

| | | |
|--------------------------------------|-----------------|-----------------|
| 108TH CONGRESS <i>2nd Session</i> | COMMITTEE PRINT | WMCP: 108-13 |
|--------------------------------------|-----------------|-----------------|

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

**TRADE MISSION TO TUNISIA, JORDAN,
OMAN, and EGYPT**

JANUARY 2005

Prepared for the use of Members of the Committee on Ways and Means by members of its staff.
This document has not been officially approved by the Committee and may not reflect the views of its Members.

COMMITTEE ON WAYS AND MEANS
BILL THOMAS, California, *Chairman*

PHILIP M. CRANE, Illinois
E. CLAY SHAW, Jr., Florida
NANCY L. JOHNSON, Connecticut
AMO HOUGHTON, New York
WALLY HERGER, California
JIM MCCRERY, Louisiana
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
PHIL ENGLISH, Pennsylvania
J.D. HAYWORTH, Arizona
JERRY WELLER, Illinois
KENNY C. HULSHOF, Missouri
SCOTT MCINNIS, Colorado
RON LEWIS, Kentucky
MARK FOLEY, Florida
KEVIN BRADY, Texas
PAUL RYAN, Wisconsin
ERIC CANTOR, Virginia

CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ROBERT T. MATSUI, California
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM MCDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
RICHARD E. NEAL, Massachusetts
MICHAEL R. MCNULTY, New York
WILLIAM J. JEFFERSON, Louisiana
JOHN S. TANNER, Tennessee
XAVIER BECERRA, California
LLOYD DOGGETT, Texas
EARL POMEROY, North Dakota
MAX SANDLIN, Texas
STEPHANIE TUBBS JONES, Ohio

ALLISON H. GILES, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
Washington, DC, January 3, 2005

The Honorable Bill Thomas
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to transmit to you the enclosed congressional delegation report on the recent Committee mission to Tunisia, Jordan, Oman, and Egypt. This report contains an overview of the mission as well as summaries of meetings with foreign officials.

The report describes the trade, investment, and security issues which were investigated during the trip.

Sincerely,

Angela P. Ellard
Staff Director and Counsel
Subcommittee on Trade

AE/is
Enclosure

MEMBERS OF THE DELEGATION

MEMBERS OF THE U.S. HOUSE OF REPRESENTATIVES

HON. BILL THOMAS, Chairman, Committee on Ways and Means

HON. NANCY L. JOHNSON, Chairman, Subcommittee on Health, Committee on
Ways and Means

HON. MICHAEL R. McNULTY

HON. PHIL ENGLISH

HON. RON LEWIS

COMMITTEE ON WAYS AND MEANS

ANGELA P. ELLARD, Staff Director and Counsel, Subcommittee on Trade

STEPHANIE HENNING, Professional Staff, Subcommittee on Trade

STEPHANIE LESTER, Professional Staff, Subcommittee on Trade

MARY SUE ENGLUND, Special Assistant, Committee on Ways and Means

CONTENTS

| | Page |
|-----------------------------|------|
| Members of the Delegation | |
| Outline of Trip Conclusions | |
| Discussion of Trip Meetings | |
| Tunisia | |
| Jordan | |
| Oman | |
| Egypt | |

INTRODUCTION

From November 4-13, 2004, a bipartisan delegation of Members of the Committee on Ways and Means traveled to Tunisia, Jordan, Oman, and Egypt. The purpose of the delegation's trip was to focus on trade, investment, and security issues in the region. The delegation in particular was cognizant of the recommendation of the National Commission on Terrorist Attacks upon the United States (the "9/11 Commission") that the United States encourage economic development in the region through trade agreements.

The United States already has a trade agreement in place with Jordan, and the delegation sought to explore how that agreement has operated. Tunisia, Oman, and Egypt have established Trade and Investment Framework Agreements (TIFAs) with the United States, which provide a forum for high level officials from each country to meet to advance trade and investment issues. The delegation's goal was to explore whether any of these countries is a potential candidate for a free trade agreement with the United States. In the case of Oman, Ambassador Zoellick notified the Congress of his intent to negotiate a free trade agreement with Oman in the week following the delegation's visit, after consultation with Chairman Thomas.

Ambassador Zoellick also notified Congress of his intent to negotiate a free trade agreement with the United Arab Emirates (U.A.E.) at that time. The delegation was planning to visit the U.A.E., but postponed that segment of the trip out of respect for the period of mourning for the President of the U.A.E., Sheik Zayed bin Sultan Al Nahyan, who passed away the week before the delegation's visit to the region.

OUTLINE OF CODEL CONCLUSIONS

Tunisia

- The Trade and Investment Framework Agreement with the United States has been a successful forum for addressing trade issues between the two countries. The delegation agreed to encourage USTR to continue the TIFA process, particularly by scheduling another meeting within the next few months.
- The delegation believes that accelerating through the TIFA process and building on the TIFA relationship through the negotiation of an FTA with Tunisia would augment the existing FTA with Morocco, forming a Northern African market that could provide an incentive and opportunity to draw in Algeria and Libya across Northern Africa.
- The delegation emphasized that while the Tunisian government has demonstrated a strong and serious desire to negotiate an FTA with the United States in addition to its already strong relationship with Europe, an FTA with the United States, unlike the Tunisian relationship with Europe, would require significant reforms of the economy and further liberalization, particularly in investment and services, to garner Congressional support. While Tunisia has been managing its economy successfully, these reforms are necessary to take it to the next level.
- Accordingly, the delegation encouraged Tunisia to undertake such reforms.
 - In particular, the delegation noted that an improved climate for U.S. investors would underscore Tunisia's commitment to economic reform and international

