STATEMENT OF
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OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
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Madam Chairwoman, members of the committee, thank you for inviting me to be here with you today and for providing me with the opportunity to speak about our free trade agreements, in particular, the four trade agreements with Peru, Colombia, Panama and South Korea, that Congress will be considering for approval.

Introduction

The Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S. international trade policy. Our primary mission is to ensure that U.S. workers, farmers, ranchers, businesses and investors can benefit from international trade. We do that by providing market opportunities for U.S. exports through expanding market access for American goods and services abroad, and by securing a level playing field for Americans through the establishment of fair and enforceable rules for trade. We also enforce U.S. trade agreements and resolve trade problems utilizing bilateral discussions, negotiations, and formal dispute settlement. USTR achieves these goals through negotiations with foreign governments and strategic use of the trade tools that Congress has placed at our disposal. We work closely with the other agencies, with Congress, and with numerous other stakeholders in this effort.

Under the leadership of Ambassador Schwab, the Office of the U.S. Trade Representative has pursued an agenda of market opening that makes possible significant new opportunities for U.S. business, while advancing a fair, consistent and enforceable set of rules for the world trading system. This agenda is crafted to meet the challenges of globalization, honing American competitiveness by ensuring access to foreign markets for our goods and services and by giving our manufacturers access to the world's inputs and our consumers access to the world's products.

USTR has pursued this agenda on three, mutually reinforcing tracks, including global negotiations at the World Trade Organization (WTO), regional and bilateral free trade negotiations, and stewardship of the multilateral trading system through establishment and enforcement of agreed-upon sets of rules.

Today, I will focus my remarks on our trade agreements with Peru, Colombia, Panama and South Korea. First, I will briefly describe USTR's bilateral and regional Free Trade Agreement (FTA) agenda. Second, I will talk about this agenda's broad benefits for U.S.

small business. Finally, I will discuss the specifics of the four free trade agreements, which will significantly boost small business prospects in these respective markets.

The Benefits of Trade

Before turning to our bilateral and regional agenda, I would first like to highlight the importance of trade to American prosperity. As the world's largest economy and largest exporter and importer, the United States has increased both its productivity and the real wages of its workers, while at the same time expanding consumer choice and purchasing power. In 2007 to date, U.S. exports have grown at more than twice the rate of U.S. imports. And U.S. jobs supported by goods exports pay 13 to 18 percent more than other jobs.

Today, U.S. annual incomes are $1 trillion higher, or $9,000 per household, due to increased trade liberalization since 1945. Moreover, around the world, trade has helped lift hundreds of millions of individuals out of poverty.

Ultimately, USTR's goal is to continue to make the benefits of trade available to Americans by achieving greater access for American farmers, manufacturers, and service providers to the 95 percent of the world's customers who live outside the United States. To do this, we will continue to work diligently to achieve significant new increases in market access for American products and services in a multilateral agreement in the World Trade Organization Doha Development Round and through bilateral and regional agreements, including our free trade agreements with Peru, Colombia, Panama and South Korea.

The Bilateral and Regional Agenda

Currently, the Administration is seeking Congressional approval of four free trade agreements that we have signed with Peru, Colombia, Panama and South Korea.

These four FTAs, and other FTAs that Congress has already approved, provide for the best market access and conditions for doing business that are found in trade agreements. These agreements not only level the playing field for American farmers, ranchers, manufacturers and service providers, they also strengthen intellectual property rights; promote transparency and the rule of law; and safeguard labor and environmental standards. Importantly, they make it easier for small business to compete in global markets.

This approach has resulted in agreements close to home in Latin America. Since 2001, we have put agreements in effect with Chile, 4 countries in Central America and the Dominican Republic. We have signed agreements with Peru, Colombia, and Panama.

This Administration has also provided enhanced access for U.S. companies into the Asia-Pacific region through agreements with Singapore and Australia. U.S. companies also anticipate significant benefits when Congress approves our free trade agreement with South Korea, our 7th largest goods trading partner.

