictable access to Canadian Ministerial exemptions necessary to import potatoes. The arrangement, when fully implemented in year 3, will allow a 60-day forward contract between U.S. growers and Canadian processors to serve as sufficient evidence of a shortage in Canadian potatoes. In addition to addressing U.S. concerns about Canada's procedures for granting Ministerial exemptions for potato imports, the arrangement will phase-in a shift in quality inspections for potatoes to the destination of the shipment and will phase-out spot-check inspections along the northeastern Canadian border crossing. The United States will initiate rulemaking to allow some Canadian specialty potatoes that do not currently meet U.S. quality standards for size to enter the U.S. market.

Progress was also made in 2007 concerning U.S. beef and beef products access to Canada when the government of Canada agreed in June 2007 to allow full market access for imports of all U.S. beef and beef products from animals of all ages, consistent with the guidelines of the World Organization for Animal Health.

c. Intellectual Property Rights

In 2007, Canada enacted legislation that criminalizes illicit recording of motion pictures in theaters. Canada also played a constructive role in developing the scope of the Anti-Counterfeiting Trade Agreement (see discussion in Chapter IV). Canada participated as a third party in WTO consultations regarding China's protection and enforcement of intellectual property rights, and Canada participated constructively in the Security and Prosperity Partnership of North America (SPP) Intellectual Property Rights Working Group.

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). Canada is also a signatory to 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.

Canada has not yet ratified these two WIPO Treaties. Canada has indicated it is preparing legislation to provide stronger copyright protection. However, no bill was introduced in Parliament in 2007.

U.S. intellectual property owners remain concerned about Canada's weak border measures and general enforcement efforts. The lack of *ex officio* authority for Canadian Customs officers makes it difficult for them to seize shipments of counterfeit goods. To perform a civil seizure of a shipment under the Customs Act, the rights holder must obtain a court order, which requires detailed information on the shipment.

2. Mexico

Mexico is the United States' third-largest single-country trading partner and has been among the fastest-growing major export markets for goods since 1993, with U.S. exports up 228 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 2007, U.S. agricultural exports to Mexico increased 19 percent above the 2006 level, to nearly $13 billion.

On January 1, 2008, the United States and Mexico removed the final tariffs and quotas under the NAFTA, joining North America in free trade (all tariff cuts between the United States and Canada and between Canada and Mexico have already been implemented). Both the United States and Mexico completed the tariff phase-out without any delay.

December 31, 2007 marked the end to safeguard measures Mexico had put in place on U.S. chicken leg quarters. As of January 1, 2008 there are no tariffs or trade-related restrictions on U.S. chicken leg quarter imports into Mexico.

The United States has worked to open the Mexican market to U.S. agricultural products. In September 2006, Mexico had banned U.S. spinach from entering Mexico due to an outbreak of E. coli in spinach produced in California. In November 2007, the Mexican Secretariat of Health informed the U.S. Department of Agriculture that Mexico would lift the ban on imports of U.S. spinach. In June 2004, the Mexican Congress approved a measure requiring that the inspection of imported live animals take place in Mexico, despite the lack of a protocol for returning live animals or adequate inspection facilities in Mexico. The lack of such facilities has hampered the importation of live animals. On July 25, 2007, Mexico published modifications under its new Animal Health Law which included a provision that allows inspections for live animals to resume on the U.S. side of the border.

Areas of concern with regard to U.S. access for livestock and livestock products to Mexico, however, remain. The full reopening of all trading partners' markets to U.S beef and beef products from animals of all ages in a manner consistent with international guidelines regarding Bovine Spongiform Encephalopathy (BSE) set by the World Organization for Animal Health (OIE) remained a top priority of the Administration. OIE guidelines provide for conditions under which all beef and beef products from animals of all ages can be safely imported with regard to BSE from "controlled risk" countries, such as the United States, when certain Specified Risk Materials, defined by the OIE, are removed. Mexico continues to ban U.S. beef and beef products from animals over thirty months of age and the United States will continue to work to achieve the full reopening of Mexico's market in a manner consistent with international standards. The United States is also concerned about actions that the Mexican government is taking, or proposing to take, that would effectively restrict U.S. pork exports to Mexico, including the December 2007 closing of a number of Mexican ports of entry to U.S. pork and pork products with no notice or consultation.

b. Intellectual Property Rights (IPR)

Despite a fairly extensive set of IPR laws and an increase in the number of seizures and arrests during the past few years, the extent of IPR violations in Mexico remains significant. Monetary sanctions and other penalties, when imposed, are minimal and largely targeted at the bottom-tier of the piracy chain, for example, the small-scale vendors of infringing materials, who are numerous and easily replaced.

A bill proposing to give the Procuraduría General de la República (PGR) the power to prosecute intellectual property crimes *ex officio* (*i.e.*, without first receiving complaints from rights holders or their legal representatives) was approved by the Mexican Senate in April 2007 and is awaiting action in the Chamber of Deputies, Mexico's lower house.

In August 2007, the United States, Mexico, and Canada agreed on an Intellectual Property Action Strategy, which aims to combat counterfeiting and piracy by focusing on enhancing detection and deterrence, expanding public awareness and outreach efforts, and measuring the scope and magnitude of counterfeiting and piracy in North America. Mexico also played a constructive role in developing the scope of the Anti-Counterfeiting Trade Agreement (see discussion in Chapter IV).

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 the Brazilian and Paraguayan legislatures have yet to approve Venezuela's accession. Venezuela also 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, originally scheduled for implementation in 2006, has not occurred.

b. Argentina

The United States exported goods valued at an estimated $5.8 billion to Argentina in 2007, an increase of 21 percent from 2006. U.S. imports from Argentina were roughly $2.2 billion, an increase of 9 percent from 2006.

Argentina's lack of adequate and effective intellectual property protection remains a source of friction in the bilateral trade relationship. Argentina has been on the Special 301 Priority Watch List since 1996. Although cooperation has improved between Argentina's enforcement authorities and the U.S. copyright industry, and the Argentine Customs authority has taken steps to improve enforcement, the United States encourages stronger IPR enforcement actions to combat the widespread availability of pirated and counterfeit products.

c. Brazil

The United States exported goods valued over $24 billion to Brazil in 2007. Brazil's market accounts for 23 percent of U.S. exports to Latin America and the Caribbean, excluding Mexico, and 60 percent of U.S. goods exports to MERCOSUR.

In 2007, consistent with U.S. statutory provisions and after extensive analysis including comments received from the public, the Administration determined that certain products from Brazil (ferrozirconium, and brakes and brake parts) can compete effectively in the U.S. market. As a result, the Administration revoked Brazil's competitive need limitation (CNL) waivers necessary for duty-free treatment of these products under the U.S. Generalized System of Preferences.

Brazil has achieved important progress in enhancing the effectiveness of intellectual property enforcement, particularly with respect to pirated audio-visual goods. Nonetheless, shortcomings in some areas of IPR protection and enforcement continue to represent barriers to U.S. exports and investment.

d. Paraguay

The United States exported goods valued at an estimated $1.2 billion to Paraguay in 2007, an increase of 34 percent from 2006. U.S. imports from Paraguay were roughly $70 million, an increase of 18 percent from 2006.

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 2007, the U.S.-Paraguay Joint Committee on Trade and Investment met to discuss a wide range of issues including efforts to develop Paraguay's biofuels capacity, negotiation of a revised version of the Intellectual Property Rights (IPR) Memorandum of Understanding (MOU) (see later paragraph), ongoing cooperation toward a strategic plan for Paraguay to develop non-traditional exports, and other issues concerning our bilateral and multilateral trade agenda.

Paraguay's president has declared the fight against piracy and counterfeiting and contraband a national priority. However, serious concerns over the lack of effective border enforcement remain, most notably because Paraguay continues to be a transshipment point for pirated and counterfeit goods to Brazil and other neighboring markets.

Paraguay's efforts to improve IPR performance are guided in part by the MOU with the United States, concluded following Paraguay's 1998 designation as a Priority Foreign Country under the Special 301 provisions of the Trade Act of 1974. Implementation of the MOU is subject to ongoing monitoring under U.S. trade law. The MOU details Paraguayan commitments to implement institutional and legal reforms and to strengthen intellectual property rights enforcement and prosecution. In addition, Paraguay agreed to ensure that its government ministries use only authorized software.

In December 2007, the United States and Paraguay agreed to revise and update the MOU. This revised MOU is valid through the end of 2009.

e. Uruguay

Uruguay has the smallest population among MERCOSUR members (3.5 million). U.S. exports to Uruguay increased by 28 percent to $618 million in 2007, while imports decreased by 4 percent to $493 million.

The U.S.-Uruguay commercial relationship has seen significant growth in the past several years. In 2002, Uruguay and the United States created a Joint Commission on Trade and Investment (JCTI) to exchange ideas on a variety of bilateral economic topics and signed a Bilateral Investment Treaty in November 2006.

In January, 2007, the two governments signed a Trade and Investment Framework Agreement (TIFA), and have utilized the framework to exchange ideas on a variety of economic topics, including customs issues, intellectual property protection, investment, labor, and the environment.

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 2007 with respect to the United States-Chile FTA are discussed in Chapter III, section A.

4. The Andean Community

a. Trade Promotion Agreements

The United States has concluded Trade Promotion Agreements with Peru and Colombia. See Chapter III, Section A, for a description of these agreements and their status.

b. Andean Trade Preference Act

One of the ways the United States conducts its trade relationship with the Andean countries is 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 the program. 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 extended on December 9, 2006 until June 30, 2007. On June 30, 2007, Congress extended the ATPA for Peru, Colombia, Ecuador, and Bolivia through February 29, 2008.

In April 2007 the Office of the U.S. Trade Representative sent to Congress a report mandated under the program on the operation of the agreement. In August 2007, under an annual process provided for in the legislation, USTR published a *Federal Register* notice inviting the submission of petitions relating to the beneficiary countries' eligibility. One petition was filed that did not require further review. Two reviews from previous years were terminated and six petitions from prior years remained under review.

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, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

During 2007, 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.

On August 2, 2005, President Bush signed implementing legislation for the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). The CAFTA-DR entered into force for El Salvador on March 1, 2006; for Honduras on April 1, 2006; for Nicaragua on April 1, 2006; for Guatemala on July 1, 2006; and for the Dominican Republic on March 1, 2007. When the CAFTA-DR entered into force for each of these countries, the country ceased to be designated as a CBERA and CBTPA beneficiary. When the CAFTA-DR enters into force for Costa Rica, that country will cease to be designated as a CBERA and CBTPA beneficiary country. The United States and Panama signed a free trade agreement on June 28, 2007, but that agreement has not yet entered into force.

Since its inception, the CBERA program has helped beneficiaries diversify their exports. In conjunction with economic reform and trade liberalization by beneficiary countries, the trade benefits of CBI have helped countries and certain dependent territories in the region diversify their exports and have contributed to their economic growth. At the inception of the CBI in 1983, traditional and primary products such as coffee, bananas, sugar, and mineral fuels accounted for a majority of U.S. imports from the region. By 2006, that percentage had fallen to approximately 37 percent, reflecting the increase in the value of energy and related chemical products and the exit from CBERA of four major apparel producing countries.

c. The Caribbean

In June 2007, the United States hosted the Conference on the Caribbean, which brought together leaders from the United States and the Caribbean to discuss economic growth, investing in people, and security issues. President Bush met with his counterparts from the Caribbean and issued a joint statement in which the leaders committed to expand economic opportunities, to address the threats of terrorism and crime, and to cooperate in many other areas, including health and education. In early 2009, Trinidad and Tobago will host the next Summit of the Americas.

D. Europe and Eurasia

1. European Union

Overview

The U.S. economic relationship with Europe is the largest and most complex in the world. The magnitude, 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 fluctuate in other parts of the world. However, due to the size and the highly integrated nature of this economic relationship, serious U.S.-EU trade issues inevitably arise. The value of trade and investment affected by these issues can sometimes be quite large. Yet even when relatively small in dollar terms, 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). With the accession of Romania and Bulgaria, the EU expanded to 27 countries on January 1, 2007, encompassing a market of nearly 500 million consumers with a total gross domestic product of $14 trillion. U.S. goods exports in 2007 were $248 billion and U.S. exports of private commercial services (*i.e.*, excluding military and government) to the European Union (25) were $141 billion in 2006 (latest data available).

During 2007, USTR actively engaged with the European Commission and EU Member States on the full range of U.S. trade and investment interests, including efforts to expand cooperation to enhance the transatlantic economic relationship.

a. Enhancing Transatlantic Economic Relations

Recognizing the benefits of enhanced transatlantic economic ties, the United States and the EU continue to actively pursue initiatives to create new opportunities for transatlantic economic activity. At the April 2007 U.S.-EU Summit, Leaders launched the Framework for Advancing Transatlantic Economic Integration, with the goal of fostering cooperation and reducing trade and investment barriers through a multi-year work program in such areas as regulatory cooperation, intellectual property rights, investment, secure trade, financial markets, and innovation. Building upon the 2005 U.S.-EU Initiative to Enhance Economic Integration and Growth, this new Framework also established the Transatlantic Economic Council (TEC) to oversee Framework implementation, with input from the Transatlantic Business Dialogue, the Transatlantic Consumers Dialogue, and the Transatlantic Legislators Dialogue. The initial

TEC meeting in November 2007 reviewed progress under the Framework since its launch. USTR and other agencies will continue to work closely with their European counterparts to advance priority activities under the Framework in 2008.

b. Regulatory Cooperation

Trade obstacles arising from divergences in U.S. and EU regulations and the lack of transparency in EU rulemaking and standardization processes are an increasingly important focus of our dialogue with the EU. During 2007, USTR continued to intensify its efforts to enhance U.S.-EU regulatory cooperation and reduce unnecessary "technical" barriers to transatlantic trade. Regulatory cooperation also forms a key element of the Framework for Advancing Transatlantic Economic Integration launched at the April 2007 U.S.-EU Summit.

Under the Roadmap for U.S.-EU Regulatory Cooperation, U.S. and European officials broadly advanced U.S.-EU regulatory cooperation in 15 different sectors in 2007, with a particular focus on pharmaceuticals, medical devices, cosmetics, automobiles, chemicals, and electrical equipment. The U.S.-EU High-Level Regulatory Cooperation Forum met in November 2007 to exchange views and share experiences regarding regulatory cooperation approaches and practices of mutual interest, with product safety and integration of trade impacts into regulatory analysis being topics of particular interest. The April 2007 U.S.-EU Summit and the November 2007 meeting of the TEC noted progress on priority regulatory cooperation activities.

c. Subsidies for Large Commercial Aircraft

The United States has long expressed its concerns with European government subsidization of large civil aircraft (LCA) development by Airbus. The issue has acquired greater urgency in recent years as Airbus sought and received substantial new subsidies (so-called "launch aid," together with grants of infrastructure, research and development, and other types of subsidies) for the Airbus A380 super jumbo aircraft and commitments of further launch aid subsidies for this new Airbus A350 passenger aircraft. 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 initiate dispute settlement at the WTO in 2005 (as the United States believes subsidies to Airbus violate EU obligations under 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. (See the "Dispute Settlement Understanding" section in Chapter II for further information on these cases.)

d. WTO Information Technology Agreement

The United States has raised its concerns both bilaterally and in the ITA Committee in Geneva about measures by the EC that no longer provide or guarantee duty-free treatment for certain products, such as set-top boxes with a communication function, LCD computer monitors, and multifunction printers. The EC is applying duties as high as 14 percent on imports of these products.

e. 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 bans 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 adopted the panel report on November 21, 2006. On December 19, 2006, the EU notified the WTO that it intended to comply with the WTO recommendations and rulings set out in the panel report, and that it would need a "reasonable period of time" (RPT) to do so. The United States and EU agreed that the RPT would expire on November 21, 2007, and subsequently agreed to extend the RPT to January 11, 2008 (see the "Dispute Settlement Understanding" section in Chapter II for further information on this case).