- competitiveness and would generate employment, training, technology transfer, capital infusion, and tax revenues. Such steps are necessary given Tunisia's young population and need for employment opportunities.
- U.S. companies face many obstacles in establishing franchises, particularly Tunisia's case-by-case approval process. This lack of uniform, transparent rules discourages U.S. investment and makes it more difficult for an FTA to pass Congressional muster because it does not meet the standards established through all other U.S. FTAs.
 - Intellectual property protection contributes to a favorable investment climate, but U.S. companies are concerned over widespread trademark counterfeiting and copyright piracy.
 - Other barriers caused by bureaucracy, a traditional viewpoint of protecting domestic jobs, and lack of transparency discourage U.S. investment.
 - The delegation also observed that Tunisia's Euro-centric trade policy (80 percent of its trade is under its EU Association Agreement) deprives Tunisia of much-needed investment opportunities with the United States.
 - The delegation welcomed the Prime Minister's commitment to open the telecommunications sector in the near term.
 - The delegation is pleased that English is beginning to be taught in schools; this will help increase the profile of the United States and the investment opportunities it presents.
 - The delegation offered to discuss opportunities to provide textile benefits to Tunisia as short term relief when the WTO Multifiber Agreement expires in January 2005 – an interim step before an FTA is negotiated.
 - The delegation observed the work of the Middle East Partnership Initiative (MEPI) in supporting political, economic, educational, judicial, and sociological (role of women) reform across the Middle East.

Jordan

- The delegation recognizes the productive and growing relationship the United States has with Jordan stemming from the FTA between the two countries.
 - In particular, Jordan's exports have grown 42 times since 1998, with a diversification to new areas outside textiles.
 - Foreign direct investment in Jordan has grown 4 times since 1995 as firms seek a safe, competitive, pro-business base in the region.
 - Jordan's commitment to intellectual property has stimulated investment and increased the competitiveness of the local pharmaceutical industry.
 - Because of the FTA, Jordan has increased its economic performance and competitiveness by increasing regulatory transparency, opening services sectors, privatizing government-owned entities, and fostering new areas of its economy such as e-commerce.
- The delegation agrees with the Jordanians that a MEFTA agreement is valuable because it would lead to cumulation of inputs among the member countries.
- The delegation agrees with Jordan that sustained U.S. support and technical assistance is essential to continued Jordanian progress.

- The delegation asked Jordan to lead by example – to show other countries in the region that a country with the same cultural and economic background can reform and develop a strong, productive, and mutually beneficial trading relationship with the United States.
- The delegation observed that a fundamental weakness that could undermine Jordan’s ability to accelerate its economic development and realize its potential is the lack of efficient and effective shipping options. The delegation intends to examine how U.S. technical assistance could be helpful, particularly with respect to the port of Aqaba.
- With respect to the Jordanian QIZs, the delegation observed:
 - The existing QIZs are based mostly on Asian capital and employ a large segment of non-Jordanian workers, although the number of Jordanian employees is growing.
 - The QIZ requirement that a share of Israeli inputs must be used makes the Jordanian product less competitive because these inputs are so expensive. As a result, the delegation advised that Jordan move quickly to use the FTA qualifying rule instead of the QIZ.
 - Jordan should diversify production in the QIZs away from textiles and should vertically integrate to more value-added operations beyond mere cut and sew.
 - While the QIZs have not been as productive as full implementation of the FTA, the QIZs have been beneficial to Jordan. In particular, they have empowered Jordanian women employees, established employment opportunities, gave Jordanian industry the skills to make them more nimble, and provided lessons in mass production and management.
- The delegation welcomed Jordan’s support in the war on terrorism and in Iraq. A stable Iraq is critical for Jordan and the region.

Oman

- Oman’s high-quality accession to the WTO shows a commitment to trade liberalization.
- The delegation strongly supports the negotiation of an FTA with Oman and is pleased to see the commitment and drive by Oman to conclude such negotiations. An FTA with Oman would complement an FTA with Bahrain and the United Arab Emirates and would encourage others in the Gulf Cooperation Council (Saudi Arabia, Qatar, and Kuwait to undertake reforms and become part of the process as well). Oman recognizes that trade with the United States is much more significant than its trading relationship with the rest of the GCC.
- The window of opportunity is short, however, because of the expiration of TPA in July 2004 and the always difficult environment in Congress for trade agreements. Therefore, the delegation hopes that an agreement can be concluded by the middle of next year, by the time of the Smithsonian Folk Festival in Washington, D.C. featuring Oman.
- Oman has undertaken significant economic and political reforms in a short time, particularly in the banking and insurance sectors, demonstrating its capacity and willingness to use objective, transparent standards.
- Such objective standards are essential to obtaining Congressional support for an FTA because any departure from the standards used in U.S. FTAs will raise questions and opposition from Members.
 - Congress will expect strong commitments on investment and services, such as telecommunications.

- The delegation believes that the focal issue to be addressed by Oman is labor standards, particularly the right of association and the right to strike. The Omanis seem to recognize this reality and expressed a commitment to bring their labor laws up to International Labor Organization standards, using the Bahrain laws as an example.
- In addition, the delegation believes that other processes must be transparent, such as the “Omanization” policy (requiring a certain percentage of employees to be Omani) and the investment policy requiring approval if foreign investment in a particular entity is to exceed 70 percent.
- The delegation observed that Oman is committed to increasing the strength of the private sector and reducing the influence of the public sector. In addition, Oman appears to be embarking on effective policies to train Omani workers and to improve opportunities for women. Its young population means that such programs are essential for economic development.
- The delegation expressed its appreciation for Oman’s role as a partner in the war against terror and its action to limit terrorist financing.