The Administration has also moved toward creating a strategic Middle East Free Trade Area, through putting agreements into effect with Jordan, Morocco, and Bahrain. We hope to soon add Oman to that list.

In sum, the Administration has added eleven new FTA partners since 2001, and two more will be added to this list when Costa Rica and Oman complete their domestic procedures for entry into force of their FTAs with us. When Congress approves the Peru, Colombia, Panama and South Korea agreements, we will have gone from three (Israel, Canada, and Mexico) FTA partners to twenty at a critical time, giving an important boost to the competitiveness of U.S. business in some of the fastest-growing markets in the world.

Market-opening efforts with FTA partners are clearly bearing fruit. U.S. exports to all FTA partners up to 2006, has increased 60 percent faster than the rest of the world (21% to 13%). FTAs implemented between 2001 and 2006 produced a $13 billion U.S. trade surplus with those trade agreement partners last year.

- CAFTA-DR - U.S. exports to the four Central American countries under the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) in 2006 were up 18 percent last year. Exports to El Salvador were up 16 percent, Nicaragua up 20 percent, Honduras up 13 percent, and Guatemala up 24 percent.

- Bahrain – U.S. exports to Bahrain grew 35 percent to $474 million in 2006, as the FTA entered into force on July 1.

- Chile - U.S. exports to Chile have risen by 150 percent since 2004, and the United States is Chile's largest trading partner.

- Singapore - The U.S. trade surplus with Singapore tripled after the first year of the United States-Singapore FTA, reaching $4.2 billion, and rose to $6.9 billion in 2006. Building on an already healthy trade relationship, U.S. exports to Singapore have risen by over $8 billion (49 percent) since entry into force of our FTA.

- Australia - Since the United States-Australia FTA went into effect, the U.S. trade surplus with Australia has grown to $9.6 billion, with U.S. exports increasing by $3.6 billion to reach $17.8 billion after only two years. In percentage terms, U.S. exports to Australia have risen 25 percent since the agreement entered into force.

- Jordan - U.S. exports to Jordan have risen by 92 percent since the United States – Jordan FTA went into effect in December 2001.

- Morocco - U.S. exports to Morocco increased by 67 percent in the first year after entry into force of the FTA, growing from $525 million in 2005 to $878 million in 2006.

Notably, small and medium-sized enterprises, or SMEs, account for substantial U.S. export shares in many of these markets. Central America stands out in this respect. In 2005, SMEs accounted for 46 percent of U.S. exports to the CAFTA-DR countries, well above the overall SME export share. Central America and the Dominican Republic represent the second largest market for U.S. SME exports in Latin America, behind only Mexico. Eighty-nine percent of U.S. exporters to Central America in 2005 were small- or medium-sized companies.

FTAs and Small Business

Whether in Central America or anywhere else around the world, trade is important to small business and small business employees. The number of SMEs that exported merchandise more than doubled from 1992 to 2005, increasing from 108,026 in 1992 to 232,612 in 2005.

Despite this small business success in overseas markets, and the tremendous potential for expanded export sales, the cost of doing business overseas is often too high for small firms. For those companies that wish to take advantage of the international market place, the fixed costs to begin exporting can be so high as to be prohibitive in many cases.

This is where U.S. free trade agreements help. Small business needs markets to be open and easy to navigate. A very simple way to describe our agenda for small business would be to say that we are seeking to replicate the same conditions of openness, transparency and predictability in foreign markets that the sector enjoys here in the United States.

Our key task is to break down trade barriers so that all U.S. businesses have the opportunity to participate effectively in the global marketplace. Basic trade barriers such as tariffs and quotas affect large and small businesses alike. But many types of non-tariff barriers are particularly obstructive to small business.

USTR is committed to reducing these trade barriers so that American small business has the opportunity to succeed in the world's markets. Our trade agreements are uniquely attuned to addressing these barriers. They help small business by lowering the costs of selling to customers overseas, minimizing risks in foreign markets, insisting on intellectual property rights protection and enforcement, and promoting the rule of law, thus, providing certainty and predictability for small business exporters.