During 2007, the United States and the European Commission held several rounds of discussions aimed at normalizing U.S.-EU biotechnology trade and promoting EU compliance with the WTO recommendations and rulings. When the RPT expired in January 2008, the United States took the first step toward a resumption of WTO dispute-settlement procedures, submitting a request to the WTO for authority to suspend concessions. Under a January 14, 2008 agreement with the Commission, however, proceedings on the U.S. request were suspended to provide the EU an opportunity to demonstrate meaningful progress on the approval of biotechnology products. During the first few months of 2008, the United States will periodically evaluate EU progress on normalizing biotechnology trade against a set of benchmarks and timelines drawn largely from the EU's own laws. If the United States decides to pursue WTO proceedings on the EU's compliance with the panel report, the United States would file a formal consultation request with the EU, followed by a request for the establishment of a WTO compliance panel.

f. Chemicals

On June 1, 2007, the EU's comprehensive new regulatory regime for all chemicals (known as Registration, Evaluation and Authorization of Chemicals or "REACH") entered into force. REACH imposes extensive additional testing and reporting requirements, to be phased-in over a number of years, on producers and downstream users of chemicals. This expansive EU regulation impacts virtually all industrial sectors, including the majority of U.S. manufactured goods exported to the EU. While supportive of the EU's objectives of protecting human health and the environment, the United States continues to stress that the EU regulation adopts a particularly complex and burdensome approach, which appears 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 have expressed similar concerns. We will continue to monitor closely the ongoing implementation of this EU regulation in 2008, and will seek to ensure that U.S. interests are protected.

g. 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 May 1996, the United States launched a formal WTO dispute settlement proceeding, challenging the EU ban. In 1999, the WTO ruled that the EU's ban was inconsistent with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) because it was not based on a scientific risk assessment, and authorized the United States to impose sanctions on EU products with an annual trade value of $116.8 million. At present, the United States continues to apply 100 percent duties on $116.8 million of U.S. imports from the EU.

In September 2003, the EU announced the entry into force of an amendment (EC Directive 2003/74) to its hormone ban that recodified the ban on the use of the hormone estradiol for growth-promotion purposes and established provisional bans on the five other growth-promoting hormones included in the original EU legislation. With the implementation of this new directive, the EU argued that it was now in compliance with the earlier WTO ruling and that U.S. sanctions were no longer justified.

The United States maintains that the revised EU measure cannot be considered compliant with the WTO's recommendations and rulings in the earlier hormones dispute, and that U.S. sanctions remain authorized. In November 2004, the EU requested WTO consultations with the United States on this matter. The dispute is currently in the final stages before a WTO panel, which is expected to publish its findings in early 2008.

h. Poultry Meat

U.S. poultry meat exports to the EU have been banned since April 1, 1997, because U.S. poultry producers use washes of low-concentration pathogen reduction treatments (PRTs), 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 Food Safety Authority formally adopted the opinion of a scientific panel that had determined that four commonly used PRTs were safe. In February 2006, the European Commission's Health and Consumer Protection Directorate General circulated the first draft of a proposal to allow PRTs to be used on poultry meat in the EU market. The draft regulation would ban the simultaneous use of more than one PRT, however, and it would require poultry treated with PRTs to be rinsed after treatment. These two requirements are not consistent with U.S. production methods, and would limit the ability of most U.S. exporters to sell poultry to the EU.

The regulation proposed by the Health and Consumer Protection Directorate has been held up in internal Commission review for more than one and one-half years, because of concerns raised by the Directorates on Agriculture and the Environment. The concerns of the Agriculture Directorate on the marketing standards for PRT-treated poultry appear to have been resolved, but in the fall of 2007 the Environment Directorate raised concerns about the impact of PRTs on water quality and antimicrobial resistance in the EU, issues that the United States has argued are not related to the safety of poultry that is treated with PRTs in the United States and then exported to the EU. Two separate, Commission-mandated scientific studies examining these issues are expected to be completed in the Spring of 2008. The United States will continue to push for a regulation allowing the use of PRTs to be finalized in the EU legislative process.

At the November 2007 meeting of the TEC, the European Commission committed to resolve the long-standing issue regarding the importation into the EU of U.S. poultry treated with PRTs. The Commission committed to do this by the 2008 U.S.-EU summit.

i. Pork

U.S. pork exports to the EU are restricted by high tariffs, a complex system of tariff rate quotas, and SPS barriers, including trichinae testing, additional residue testing, and a ban on the use of pathogen reduction treatments. In the Doha negotiations, the United States is seeking improved access to the EU market for U.S. pork through an expansion and consolidation of quotas and a reduction in tariffs, but we are also pressing the EU in the context of the enlargement negotiations to make improvements in the administration of quotas to enable more effective utilization by U.S. exporters. We made progress in 2007 in addressing additional residue testing requirements, and in the coming year we will continue to seek the resolution of SPS issues restricting pork exports to the EU.

j. Wine

On March 10, 2006, the United States and the EU concluded the Agreement between the United States of America and the European Communities on Trade in Wine, an accord on wine-making practices and wine labeling intended to facilitate bilateral trade in wine, currently valued at more than $3.0 billion annually. The agreement has improved marketing certainty for U.S. and EU wine exporters.

The agreement provides for: (1) mutual recognition of existing wine-making practices; (2) a consultative process for recognition of new wine-making practices; (3) a commitment by the United States to limit, with some exceptions, the use of certain terms on wine labels in the U.S. market solely to wine originating in the EU; (4) a commitment by the EU to allow, under specified conditions, the use of certain regulated terms on U.S. wine exported to the EU; (5) recognition of certain names of origin in each market; (6) simplified import certification requirements; and (7) defined parameters for optional labeling elements for U.S. wines sold in the EU market. The agreement also provided for a second phase of negotiations to further facilitate bilateral wine trade. The agreement did not address the use of "geographical indications," a form of intellectual property. The United States and the EU held meetings in 2007 to discuss implementation of the agreement and to initiate the second phase of negotiations, which will continue.

k. EU Enlargement

In December 2006, in advance of the January 1, 2007 accession of Romania and Bulgaria to the EU, the United States entered into negotiations with the EU 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 GATT 1994 Articles XXIV:6 and XXVIII, the United States is entitled to compensation from the EU to offset these tariff changes. This round of enlargement also presents challenges for exporters to Romania and Bulgaria of key commodities such as pork, who have faced a significant increase in applied tariff rates and the imposition of quotas. In 2008, the United States will seek to conclude negotiations on an appropriate bilateral compensation agreement with the European Union and to ensure that it is implemented as soon as possible.

l. Rice

U.S. rice shipments to the EU in 2007 were reduced as a consequence of mandatory destination-testing measures introduced by the European Commission in October 2006 following the discovery of trace levels of unapproved biotechnology LL601 rice in the U.S. long grain rice crop. The zero tolerance policy maintained by the EU for LL601 substantially increased the risk of rejection at EU ports, making it difficult for most U.S. rice exporters and EU buyers to continue normal shipments during the first two-thirds of 2007. The situation for U.S. rice exporters was further complicated in October 2007, when the Commission globalized the remaining quantity of the U.S. milled rice tariff-quota, allocating approximately 13,000 tons of the quota to non-U.S. suppliers. This occurred just as U.S. suppliers were preparing to resume normal rice exports to the EU from 2007 crop rice supplies. The United States has requested that the EU restore this quantity of quota to U.S. suppliers. In December 2007, following a review of U.S. industry measures to ensure the exclusion of LL601 from rice shipments, the Commission eliminated the requirement that EU Member States test all U.S. rice shipments for genetically engineered rice upon arrival at EU ports. The United States will continue to press the Commission in 2008 for a restoration of the 2007 rice quota.

m. Bananas

On January 1, 2006, the EU implemented a new banana import regime that combined a 176 Euro/metric ton Most Favored Nation (MFN) tariff level with a zero duty tariff-rate quota in amounts up to 775,000 metric tons for bananas originating in Africa, Pacific and Caribbean (ACP) countries, with which the EU has long maintained preferential trading relationships. In November 2006, after negotiations for a lower MFN tariff between the EU and many of its Latin American banana supplying countries failed to achieve a mutually satisfactory result, Ecuador filed a request under Article 21.5 of the WTO Dispute Settlement

Understanding (DSU) for consultations with the EU regarding the compliance of this new regime with the EU's obligations under the WTO. A WTO dispute settlement panel was established in March 2007 and issued its confidential final report on December 10, 2007. The panel report is expected to be made public in 2008.

In June 2007, the United States also filed a request for the establishment of a panel under Article 21.5 of the DSU, challenging the post-January 1, 2006 EU banana regime as in breach of GATT Articles I and XIII. The panel is expected to issue its final report in the U.S. dispute in February 2008. While the United States does not directly export bananas to the EU, the issue is of considerable importance to U.S. companies involved in the production, distribution, and marketing of bananas.

2. Other European Countries

The United States continues to broaden our economic engagement with the countries of Switzerland, Norway, Iceland, and Liechtenstein and explore ways to foster closer United States-European Free Trade Area trade. The United States and Switzerland continued discussions of bilateral trade and related issues under the U.S.-Swiss "Trade and Investment Cooperation Forum."

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 help ensure that the accession process did 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. In 2007, SAAs with Bosnia and Herzegovina and Serbia were initialed and an SAA with Montenegro was signed. 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 tariff rates (MFN tariff rates) in these countries than EU goods.

Many of the countries in the Southeast Europe region are eligible for duty-free benefits under the U.S. Generalized System of Preferences (GSP) program. As provided by the GSP statute, once a country becomes an EU Member State, it may no longer be designed as a GSP beneficiary. Thus, when they became EU Member States on January 1, 2007, Romania and Bulgaria were no longer designated as beneficiary developing countries for purposes of the GSP.

The GSP statute provides that a beneficiary 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 preferential tariffs they have granted to EU exports (as 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.

USTR is also working in the region to increase the use of GSP benefits by the eligible beneficiary countries.

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. The United States successfully encouraged Bulgaria to improve IPR enforcement and pass IPR legislation, which led to Bulgaria's removal from the Special 301 Watch List.

3. 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 2007 to determine Russia's eligibility to receive GSP benefits.

Multilaterally, the United States has encouraged Russia's accession to the World Trade Organization (WTO) to increase market access for U.S. exports and 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) (formerly referred to as "most favored nation" or MFN) 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 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 agreements or 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 commitments that an acceding country, such as 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 accession 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 $2.6 billion in 2006 due to copyright piracy in Russia (films, videos, sound recordings, books, and computer software). In 2007, 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 some of the notorious Russia-based pirate websites and Western and Russian recording companies have initiated, and won, several civil suits against Internet pirates.

The United States is working to ensure that Russia takes appropriate actions to protect intellectual property rights. The November 2006 bilateral IPR agreement between the United States and Russia sets out actions that Russia will take to improve protection and enforcement of intellectual property rights. As part of the agreement, the Russian government 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 other international IPR norms. The U.S. and Russian governments have an ongoing dialogue to ensure the full implementation of this binding agreement.

As noted above, the United States is reviewing Russia's status as a beneficiary country under the GSP Program. Russia has also been on the Special 301 Priority Watch List since 1997.

The most significant legislative development over the last two years was the Duma's consideration and adoption of Part IV of the Civil Code, which replaces most of Russia's civil IPR legislation with a single code as of January 1, 2008. Part IV still contains provisions that raise concerns regarding its consistency with WTO and other international agreements. The Russian government has pledged to ensure that Part IV and other IPR measures will be fully consistent with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and the United States continues to work with the Russian government toward this goal.

Under Article 39.3 of the TRIPS Agreement, Russia must 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. Legislative changes to address these concerns are being considered by the Russian government. Enactment of Part IV of the Civil Code addressed some concerns regarding IPR protection, such as eliminating the reciprocity principle for protection of geographical indications and strengthening provisions on collective management of copyrights and related rights.

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. The November 2006 bilateral IPR agreement committed Russia to improve IPR enforcement and the United States to intensify training programs for customs and law enforcement. In 2007, the U.S. Patent and Trademark Office completed three training programs with Russian Federal Customs to help Russian customs officials strengthen their enforcement efforts. In 2007, Russian law enforcement agencies carried out raids on optical disc production facilities suspected of engaging in pirate activities, including a major raid in St. Petersburg that saw increased cooperation between St. Petersburg and Moscow police forces. However, industry reports that some raided plants have been allowed to resume operation and that inspections of licensed facilities have been infrequent. The November 2006 bilateral IPR agreement committed Russia to enhance its supervision of both licensed and unlicensed optical disc factories. Russia took some action against pirate websites in 2007. Russian authorities reported closing 72 websites in the year following the November 2006 agreement.

c. Market Access for Poultry, Pork, and Beef

The United States was actively engaged with the government of Russia throughout 2007 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 percent tariff for imports of U.S. high quality beef and other provisions related to importing meat and poultry into Russia. The 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 effect on U.S. trade, with some products deemed as "sensitive" by Russia being blocked, seemingly without a scientific basis. When the United States and Russia signed the bilateral WTO market access agreement, the two governments also 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. Progress on some of these issues was based on government resolutions issued in 2006 directing that international standards, guidelines and recommendations of the Organization for Animal Health (OIE) and the International Plant Protection Convention (IPPC) be followed. There is, however, currently no corresponding resolution that states Russia will follow Codex Alimentarius recommendations and guidelines. 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 an 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 capabilities are required to import these products. In a bilateral agreement signed in November 2006, Russia agreed to establish a streamlined interim system for the import of goods containing encryption capabilities; 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 notification 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

When Russia becomes a WTO Member and the United States applies the WTO Agreements to Russia, U.S. services suppliers 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 will benefit from improved market access. For example, Russia will provide national treatment and a significant level of market access 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.

4. 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 entered into force on November 16, 1996. The BIT guarantees U.S. investors the better of national and most favored nation (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. antidumping and countervailing duty statutes.

Ukraine has largely completed the process of joining the World Trade Organization (WTO). On March 6, 2006, the United States and Ukraine signed a WTO bilateral market access agreement. Later that month, the United States terminated the application to Ukraine of Title IV of the Trade Act of 1974, including the Jackson-Vanik amendment (see Chapter III, section five for a fuller discussion of Title IV), thereby providing Ukraine permanent normal trade relations (PNTR) status. The Ukrainian government completed its negotiations for accession on January 25, 2008, and its WTO Membership was approved by the WTO Council on February 5, 2008. Ukraine will become a member after it notifies the WTO that it has completed domestic ratification procedures to adopt the approved package of commitments and concessions.

a. Intellectual Property Rights

Recent years have seen steady improvement in Ukraine's protection of intellectual property rights. On January 23, 2006, the United States reinstated GSP benefits for Ukraine and lowered Ukraine's designation under Special 301 from Priority Foreign Country to Priority Watch List. Also in January 2006, Ukraine agreed to work with the U.S. Government and with U.S. and Ukrainian industry to monitor the progress of future enforcement efforts through an IPR Enforcement Cooperation Group. This bilateral group has conducted a series of successful dialogues, meeting roughly once every four months.