Egypt

- While a multilateral agreement through the WTO is the delegation’s primary goal, regional or bilateral FTAs, particularly the Middle Eastern Free Trade Agreement, are valuable because they provide intermediate benefits.
- The delegation is committed to expanding the U.S. economic relationship with Egypt, agreeing that an FTA is vital to shared bilateral interests and is a key element in President Bush’s vision of a Middle East Free Trade Area.
- A key stepping stone to an FTA is a positive and sustained record of concrete economic reforms and steps to improve the bilateral economic relationship.
- The delegation approaches the prospect of a free trade agreement with Egypt with more doubt than with some of the other countries in the region because there has been hope before, ultimately unfounded, that Egypt was ready. This time, however, the delegation acknowledged a recent record of significant advancement that may allow moving forward if sustained and improved.
- Specifically, the delegation is encouraged that recent measures concerning customs administration, tariff reduction, and tax reform by Egypt’s new cabinet are steps in the right direction, and President Mubarak seems committed to continuing these reforms. However, the delegation agrees with the Administration that action on a range of issues affecting U.S. companies is essential for building constituencies in Congress before FTA negotiations can begin. Mubarak acknowledged to the delegation that there is a short window for continued reforms before the Egyptian election next year.
- There are particular problem areas where it is essential for reforms to be continued:
 - Egypt’s authorization of copycat versions of U.S. pharmaceuticals
 - Egypt’s unwarranted suspension of U.S. beef imports without scientific basis due to BSE concerns that the United States has addressed

- Egypt's unjustified ban of imports of chicken and restrictions on turkey for failure to meet Halal [Islamic dietary] requirements when the United States has met these standards elsewhere and even in Egypt with respect to other products.
- Egypt does not seem to have a sense of urgency about the timing to negotiate an FTA and seems instead to rely on its size in the region, its relationship with the United States, and its strategic importance. The delegation supports proceeding quickly in the region and would like to include Egypt. However, bilateral trade agreements receive favorable Congressional consideration only if they meet a set of objective standards that all FTA partners must reach, unlike the European model, which is based on a more mercantile approach. Egypt must meet those same standards, or the agreement will be very difficult to move through Congress for approval and implementation. If Egypt is unable to meet those standards, the MEFTA process will continue without Egypt.
- Movement by Egypt is essential in the next six months to one year if Egypt intends to be part of this process.
- The delegation discussed Egypt's request for approval for seven Qualified Industrial Zones.
 - It is unfortunate that Egypt waited so long to utilize the QIZ process, as the expiration of the Multifiber Agreement on January 1, 2005, means that any benefits might easily be overtaken by the predominance of Asia.
 - Egypt's best chance to receive Administration approval for the QIZs is to diversify as much as possible beyond textiles.
 - The fact that Egyptian and Israeli capital, and not Asian, will be used is positive.
 - In any event, the relationship between the United States and Egypt must be broader than the QIZ program.
- Allowing individuals with private sector experience to hold key government positions is important to continuing the reform process. However, to attract such experienced officials, it is essential to make such positions available without requiring personal financial sacrifice.
- The delegation expressed its appreciation for Egypt's support in promoting a stable Iraq. Egypt is hosting a major international conference to build international support for this effort on November 22-23, 2004. The conference will include representatives from the G-8 nations, the European Union, United Nations, Arab League, Gulf Cooperation Council, the Islamic Conference, and Iraq's neighboring states (including Syria and Iran).

DISCUSSION OF CODEL MEETINGS

TUNISIA

Country Team Briefing with Ambassador William Hudson and Deputy Chief of Mission David Ballard

Ambassador Hudson and his team gave the delegation a briefing on the political and economic issues facing Tunisia with special attention to the trade relationship between the United States and Tunisia. The Ambassador opened by highlighting the many progressive steps that Tunisia has taken. He noted that Tunisia has a 90 percent literacy rate and maintains equal rights for women, which has led to women comprising more than 50 percent of university

students. It is a very tolerant society, which includes nearly 2000 Jewish people, and a moderate secular state that does not repress religion. In addition, the military is not part of the governing structure in Tunisia. On the other hand, there is no press freedom in Tunisia and the political system is closed. The Ambassador noted that Tunisia and the United States have a strong military-to-military relationship.

Tunisia is a middle income country that was once rigidly controlled and is now quite liberalized, although there is still state control of certain strategic sectors, including telecommunications and energy. Agriculture and tourism are the primary economic sectors, but the growth potential is in small goods manufacturing. The primary barriers to trade include an extensive bureaucracy and the lack of transparency. Eighty percent of Tunisia's trade is with the European Union, although there are 58 American companies operating in Tunisia.

Chairman Thomas asked to what extent Tunisians remained influenced by their French roots and whether European and French companies received preferential market access through the case-by-case approval process practiced by the Tunisian government. The Economic Officer agreed that a traditional pro-European mentality continued to pervade the Tunisian government and that the President is very worried about job protection, but she noted that the country's orientation to France is fading and that English is being taught in the schools now at every level, in addition to or even in lieu of French.

The Defense Attaché briefed the delegation on Tunisia's military structure. Tunisia has forces of approximately 27,000 in its army, 6,000 in its air force, and 4,000 in its navy. Nearly half of Tunisia's military officers have been to the United States for training. The military is pro-Western and has good relations with the United States. Tunisia's primary defense concerns are its borders with Algeria and Libya and its maritime border. The military is in the process of reorienting to fight terrorism, but it has been an uphill battle for the United States to obtain cooperation on antiterrorism issues.

The Middle East Partnership Initiative, which was launched in December 2002 to support reform in the Middle East, operates in Tunisia. The program's focus is to develop reformers on the ground. Four areas of work for the program are setting standards, evaluating performance, training administrators, and using technology in the classroom. The Embassy hopes that Tunisia will partner with other countries in the Middle East on education reform and women's rights.

Embassy staff also mentioned that there is a field school for American foreign service officers to learn Arabic in Tunis. The school used to host approximately 15 people per year. This year there are 22, and they hope there will be 60 in the future.

Wreath Laying Ceremony at the North Africa American Cemetery and Memorial in Tunisia

The delegation met with Superintendent Michael Green at the North Africa American Cemetery and Memorial. The cemetery site covers 27 acres between the Mediterranean and the Bay of Tunis. Resting at the cemetery are 2,841 of U.S. Military Dead, a high proportion of whom gave their lives in the landings in, and occupation of, Morocco and Algeria and in

subsequent fighting which culminated in the liberation of Tunisia during the Second World War. After the end of World War II, a survey made jointly by representatives of the Secretary of War and the American Battle Monuments Commission revealed that the sites of the temporary cemeteries established in North Africa during the war had major disadvantages. As a result, the North Africa American Cemetery and Memorial was established in 1948 and construction was completed in 1960. After a briefing, the delegation participated in a wreath laying ceremony to honor the American men and women who had served their nation.