Obstacles such as tariffs and quotas may not discriminate between multinational corporations and small business, but other, more insidious, barriers do. A non-tariff barrier might be a speedbump for a multinational with teams of legal and customs advisors, but a roadblock for a small company:

- **Non-Tariff Barriers:** Inconsistent/unpredictable customs procedures, lack of transparency and burdensome paperwork can make trade difficult. U.S. trade agreements eliminate the kind of non-tariff barriers that have a greater effect on smaller companies because these conditions usually add to the fixed costs of doing business, and they are often unforeseeable. In addition to our FTAs, the United States is leading efforts in the WTO to help enhance transparency, promote efficiency and reduce the costs of trade. Our FTAs are out ahead of this process, setting important benchmarks for future application at the multilateral level.

- **Fixed and Transaction Costs:** Multiple and overlapping licensing and inspection requirements can add costly processes and time-consuming steps that can make exporting impossible for small business. While a licensing fee may be a nuisance for larger companies, it can be prohibitive for smaller ones. Smaller companies, with lower sales and profits than larger companies, have less revenue across which to spread fixed costs. U.S. trade agreements are particularly useful to American small businesses because they lower transaction costs in overseas markets. Lower transaction costs mean more small businesses will find sales that are profitable.

- **Services:** U.S. trade agreements also create valuable opportunities for the service sector – a part of the U.S. economy that abounds with efficient and innovative small business firms that are potentially world-class exporters. Services account for over two-thirds of the U.S. economy. For American small business, e-commerce and the Internet reduce transaction costs significantly, while increasing the pool of potential customers around the globe. Through the WTO and FTAs, the United States is working to reduce non-tariff barriers across all service regimes, including financial services, telecommunications, computer and related services, express delivery, distribution and energy services.

- **Strengthening Intellectual Property Rights -** Our FTAs all contain chapters intended to strengthen the IPR legal frameworks of our trading partners, and to ensure that IPR laws are effectively enforced. These provisions encompass emerging areas of technology such as the Internet, helping to ensure that small business is able to sell products on-line and more easily combat on-line piracy in overseas markets.

- **Government Procurement:** Our trade agreements give American small business access to foreign government procurement contracts and provide for fair and transparent procurement procedures. Bidding opportunities in our FTA partners offer invaluable opportunities for the U.S. small business sector. What’s more, these contracts benefit our trading partners by putting American innovation and expertise to work building an infrastructure for economic growth and development.

- **Transparency:** One of the most significant obstacles to small U.S. companies seeking to do business overseas is the complicated web of differing rules, standards and business cultures they must negotiate. Corrupt government officials present a particularly vexing problem. U.S. trade agreements are increasingly focused on creating transparent business environments, so that U.S. companies know what the rules are and that they will be applied fairly and consistently. Trade agreements are our single best tool for creating a level playing field for U.S. small business.

Our FTAs have many common features that facilitate trade among the United States and our FTA partners. The CAFTA-DR agreement is the clearest example of this. In addition to common provisions applied among the Parties to this Agreement, the CAFTA-DR shares the same approach to rules of origin and other provisions as the North American Free Trade Agreement (NAFTA) and our agreements with Peru, Panama, and Colombia. This consistency is of course valuable for all companies, large and small. It is especially valuable for the small business sector, where companies may lack the legal and consulting resources and the economies of scale that are often necessary to penetrate foreign markets with complex rules and regulations or costly barriers to entry. To make a rational decision to enter a foreign market, a company needs to know what the rules are, how they will be applied, and that they will be applied consistently.

<u>The Four FTAs – Peru, Colombia, Panama and South Korea</u>

It is in the context of this record of success that we are now seeking Congressional approval of the FTAs that have been negotiated and signed with Peru, Colombia, Panama and South Korea. Each of these agreements is discussed in turn below.