However, problems still remain. Despite the significant reduction in illegal production of optical discs, the retail sale of pirated goods in large markets is still widespread, as is their transit through Ukraine. Internet piracy is a growing problem, as many Ukraine-based websites offer pirated material for download with the full knowledge of their Internet Service Providers (ISPs). Ukraine's collective management system for royalties functions imperfectly. Rights holders complain that some royalty collecting societies collect fees for public use of copyrighted material without authorization and do not properly return royalty payments to rights holders. Business software piracy also remains a concern in Ukraine, with one industry study concluding that in 2006 Ukraine's piracy rate stood at 84 percent. Of concern to patent holders is the fact that the Ukrainian Ministry of Health does not routinely check the validity of patents when it grants marketing approval in Ukraine.

b. Sanitary and Phytosanitary (SPS) Issues

Ukraine applies a range of SPS measures that restrict imports of a number of U.S. agricultural products, among them, pork, beef, and poultry. Ukraine's certification and approval process is lengthy, duplicative, and expensive. Over the past several years, Ukraine has passed amendments to several laws and regulations, most importantly to the law "On Veterinary Medicine" and the law "Quality and Safety of Food Products and Food Raw Materials," to bring its legislative and regulatory framework into compliance with requirements of the WTO SPS Agreement.

The remaining areas of significant concern have been the subject of discussion between the United States and Ukraine as part of Ukraine's accession to the WTO. Ukraine has maintained a complex and non-transparent system for overseeing human and animal health measures involving overlapping authority by the Veterinary Service, Sanitary Service, and Derzh Spozhyv Standard. Amendments to the law on "On Standards, Technical Regulations and Conformity Assessment Procedures," passed in May, 2007, made some progress but failed to solve entirely the problem of overlapping authority, which was addressed again as Ukraine completed its accession negotiations..

A bilateral agreement with Ukraine, negotiated at the same time as the March 2006 WTO Bilateral Market Access Agreement addresses the terms of U.S. exports of beef, beef products, and pork to Ukraine. As agreed, Ukraine has allowed the entry of certified U.S. beef and pork that meets veterinary certificate requirements. In the past, Ukraine blocked the importation of 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 Ukraine to ensure that any measures undertaken by Ukraine are consistent with World Organization for Animal Health (OIE) guidelines. U.S pork exports to Ukraine have been hampered by regulations concerning trichinae. The United States is working with Ukraine to align Ukrainian standards for trichinae with international norms.

c. Grain Exports

Ukraine is the sixth-largest wheat exporter in the world. The United States continues to express its concern about the export restrictions that Ukraine imposed on food and feed grain exports beginning in September 2006. Ukraine readjusted the export restrictions in July 2007, imposing highly-restrictive quotas that served as a near export ban on each grain-type covered (wheat, barley, corn, and rye). Ukraine planned to introduce somewhat more liberal quotas in early 2008, allowing more grain to be exported early in the year. The measure will allow traders to clear some stocks but the level is approximately one-third of what could be exported in the absence of quotas. To date, Ukraine has not adequately justified the measures taken, *i.e.*, it has not convincingly explained how it faces a "critical shortage," as required in order to maintain such a ban under Article XI of the GATT 1994. More recently, Ukraine has sometimes argued that export restrictions are needed to combat rising food prices. The initial mismanagement of the issuance of export licenses compounded the problem, leaving a large volume of grain in storage in Ukraine's ports to deteriorate past the point where it could be used for human consumption or even animal feedstock. Estimated costs to grain traders exceed $300 million. Ukraine has threatened to extend such export restrictions to sunflower oil in order to combat rising domestic prices of this product. These measures and threats of measures have tarnished Ukraine's investment climate and damaged its reputation.

5. 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 Generalized System of Preferences (GSP) benefits to nearly 3,400 types of products from the region's five eligible beneficiary developing countries and has negotiated bilateral investment treaties (BITs) to guarantee compensation for expropriation, non-discriminatory and fair and equitable treatment, 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 the 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 has met twice in Washington, DC, in 2005 and 2007, and once in Almaty, Kazakhstan, in 2006.

In June 2007, the United States signed a TIFA with Georgia and the TIFA Council held an inaugural meeting in Washington, DC. The focus of this TIFA is to bolster Georgia's ambitious program of economic reform and liberalization.

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 subject to an annual Presidential waiver.

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 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 provision, in connection with those countries' accession to the WTO.

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 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 regime and worker rights in Uzbekistan. Review of the petition for Uzbekistan, including bilateral consultations, continues.

6. Turkey

Turkey maintains high tariff rates on many agricultural and food products to protect domestic producers. As one example, the Turkish government imposes high tariffs, as well as excise taxes and other domestic charges, on imported alcoholic beverages which significantly increase wholesale prices of these products.

Turkey also uses its import licensing regime to manage trade in a number of sectors. In the case of meat and poultry, Turkey refuses to issue any import licenses, effectively banning imports of these products. In 2006, the United States brought a WTO dispute against Turkey regarding its regime for the importation of rice. In September, 2007, the WTO dispute settlement panel agreed with the United States that Turkey's failure to grant licenses to import rice and its operation of a discretionary import licensing system for rice are in breach of Turkey's market access obligations under the WTO Agreement on Agriculture. The panel also agreed with the United States that Turkey's domestic purchase requirement, under which Turkey required importers of rice to purchase large quantities of domestic rice in order to import rice at preferential tariff rates, is in breach of the national treatment provisions of the WTO (see Chapter II, section H for additional discussion of this dispute.)

In the area of intellectual property rights, Turkey does not have an adequate 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 remain of concern. The United States continues to press the Turkish government to improve enforcement against copyright piracy and trademark infringement.

The United States is addressing these issues with the Turkish government in part through annual meetings of the United States-Turkey Trade and Investment Framework Agreement (TIFA) Council. Following the Council's April 2007 meeting, Turkey agreed to a protocol permitting the import of live breeding cattle from the United States. In further follow up to U.S. concerns raised at the 2007 meeting, the Turkish government clarified in September 2007 that it did not intend to apply a strip stamp tax system for alcoholic beverages in a way that discriminated against U.S. imports. The United States will use preparations for the 2008 TIFA Council meeting to engage further with the Turkish government on these and other issues.

E. Asia

1. Australia

A discussion of U.S.-Australia relations during 2007 can be found in Section A, describing the U.S.-Australia FTA.

2. New Zealand

The United States and New Zealand held a meeting in July 2007 in Wellington under the Trade and Investment Framework Agreement (TIFA), discussing 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 held 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, bringing the WTO Doha Development Agenda negotiations to a successful conclusion, and regional trade policy developments.

New Zealand is our 54th largest trading partner. Two-way trade in goods totaled $5.8 billion in 2007. U.S. goods exports totaled $2.8 billion in 2007, down 6 percent from the previous year. Exports are concentrated in the aircraft, machinery, electrical machinery, and the vehicles sectors. Two-way trade in services with New Zealand totaled $2.9 billion in 2006.

3. The Association of Southeast Asian Nations (ASEAN)

a. Cambodia

The United States and Cambodia continued to strengthen cooperation on trade-related issues in 2007 through the Trade and Investment Framework Agreement (TIFA) signed in 2006. The TIFA dialogue focused on deepening and expanding bilateral trade and investment ties, implementation of Cambodia's WTO commitments, and supporting its domestic economic reform program. Following the first TIFA meeting, held in February 2007, the two sides developed a joint work program aimed at increasing cooperation in priority areas, including WTO implementation, strengthening intellectual property rights protection, and improving the business and investment climate in Cambodia. In November 2007, the United States and Cambodia held the first ministerial-level consultations under the TIFA. The United States used this opportunity to highlight the importance of maintaining momentum in these key areas as well as to explore other initiatives to further strengthen bilateral relations.

b. Indonesia

The United States continued its efforts to expand trade and economic cooperation with Indonesia, meeting throughout the year at all levels to discuss bilateral, regional and multilateral issues. The United States and Indonesia held a meeting under the Trade and Investment Framework Agreement (TIFA) in May 2007, discussing a wide range of issues including investment, intellectual property rights, services, customs, and agriculture. The United States and Indonesia also established working groups to deepen the economic dialogue in four areas of particular concern to the United States – intellectual property rights, agricultural and industrial goods, investment, and services. In early 2008, following a long series of negotiations and raising the issue in different fora, the government of Indonesia agreed to allow full market access for imports of all U.S. beef and beef products from animals of all ages, consistent with the guidelines of the World Organization for Animal Health.

The United States and Indonesia expanded joint efforts to combat illegal logging and associated trade through discussions and cooperative activities guided by a working group established under the 2006 bilateral Memorandum of Understanding. The United States and Indonesia also continued cooperative efforts under the 2006 bilateral Memorandum of Understanding to prevent the illegal transshipment of textiles and apparel through Indonesia to the United States.

c. Laos

The United States-Laos Agreement on Trade Relations (BTA) came into effect on February 4, 2005, normalizing trade relations between the two countries. Under the BTA, the United States extended Normal Trade Relations status (NTR) (formerly referred to as "most favored nation" or MFN) to products of Laos. Laos agreed to implement a variety of reforms to its trade regime, including Most Favored Nation 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 to support its accession to the WTO. The third meeting of the WTO Working Party for Laos' accession met in November 2007.

d. Malaysia

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

e. The Philippines

The United States worked throughout 2007, including a meeting under the Trade and Investment Framework Agreement (TIFA), to further enhance its trade and economic relations with the Philippines. The United States focused on the importance of maintaining an open trade and investment regime and expressed concerns about a number of issues, including relating to customs rules and procedures, sanitary and phytosanitary standards, and the protection and enforcement of intellectual property rights, including proposals pending in the Philippine Congress that could weaken patent and trademark protection for pharmaceuticals. The United States also used the TIFA dialogue with the Philippines to coordinate on WTO Doha Development Agenda and ASEAN issues. In November 2007, following a long series of negotiations and raising the issue in different fora, the government of the Philippines agreed to allow full market access for imports of all U.S. beef and beef products from animals of all ages, consistent with the guidelines of the World Organization for Animal Health. Previously, the Philippines had allowed the import of U.S. deboned beef and offals from animals 30 months or less.

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 United States-Thailand engagement on trade issues during 2007 can be found in Chapter III, section A.14.

h. Vietnam

After working closely with the United States and other WTO Members to reach agreement on the terms of its accession, Vietnam joined the World Trade Organization (WTO) in January 2007, becoming its 150th Member.

During 2007, the United States worked closely with Vietnam on implementation of its WTO accession agreement. Under the terms of Vietnam's WTO accession, market access for U.S. exports will be expanded through significant reductions on tariffs of many agricultural and manufactured goods. With full implementation of Vietnam's WTO commitments, more than three-fourths of U.S. manufactured goods and agricultural exports will face tariffs of 15 percent or less. U.S. services suppliers will benefit from enhanced market access in Vietnam across a wide range of sectors, including insurance, banking and securities, telecommunications, distribution, energy services, express delivery services, engineering and construction services, and professional services. During 2007, U.S. goods exports to Vietnam increased approximately 66 percent.

In June 2007, the United States and Vietnam signed a Trade and Investment Framework Agreement (TIFA) to further expand bilateral cooperation and explore ways to strengthen and deepen the growing trade and investment relationship. The United States hosted the first meeting under the TIFA in December 2007 during which the two sides discussed a wide range of bilateral issues, including intellectual property rights protection, agricultural issues, and service sector licensing regimes. In addition, they reviewed Vietnam's implementation of its WTO commitments during the TIFA meeting and agreed to work together closely to ensure that Vietnam has the support it needs to fully implement its commitments and expeditiously to address any implementation issues that arise.

The United States also continued to monitor implementation of the 2001 U.S.-Vietnam Agreement on Trade Relations, or Bilateral Trade Agreement (BTA). The BTA committed Vietnam to make sweeping economic reforms, which have created trade and investment opportunities for both U.S. and Vietnamese companies over the past six 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 to review implementation of the Agreement, most recently in June 2007.

4. Republic of Korea

The United States concluded historic free trade agreement negotiations with Korea on April 1, 2007, after eight formal rounds of negotiations that took place over 10 months. The KORUS FTA (FTA) is the United States' most commercially significant free trade agreement in 15 years, and once ratified and implemented, will provide significant economic, political, and strategic benefits for both sides.

Korea is a trillion dollar economy and is the United States' seventh largest trading partner, seventh largest export market, and fifth largest agricultural export market. The KORUS FTA will serve to improve upon these established ties by promoting exports of U.S. industrial and agricultural goods through eliminating tariffs and other barriers to trade. The amount of two-way trade between the United States and Korea, now valued at $83 billion annually, is expected to grow as a result of the FTA, with merchandise exports to Korea estimated to increase around $10 billion. The U.S. International Trade Commission estimates that the reduction of Korean tariffs and tariff-rate quotas on goods alone would add $10 billion - $12 billion to annual U.S. GDP.

Under the FTA, nearly 95 percent of bilateral trade in consumer and industrial products will become duty-free within three years of the date the Agreement enters into force, including many key U.S. exports such as industrial and consumer electronic machinery parts, automotive parts, power generation equipment, the majority of chemicals, medical and scientific equipment, motorcycles, and certain wood products. Most remaining tariffs will be eliminated within 10 years.

In agriculture, the FTA will eliminate and phase-out tariffs and quotas on a broad range of products, with almost two-thirds of Korea's agriculture imports from the United States becoming duty-free immediately upon entry into force, including wheat, feed corn, soybeans for crushing, hides and skins, cotton, almonds, pistachios, bourbon whiskey, wine, raisins, grape juice, orange juice, fresh cherries, frozen french fries, frozen orange juice concentrates, and pet food. Other U.S. farm products such as avocados, lemons, dried prunes, and sunflower seeds will benefit from two-year tariff phase-outs, and products such as food preparations, chocolate and chocolate confectionary, sweet corn, sauces and preparations, other fodder and forage, breads and pastry, grapefruit, and dried mushrooms will benefit from five-year tariff phase-outs. Most remaining tariffs will be eliminated within 10 years.

The FTA goes well beyond eliminating tariff barriers – it also addresses non-tariff barriers across a wide range of sectors, notably in the areas of automobiles, pharmaceuticals, financial services, and telecommunications. The FTA includes state-of-the-art protections for investors and intellectual property rights, groundbreaking competition law provisions, and stronger labor and environment safeguards than included in past free trade agreements. In addition, the FTA provides commitments related to transparency and regulatory due process that are more far-reaching than in any previous agreement.

In services, the FTA provides meaningful market access commitments that extend across virtually all major service sectors. The FTA marks significant progress in the areas of express delivery service, ensuring greater and more secure access to international delivery services, and legal services, opening up the Korean market for the first time to foreign legal consulting services. In the area of financial services, the FTA is a groundbreaking achievement, providing more extensive provisions related to this sector than ever before included in an U.S. FTA. It will increase market access, as well as ensure greater transparency and fair treatment, for financial services companies in the Korean market.

With regard to the automotive sector, the FTA contains an unprecedented package of provisions that will address a range of tariff and non-tariff barriers to ensure that U.S. automakers have a fair opportunity to compete in Korea. Under the FTA, Korea agreed to immediately eliminate tariffs on most U.S. priority automobiles and to overhaul its automotive taxation system by significantly reducing its existing tax rates and eliminating the discriminatory aspects of its system for taxing cars based on "engine displacement". Korea also committed to address specific emissions and automotive safety standards to ensure that they do not prevent U.S. automakers from accessing the Korean market. The FTA will also prohibit Korea from adopting new automotive regulations that create unnecessary obstacles to trade. The FTA will create an automotive working group to serve as an early warning system to address regulatory issues in the future. In addition, the FTA contains an innovative and unprecedented process for resolving disputes on automotive-related measures on an expedited basis, with a unique "snap-back" provision that will allow the United States to suspend its tariff concessions on Korean passenger cars if Korea is found to have taken a measure affecting motor vehicles that violates, nullifies, or impairs an FTA commitment.