Meeting with Tunisia Minister of Foreign Affairs Habib Ben Yahia

Foreign Minister Ben Yahia opened the meeting by noting that Tunisia is a country of good Muslims, who believe in reform. The abolition of polygamy was the most difficult reform undertaken. Although, Tunisia fears violence and terrorism, he believes that the violence is contained. He emphasized that the separation of mosque and state must continue to be the guiding force of policy. He noted that 80 percent of Tunisians are middle class and that the poverty rate is only 4.2 percent.

Chairman Thomas stated that the United States cherished the longstanding positive relationship between the two countries. He noted that the reforms in Tunisia seem to run counter to the direction taken in other Islamic countries. He said that the delegation's primary mission was to explore trade issues. Morocco, he pointed out, has recently completed a free trade agreement with the United States, and the delegation is eager to assist Tunisia in moving to a stronger trade relationship with the United States. He noted that Tunisia seems to have some colonial holdovers in its economic system, particularly on the case-by-case determinations regarding franchising.

Congresswoman Johnson stated that Tunisia's economic progress and system of universal education is impressive and will lead to political progress. She asked whether other countries in the region are interested in learning about Tunisia's secular model. Minister Ben Yahia said that he believed other north African countries have been "positively contaminated" by Tunisia; Libya is coming along, and so is Lebanon. He also noted that in Tunisia women can become pilots, whereas they are not allowed to drive in other countries. This treatment of women makes Tunisia more competitive, he concluded.

Congressman English thanked the Foreign Minister for the warm and friendly relationship between the United States and Tunisia. He commented that as the co-chair of the Congressional Morocco Caucus, he found that it is difficult for countries to make great strides in a short time, particularly when it is a question of changing values. Tunisia has demonstrated moderation not just in its diplomacy but in its domestic policies, he said.

Chairman Thomas warned that he understood the message of patience that Tunisia is sending in terms of its ability to make further economic reforms, but that the world is not waiting. The Multi-Fiber Agreement is expiring and Tunisia is overextended. He is anxious to move from the current relationship to a more comprehensive relationship in just a few years.

Foreign Minister Ben Yahia said that Tunisia's trade agreement with the European Union has helped improve the business climate. Tunisia also has free trade agreements with Turkey, Egypt, Morocco, Algeria, and Jordan and is seeking to create a free trade zone in the Mahgreb. An FTA with the United States would be important to Tunisia, he said. Only U.S. oil companies are currently operating in Tunisia. Chinese competition on textiles will be terrible for Tunisia, which currently exports \$3-4 million annually in textiles to the European Union. Tunisia wants to reform its textile industry to become competitive, but it is difficult to do in two months.

Chairman Thomas noted that economic cooperation needs to go two ways and that he believed we may be making progress on franchising. He also said that Congress will continue to take an active role on trade issues with the renewal of Trade Promotion Authority next year. The Foreign Minister said that Tunisia wants to form a Tunisia Caucus on Capitol Hill and hoped that the delegation could help.

Congresswoman Johnson asked how the imminent death of Chairman Yasser Arafat would affect the region. Foreign Minister Ben Yahia said the Palestinian Liberation Organization established its headquarters in Tunis in 1982. The peace process started with the support of the Tunisians, he said, but unfortunately, an escalation occurred. Tunisia has been appealing to the Palestinians to "get their acts together." He hopes that Prime Minister Abu Mazen can keep authority in the Palestinian Authority to move forward the peace process. He believes that there is a golden opportunity for Tunisia to work on the Palestinians and the United States to work on the Israelis and that it is important to put the issue on the front burner. Congresswoman Johnson also asked whether Tunisia could support the elections in Iraq. Foreign Minister Ben Yahia noted that a delegation from Iraq has come to Tunisia to study the Tunisian Constitution.

Meeting with Tunisian Prime Minister Mohamed Ghannouchi and Minister of Development and International Cooperation Mohamed Nouri Jouini

Chairman Thomas opened the meeting by noting that the United States has been remiss in the economic and cultural area of its relationship with Tunisia. He said that the United States should form a closer tie. Under President Bush, the United States is looking more and more toward this region and creating better economic relations. He noted that he understands the historic ties between Tunisia and the European Union but said that the United States is a great fan of competition and would like to be another option to the European Union. The United States has already negotiated a free trade agreement with Morocco. An FTA with the United States would be a great opportunity for Tunisia. With the end of the Multi-Fiber Agreement, the United States is looking for ways to provide Tunisia with short term relief before forging a more permanent relationship, he said.

Prime Minister Ghannouchi noted that Tunisia has an association agreement with the European Union and that it wants to diversify and integrate more into the world economy. He hopes to have a meeting with the United States under the Trade and Investment Framework Agreement by the end of the year, and one of the issues for discussion will be a free trade agreement.

Minister of Development and International Cooperation Jouini said that the United States government needs to better understand the Tunisian economy, which is one of the most developed in the region. The Tunisians are asking their friends in the U.S. Trade Representative's office to give them some time, he stated. Chairman Thomas replied that it is not a mystery how the United States operates with regard to free trade agreements. He pointed to the free trade agreement with Singapore as a good model in the financial services area and to the free trade agreement with Morocco as a good model on transparency, rule of law, and intellectual property rights. The European Union model is not a good one, he said. The United States is anxious to have better economic relations with Tunisia, and a free trade agreement can be negotiated quickly, which would allow Tunisia to elevate itself and move on the same plane as Morocco, the Chairman concluded.

Prime Minister Ghannouchi said that Tunisia, unlike other countries takes a more gradual approach that takes into consideration certain concerns. Today trade with the United States is unbalanced, and he hopes to work through the Trade and Investment Framework Agreement to correct the imbalance. The best way to accomplish that is by encouraging investment. Reforms in Tunisia are constantly ongoing, he said, with changes to laws to attract investors, more guarantees, and more transparency. Chairman Thomas emphasized that the United States uses an objective ruler, not a relative one, in determining eligibility for a free trade agreement. He expressed understanding that internal investment and growth is important and said that some of the issues the United States has concerns about should not be a roadblock to deeper economic relations.