Promoting Reciprocal Trade Access in Latin America

Peru, Colombia and Panama have a combined population of over 76 million consumers, with a combined GDP of almost $590 billion (based on purchasing power). As in Central America, the small business export share to these countries is well above average, ranging between 35 percent and 40 percent.

Currently, small business is operating at a disadvantage vis-à-vis these countries, because 90 percent of products from these three countries already come in duty-free through unilateral preference programs. In 1991, the U.S. Congress voted to authorize duty-free tariff benefits to Peru and Colombia through the Andean Trade Preference Act, or ATPA. ATPA was designed to help expand economic opportunities in the Andean region and encourage our Andean neighbors to move away from the production, processing and shipment of illegal drugs and to move toward legitimate products. ATPA was expanded under the Trade Act of 2002, through the Andean Trade Promotion and Drug Eradication Act, or ATPDEA. ATPDEA was renewed by a strong bipartisan vote in Congress this past June.

ATPDEA has served its intended purpose well, while providing a solid foundation for a more mature economic relationship with the United States. Both Peru and Colombia have sought FTAs with the United States in order to create a partnership in trade and economic development. Our FTAs with both countries will allow us to move beyond the one-way preferences and bring our commercial relationship to full partnership and reciprocal commitments under an FTA.

Peru, Colombia and Panama also benefit from our general trade preference program for developing countries known as the Generalized System of Preferences (GSP). In addition, Panama has duty-free access to the U.S. market through our Caribbean Basin Initiative (CBI) trade preference program. Like Peru and Colombia, Panama has sought to build an economic partnership with the U.S. through an FTA.

Congressional approval of our agreements with Peru, Colombia and Panama will give U.S. exporters reciprocal market access for the first time. Eighty percent or more of tariffs on U.S. products and services will be eliminated on day one of the implementation of these free trade agreements.

United States-Peru Trade Agreement

America's two-way trade with Peru doubled over the last three years to $8.8 billion in 2006, with U.S. goods exports to Peru reaching $2.9 billion. In 2006, 98 percent of U.S. imports from Peru entered the U.S. duty-free under our most-favored nation tariff rates and various preference programs. As shown in the first attachment to my testimony, in 2006, Peru's average applied tariff rate on U.S. imports was 10.2 percent, while the U.S. average applied tariff rate on imports from Peru was 2.18 percent.

Under the terms of the United States-Peru trade agreement, eighty 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. Key U.S. exports will gain immediate duty-free access to Peru, including more than 90% of current U.S. farm exports. 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 resolved 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.

Peru is already a significant market for U.S. SMEs and the trade agreement will be of particular benefit to small business. In 2005, U.S. SMEs exported $774 million in merchandise to Peru, representing 38 percent of total U.S. exports to Peru – well above the 29 percent SME share of U.S. exports to the world. More than 81 percent of U.S. companies that export to Peru are SMEs.

A free trade agreement with Peru will strengthen our partnership with an important democracy in South America. Peru was the first Andean nation to conclude a free trade agreement with the United States and the first to ratify the agreement. The Peruvian legislature – representing the will of the Peruvian people – passed the U.S.-Peru trade agreement by an overwhelming margin. Approval and implementation of the U.S.-Peru free trade agreement will demonstrate strong U.S. support for a country and a people who share our values of economic freedom and democracy.

United States-Colombia Trade Agreement

Colombia is the United States' fifth largest trading partner in Latin America and our largest export market for U.S. agriculture products in South America. In 2006, 92 percent of U.S. imports from Colombia entered the U.S. duty-free under our most-favored nation tariff rates and various preference programs. As shown in the second attachment to my testimony, Colombia's average applied tariff rate on U.S. imports was 12.5 percent, while the U.S. average applied tariff rate on imports from Colombia was 2.18 percent.

Our trade agreement with Colombia will open this dynamic and growing economy further by providing immediate market access for over 80 percent of U.S. industrial and consumer products. U.S. farmers and ranchers will benefit particularly with the immediate elimination of duties on high quality beef, cotton, wheat, soybeans, and many fruits and vegetables including apples, pears, peaches, and cherries. 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.