The KORUS FTA includes provisions concerning the protection of workers' rights and the environment that were included as part of the Bipartisan Agreement on Trade Policy reached with the U.S. Congress on May 10, 2007. Under the FTA, the Parties have committed to safeguard workers' rights consistent with internationally recognized standards and principles and ensure access to legal mechanisms. The FTA will require Korea to adopt and maintain in its law, and practices thereunder, fundamental labor rights as stated in the 1998 ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up, and to effectively enforce those laws. The Parties also committed to effectively enforce their own domestic environmental laws and adopt, maintain, and implement laws, regulations, and all other measures to fulfill obligations under the seven multilateral environmental agreements (MEAs) that are identified in the FTA. All of the commitments in the environment and labor chapters are subject to dispute settlement through the mechanisms established in the agreement. These commitments are supplemented by the United States-Korea Environmental Cooperation Agreement, a separate agreement through which the Parties will undertake cooperation on issues related to the protection of the environment and natural resources, and a Labor Cooperation Mechanism.

In addition to strengthening our economic partnership, the KORUS FTA will help to solidify the two countries' long-standing alliance – 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.

Non-FTA Issues:

Beef: The United States is currently urging the Korean government to fully reopen its beef market consistent with international guidelines set by the World Organization for Animal Health ("OIE"). Except for brief periods in mid-2006 and May to October 2007, Korea's beef market has been closed to imports of U.S. beef since December 2003, following the detection of an imported cow with Bovine Spongiform Encephalopathy ("BSE") in the state of Washington. In May 2007, the OIE determined that the United States is "controlled risk" for BSE, and supported by this determination, the United States is asking Korea to import all beef and beef products from animals of any age if appropriate specific risk materials (SRMs) are removed, consistent with OIE guidelines. The United States continues to work with Korea to fully reopen its beef market consistent with international guidelines and the U.S. "controlled risk" classification, and Congress has made it clear that this issue must be resolved to begin the legislative approval process for the KORUS FTA (see above).

5. India

a. General

The United States and India completed another year of active dialogue on trade policy in 2007. Commensurate with India's dynamic and growing economy, the bilateral agenda continued to expand with respect to the significant opportunities for bilateral trade that U.S. and Indian companies are aggressively pursuing, as well as the challenges U.S. investors continue to face as India gradually opens its markets. USTR's efforts included the identification of new areas for cooperation, including with regard to India's tariff and tax regime, intellectual property rights, investment climate and regulatory hurdles. India continues to limit market access in various sectors, including through high taxes and tariffs, non-transparent procedures, discriminatory treatment of imports, and non-tariff barriers. India is working to improve its protection and enforcement of intellectual property rights. We continue to work with the government of India to address issues related to India's copyright law and patent law, protection of undisclosed pharmaceutical test or other data, as well as high levels of piracy, including book piracy, and counterfeiting. Our discussions addressed issues related to the WTO Doha Development Round negotiations, though the bulk of such dialogue occurs in the multilateral context in Geneva. Though trade has expanded rapidly, 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 greater. The United States and India have set the goal of doubling United States-India trade to approximately $60 billion by the end of 2008.

b. Trade Dialogue

Ambassador Susan C. Schwab and India's Minister of Commerce and Industry Kamal Nath convened the fourth ministerial-level meeting of the United States-India Trade Policy Forum (TPF) in April 2007. The discussions under the TPF cover bilateral trade and related issues and also address multilateral issues such as the ongoing WTO Doha Development Round negotiations. The TPF is part of the overall Economic Dialogue between India and the United States. Through regular dialogue under the TPF, the United States and India seek to remove impediments to bilateral trade by anticipating potential trade problems and jointly resolving concerns early.

The TPF serves as the umbrella for five focus groups: Agriculture, Tariff and Non-Tariff Barriers, Services, Investment, and Innovation and Creativity (in particular intellectual property rights issues). Deputy USTR Karan Bhatia and Indian Commerce Secretary Gopal Pillai oversaw ongoing Focus Group discussions throughout 2007 to address priority issues such as foreign direct investment caps, intellectual property rights protection, telecommunications policy and market access for a wide range of manufactured and agricultural products and services. Noteworthy developments in 2007 included finalizing arrangements for Indian mangoes to enter the U.S. market for the first time, and agreement to initiate exploratory discussions in early 2008 on a possible bilateral investment treaty.

Another development in 2007 in the bilateral U.S.-India trade relationship was the creation of a Private Sector Advisory Group. The group's key purpose is to provide strategic recommendations and insights to the TPF. The membership of the Private Sector Advisory Group includes trade experts and representatives of private sector organizations in the United States and India with in-depth knowledge of international economic and trade policy. The group will provide Ambassador Susan C. Schwab and Minister Nath with analyses and recommendations for potential building blocks for our bilateral economic relationship.

In addition to the April 2007 TPF meeting, Ambassador Schwab and Minister Nath met on several other occasions in 2007. For example, they participated in the United States-India Economic Dialogue and United States-India CEO Forum events held in New York City in September. These events included discussions among U.S. and Indian Cabinet-level and other senior government officials focused on trade and economic affairs. Top government officials from both countries also met with CEOs from major U.S. and Indian corporations, with the goal of reviewing progress and building momentum for our bilateral trade and investment relationship.

Ambassador Schwab and Minister Nath also met a number of times in the context of the Doha Development Round negotiations in an effort to find common ground in the pursuit of an ambitious outcome.

6. Pakistan

U.S.-Pakistan trade grew in 2007. Work continues with the government of Pakistan to enhance and expand our bilateral trading relationship, particularly through helping Pakistan foster a climate conducive to increased foreign investment.

Ambassador Schwab met twice with Pakistan's Commerce Minister Humayun Khan in 2007, once in Washington and once in Lahore, Pakistan. They covered a number of priorities in the bilateral economic relationship, including Reconstruction Opportunity Zones (ROZs), intellectual property rights, and the status of negotiations on a Bilateral Investment Treaty (BIT). USTR also participated in the October 2007 U.S.-Pakistan Economic Dialogue meetings co-chaired by the State Department's Under Secretary for Economic Affairs Reuben Jeffery and Pakistan's Economic Advisor to the Prime Minister Salman Shah.

A USTR priority for Pakistan in 2007 has been continued development of the ROZ initiative. USTR and the State Department co-led the effort, which included consultations with Pakistani (and Afghan) government officials, private sector stakeholders, and Congress. The ROZ initiative had been announced by President Bush during a visit to Islamabad, Pakistan in March 2006. Under the plan, President Bush is seeking authorization from Congress to allow certain products manufactured in designated zones in Afghanistan and key border areas of Pakistan to enter the United States duty-free. The goal is to facilitate job creation and economic development in these sensitive areas as a bulwark against extremism and terrorism. In 2007, the Administration completed drafting the proposed ROZ legislation. The Administration is working with Congress regarding introduction of this legislation. In addition, State, Commerce, and Agriculture are planning a number of activities to complement the ROZs, aimed at developing small business and agriculture in the region.

The government of Pakistan made progress in recent years to improve copyright enforcement, including taking significant steps against unauthorized optical disc production and exports of pirated optical discs. Further, it created the Intellectual Property Rights Organization (IPRO). Nevertheless, Pakistan does not provide adequate protection of all intellectual property and in the enforcement area, prosecutions and deterrent sentences for intellectual property infringement are lacking. 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. In 2007, Pakistan remained on the Special 301 Watch List with an Out-of-Cycle-Review pending action by Pakistan to address book piracy issues, to provide meaningful and effective protection for test and other data submitted by pharmaceutical companies seeking marketing approval for their products as well as to formalize its system of preventing marketing approval of unauthorized copies of patented pharmaceuticals.

In 2007, USTR continued efforts to finalize a 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 and these negotiations are currently suspended.

7. Afghanistan

In 2007, the Administration continued to work with Congress and private sector stakeholders to finalize President Bush's Reconstruction Opportunity Zone (ROZ) initiative for Afghanistan and the border regions of Pakistan. The objective of the ROZ initiative is to grant duty-free treatment upon entry into the United States to certain goods produced in designated enclaves with the goal of bringing economic development and job creation to geographic areas that are among the most critical in the global war on terror. In support of this effort, USTR officials held consultations with the governments of Afghanistan and Pakistan and visited in 2006 and 2007 both regions that would be candidates for the program. As a result of this work, the Administration completed a draft of proposed legislation to authorize the ROZ program. The Administration continues to work with Congress regarding introduction of the legislation.

In other developments, in July 2007, USTR hosted an Afghan Commerce Ministry-led delegation for high-level trade discussions under the auspices of the United States-Afghanistan Trade and Investment Framework Agreement (the United States-Afghanistan TIFA Council). Ambassador Schwab met with Afghan Minister of Commerce Mohammed Amin Farhang. They discussed ROZs, Afghanistan's accession to the WTO, diversification of the Afghan economy, and ways for Afghanistan to maximize its use of the Generalized System of Preferences (GSP) program as a least-developed beneficiary. As a follow-up to the TIFA discussions, a USTR delegation traveled to Afghanistan in September 2007 to provide detailed briefings on the GSP program to a broad audience of Afghan government and private sector representatives. USTR continues to work with the government of Afghanistan as well as other U.S. agencies, nongovernmental organizations and business associations to integrate knowledge about GSP benefits and duty-free export opportunities in their economic development efforts. In addition, in 2007 USTR supported efforts to assist Afghanistan's economic integration into the South and Central Asia region, including helping Afghanistan participate as an observer in the United States-Central Asia TIFA Council meetings in Washington. USTR officials also continued to raise transit trade issues with Afghanistan's neighbors during bilateral consultations.

8. People's Republic of China

The U.S.-China economic relationship is rapidly emerging as one of our most important relationships with a foreign trading partner. The United States worked intensively in 2007 to improve the character and substance of that relationship, combining direct dialogue and negotiations with vigorous pursuit of improvements and enforcement of obligations through the WTO.

China is no longer a new WTO member, and the United States places a strong emphasis on China's implementation of its WTO commitments and adherence to WTO rules. Almost all of the specific commitments that China made when it acceded to the WTO on December 11, 2001, were due to be implemented over a period of five years, ending one year ago. Accordingly, the United States has been working to hold China fully accountable – just as we, and others, hold ourselves accountable. The United States intensified its frank bilateral engagement with China in 2007. The United States also took enforcement actions at the WTO in key areas where dialogue had not resolved our WTO-related concerns. Using rules-based dispute settlement, the United States and China did make some progress. The focus of this bilateral and multilateral engagement includes significant market impediments and trade-distortive practices as well as other Chinese government policies and practices where the United States has worked to defend fundamental WTO principles.

In pursuing intensified, focused bilateral dialogue with China in 2007, the United States leveraged numerous formal and informal bilateral dialogues and meetings, including working groups and plenary meetings held under the auspices of the U.S.-China Joint Commission on Commerce and Trade (JCCT) and the U.S.-China Strategic Economic Dialogue (SED). Through these avenues, the United States sought resolutions to particular pressing trade issues and encouraged China to accelerate its movement away from reliance on government intervention and toward full institutionalization of market mechanisms. This bilateral engagement produced near-term results in several areas in 2007, including the suspension of overly burdensome testing and certification requirements for medical devices, the granting of biotechnology safety certificate renewals, increased insurance market access, expanded business scopes for foreign banks and securities companies, and expanded rights for U.S. air carriers in China. On other pressing trade issues, the United States and China continue to work together in search of pragmatic solutions.

At the end of the year, in December, the United States and China held two high-level meetings in Beijing. The first one was the annual meeting of the JCCT, chaired by Commerce Secretary Gutierrez and Ambassador Schwab on the U.S. side and Vice Premier Wu on the Chinese side, which focuses on seeking resolutions to discrete, pressing trade issues. That meeting was followed by the semi-annual SED meeting, whose purpose is to manage the complex United States-China economic relationship on a long-term, strategic basis under the guidance of Treasury Secretary Paulson and Vice Premier Wu and with the participation of several other ministers on each side. These meetings addressed a range of issues, with the two sides making progress in the areas of intellectual property rights, pharmaceuticals, medical devices, agriculture, product and food safety, and transparency, among other areas.

The United States also brought three new WTO cases against China in 2007. In the first one, the United States challenged several prohibited subsidy programs benefiting a wide cross-section of China's manufactured goods. The United States was pleased that China later agreed to settle this case by committing to eliminate all of the subsidies at issue. The United States also filed a challenge to key aspects of China's IPR enforcement regime, along with a challenge to market access restrictions affecting the importation and distribution of copyright-intensive products such as theatrical films, DVDs, music, books, and journals. Each of these three WTO cases implicates fundamental WTO obligations, as does the WTO case filed by the United States in 2006 challenging China's use of prohibited local content requirements in the automotive sector.

As noted above, constructive bilateral engagement during the WTO dispute settlement process also facilitated the resolution of one of the WTO disputes brought by the United States, along with Mexico, in 2007. Following two rounds of formal WTO consultations in Geneva in March and June, the United States and China were able to reach agreement in November on the immediate elimination of all of the prohibited subsidies being challenged by the United States. Hopefully, China's willingness to take this step represents a conscious decision by China's policymakers to abandon the type of economic thinking that had relied on this highly distortive type of government intervention in the past. At a minimum, as Ambassador Schwab remarked, it showed that "two great trading nations can work together to resolve disputes to their mutual benefit." It also demonstrated that the Administration's policy of serious dialogue and resolute enforcement is delivering real results.

All of these developments demonstrate the substantial ongoing benefits to the United States – including U.S. workers, businesses, farmers, service providers, and consumers – from China's WTO membership. Prodded by the United States and other WTO members since acceding to the WTO, China has taken many impressive steps to reform its economy, making progress in implementing a set of sweeping commitments that required it to reduce tariff rates, eliminate non-tariff barriers, provide national treatment and improved market access to goods and services imported from the United States and other WTO members, improve transparency and protect intellectual property rights. Although not complete in every respect, China's implementation of its WTO commitments has led to significant increases in U.S.-China trade, including U.S. exports to China, while deepening China's integration into the international trading system and facilitating and strengthening the rule of law and economic reforms that China began nearly three decades ago. That said, more still needs to be done.

In 2007, U.S. industry began to focus less on the implementation of specific commitments that China made upon entering the WTO and more on China's shortcomings in observing basic obligations of WTO membership as well as Chinese policies and practices that undermine previously implemented commitments. At the root of many of these problems is China's continued pursuit of problematic industrial policies that rely on excessive Chinese government intervention in the market through an array of trade-distorting measures. 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 rule of law.

During the fifteen years of negotiations leading up to China's WTO accession, the United States and other WTO members worked hard to address concerns created by China's historic economic structure. Given the state's large role in China's economy, the United States and other WTO members carefully negotiated conditions for China's WTO accession that would, when implemented, lead to significantly reduced levels of government intervention in the market and significantly fewer distortions in trade flows. Through the first few years after China's accession to the WTO, China made noteworthy progress in adopting economic reforms that facilitated its transition toward a market economy. However, beginning in 2006 and continuing throughout 2007, progress toward further market liberalization began to slow. It became clear that some Chinese government agencies and officials have not yet fully embraced key WTO principles of market access, non-discrimination and transparency. Differences in views and approaches between China's central government and China's provincial and local governments also have continued to frustrate economic reform efforts, while China's difficulties in generating a commitment to the rule of law have exacerbated this situation.