Congresswoman Johnson commented that trade is a big political issue in the United States. China is absorbing steel and pushing up the world price. Intellectual property rights are a key issue, and she hopes that the issues surrounding intellectual property rights protection in Tunisia are resolved. Minister Jouini replied that concerns about intellectual property rights in Tunisia were based on a misunderstanding and a lack of information. He said that there is no comparison between Tunisia and other countries on intellectual property rights and that Tunisia's laws are up to the EU standard. Chairman Thomas commented that the European Union is not in full compliance with international norms on intellectual property rights. He observed that Tunisia is on the edge between being a developed and a developing country, and "Tunisia cannot have it both ways." If Tunisia is moving towards being a developed country, it should not fall back on developing country flexibilities, such as those on pharmaceuticals. He noted that Tunisia is moving towards a convertible currency, which is a positive step.

Prime Minister Ghannouchi said that the week before, President Ben Ali had issued a new rule to make capital markets more transparent. He said that Tunisia is revising itself for competition. Chairman Thomas noted that the French model does not allow the flexibility and growth necessary to create jobs.

Chairman Thomas asked whether tourism is returning to Tunisia, and Minister Jouini noted that tourism is currently 8 percent of Tunisia's gross domestic product and 18 percent of its exports.

Congressmen Lewis and McNulty thanked the Prime Minister and expressed his appreciation for the strong relationship between Tunisia and the United States. Minister Jouini said that American companies do not have information on what is happening in Tunisia and that the Trade and Investment Framework Agreement and free trade agreement will send a signal to investors.

Congresswoman Johnson commended the Prime Minister for the impressive growth of the middle class in Tunisia and its policy of universal education.

Chairman Thomas asked about potential openings in the telecommunications sector. Prime Minister Ghannouchi replied that the sector is opening very fast. The Chairman concluded the agreement by emphasizing that the United States and Tunisia should be long term trading partners, and he will encourage USTR to move ahead with the TIFA process.

JORDAN

Country Briefing with Chargé d’Affaires David Hale, USAID Mission Director Anne Aarnes, and Embassy staff

The Chargé d’Affaires David Hale and his team provided the delegation with a briefing on the political, economic, and health issues in Jordan with special attention paid to trade and the economic situation in Jordan. The Chargé opened by saying that the U.S. – Jordan relationship has never been better. Jordan is a friend on both the war in Iraq and on terrorism. On Iraq in particular, the Chargé noted that if Iraq is not stabilized it would be catastrophic for Jordan and the region.

The Chargé explained that Jordan has undergone a socio-economic transformation in recent years. The country has undertaken reforms in education, judiciary, and women’s rights, as well as modest political reform. In 1999, Jordan had a very high debt level – 115 percent of GDP. But since that time, Jordan has joined the WTO and signed the U.S. – Jordan Free Trade Agreement as well as an Association Agreement with the European Union. Today Jordan’s debt is 89 percent of GDP. Jordan graduated from an International Monetary Fund reform program this summer after 15 years.

USAID Mission Director Anne Aarnes explained that Jordan is home to one of the largest U.S. Agency for International Development (USAID) programs, and there are three main areas of focus: water, social sector (health and education), and economic growth. Regarding water, Jordan is one of the ten most water poor countries in the world, and access to water is vital. USAID is trying to improve water treatment and handling facilities in Jordan. On health, Ms. Aarnes said that USAID is trying to lower infant mortality rates; Jordan’s population growth rate is about 2 – 2.5 percent per year, which means that the population doubles every 25 years. On education, literacy and school enrollment in Jordan is high, but there is still a lack of usable skills for jobs, particularly for women who are often channeled into fields with little employment prospects. One focus of education programs is to teach entrepreneurial skills so that Jordan’s youth can create their own jobs. Regarding economic growth, one successful USAID project is the Jordan – U.S. Business Partnership (JUSBP), which is an economic development program

established in 1999. JUSBP provides financial and technical assistance to private businesses in Jordan to help promote trade development, quality standards programs, industrial training, and employment initiatives. JUSBP also helps companies improve their management, marketing, technology, production methods, quality assurance, financial management, and human resources capabilities.

One perception in Jordan had been that USAID projects such as the JUSBP help only a small, elite group and not the average Jordanian citizen. The public affairs office at the Embassy has been seeking to change that perception by highlighting projects such as the water treatment facilities, health clinics, and a micro-enterprise project. The marketing strategy has helped to change public opinion, and USAID has recently received excellent press coverage.

The Chargé explained that Jordan has good labor laws, and employees have many rights in Jordan. Jordan adheres to all its commitments in international agreements regarding labor and environment. Many audits of labor conditions in Jordanian factories are conducted by the government, U.S. apparel purchasers, and by international organizations. The biggest source of enforcement of good labor practices comes from apparel purchasing companies (i.e., retailers) who send enforcement teams into factories two or three times a year.

Visit to Al-Tajamouat Qualifying Industrial Zone

Background on QIZs: The QIZ program was created by an amendment in 1996 to the United States-Israel Free Trade Area Implementation Act of 1985 (P.L. 104-234), which granted the President additional proclamation authority to extend the United States-Israel free trade area to cover products produced cooperatively between Israel and Jordan or between Israel and Egypt. In 1997, Jordan and Israel established a Joint Committee to identify businesses that involve substantial economic cooperation between Jordan and Israel, thereby qualifying their products for duty-free entry into the United States. The Joint Committee identifies businesses that involve “substantial economic cooperation” in one of two ways: 1) the manufacturer on the Jordanian side of the QIZ and the Israeli manufacturer each contribute and maintain at least one-third (11.7 percent) of the minimum 35 percent content required, or 2) the manufacturer on the Jordanian side of the QIZ and the Israeli manufacturer each contribute and maintain at least 20 percent of the total cost (including originating materials, wages and salaries, design, research and development, depreciation of capital investment, and overhead) of production of goods eligible for duty-free treatment.

Visit to Al-Tajamouat QIZ: The delegation toured the Al-Tajamouat Qualifying Industrial Zone (QIZ), met with the principal in charge of operating the zone, Mr. Halim Salfiti, and toured the Jordan Dragon Garment Factory within the QIZ. Mr. Salfiti explained that the investment company that created Al-Tajamouat is Specialized Investment Compounds, a privately held Jordanian company that employs 350 full time staff. In addition to direct employment in QIZ factories, QIZs also create jobs indirectly via security, secretarial, food preparation, banking, medical, transportation, and water management needs of the QIZ.