U.S. total goods exports to Colombia in 2006 totaled $6.7 billion. In 2005, SME merchandise exports to Colombia were $1.7 billion, accounting for 35 percent of total U.S. exports to Colombia that year – again, well above the average SME share. Eighty-five percent of U.S. companies that export to Colombia are SMEs.

A free trade agreement with Colombia will help bolster one of our country's strongest allies in the region. Through Plan Colombia, the Colombian Government has taken courageous steps to stop drug trafficking, rein in paramilitary groups, and enforce the rule of law. Since 2000, the security situation has improved significantly, with kidnappings down by 76 percent, terror attacks by 61 percent, and homicides by 40 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.

The Colombian legislature expressed overwhelming support for the U.S.-Colombia trade agreement. Approval and implementation of the U.S.-Colombian trade agreement will be a critical signal of America's support for the Colombian people, who have chosen to overall growth and development of their nation. I urge Members of Congress to visit Colombia to see the extraordinary progress made by the Colombian Government and to hear first-hand from the Colombians the importance of the U.S.-Colombia trade agreement to building upon this progress.

United States-Panama Trade Agreement

America's two-way trade with Panama totaled $3.1 billion in 2006, with U.S. goods exports to Panama totaling $2.7 billion. In 2006, approximately 96 percent of U.S. imports from Panama entered the U.S. duty-free under our most-favored nation tariff rates and various preference programs. As shown in the third attachment to my testimony, Panama's average applied tariff rate on U.S. imports was 7.3 percent, while the U.S. average applied tariff rate on imports from Panama was 2.04 percent.

Under the agreement, 88 percent of all consumer and industrial products from the U.S. will immediately receive duty-free treatment, along with more than half of current U.S. farm exports, including high quality beef, cotton, wheat, soybeans and many fruits, vegetables and processed food products. The agreement will also provide fair and transparent opportunities for American firms to compete in the $5.25 billion Panama Canal expansion project, spur vital reform of Panama's domestic legal and business environment, and strengthen protections for workers and the environment.

In 2005, U.S. SMEs exported $775 million in merchandise to Panama, representing 40 percent of total U.S. exports to Panama – one of the highest shares of any significant U.S. export market. Eighty one percent of U.S. companies that export to Panama are SMEs.

A free trade agreement with Panama would open the fastest growing economy in Central America– with a growth rate of more than 8 percent last year -- to our exporters. Our nations have had strategic ties dating back to the construction of the Panama Canal. The Canal remains a vital U.S. security and commercial interest as two-thirds of its 14,000 annual transits are bound to/from U.S. ports.

United States-South Korea Trade Agreement (KORUS FTA)

South Korea is a trillion-dollar economy (based on Purchasing Power Parity)-- the world's 11th largest--and the United States' seventh largest trading partner. Considering that SMEs account for 33 percent of all U.S. exports to that market and 89 percent of U.S. businesses exporting to South Korea are SMEs, South Korea has already shown itself to be a promising market for U.S. small business exporters. In fact, U.S. SMEs exported $8.2 billion in merchandise to South Korea in 2005.

The KORUS FTA is the United States' most commercially significant FTA in the past 15 years. Nearly ninety-five percent of bilateral trade in consumer and industrial goods will be duty-free within three years after the agreement enters into force, and more than half of U.S. farm exports will immediately enter South Korea duty-free. This is particularly important given the large discrepancy between current U.S. and South Korean tariffs. As shown in the fourth attachment to my testimony, in 2006, South Korea's average applied tariff rate on U.S. imports was 12.1 percent, while the U.S. average applied tariff rate on imports from South Korea was 3.5 percent. In fact, South Korea's non-agriculture tariffs are nearly two times greater than the United States' (7 % for South Korea vs. 3.7% for the U.S.), and its agriculture tariffs are four times greater (52% for South Korea vs. 12% for the U.S.) than those in the United States.