Looking ahead, one of the critical issues for the international trading system will be to ensure that China's leadership does not retreat from the substantial progress made to date. Evidence of a possible trend toward a more restrictive trade regime appears most visibly in a series of diverse Chinese measures over the past two years signaling new restrictions on market access and foreign investment in China.

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

a. Intellectual Property Rights

Since its accession to the WTO, China has 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 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. U.S. industry reports show no significant reduction in IPR infringement levels again in 2007, confirming that counterfeiting and piracy in China remain at unacceptably high levels and cause serious harm to U.S. businesses across many sectors of the economy. Indeed, despite anti-piracy campaigns in China and an increasing number of IPR cases in Chinese courts, the U.S. copyright industries' most recent estimates indicate that 85 percent to 93 percent of all copyrighted products sold in China in 2006 were pirated, showing little or no improvement over the previous year. USTR's annual Special 301 report, issued in April 2007, confirmed this lack of progress, as USTR continued to place China on the Priority Watch List and subject it to Section 306 monitoring.

In 2007, as in prior years, the United States placed the highest priority on improving IPR enforcement in China. The United States pursued extensive bilateral discussions with China, focusing on concrete steps that China could take to improve its legal protections and enforcement efforts so that significant reductions in IPR violations in China could be realized. These efforts achieved an agreement between the two countries' customs authorities to cooperate on border enforcement, but other critical enforcement concerns remained unaddressed. For example, China continued 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 approach to enforcement was showing results. The available statistics on continuing rampant IPR infringement in China raise obvious questions about this claim.

In April 2007, after nearly three years of sustained bilateral engagement aimed at addressing U.S. concerns about specific deficiencies in China's legal regime for protecting and enforcing copyrights and trademarks, the United States requested formal WTO consultations. When the ensuing consultations did not lead to an agreed resolution, the United States sought the establishment of a WTO panel to hear the case, and a panel was established in September 2007, with 12 other WTO members joining as third parties. A panel decision is currently expected in 2008.

The United States remains committed to working constructively with China on a bilateral basis to significantly reduce IPR infringement levels in China and continues to devote considerable staff and resources, both in Washington and in Beijing, to address the many challenges in this area. At the same time, when bilateral discussions prove unable to resolve key issues, the United States remains prepared to take further action on these issues, including WTO dispute settlement where appropriate, given the importance of China developing an effective, TRIPS Agreement-compliant system for IPR enforcement.

b. Industrial Policies

China continued to pursue industrial policies that seek to limit market access for non-Chinese origin goods and foreign service-providers and offer 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 state-owned enterprises.

In 2007, examples of the trade-distortive measures implementing these industrial policies remain readily evident. China continues to apply automotive parts regulations that prolong prohibited local content requirements for motor vehicles while the WTO-consistency of those regulations is being challenged in panel proceedings at the WTO. China is also making increasingly restrictive use of export quotas and export duties on a number of raw materials where it is the world's leading producer. Through these export restrictions, China is able to drive up world prices while lowering domestic prices, thereby providing substantial artificial advantages to a wide range of downstream producers in China when they compete against foreign downstream producers in the China market and around the world. In addition, even after re-committing to technology neutrality for 3G telecommunications standards at the April 2006 JCCT meeting, China's regulatory authorities continue to promote the home-grown TD-SCDMA standard and to expand its test market. China also continues to pursue unique national standards in a number of areas of high technology where international standards already exist, and pressures foreign companies seeking to participate in the standards-setting process to license their technology or intellectual property on unfavorable terms. Meanwhile, a July 2005 industrial policy that calls for the state's management of major aspects of China's steel industry remains in effect, and excessive government subsidization continues to benefit a range of domestic industries in China. China has also sought to protect many domestic industries through an increasingly restrictive investment regime, as recent measures impose requirements for state control of "critical" equipment manufacturers, establish 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 prevent further foreign investment in "pillar" industries. Some of these industrial policy measures raise questions about China's compliance with its WTO obligations in the areas of national treatment, market access, export restrictions, technology transfer and subsidies, among others.

While bilateral discussions yielded little progress in resolving U.S. concerns regarding most of these industrial policy measures in 2007, the United States was able to leverage its use of the WTO dispute settlement mechanism, as noted above, to gain China's agreement to eliminate several prohibited subsidy programs that had been providing substantial benefits to a wide range of manufactured goods being sold in China and being exported to the United States and other markets around the world. Reached in November 2007 after months of negotiations, this agreement committed China to discontinue all of the challenged subsidies by January 1, 2008, and not to reinstate them in the future.

In 2008, the United States is continuing to pursue vigorous bilateral engagement to resolve the serious disagreements that remain over a number of China's industrial policy measures, including China's highly trade-distorting use of export restrictions on raw materials. If dialogue fails to address U.S. concerns, however, the United States will not hesitate to take further actions seeking elimination of these industrial policy measures, including WTO dispute settlement, where appropriate.

c. Trading Rights and Distribution Services

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," according to one trade association with broad representation. 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, by December 11, 2004. With determined U.S. engagement, China has implemented these critical commitments in most sectors, and many U.S. companies and individuals are now not only able to import and export goods directly without having to use a middleman, but are also able to establish their own distribution networks within China.

Nevertheless, some serious problems still remain. In particular, despite extensive and persistent bilateral engagement by the United States, China has continued to maintain import and distribution restrictions on copyright-intensive products such as theatrical films, DVDs, music, and books and journals, 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. Once it became clear that bilateral discussions were not leading to changes to address U.S. concerns, the United States invoked the WTO dispute settlement mechanism by filing a request for formal WTO consultations in April 2007. After two rounds of consultations in Geneva failed to resolve the dispute, the United States requested the establishment of a WTO panel to hear the case, and a panel was established in November 2007.

In two other key areas, the United States continued to engage China bilaterally in 2007. First, while China has taken steps to implement its commitment to open its market for sales away from a fixed location, also known as "direct selling," China continued to subject foreign direct sellers to unwarranted restrictions on their business operations. In addition, China continued to discriminate against foreign retailers seeking to open new stores by making them satisfy burdensome requirements not applicable to domestic retailers. The United States is continuing to pursue these important issues in 2008 to ensure that China fully meets its applicable WTO commitments.

d. Agriculture

U.S. agricultural exports to China in 2006 totaled $6.7 billion, making China the United States' fourth largest agricultural export market, and 2007 was a comparably successful year, characterized overall by steady growth. For example, U.S. exports of bulk agricultural commodities continued to perform strongly, with the value of soybean exports increasing dramatically. China also remains the leading export destination for U.S. cotton, among other products.

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, trade with China in the agricultural sector remains among the least transparent and predictable of the world's major markets, as it 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 SPS measures with questionable scientific bases 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.

China's import inspection authorities significantly increased port-of-entry examination for imported products in 2007, causing particular problems for poultry, pork and seafood, and impeding growth in U.S. exports. In addition, China continued to block the importation of U.S. beef and beef products, even after these products had been declared safe to trade under international guidelines.

In 2008, the United States is continuing to pursue vigorous bilateral engagement with China in order to obtain progress on its outstanding concerns. The United States also will not hesitate to take other actions to resolve its concerns if dialogue fails.

e. Services

Overall, the United States enjoyed a substantial surplus in trade in services with China in 2007, as in prior years, and the market for U.S. service providers in China remains promising. However, in some sectors, it appears that China's commitments to increase market access and remove restrictions have still not been fully realized. Chinese regulatory authorities continue to frustrate efforts of U.S. providers of banking, insurance, 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.

U.S. engagement through the Strategic Economic Dialogue (SED) meeting in May 2007 led to some limited progress. China committed to eliminate the backlog of U.S. non-life insurers' applications for conversion from a branch to a subsidiary, and it followed through on that commitment. In addition, China committed to act on the applications of foreign banks incorporated in China seeking to issue their own domestic currency credit and debit cards, although it has not yet done so, hindering the banks' ability to attract Chinese individuals as new customers. China has also failed to fulfill a commitment that it made at the April 2006 Joint Commission on Commerce and Trade (JCCT) meeting to lower excessive capital requirements that have been blocking market access for foreign providers of basic telecommunications services.

Meanwhile, two serious WTO concerns that arose in 2006 have so far resisted resolution through high-level bilateral engagement. In particular, Xinhua, the Chinese state news agency, persisted in its refusal to withdraw rules issued in September 2006 imposing new restrictions on foreign providers of financial information services, raising questions about China's implementation of its WTO commitments. In addition, questions were raised about China's failure to implement important commitments scheduled to be phased-in by December 11, 2006, which would allow foreign credit card companies to provide electronic payments processing services for domestic currency transactions.

In 2008, the United States is continuing to engage China and is closely monitoring developments in an effort to ensure that China fully adheres to its services commitments. If necessary, the United States also will not hesitate to take further actions seeking to enforce China's WTO commitments, including WTO dispute settlement, where appropriate**.**

f. Transparency

One of the fundamental principles of the WTO Agreement, reinforced throughout China's WTO accession agreement, is transparency. Transparency permits markets to function effectively and reduces opportunities for officials to engage in trade-distorting practices behind closed doors. 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. However, two shortcomings stood out. As of December 11, 2005, 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. In 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, and this issue was a key topic for discussion at the SED meeting that took place in December 2007, with some progress being made. To date, however, notice-and-comment remains an optional practice in China. As a result, many of China's regulatory regimes continue to suffer from systemic opacity, frustrating efforts of foreign – and domestic – businesses to achieve all of the potential benefits of China's WTO accession.

g. Conclusion

The Administration will continue its concerted efforts to ensure that China fully implements its outstanding WTO commitments and fully adheres to its fundamental obligations as a WTO member, with particular emphasis on reducing Chinese government intervention in the market, lowering IPR infringement levels in China and making China's trade regime more predictable and transparent. Throughout this process, the Administration will continue to solve problems with dialogue if possible, legal action when necessary, and work within the rules-based international trading system. The Administration will continue to work cooperatively and pragmatically with China – through the robust set of formal and informal U.S.-China bilateral dialogues and meetings, including the JCCT and the SED – to ensure that the benefits of China's WTO membership are realized by the United States and the world and that problems in our trade relationship are appropriately resolved. When bilateral dialogue is not successful, however, the Administration will not hesitate to employ the full range of enforcement tools available, whether it be the dispute settlement mechanism at the WTO or the enforcement of U.S. trade laws – under the WTO's rules-based system – to ensure that U.S. interests are not harmed by unfair trade practices.

9. Japan

Throughout 2007, the United States aggressively pursued resolution of key trade issues with Japan, broadened and further intensified its bilateral work to encourage new reform measures and open markets within Japan, and pursued new joint activities with Japan to help address common concerns in the Asia-Pacific region and beyond. Improvements were seen within Japan in several areas, some of which are creating important new opportunities for U.S. companies and more choice for Japanese consumers. Overall, however, Japan's commitment in 2007 to an ambitious regulatory reform agenda was weaker when compared with recent years. In response, the United States intensified its calls on Japan to continue to make reform a top priority in light of the benefits that reform has had for economic growth and for spurring new opportunities and the development of new technologies and services.

United States-Japan Economic Partnership for Growth

Much of the close engagement on trade and economic issues between the United States and Japan during 2007 took place under the umbrella of the U.S.-Japan Economic Partnership for Growth (Partnership). The U.S.-Japan Economic Sub-Cabinet Dialogue, which sets the direction of the Partnership, was convened in April and in December of 2007. Dialogue participants exchanged views on a wide range of global, regional, and bilateral economic issues in order to better coordinate the respective economic policies of the United States and Japan. The Dialogue, with the endorsement of President Bush and former Prime Minister Shinzo Abe in April 2007, also initiated new, focused work designed to promote and protect intellectual property rights, strengthen energy security, make trade flows more secure and more efficient, increase the transparency of government regulatory processes, and exchange information on each country's respective free trade agreements with third countries. The bulk of work under the Partnership, however, continued to be organized using the Partnership's dedicated initiatives on regulatory reform, trade, investment, and financial issues – the Regulatory Reform and Competition Policy Initiative, Trade Forum, Investment Initiative (co-chaired by the Department of State), and Financial Dialogue (co-chaired by the Department of the Treasury).

a. Regulatory Reform

The United States strongly urged Japan to accelerate regulatory reform measures during 2007 through the U.S.-Japan Regulatory Reform and Competition Policy Initiative (Regulatory Reform Initiative). The governments concluded the sixth year of the Initiative in June 2007 with a Report to the Leaders that documented progress made on a broad array of issues, including in sectors ranging from telecommunications to insurance as well as on cross-cutting issues ranging from intellectual property rights protection to competition policy. The governments again exchanged recommendations under the Initiative in October 2007 to begin the seventh year of work through the Initiative's High Level Officials Group as well as through its cross-sectoral and various sectoral working groups. The following sections on Sectoral Regulatory Reform and Structural Regulatory Reform outline highlights of the work under this Initiative during 2007.

i. Sectoral Regulatory Reform

Telecommunications: The United States continued to stress the need for reforms to help create a pro-competitive telecommunications services market in Japan based on transparent regulation. Despite ongoing difficulties addressing conduct by dominant operators in both the fixed and mobile markets, 2007 marked progress on a number of fronts. In particular, Japan introduced mobile number portability requirements and streamlining wireless equipment certification procedures, developed policies for "Next Generation Networks," and removed certain distortions in universal service subsidy programs. With respect to a new mobile broadband wireless service, the Ministry of Internal Affairs and Communications accepted multiple technologies among companies applying for new spectrum, and granted licenses to two U.S.-affiliated operators. Development of this new market is expected to provide new opportunities for innovative service providers and device makers from both Japan and the United States.

In February 2007, the United States and Japan signed a Mutual Recognition Agreement (MRA) concerning conformity assessment procedures for telecommunications equipment. Following passage in the Japanese Diet in June 2007, the parties exchanged diplomatic notes in November stating that each was ready to implement the agreement, and the agreement entered into force on January 1, 2008. Based on this agreement, U.S. manufacturers will now have the option of selling equipment in the Japanese market that designated U.S.-based testing laboratories in the United States have certified as meeting Japan's technical requirements. This is expected to facilitate faster and more efficient trade in telecommunications equipment with Japan.

Information Technologies: The United States in 2007 urged Japan to promote open information technology (IT) and electronic commerce policies and adopt intellectual property rights (IPR) policies and practices that address challenges posed by modern digital communications, while simultaneously deepening bilateral cooperation on IPR issues in other areas. Japan made improvements in several areas.

In 2007, Japan adopted a new "Basic Policy" to increase competition and transparency in bidding processes for government procurements of IT systems. Japan also amended the Industrial Technology Enhancement Act to allow contractors to own IPR for software developed through government-sponsored programs, thereby increasing opportunities to commercialize this intellectual property (IP). In health IT, Japan announced plans to support efforts to verify the interoperability of different health IT systems, publicize the results of this verification process, and promote the use of interoperable systems. Japan also undertook a transparent review of the Privacy Act and published confirmation online that companies would not be penalized for non-compliance with voluntary privacy guidelines under the Privacy Act. Regarding online fraud, Japan improved access to information in English that explains for technology companies and Internet service providers the legal implications of introducing anti-spam technologies.