Mr. Salfiti said that most investment capital in QIZs is from Asia, but over time Jordanians have taken the skills they’ve learned working for a foreign company in a QIZ to start

new Jordanian-owned businesses in the QIZ. Since the QIZ program became operational in Jordan in 1998, the benefits of the program have been cumulative. Initially there wasn't significant Jordanian investment capital or knowledge, but after Jordanian workers, managers, and investors started operating in foreign-owned QIZ factories, they gained the expertise necessary to later open Jordanian owned and operated factories.

Mr. Salfiti said that factories in Jordanian QIZs employ approximately 36,000 people, 55 percent of which are Jordanian; the rest predominantly come from Asia. One factory manager at the Jordan Dragon Garment Factory noted that while factory owners would like to hire only Jordanian workers, foreign workers are necessary in QIZs because Jordanian workers don't have experience in producing apparel and it can be difficult at times to recruit and retain Jordanian workers to fill positions. Mr. Salfiti said the number of Jordanian employees is increasing over time, and Jordanian law requires that foreign workers be replaced with Jordanian workers after two years. A significant number of QIZ employees are Jordanian women who come from rural villages, and QIZ employment has been an empowering force for women, he noted.

Mr. Salfiti said that over 90 percent of QIZ production is apparel and is limited to cut and sew operations which rely on Asian fabric. Now that the tariff benefits of the U.S. – Jordan Free Trade Agreement (FTA) are being phased in for apparel products, factories located in QIZs are beginning to shift their operating models to take advantage of the FTA instead of the QIZ. The QIZ program requires a minimum 8 percent of Israeli content, and often that percentage is made up with buttons, zippers and packaging. One factory manager noted that the FTA will make the factories more competitive as the 8 percent Israeli content requirement under the QIZ is burdensome because Israeli inputs cost 2-3 times more than those available in the world market. Another way QIZ factories are trying to become more competitive in the apparel industry is by focusing on higher value garments such as tailor-made suits.

Mr. Salfiti said that QIZs are also trying to diversify their production away from apparel. Some other sectors with increased production in QIZs are paper, ceramics, jewelry, and electronics. The FTA will be fully implemented in 2010, and QIZs are expected to be gone by then. The industrial parks created by the QIZs will remain but the factories will be operating under the benefits provided by the FTA rather than the QIZ program.

Mr. Salfiti and several managers at the Jordan Dragon Garment Factory expressed concern about Egypt's recent push for QIZs. They believe Egyptian QIZs would threaten Jordan's comparative advantage because Egypt has low labor costs and a more vertically integrated textile and apparel industry. They said that if QIZ investment shifts from Jordan to Egypt, it will create instability and uncertainty in Jordan. Even today with speculation that Egypt will start using the QIZ program, investors are reluctant to make new investments in Jordan QIZs, particularly in the apparel sector, they noted. Mr. Salfiti and a manager at the Jordan Dragon Garment Factory both saw the potential for Egyptian QIZs as more threatening to their competitiveness than the end of quotas on apparel with the expiration of the WTO Multifiber Agreement on January 1, 2005.

Visit to Jordan Marble Company

The delegation toured the Jordan Marble Company and met with Mr. Hani Zammar, Executive Director of Jordan Marble, and Mr. Salim Zammar, General Manager of Zammar and Sons. During the tour, the delegation learned how the Jordan Marble Company used the business development programs offered by JUSBP to adapt its business model, gain technical and marketing capacity building, and improve product quality to more effectively export to the U.S. and European markets. In 2003, Jordan Marble exported roughly 20 percent of its products to the United States. Jordan Marble is one of the fastest growing medium-sized companies in the industry, and it views exports to the United States and Europe as its greatest area of expansion. Mr. Zammar noted that his company produces high quality yellow travertine tile, and this stone is available only in Jordan and Italy. Italian supplies have declined in recent years, and now Jordan is the leading source of this stone. Jordan Marble Company hopes to continue to expand its sales to the United States and Europe, particularly for its yellow travertine stone.

Meeting with Minister of Trade and Industry Ahmed Hindawi

Minister Hindawi started the meeting by saying the QIZ program has benefited the Jordanian economy significantly. Exports, investment, and employment have increased. Minister Hindawi estimated that the QIZs have created 40,000 new jobs in Jordan. The overall Jordanian manufacturing sector employs approximately 160,000 workers, so QIZ employment is a substantial percentage of manufacturing employment. The QIZs also help with rural development as some QIZs are located in rural areas. Congresswoman Johnson said she was impressed with the economic progress that has resulted from the QIZ program, and she would like to see more outreach from Jordanian business leaders to attract more Jordanian workers.

The U.S. – Jordan Free Trade Agreement has also benefited Jordan, and the Minister said that Jordan would like to accelerate the tariff reductions in the FTA. All products are currently scheduled to be duty free under the FTA by 2010, and Jordan would like to move that date up to 2005 or 2006. The Minister also said that Jordan would welcome the potential expansion of the FTA to include other countries in the region.

Congressman English asked for the reaction of Jordan and its neighbors in the region to President Bush's call for a Middle East Free Trade Area (MEFTA). The Minister responded that the Jordanian government supports the MEFTA. He emphasized that in order for the MEFTA to be beneficial, the countries of the region need to be able to cumulate their production.

The delegation expressed its desire that Jordan act as a role model for other countries in the region to adopt rule of law and transparency in its legal system. Also, it is helpful for Jordan's neighbors to see Jordan experiencing the positive benefits of the FTA.

Chairman Thomas expressed an interest in seeing Jordan improve its port and transportation infrastructure, particularly at the port of Aqaba. The Minister said that the port of Aqaba had been publicly run but it has been privatized in the past year. As a result, Aqaba has seen significant improvement in its port operations. (One USAID officer estimated that Aqaba

now operates at 90 percent of the standard of the port in Jaifa, and in another 3-4 months Aqaba will be equal with Jaifa in terms of services and facilities.)