In addition, the KORUS FTA addresses non-tariff barriers across a wide-range of sectors; streamlines customs procedures, making them easier and less costly to navigate; and provides commitments related to transparency and regulatory due process that are more far-reaching than in any previous U.S. FTA. Further, the agreement contains a state-of-the-art IPR Chapter that includes specific provisions that will make it easier for small business to protect intellectual property. For example, the agreement provides for an on-line system for the registration and maintenance of trademarks, as well as a searchable database. The KORUS FTA also includes new market access commitments in services sectors of particular interest to SMEs, including research and development, maintenance and repair of equipment, accounting, and environmental services. Finally, the FTA goes beyond the WTO Government Procurement Agreement by expanding the number of South Korean entities that are covered, lowering the threshold for covered contracts by nearly half, and streamlining procurement processes – all of which will make it easier for U.S. small business to access this market.

The KORUS FTA will strengthen America's critical strategic partnership with South Korea by boosting economic ties and broadening and modernizing our long-standing alliance. The agreement will also demonstrate the United States' strong and clear commitment to continual deepening of our economic and trade relationships with key partners in the Asia-Pacific region.

May 10 Bipartisan Agreement

Finally, these FTAs incorporate the terms of the May 10 Bipartisan Agreement between the Administration and Congressional leadership. Subsequent to the May 10 Agreement, each of these FTA partners agreed to incorporate stronger enforceable labor and environmental standards into the trade agreements, putting them at the cutting edge of efforts to improve labor and environmental conditions through trade.

<u>Enforcement a Critical Component of USTR's Agenda</u>

Before closing, I would be remiss if I did not touch for a moment on enforcement of trade agreements. The Administration's trade agenda recognizes the pressure created from a growing and increasingly competitive global economy. Such pressures are often magnified for small business. Our agenda addresses these pressures in three positive and effective ways by: creating new opportunities in global markets, setting fair rules for trade, and enforcing those rules using every available tool. Enforcement has been and continues to be a critical piece of our trade agenda, and Ambassador Schwab has made it a personal priority.

As we negotiate new agreements, monitoring and enforcement of existing agreements is also essential. This is true even before our agreements enter into effect. With each free trade agreement the United States negotiates, Congress requires the President to determine that the FTA partner has taken the steps necessary to bring it into compliance with its FTA obligations as of day one of the agreement's entry into force. Only then will we agree to have the FTA with that country enter into effect. Once our FTAs are in effect, we remain vigilant, using all the tools we have to ensure that our trading partners honor their commitments. Our commitment to monitoring and enforcement of our rights and obligations is evident in the multilateral arena. We have been a party in over 70 WTO cases - on everything from high fructose corn syrup to biotechnology, to aircraft subsidies.

As an example of our commitment to enforcement, just last week, Ambassador Schwab announced the launch of an Anti-Counterfeiting Trade Agreement (ACTA). Participants in this effort, including FTA partners Canada, Mexico and South Korea, as well as the EU, Japan, New Zealand and Switzerland, will negotiate a new agreement addressing three main areas: (1) strengthening international cooperation, (2) improving enforcement practices, and (3) providing a strong legal framework for IPR enforcement.

This rules-based approach to trade extends to every component of our agenda, and it is critically important to the ability of U.S. small business to compete fairly and effectively in international markets.

Conclusion

To conclude, we have important goals still before us, building on a record of success. The important Bipartisan Agreement on Trade reached in May offers a clear and reasonable path forward for Congressional approval of all four FTAs – with Peru, Colombia, Panama, and South Korea. Each of these agreements has outsized benefits for small business.

Trade is good business for American small business. Working with Congress, the small business community and other stakeholders, we are committed to continue leveling the playing field abroad with an active trade agenda, setting fair and enforceable rules, and providing new opportunities so that U.S. small business can continue to succeed in the global marketplace.

Thank you and I look forward to your questions.