In the area of IPR, in 2007 Japan implemented by regulation and decree a government-wide policy that forbids the misuse of file-sharing technologies and protects IP, software and other digital content assets used by government operations. In May 2007, the Diet passed a bill applying the penalty provision of the Copyright Law so that those who make sound or visual recordings of movies in movie theaters can be punished, even if the recordings are for private use.

Cooperation between the United States and Japan on patent administration and on IPR enforcement progressed during 2007. In July 2006, the U.S. Patent and Trademark Office (USPTO) and the Japan Patent Office (JPO) began a pilot project, the "Patent Prosecution Highway" (PPH), which facilitates the processing of patent applications. Preparations were made during 2007 to permanently implement the PPH between the offices starting January 4, 2008, on the basis of positive results from the pilot. Under the PPH, patent applicants can request fast-track processing in one office if the other office has determined that claims in a corresponding application submitted to it are patentable. Cooperative activities of the joint initiative between the U.S. Department of Commerce and Japan's Ministry of Economy, Trade and Industry during 2007 also included a USPTO-JPO arrangement to implement the "New Route," a pilot framework for international cooperation on patent search and examination, and, with the European Patent Office, preparations to establish a standard patent application format.

Medical Devices and Pharmaceuticals: In 2007, the United States continued to urge Japan to reform its regulatory and reimbursement pricing systems, which unnecessarily slow the introduction of innovative U.S. medical devices and pharmaceuticals in Japan and fail to create adequate incentives for the development of advanced products. In 2007, the Japanese government announced plans to eliminate the lag in the introduction of cutting-edge devices and drugs in Japan, and set a goal of reducing the period between drug development and approval by 2½ years. Japan also agreed to improve its regulatory system by more than doubling the staff of drug reviewers by 2010, promoting drug clinical trials, increasing the medical device reviewer staff by 30 percent by 2009, and stimulating vaccine development.

The United States encouraged Japan to ensure that its reimbursement pricing policies fostered the introduction of innovative devices and drugs since such products can improve health outcomes for patients and make the health care system more efficient. Japan took steps to enhance the transparency of its reimbursement pricing system, but failed to significantly reform the system to stimulate the introduction of cutting-edge products. In particular, the United States raised strong concerns with Japan's implementation of pricing rules that hinder innovation, such as special repricing for market expansion of drugs and the Foreign Average Price rule for medical devices.

In 2007, Japan extended the standard length of the reexamination period for new drugs from six years to eight years. During the reexamination period of a drug, approval applications of drugs with the same active ingredients must be supported by the full data required of a new drug application. This measure, in effect, extends the data protection period. The United States also continued to raise concerns about Japan's regulation of nutritional supplements, cosmetics, and quasi-drugs.

Financial Services: The United States continued to urge Japan to increase the transparency, consistency, and predictability of its financial regulatory environment, strengthen financial market competition, and improve information (*e.g.*, full-file consumer credit information sharing). During 2007, the Financial Services Agency (FSA) issued draft ordinances and requested public comment on implementing the Financial Instruments and Exchange Law (FIEL). The law entered into effect in October 2007. Modernizing and consolidating the Securities and Exchange Law and other related laws, FIEL comprises sweeping legislation enacted by the Diet in June 2006 that subjects investment advisors, investment trust management companies, and securities companies to the same supervision as financial instrument firms.

In December 2007, FSA announced its "Plan for Enhancing the Competitiveness of Japan's Financial and Capital Markets," aimed at elevating Japan's status to that of a global financial center. The plan includes relaxing the firewalls separating different types of financial institutions, enhancing the international competitiveness of exchanges by expanding their lineup of tradable products, creating a market exclusively for professional investors and enhancing the transparency and predictability of regulatory actions. The plan also calls for strengthening the present civil money penalty system against market misconduct by expanding the scope and raising the amounts of fines, in order to improve the fairness of markets and increase deterrent effects. The FSA plans to submit many of the necessary legislative bills, such as revisions to the FIEL and Banking Law, to the Diet in 2008, although some measures will require further discussion.

ii. Structural Regulatory Reform

Competition Policy: The United States continued to advocate measures to ensure that steps to deregulate and introduce competition into Japan's economy are not undone by anticompetitive actions by market players. In 2007, Japan took several steps to strengthen competition policy and to ensure that Japan Fair Trade Commission (JFTC) enforcement actions are implemented in a fair and transparent manner. Japan bolstered its criminal enforcement against hard-core Antimonopoly Act (AMA) violations by bringing criminal charges against the participants of two bid-rigging conspiracies. The JFTC also continued to successfully implement its new leniency program to encourage individuals and companies to report anticompetitive acts, having received more than 150 leniency applications since the program's inception in January 2006. The JFTC also updated its merger guidelines and intellectual property guidelines, increasing the transparency of AMA enforcement policy in these areas. For the purpose of improving public confidence in the fairness of its investigatory and administrative procedures, JFTC undertook to ensure that at least one of the three hearing examiners in each hearing procedure would be a lawyer or other outside legal professional who is not a career JFTC official and that proposed recipients of public measures under the Subcontract Act would be given an opportunity to present evidence and arguments in their defense prior to any JFTC action.

Japan also took new measures in 2007 to help prevent bid-rigging. The Diet amended the National Public Service Act to prohibit government ministries and agencies from helping employees who are retiring or resigning from the civil service to find new jobs, a measure that should help control conflicts of interest stemming from Japan's *amakudari* ("descent from heaven") system. The Ministry of Land, Infrastructure, Transport and Tourism took additional bid-rigging prevention measures, including expanding the coverage of the open and competitive bidding procedure to apply to approximately 90 percent of all contracts by value and extending the period of suspension from bidding and construction business operation for firms that have engaged in unlawful bid-rigging practices.

Transparency: The United States deepened its engagement with Japan on transparency issues in 2007, including through focused work to help encourage Japan to adopt stronger and more uniform transparency requirements in its regulatory and policy-making processes. The United States, for example, urged Japan to further reform its public comment procedures and transparency requirements for government-appointed advisory groups to ensure they are consistent with international best practice.

Other Government Practices: In 2007, the United States also urged Japan to make progress on a variety of other government practices, including in agriculture and in insurance (for discussion of insurance-related issues, see "*Bilateral Consultations – Insurance*" section below).

With respect to agriculture, after the United States raised with Japan bottlenecks in its biotechnology feed approval process that were affecting biotechnology corn, Japan's Ministry of Agriculture, Forestry and Fisheries made several procedural improvements in 2007 to the review process. These improvements have resulted in more timely approvals, which are critical to ensure the continued growth of U.S. corn exports to the largest foreign market for U.S. corn. In early August 2007, Japan also made changes to its biotechnology labeling rules that allow U.S. suppliers to eliminate mandatory testing and handling requirements related to past production of potatoes. This change will save the U.S. industry several million dollars annually.

Privatization – Japan Post: On October 1, 2007, Japan Post began its ten-year privatization process. The United States has long urged Japan to ensure that, in its postal reform process, a level playing field is created between Japan Post (and its successor entities) and its private sector competitors in the banking, insurance, and express delivery markets. The United States also continued to stress the importance of ensuring full transparency of the privatization process.

With respect to insurance and banking, the United States continued to urge Japan in 2007 to ensure that a level playing field is 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. In the Initiative's 2007 Report to the Leaders, Japan confirmed that as of October 2007, sole supervision and inspection of the new Japan Post financial entities under the Banking Law and Insurance Business Law will be conducted by Japan's Financial Services Agency (FSA), and that the FSA will apply the same standards as those applied to private companies operating in the same market space, including when engaging in the sale and distribution of financial services or insurance products. Japan also confirmed that the new postal financial entities will be required to meet the same obligations and standards, including risk management and compliance systems, as those of private financial institutions when they sell new or altered financial products. The United States continued to urge Japan to fully implement these steps and take additional measures to achieve a level playing field, such as by ensuring that transactions among the postal financial entities as well as the Public Successor Corporation are conducted on an arms-length basis and that old and new postal insurance policy accounts are completely segregated to prevent cross-subsidization between them.

With respect to express delivery, Japan decided in 2007 to apply the "duty declaration" system to international postal items that are valued at over 200,000 yen. The United States strongly urged Japan to extend this step by ensuring that customs clearance regulations, procedures, and costs for all Japan Post's international express mail service (EMS) items and similar international express delivery services are applied in the same manner as those applied to similar shipments provided by private express carriers. The United States also urged Japan to take steps to prevent the subsidization of Japan Post Service's international express service by revenue from non-competitive postal services.

Commercial Law: The United States continued to recommend that Japan adopt a commercial law regime that reflects the realities of the global market and that will encourage efficient business practices and structures that strengthen the Japanese economy. Japan took some steps in 2007 that may facilitate foreign merger and acquisition (M&A) activities in Japan and protect the interests of stockholders. Revisions to the Corporate Code that permit foreign companies to acquire Japanese companies using foreign stock as consideration (so called "cross-border triangular mergers") came into effect, as did amendments to the Tax Code that, under certain conditions, permit tax deferral on capital gains from the transfer of corporate assets in those transactions. As of the end of 2007, only one transaction involving the acquisition of a Japanese company by a foreign company using the triangular merger technique had been completed. It remains unclear whether the Japan's tax deferral conditions are sufficiently flexible to allow this new merger tool to work in a manner that facilitates foreign M&A activities in Japan.

In the area of strengthening corporate governance mechanisms, in 2007 Japan's securities regulators publicly recognized the importance of enhancing corporate governance of publicly-traded companies, and each of Japan's major stock exchanges adopted rules that require listed companies to disclose the details of any anti-takeover measures and that restrict the ability of listed companies to adopted anti-takeover measures that seriously harm the interests of shareholders. The Tokyo Stock Exchange made efforts to improve the ability of shareholders to exercise proxy voting rights by encouraging its listed companies to provide proxy materials to shareholders three or four weeks in advance of shareholders meetings and announced its intention to consider adopting Codes of Conduct for listed companies that will address the need for outside directors and ensure the independence of such directors. In addition, the Ministry of Health, Labor and Welfare publicly announced its view that pension fund managers have a fiduciary duty to exercise proxy rights solely in the interest of beneficiaries.

Legal Services and Legal System Reform: In 2007, Japan committed to consult with the Japan Federation of Bar Associations with a view to taking necessary steps to permit foreign lawyers to form professional corporations on the same basis and with the same benefits, including the ability to establish multiple branch offices in Japan, as Japanese lawyers (*bengoshi*). Japan also began studying the legal implications of allowing Japanese *bengoshi* to become members of international legal partnerships. With regard to alternative dispute resolution (ADR) proceedings taking place in Japan, Japan confirmed that registered foreign lawyers (*gaiben*) can represent parties in any international ADR procedures at least to an extent not inconsistent with the Foreign Lawyers Law.

Distribution: In 2007, the United States urged Japan to take steps to speed the flow of goods by making improvements in the distribution sector. These recommendations included taking specific measures to improve efficiency in customs processing, revising customs *de minimus* levels to facilitate efficiency, and ensuring equal enforcement of road laws among private delivery vehicles as well as Japan Post vehicles carrying packages and international express service items.

b. Bilateral Trade Consultations

i. Insurance

The United States and Japan conducted an annual consultation under our 1994 and 1996 bilateral insurance agreements in December 2007. The United States also urged progress on insurance-related issues in the U.S.-Japan Regulatory Reform Initiative and in other fora during 2007.

The United States continued to call on Japan to create a level playing field in Japan's insurance market by implementing measures to ensure Japan Post's successor companies, following the start of privatization in October 2007, are held to the same standards and obligations as private sector insurers (for detailed discussion of Japan Post insurance, see the section "*Privatization – Japan Post*" above).

Japan implemented regulatory changes on December 22, 2007 that allow banks to sell the full range of insurance products offered in the Japanese market. This important change, long urged by the United States, should expand opportunities for U.S. insurers to offer their products to Japanese consumers. The United States urged Japan to reform to the Life and Non-life Policyholder Protection Corporations (PPCs), including by moving from a pre-funded to post-funded system. The United States 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. The United States also asked Japan to put into place measures that would allow foreign incorporated insurance companies operating branches in Japan to transfer their businesses to a Japan-incorporated entity in a seamless way.

ii. Government Procurement

Public Works (Design/Construction): The United States held expert-level consultations with Japanese officials in July 2007 to urge Japan to more effectively open Japan's massive public works market ($149 billion in 2007) to U.S. companies. The United States requested, *inter alia*, that Japan take new measures to help prevent bid-rigging, develop procedures to simplify the qualification process for foreign firms, ensure that procurements list all of the qualifying criteria for a project, allow the free formation of joint ventures, and take measures to ensure proper compensation for design firms. The United States is working with Japan to promote the use of Construction Management to increase Japan's public works market in areas where U.S. companies have considerable expertise. The United States also continued to carefully monitor Japan's procurement procedures for projects covered by bilateral and multilateral agreements and promote U.S. company participation in new types of public works projects in Japan.

iii. Investment

The United States continued joint work with Japan in 2007 through the U.S.-Japan Investment Initiative to encourage new measures that improve the climate for direct foreign direct investment (FDI) in Japan. One significant step taken by Japan in May 2007 that may facilitate greater FDI was its implementation of Company Law revisions that allow use of foreign stock as consideration in cross border mergers and acquisitions ("triangular mergers") (for further discussion, see the section "*Structural Regulatory Reform – Commercial Law*" above). Investment experts from the U.S. and Japanese governments also met in February 2007 to exchange information on each others' bilateral investment treaties (BITs) and free trade agreement investment chapters.

After many years of U.S. Government advocacy through the Investment Initiative for Japan to allow foreign universities to obtain legal status in Japan as a Japanese educational institution, Japanese government officials opened such discussions with one U.S.-affiliated university during 2007. If ultimately granted this new status, this applicant would receive all rights and privileges of a Japanese university, including exemption from taxes.

c. Sectoral Issues - Agriculture

Beef: The full reopening of Japan's market to U.S beef from animals of all ages in a manner consistent with international guidelines set by the World Organization for Animal Health (OIE) remained a top priority of the Administration. While the United States was able to export beef to Japan from cattle 20 months of age and younger during 2007, Japan's requirements for age verification exclude all but a small percentage of the cattle slaughtered in the United States.

In May 2007, the OIE determined that the United States is a "controlled risk" for Bovine Spongiform Encephalopathy (BSE), and supported by this determination, the United States urged Japan to import all beef and beef products from animals of any age if appropriate risk materials are removed. The United States will continue to work to achieve the full reopening of Japan's market in a manner consistent with international standards.

In June 2007, Japan ended its "verification period" for the U.S. export verification (EV) program for beef and beef products. Japan's intensified inspection rate started with the current EV program in July 2006 and involved a costly "voluntary" inspection by importers prior to the official quarantine inspections. Because it was expensive and caused bottlenecks, the ending of 100 percent box testing was expected to result in a modest increase in U.S. beef sales during the second half of 2007.

Other Sanitary and Phytosanitary (SPS) Measures: The United States made progress with Japan during 2007 on several SPS issues through our bilateral Regulatory Reform Initiative (for more information, see discussion above under "*Structural Regulatory Reform – Other Government Practices*"). The United States also negotiated with Japan a new table egg protocol, a protocol allowing for the importation of potted anthuriums, and a protocol allowing for audit inspection versus full time inspection for U.S. cherries.