Congressman McNulty thanked Jordan for its response to the September 11 terrorist attacks on the United States.

Chairman Thomas also expressed an interest in creating a stopgap measure to help countries deal with the end of the WTO Multifiber Agreement. Such a measure would be temporary and create incentives to keep apparel production in the region.

Meeting with His Majesty King Abdullah II

Chairman Thomas opened the meeting by stating that the delegation has come to Jordan to observe the results and effectiveness of the FTA between the United States and Jordan. The King noted that the port of Aqaba “has its limits,” and Jordan is working with Kuwait and Iraq to improve highways. The Chairman stated that he would investigate whether U.S. funding would be available.

With respect to geopolitical issues, the King observed that the region is at a crossroads concerning Iraq and the Palestinians. He emphasized the need to move the region forward through trade.

Chairman Thomas stated that he intends to move the Bahrain agreement through Congress early next year, noting that the only reason it was not done this year was because of timing and the Congressional schedule. He also said that Tunisia might be a good candidate for an FTA if it becomes less Euro-centric. The King also mentioned the prospects of an FTA with Egypt and warned that an agreement will “take a while” because Egypt is so large.

Congressman McNulty expressed his gratitude for the King’s leadership and for forging a peaceful relationship with Egypt. The King responded that he hopes to move the process further.

Congresswoman Johnson commended the King’s father and Queen Rania for their leadership and praised what the King has accomplished economically “from bottom to top.” In response to her comment about the work of the U.S. Agency for International Development, the King noted that USAID has been at the center of reform in Jordan and has created many successes.

Congressman Lewis said that he looks forward to opportunities with Jordan in the future. Congressman English told the King that he looks to him for cues as to what the U.S. role should be in the region. He said that the United States often “makes mistakes of the heart” because it does not know how to act, and he “looks to our Arab friends for leadership.” He also asked for the King’s views on the causes of terrorism.

The King responded that the Israeli-Palestinian conflict has led to terrorism, noting that economic prosperity helps to reduce terrorism. He said that he is working with the United States to change the picture. He said that a conference will shortly be announced for the purpose of

identifying what is moderate Islam, noting that those who kill innocents “are not Muslim” and that there is no such thing as “extreme Muslims.”

Chairman Thomas asked the King for his views on the role of women. The King responded that while Saudi Arabia has a “disjointed” view on women, Jordanian women enjoy a strong role. He noted that the “extremist element intimidates the majority” and needs to be weeded out of government. Chairman Thomas noted that the QIZ program is a “great democratizer” for women. The King agreed, stating that often women are the major breadwinners for their families, empowering them and creating a positive social impact.

The delegation concluded the meeting with an extensive discussion of the situation in Iraq and the future in the region after Arafat.

Meeting with Minister of Planning and International Cooperation Bassem Awadallah

The Minister started off the meeting by saying there are four primary issues of importance to him with respect to the U.S. – Jordan bilateral relationship: gratitude for U.S. support of Jordan, teaching English in Jordanian schools, taking full advantage of the FTA, and establishing stability in Iraq.

The Minister emphasized that Jordan appreciates the support of the United States, particularly since 1999. U.S. aid to Jordan has been generous and has provided many benefits in water, health, social and economic reform, democracy building, and education. Jordan has focused on improving its education system and on teaching English to children at an earlier age. School curriculums previously started English classes in Grade 5, but now Jordan begins teaching English in either Kindergarten or Grade 1. Teaching English earlier will help children use their early ability to pick up languages easier and provide them with a working knowledge of English to work and compete in a global economy later in life. Many of these early English programs are funded by U.S. assistance.

The Minister also emphasized his desire that Jordan take full advantage of the FTA. He emphasized that the QIZ program has been a “fantastic success” but he wants to see Jordanian industry diversify away from apparel and also increase the number of Jordanian workers employed in Jordanian factories. The Minister also believes that one of the best ways that Jordan and the region can benefit from the FTA and a future MEFTA is to allow cumulation to help the countries in the region better integrate their economies.

On Iraq, the Minister expressed his hope that the United States will maintain a long-term commitment to stability in the country, and he hopes that Iraq can one day be a meaningful partner in the region. To attain that goal, it is important that the United States and others invest in Iraq now. The Minister also said that Jordan hopes to serve as a helpful role model for economic and political reform for Iraq and others to follow. He noted that the success of reforms in Jordan is testimony to the success of U.S. policies in the region.

Chairman Thomas stated that the U.S. budget process is not yet complete for this fiscal year, but he expects that continued U.S. assistance to Jordan will be delivered. He also noted

that while charity for Jordan is minimally acceptable, he would like to see Jordan do more to help itself, and on this note he'd like to see a specific effort to improve the port in Aqaba. Chairman Thomas also expressed optimism for the MEFTA and integration in the region that such an agreement could bring. He noted the problems created by the artificial country boundaries drawn in the region by the British and said that the best way to overcome the problem is to ignore the borders by creating integrated economies.

Congresswoman Johnson emphasized that the QIZs are a means to an end and not the end goal in itself. The Minister agreed and said he hopes to see diversification in both the products manufactured in QIZs and in the destination markets for those products beyond the United States, notably into the European market.

At the end of the meeting, Chairman Thomas noted Jordan's key role as a leader in the region for economic and political reform. Other Arab countries are more likely to follow Jordan's lead as a fellow Arab nation than by following U.S. policies.

Business Panel Discussion with Members from the Jordan—U.S. Business Partnership and the American Chamber of Commerce in Jordan

The delegation participated in a business panel discussion of "Economic Opportunities in Jordan" hosted by the JUSBP and the American Chamber of Commerce in Jordan. The business panel consisted of representatives from Jordanian companies who have utilized the JUSBP program and are benefiting from duty-free access to the U.S. market through the FTA. A few notable successes of the FTA have been in Jordan's pharmaceuticals, information technology, and communications sectors, where the increased intellectual property protections in the FTA have prompted new investment in research and business development. In particular, the delegation heard positive testimony from the Chairman of Hikma Pharmaceuticals based in Jordan. Other companies that expressed their support and shared success stories included Lisan Skincare and Al Bareeq Jewelry Manufacturing Company.