In other areas, the United States continued to urge Japan to remove other SPS measures that create barriers to certain U.S. agricultural products. Throughout 2007, for example, the United States worked with Japan to approve 24 commonly used and internationally recognized food additives used in many high-value processed products; and to remedy its pesticide residue sanctions policy in a manner that will establish a risk-based approach to import inspection and testing and that is no more trade restrictive than necessary to protect human health. Additionally, the United States began to seek the removal of Japan's ban on three materials used commonly in U.S. organics that limit exports of many U.S. organic products, such as berries, grapes (fresh and wine), strawberries, celery, cherries, and other crops.

Rice: The United States urged Japan to take measures to prevent the displacement of U.S. rice cake flour as a result of the release of Japan's government rice stocks. Guidelines by Japan's Ministry of Agriculture, Fisheries, and Forestry for public release of the stocks of rice that Japan has imported under its WTO minimum market access (MMA) agreement establish complex rules that require the volumes of imported rice that each company is eligible to purchase to be based upon the amount of imported rice cake mix it has historically imported. Incentives and penalties are both established to encourage companies to reduce their imports of rice cake mix in exchange for accessing more imported rice from government stocks. In addition to urging Japan to end this practice, the United States sought improvements in access for U.S. rice in Japan. Although the United States has supplied about half of

Japan's rice import needs since 1995 when it opened its market under its WTO MMA agreement, Japan allows only a minor share of U.S. rice imported under Japan's WTO tariff-rate quota (TRQ) commitment to be sold into the private sector. In November 2007, the United States asked Japan a number of detailed questions about its rice import regime at the WTO Committee on Agriculture. The United States will continue seek quick progress by Japan on U.S. concerns on rice.

10. Taiwan

During 2007, 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. These WTO implementation issues included 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. The United States and Taiwan held a meeting of the TIFA Joint Council in Washington, D.C., on July 10-11, 2007.

a. Beef

Throughout 2007, the United States continued to press Taiwan to provide market access for the full range of U.S. beef and beef products in a manner consistent with World Organization for Animal Health (OIE) guidelines for Bovine Spongiform Encephalopathy (BSE) and the May 2007 OIE designation of the United States as "controlled risk" for BSE. However, as of the end of 2007, Taiwan had not yet opened its markets in a manner consistent with the May 2007 OIE determination. After partially reopening the market to U.S. deboned beef from cattle less than 30 months of age in April of 2005, Taiwan re-imposed its import suspension in June 2005, after the discovery of a second case of BSE in the United States. On January 25, 2006, Taiwan again lifted its ban on U.S. deboned beef from cattle less than 30 months of age with labels of approval from the USDA. 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 has been engaging with Taiwan to fully open the market for all these products on a scientific basis.

b. Rice

In 2007 Taiwan implemented the rice Country Specific Quota (CSQ) system and the United States, Australia, and Thailand lifted their objections to Taiwan's rice tarriffication. The United States and other suppliers continued to have public sector rice tenders fail due to Taiwan's ceiling price. Because of this, Taiwan will not complete its tendering process until well into calendar year 2008, and it is possible that the U.S. will lose a small portion of its CSQ amount. Taiwan is a leading Asian market for U.S. rice exports. 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. Maximum Residue Levels (MRL)

During and subsequent to the 2007 TIFA meetings, the United States and Taiwan have engaged in discussions to address systemic issues related to Taiwan's food safety regulatory system. Taiwan currently has a list of about 1,414 pesticide-crop combinations waiting for permanent MRLs to be established. Regulations in Taiwan call for the rejection of any shipment that contains any residue for which an MRL has not been established. The United States has a similar policy, but comparatively few chemical-crop combinations are awaiting final approval in the United States. In 1999, Taiwan established a list of provisional MRLs covering about 137 fruit and vegetable pesticide combinations, leaving approximately 1,300 commodity pesticide combinations lacking even a provisional MRL.

In November 2007, Taiwan implemented a re-registration process to address its backlog of outstanding registration requests. With its December 31, 2007 deadline, this registration has placed an onerous information demand on applicants. U.S. exporters and chemical registrants have been unable to meet this deadline. The American Institute in Taiwan (AIT) submitted to Taiwan a request for a one-year extension to the original registration deadline in order to facilitate a unified and thorough U.S. response. Taiwan has yet to agree to AIT's deadline extension request.

On July 10, 2007, the U.S. pork industry learned that Taiwan had rejected a shipment of U.S. pork after finding ractopamine residues in samples taken and analyzed by Taiwan's quarantine service. Ractopamine was approved in 1999 by the U.S. Food and Drug Administration and is used to increase lean cuts of meat while reducing total fat content. Ractopamine has also completed the 8-step process for the elaboration of standards in the Codex Alimentarius Commission, the international body for setting food standards, making adoption of a Codex standard for ractopamine possible in July 2008. Following a further detection of ractopamine in U.S. pork in August 2007, Taiwan began testing 100 percent of U.S. pork shipments for ractopamine, causing serious disruption in trade. After meeting on this issue, officials agreed to an "improvement plan" that would serve as a temporary solution until Taiwan establishes an MRL for ractopamine. The United States will be engaging aggressively in 2008 to reach resolution on this issue.

d. 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 2007, including intensifying raids against manufacturers and retailers.

To deter Internet piracy, the Taiwan Intellectual Property Office (TIPO), in May 2005, initiated an "implementation plan for strengthening preventive measures against Internet infringement." In 2007, Taiwan continued to make efforts to combat Internet-related IPR violations; including strengthening cooperation with foreign enforcement agencies and passing an amendment to the Copyright Law in June 2007 that subjects illegal file-sharing to a maximum jail term of two years.

In October 2007, Taiwan's Ministry of Education (MOE) issued its Action Plan for Protecting IPR on School Campuses. The Plan aims to counter IP piracy on school and university campuses on Taiwan and includes measures to counter peer-to-peer (P2P) abuses on the island's principal academic network, the Taiwan Academic Network (TANet), as well as to reduce instances of illegal text book copying by students and on-campus copy shops. The United States will continue to monitor the implementation of the Action Plan and other efforts to reduce infringement by the academic community, both on and off campus. Adequate resources must also be devoted, especially at high levels within the MOE, to the Action Plan to improve enforcement against the unauthorized use of copyright material that occurs on and around university campuses.

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. Although the necessary implementing legislation and regulations were passed in 2007, establishment of the court has been moved back from a March 2007 target date to July 2008. The United States will continue to monitor implementation of the specialized IP court.

The United States will also continue to urge the passage and implementation of effective legislation to address liability of Internet Service Providers (ISP) and encourage Taiwan's continued efforts to dismantle unauthorized P2P file sharing systems. Internet piracy and illegal peer-to-peer downloading remain serious concerns. The United States will continue to monitor Taiwan Customs' efforts to prevent exports of counterfeit materials to ensure that these efforts are as effective as, or more effective than, Taiwan's recently abolished Export Monitoring System.

e. 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 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. 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)

Hong Kong is a special administrative region of the People's Republic of China. The Hong Kong government continues to maintain a robust IPR protection regime, though end-user piracy, the rapid growth of peer-to-peer downloading from the Internet, and the importation and transit shipments of infringing products remain as significant challenges. The software industry estimates that Hong Kong's software piracy rate was 53 percent in 2006, well above the software piracy rates in other advanced economies, resulting in business and entertainment industry losses of approximately $180 million.

Since 2006, the Hong Kong government has taken additional steps toward addressing each of these problems. Hong Kong Customs has used the Organized and Serious Crimes Ordinance (OSCO) to prosecute piracy syndicates and to freeze their assets. Seven IPR cases have resulted in the freezing of $13.7 million in assets. On October 2, 2007, the court issued an order allowing for the first time the confiscation of $154,000 from the convicted head of a pirated optical disk syndicate. This ruling could prove a useful new deterrent. In October 2006, the Hong Kong government 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.

After extensive consultation, the Copyright (Amendment) Ordinance 2007 was passed in July 2007. In particular, the new Ordinance provides for criminal penalties for unauthorized copying and distribution of infringing copies of printed works in the course of profit-generating activities. Additionally, the Ordinance also provides civil liability for the act of circumventing technical protection measures (TPMs). The scope of these two provisions will be further clarified in implementing legislation. While the government is still consulting with stakeholders, it plans to table subsidiary legislation before the Legislative Council in the second quarter of 2008. The new Ordinance also contains provisions to hold company directors potentially criminally liable for the use of pirated software in their businesses.

b. Beef

Hong Kong banned imports of U.S. beef in December 2003 following a reported case of Bovine Spongiform Encephalopathy (BSE). After two years of intensive efforts on the part of the U.S. Government, the Hong Kong government announced the partial reopening of its market to deboned beef from animals of 30 months of age or less, with certain restrictions, in December 2005. These excessive restrictions, however, have discouraged most qualified U.S. beef exporters from shipping to Hong Kong. It is estimated that the two-year ban (2004-2005) cost U.S. exporters approximately $160 million. World Organization for Animal Health (OIE) guidelines provide for scientifically-based conditions under which all beef and beef products from animals of any age can be safely traded from "controlled risk countries". In May 2007, the OIE classified the United States as controlled risk for BSE. The United States continues to press Hong Kong to normalize trade and implement import requirements for U.S. beef and beef products on the basis of the OIE guidelines and the U.S. controlled risk classification.

c. Food Labeling

The United States exported more than $1.3 billion of agricultural, fishery, and forestry products to Hong Kong in 2007. While the Hong Kong market has developed relying on liberal access, the Hong Kong government is in various stages of implementing several labeling schemes that could raise significant barriers to consumer-ready U.S.-origin processed food exports.

The Hong Kong government has re-notified to the World Trade Organization (WTO) its intention to implement mandatory nutrition labeling regulations. Given Hong Kong's small market size for most individual products, repackaging products to comply with the new Hong Kong labeling standard may not be economically feasible. The United States has requested that the regulations allow flexibility in granting imports for products that comply with United States labeling laws and is in the process of developing its formal response to the re-notified regulations.

On July 9, 2007, an amendment to Hong Kong's Labeling Regulation went into effect that requires manufacturers to declare allergenic substances and list the food additive functional class, and name or identification number (under the International Numbering System), on food labels. Hong Kong's requirements vary only slightly from U.S. regulations. However, the United States is concerned that the regulations do not contribute to improved consumer awareness or information. All U.S. processed food products exported to Hong Kong already include extensive label information on ingredients, allergens, and additives. As results of these differences, U.S. food products, especially name-brand processed foods, have had difficulties complying with the labeling changes in the period allotted. The United States has expressed its objections to this regulation.

During 2008, the Hong Kong government will review the effectiveness of guidelines, originally issued in July 2006, for the voluntary labeling of genetically modified food. The Hong Kong government conducted a survey in 2007 to evaluate the effectiveness of this voluntary food labeling system for genetically modified food and there is concern that the system could be made mandatory, increasing the cost of labeling, and harming U.S. exporters. Mandatory labeling could seriously undermine sales to this market for high value U.S. food and agricultural products. Additionally, Hong Kong retailers fear negative consumer reaction and a reduction in consumer choice for food products in Hong Kong if labeling of food products containing biotechnology ingredients becomes mandatory.

12. Sri Lanka

U.S. exports to Sri Lanka in 2007 were worth $227 million and overall bilateral trade totaled $2.3 billion. Major U.S. exports were machinery, medical equipment, and plastic. The overall trade balance was down slightly, with exports and imports both decreasing.

In 2007, Deputy U.S. Trade Representative Karan Bhatia twice met with Sri Lankan Foreign Minister Rohitha Bogollagama. Ambassador Bhatia also met with Trade Minister G.L. Peiris. During these meetings, U.S. and Sri Lankan officials addressed issues that would contribute to enhancing bilateral trade and investment relations, including lowering market access barriers (such as tariffs), protecting intellectual property rights (IPR), making greater use of Generalized System of Preferences (GSP) benefits, and facilitating investment flows. The United States and Sri Lanka also expressed their mutual desire to see a successful and ambitious outcome to the WTO Doha Development Round. Additionally, USTR led two video conferences with Sri Lanka to discuss IPR-related issues and the GSP program, including a tutorial on how the preference program operates and suggestions on how Sri Lanka can better utilize the program based on its existing export profile.

USTR will continue to pursue these issues in the coming year and looks forward to hosting the next meeting under the U.S.-Sri Lanka Trade and Investment Framework Agreement in 2008.

13. Iraq

In May 2007, Ambassador Allgeier welcomed Iraq's Minister of Trade Abdulfalah Hassan Al-Sudani to Geneva for the first meeting of Iraq's Working Party on WTO accession to initiate review of Iraq's trade regime. The United States is providing technical assistance to help Iraq's government with the accession process, including help with WTO training of officials, legal drafting, tariff classification, and specific guidance on implementation of WTO provisions, *e.g.*, in the areas of investment, standards and technical regulations, intellectual property protection, customs, and services. USTR also held consultations with Iraqi officials and U.S. agencies to promote use of the GSP program, for which Iraq is a beneficiary country.

F. Africa

1. African Growth and Opportunity Act

The African Growth and Opportunity Act (AGOA) provides incentives to promote economic reform and trade expansion in sub-Saharan Africa, including duty-free access to the U.S. market for products made in beneficiary sub-Saharan African countries. In 2007, over 98 percent of U.S. imports from AGOA eligible countries entered the United States duty-free.

In 2007, the Administration worked to implement the enhancements to AGOA contained in the Africa Investment Incentive Act (AIIA), which President Bush signed on December 20, 2006. The AIIA extended to 2012 the AGOA "third-country fabric" provision that allows duty-free treatment for imports from "lesser-developed" AGOA beneficiary countries of qualifying AGOA apparel made of fabric from any source. For lesser-developed AGOA beneficiary countries, the AIIA expanded the list of items eligible for duty-free treatment to include certain non-apparel textile products. It also introduced the so-called "abundant supply" provision, which is an exception to the third-country fabric provision for apparel made from yarn or fabric that is available in commercial quantities for use by lesser-developed beneficiary sub-Saharan African countries. If, for two successive one-year periods, the quantity of fabric or yarn deemed to be available in commercial quantities is not used in the production of apparel articles eligible for duty-free treatment under the third-country fabric provision, then apparel articles containing that fabric or yarn are no longer eligible for third-country fabric benefits under AGOA.

The AIIA provided that certain denim fabric was deemed to be available in abundant supply in sub-Saharan Africa in the amount of 30 million square meter equivalents (SMEs) for the year beginning on October 1, 2006. The U.S. International Trade Commission (ITC) has not yet completed its review of whether the quantity deemed to be available for that year was used in the production of articles eligible for AGOA third-country fabric benefits, but on September 25, 2007, the ITC released its report on the quantity of denim that it projects will be available in the year beginning on October 1, 2007. If the ITC's current projections of available denim actually occur, denim apparel items will be removed from third-country fabric eligibility beginning October 1, 2008. The Lesotho Garment Manufacturers Association and other industry stakeholders have expressed concerns about the negative impact of such a finding on the African apparel sector. Levi Strauss and other U.S. buyers have said that the provision limits growth and relies upon too many factors beyond the buyers' control. As a result of concerns about the abundant supply provision and its prospective impact with respect to denim, Levi Strauss has suspended plans to increase imports of African denim apparel and the Gap has discontinued orders of denim apparel products from Lesotho.

AGOA requires the President to monitor, review, and report to Congress annually on the progress of sub-Saharan African countries in meeting the AGOA eligibility 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. If the President determines that a country is not making continual progress in meeting these criteria, he is required to terminate that country's eligibility for the following year.

An interagency AGOA Implementation Subcommittee, chaired by USTR, makes recommendations to the President on AGOA eligibility of countries based on an annual eligibility review, drawing information from the private sector, non-governmental organizations, U.S. Government agencies, and prospective beneficiary governments. No countries were removed from AGOA eligibility in 2007. In June 2007, on the basis of an interim eligibility review, President Bush determined that Mauritania was meeting the eligibility criteria and re-designated it as a beneficiary country (it had been removed from AGOA eligibility in 2006), bringing the total number of AGOA-eligible countries to 39.

AGOA requires that, in order to receive the apparel benefits in the Act, designated beneficiary countries meet certain customs-related requirements, such as the establishment of an effective system for certifying that apparel has met AGOA's rules of origin and other requirements. As of December 2007, 26 AGOA-eligible countries had instituted acceptable customs measures to prevent illegal transshipment and, accordingly, had been certified as eligible to export qualifying apparel to the United States under AGOA; In addition, 17 of these 26 countries have met the requirements for handmade, hand-loomed, or folkloric items, and 5 countries 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 an annual ministerial level forum with AGOA-eligible countries. AGOA established 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 sixth meeting of the Forum was held in July 2007 in Accra, Ghana. U.S. Trade Representative Susan C. Schwab led the U.S. Government delegation to the Forum, which included senior officials from 14 government agencies. Ministers from almost all AGOA-eligible countries attended the Forum, as well as more than 1,000 government, private sector, and civil society representatives.

AGOA and related Generalized System of Preferences (GSP) imports from AGOA-eligible countries were valued at $46.3 billion in the first 11 months of 2007, 14 percent more than in the corresponding period in 2006.[29] 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 $3.1 billion in the first 11 months of 2007, a 7 percent increase over the previous year, with notable increases in key non-oil sectors. For example, AGOA imports of transportation equipment (from South Africa) increased by 12 percent to $506 million. U.S. imports of AGOA textiles and apparel increased by 2 percent to $1.2 billion, rebounding from decreases in the past few years. Cut flowers increased 39 percent to $3 million. AGOA/GSP imports of wine, fruit juices, grapes, and essential oils also increased. AGOA country and product utilization have been steadily expanding. In 2007, 34 of the 39 AGOA-eligible countries exported products to the United States under AGOA and/or GSP; 23 exported agricultural products under AGOA/GSP; and 21 exported textile and apparel products under AGOA/GSP.

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 existing African WTO 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 sub-Saharan African countries with technical assistance and trade capacity building support on a range of WTO-related 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 in support of the WTO accession process of two African countries, Cape Verde and Ethiopia. The WTO General Council approved Cape Verde's application for accession on December 18, 2007.

WTO issues continued to be a major topic of USTR's engagement with African countries in 2007. Deputy USTR Allgeier attended the African Union Trade Ministerial in Addis Ababa, Ethiopia in January 2007. At the July 2007 AGOA Forum in Accra, Ghana, U.S. Trade Representative Susan C. Schwab participated in a panel discussion with African trade ministers on the WTO Doha Round of negotiations and other topics. Doha was also a major topic of discussion during TIFA Council meetings in 2007 with Mauritius, Nigeria, Rwanda and the Common Market for Eastern and Southern African (COMESA).

Among the Doha issues that figured prominently in U.S.-African discussions in 2007 were agriculture, 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.

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[29] 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.

3. COMESA

The Common Market for Eastern and Southern Africa (COMESA) is the largest regional economic organization in Africa, with 19 member states[30] and a population of over 380 million. COMESA's free trade area was launched in 2000 and now has 13 member states. The United States and COMESA signed a TIFA agreement in 2001 and have subsequently held four TIFA Council meetings, most recently in Washington, DC on February 14, 2007. Ambassador Susan C. Schwab participated in the February 2007 meeting, which included discussions on U.S.-COMESA trade; implementation of AGOA; the WTO Doha negotiations; trade capacity building activities; infrastructure issues; and investment. The COMESA delegation was led by Secretary-General Erastus J. O. Mwencha and included leaders of several Eastern and Southern African farmer organizations.

U.S. trade capacity building assistance to COMESA, delivered mainly through USAID's East Africa 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. Thirteen 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 May 2007 COMESA Summit in Nairobi.

Total two-way trade between the United States and the 19 member countries of COMESA was valued at $12 billion in the first 11 months of 2007, a 23 percent increase over the same period in 2006[31]. Egypt and Kenya were the two largest national markets for U.S. goods. The leading U.S. exports to COMESA countries were machinery, cereals, and aircraft. Among leading U.S. imports from COMESA countries were petroleum products, apparel, and chemicals. In the first 11 months of 2007, U.S. imports from COMESA under AGOA, including its GSP provisions, were valued at $943 million, an increase of 2 percent over the same period in 2006.

4. Ghana

In July 2007, Ghana hosted the Sixth Annual AGOA Forum in Accra (see also section above on AGOA). In January 2008, the United States and Ghana held their fifth meeting under the auspices of the 1999 U.S.-Ghana Trade and Investment Framework Agreement. At the meeting, officials from the United States and Ghana explored several common objectives, including cooperation in the World Trade Organization, trade expansion, implementation of the African Growth and Opportunity Act (AGOA), intellectual property protection and enforcement, trade capacity building and technical assistance, and infrastructure issues.

Total two-way trade between Ghana and the United States was valued at $650 million in 2007, a 35 percent increase over 2006. Ghana is the sixth largest sub-Saharan African market for U.S. goods. The leading U.S. exports to Ghana were motor vehicles, machinery, and wheat. U.S. imports from Ghana are primarily oil, cocoa, timber, and apparel. In the first 11 months of 2007, U.S. imports from Ghana under AGOA, including its GSP provisions, were valued at $66 million, a 53 percent increase over the same period in 2006. Leading AGOA/GSP imports were petroleum products, knit apparel, yams, and plywood.

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

[31] The trade figures in this paragraph do not include Angola, which withdrew from COMESA in 2007.

5. Liberia

On February 15, 2007, U.S. Trade Representative Susan C. Schwab and Liberian Minister of Commerce, Industry and Trade Olubanke King-Akerele signed the U.S.-Liberia 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 Liberia. The first TIFA Council meeting under the new agreement was held on October 2, 2007 in Washington and was co-chaired by Deputy USTR Karan Bhatia on the U.S. side and by Commerce and Industry Minister Frances Johnson and Minister King-Akerele, who by then was Foreign Minister, on the Liberian side. Among the topics discussed were means to enhance Liberia's use of AGOA, trade capacity building assistance, measures to improve the business environment and investment flows as well as issues related to trade-related infrastructure.

Total two-way trade between Liberia and the United States was valued at $190 million in 2007, an 8 percent decrease over 2006. The leading U.S. exports to Liberia were medical instruments, motor vehicles, and iron and steel products. Rubber comprised all but a small portion of U.S. imports from Liberia. In the first 11 months of 2007, U.S. imports from Liberia under AGOA, including its GSP provisions, were valued at $19,000. Liberia became eligible for AGOA on December 29, 2006.

6. Mauritius

In September 2006, the United States and Mauritius signed a Trade and Investment Framework agreement (TIFA) aimed at strengthening and expanding trade and investment ties between the two countries. 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 is encouraging 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. The first TIFA Council meeting was held on February 5-6, 2007 in Mauritius and was co-chaired by Mauritian Minister of Foreign Affairs, International Trade, and Cooperation Madan Dulloo and Assistant U.S. Trade Representative for Africa Florizelle Liser. The TIFA Council set priorities, identified objectives, established benchmarks, outlined impediments, and charted the way forward for future work under the TIFA. It explored common objectives, including cooperation in the World Trade Organization, implementation of the African Growth and Opportunity Act, export diversification, trade and investment promotion, and economic development. The TIFA Council also developed a common workplan that the United States and Mauritius are jointly undertaking in order to implement the TIFA, including a wide-range of programs and activities to support, facilitate, and ensure progress and success in strengthening the U.S.-Mauritian trade and investment relationship.

Total two-way trade between Mauritius and the United States was valued at $235 million in 2007, an 8 percent decrease over 2006, primarily due to declines in Mauritian fish and textile and apparel exports. The leading U.S. exports to Mauritius are jewelry and diamonds. U.S. imports from Mauritius are primarily apparel, diamonds, and fish. In the first 11 months of 2007, U.S. imports from Mauritius under AGOA, including its GSP provisions, were valued at $113 million, a 23 percent decrease over the same period in 2006.

7. 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 Council conducted a detailed review of the steps undertaken by both the United States and Mozambique in each of the 14 priority areas that were identified for joint cooperation in the TIFA workplan. The Council outlined a wide range of programs and economic reforms implemented by the government of Mozambique, as well as several technical assistance initiatives and trade capacity-building programs undertaken by the United States. The TIFA is encouraging 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.

Total two-way trade between Mozambique and the United States was valued at $130 million in 2007, a 62 percent increase over 2006. The leading U.S. exports to Mozambique are petroleum coke, wheat, machinery, tractors, and used clothing. U.S. imports from Mozambique are primarily cashew nuts, tantalum ores, and shrimp. In the first 11 months of 2007, U.S. imports from Mozambique under AGOA, including its GSP provisions, were valued at $784,000, a decrease of 86 percent from the same period in 2006, due primarily to sharp declines in imports of tobacco and apparel.

8. Nigeria

Nigeria is the United States' largest trading partner in sub-Saharan Africa, largely due to the high level of petroleum imports from Nigeria. Nigeria is currently the fifth largest provider of crude oil and petroleum to the U.S. Total two-way trade was valued at $34.3 billion in 2007, a 14 percent increase over the same period in 2006. The leading U.S. exports to Nigeria were machinery, wheat and motor vehicles. U.S. imports from Nigeria were primarily oil. Nigerian exports to the United States under AGOA, including its GSP provisions, were valued at $27.0 billion during the first 11 months of 2007, a 13 percent increase over the same period in 2006. The United States was the largest foreign investor in Nigeria in 2007.

In December 2007, 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 the topics discussed were cooperation in the WTO, market access, export diversification, intellectual property protection and enforcement, commercial issues, trade capacity building and technical assistance, infrastructure, and investment issues. On trade issues, Nigeria reported that efforts were underway to reduce tariffs over time and convert existing import bans to tariff-based structures. The two sides agreed to work towards clarification of procedures for temporary import licenses for oil service equipment while a long-term solution is worked out to facilitate petroleum exploration and development. On AGOA, the two sides agreed to focus on specific product areas with export potential. With the assistance of USAID, an AGOA workshop was held, in conjunction with the TIFA meeting, to help Nigerian businesses to increase and diversify their exports to the United States under AGOA. The two countries agreed to form a working group to identify the terms and conditions necessary to attract investment in manufacturing, especially with respect to downstream processing of petrochemicals. In the area of intellectual property rights, the two sides agreed on new areas of cooperation, including improving enforcement against piracy and counterfeiting.

9. Rwanda

The U.S.-Rwanda Trade and Investment Framework Agreement (TIFA) was signed in June 2006. Since then, there have been two TIFA Council meetings. The second TIFA Council meeting was held on October 17, 2007 in Washington, DC and was co-chaired by Deputy USTR Karan Bhatia and Rwandan Minister of Trade Protais Mitali. Among the topics discussed at the October 2007 meeting were recent trends in two-way trade; implementation of AGOA; the WTO Doha negotiations, trade capacity building activities; and infrastructure issues. The meeting also included a roundtable discussion with representatives of the Rwandan and U.S. private sectors on means to improve the environment for bilateral trade and investment. Among recent outcomes of the TIFA process were the launch of negotiations toward a Bilateral Investment Treaty (BIT) in June 2007 and the convening of an AGOA National Workshop in Kigali in March 2007 to help Rwandan firms identify and pursue opportunities in the U.S. market. The BIT negotiations – the first U.S. bilateral investment treaty talks with a sub-Saharan African country in nearly a decade – made significant progress in 2007 and were close to conclusion at year's end.

Total two-way trade between Rwanda and the United States was valued at $27 million in 2007, a 31 percent increase over 2006. The leading U.S. exports to Rwanda are vegetable fats and oils and machinery. U.S. imports from Rwanda include tungsten ores and concentrates, coffee, and basketry. In the first 11 months of 2007, U.S. imports from Rwanda under AGOA, including its GSP provisions, were valued at $4 million, more than a five-fold increase over the same period in 2006, largely due to increased imports of tungsten ores and concentrates.

10. 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 (now suspended) with the Southern African Customs Union (SACU), of which South Africa is a member; a proposed U.S.-SACU Trade, Investment, and Development Cooperative Agreement (TIDCA); and AGOA. Two-way trade increased 20 percent in 2007, to $14.5 billion. South Africa is the largest and most diversified supplier of non-fuel AGOA-eligible products. In the first 11 months of 2007, U.S. imports from South Africa under AGOA and related GSP provisions were valued at nearly $2 billion with imports of a wide-range of goods, including: minerals and metals [note: diamonds are already MFN duty-free and are not part of AGOA], agricultural products (including fresh citrus fruits and wines), chemicals, transportation equipment, footwear, textiles, and apparel. Leading U.S. exports to South Africa include motor vehicles, tractors, machinery, aircraft, and medical equipment. The primary U.S. agricultural export is wheat.

South Africa continues to play an important role in the WTO Doha Development Agenda (DDA) negotiations. South Africa is a member of the Cairns Group of nations (with a strong interest in agricultural liberalization) and the G-20 coalition of advanced developing countries. It is also a member of the so-called "NAMA-11" group of countries, which has opposed negotiating proposals that call for South Africa and other large developing countries to reduce tariffs on industrial and consumer goods. South Africa and the United States continue to consult closely on issues related to the DDA despite differences on certain issues.

The United States has been the largest single-country source of new foreign investment in South Africa since South Africa's 1994 transition to democracy. There are an estimated 700 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 reluctance 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 individuals, 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 allow these companies to substitute requirements of the sale of equity with "equity equivalents" in other accepted activities, such as skills development and enterprise development. The South African government has appeared open to considering different types of plans for equity equivalents. The United States continued to discuss all of these issues with South Africa in 2007.

11. 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, Investment, and Development Cooperative Agreement (TIDCA)—that could help lead the United States and SACU to an FTA in the longer term. The proposed TIDCA 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. In 2007, the United States and SACU continued negotiations on the text of the proposed TIDCA. The SACU countries are key beneficiaries of AGOA with U.S. imports valued at $2.4 billion in the first 11 months of 2007, and they comprise the largest U.S. export market in sub-Saharan Africa, with $5.2 billion in U.S. exports in the first 11 months of 2007.

12. 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 of the eight UEMOA member countries are eligible for AGOA. [32] Five of these countries – Benin, Burkina Faso, Mali, Niger, and Senegal – are eligible to receive AGOA's textile and apparel benefits.

During the AGOA Forum in July 2007, Ambassador Bhatia met with UEMOA Commissioner for Transport and Tourism Tampone to discuss ways to continue to expand and diversify trade between UEMOA and the United States.

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

Total two-way trade between UEMOA and the United States was valued at $1.7 billion in 2007, an 11 percent increase over the same period in 2006. Togo and Benin were the largest national markets in UEMOA for U.S. goods, though it seems likely that many of these U.S. exports were ultimately destined for other countries in the region, especially Nigeria. The leading U.S. exports to UEMOA in 2007 were motor vehicles, fuel oil, and electrical machinery. U.S. imports from UEMOA are primarily cocoa and petroleum products. In the first 11 months of 2007, U.S. imports from UEMOA under AGOA, including its GSP provisions, were valued at $21 million, a 39 percent decrease from the same period in 2006.