Visit to Hussein District School - INJAZ Program (Spouse Program)

A USAID-funded program, INJAZ teaches Jordanian students a variety of entrepreneurial and life skills with the goal of expanding opportunities for youth after they have completed their formal education. Modeled after the Junior Achievement Program in the United States, INJAZ provides young people ages 14-24 the tools to contribute to private sector organizations by emphasizing critical and creative thinking and the value of entrepreneurship. INJAZ classes, which are now integrated in the public school curriculum rather than provided as an extracurricular activity, are led by private sector volunteers. Due to its success in Jordan, INJAZ is expanding to the greater region and will be implemented in 12 Middle East and North African countries.

At the Hussein District School, the spouse delegation discussed INJAZ with the program's CEO, Ms. Soraya Salti, and observed two INJAZ classes offered to 15-16 year old female students: the Success Skills Course and the Entrepreneur Master Class. The Success Skills Course is designed to strengthen communication and teamwork skills and highlight the

need to create a positive impact on others. The Entrepreneur Master Class, a one-day seminar, introduces students to starting their own businesses from initial idea generation to production and marketing. The delegation also heard from recent graduates of the program who had completed internships at McDonald's and a local shipping firm.

Visits to Amman Entrepreneurs and Microfinance Program (Spouse Program)

Creating a sustainable microfinance industry in Jordan has been a focus of USAID's work in the country. The microfinance program has helped create an industry that provides poor entrepreneurs opportunities to participate in Jordan's economy. USAID has provided grants and technical assistance to four start-up microfinance institutions; in 2005, three of these four organizations are expected to "graduate" from USAID assistance. In 2003, the microfinance institutions provided almost 16,000 entrepreneurs with loans ranging from USD\$140 to \$22,000.

The spouse delegation discussed the program with representatives from USAID and the Jordan MicroCredit Company (one of the microfinance institutions supported by USAID) and three local entrepreneurs who have received financing: a glass artist, a producer of traditional embroidery products, and a wood worker/embroidery artisan. The Jordan MicroCredit Company, established in 1999, has disbursed more than 13,000 loans with a collection rate of over 99 percent and has established a website as a marketing tool. The company's product portfolio has also grown based on client feedback and market research. The glass artisan, who began selling his wares from his home a few years ago, has expanded his business, operating from his own shop and exporting products to other countries. Working out of a home-based shop, the embroidery artisan employs 25 other Jordanian women to produce the handicrafts.

OMAN

Meeting with Omani Minister Responsible for Foreign Affairs Yousef Bin Alawi Bin Abdullah

The Chairman began the meeting by explaining that the delegation hopes to move as quickly as possible to establish a free trade agreement in the Middle East. In particular he noted that he would like to conclude an agreement with Oman prior to the termination of Trade Promotion Authority next year. While acknowledging that this timetable is difficult, the Chairman noted that using the objective standards already established in prior agreements will speed congressional approval. The military relationship between the United States and Oman has been very positive, he noted, and there is no reason why the economic relationship should not be the same.

The Minister responded that the timetable proposed by the Chairman is ambitious, but Oman will speed up and "if any areas are gray, we will make them white; we will not create obstacles." Oman does not want to make a linkage between economic and other issues and is willing to do what it takes to conclude the agreement because Oman will benefit, he continued. Oman, he said, is encouraging other Gulf Cooperation Council members to act in a positive manner. The Chairman responded that he is excited that the Omanis have made significant changes in a short time.

The Chairman then said that he believes that negotiations can be initiated within a week. Labor, he said will be the focal issue. He expressed his concern that objective, common standards are needed for all agreements. The Minister then described the labor law being within the province of employers and employees, not government – Oman does not regulate the choice of the private sector. He pointed to the new labor law implemented two years ago, noting that reforms are continuous. The Chairman emphasized that if Oman does not have the labor laws of other countries which have entered into FTAs, then an Oman agreement will be difficult to pass.

Congressman McNulty thanked the Minister for Oman’s outstanding and longstanding friendship. Congresswoman Johnson said that she appreciated the developing role of women in Omani society, noting its importance to the long term strength of Oman. She also pointed to the healthy management of environmental preservation and tourism. She said that she looks forward to passing an Oman FTA through the House, emphasizing the importance of an FTA with the Middle East.

Congressman English stated that he is a pro-trade Member from a protectionist district, noting that it is hard for him to sell trade agreements to his district. He would like to be a “sounding board” in moving forward with Oman, as he was with respect to Morocco. An FTA, he said would be in the mutual interest of the United States and Oman. Congressman Lewis added that he is a free trader in a protectionist district as well.

Chairman Thomas emphasized that he supports multilateral agreements but noted that it is difficult to complete these agreements because one country can block an outcome. Therefore, he supports working on a bilateral or regional basis in the meantime. With respect to the Gulf Cooperation Council, he said that the three countries that are ready (Oman, the United Arab Emirates, and Bahrain) for agreements with the United States should move ahead, and then the other three countries (Kuwait, Qatar, and Saudi Arabia) can join when they are ready. He emphasized that the opportunity will be there for the others to join when they can. The Minister noted several times in response that the U.S. economy is bigger than the GCC and he knows it is in Oman’s best interest to keep that fact in mind. He also said that Oman does not want to repeat the mistakes that it made with the EU. Chairman Thomas then stressed the need for objective criteria to be applied in establishing free trade agreements. He said that he is comfortable with Oman’s record on banking, insurance, and WTO accession. He also offered to provide technical assistance to improve Oman’s labor laws, noting that such improvements are necessary to receiving Congressional approval for the agreement.

The Chairman and the Minister then discussed Oman’s future. The Chairman said that he is impressed with the Sultan’s understanding of the future and the limitation of petroleum reserves. The Minister agreed, noting that Oman wants to create a services industry. The Chairman then noted that the Omanization policy of hiring Omani workers is understandable but creates the need for transparent standards in its application. The Minister responded that Oman needs to assure that 25 percent of workers in a venture are Omani. He also noted that it is increasingly difficult to obtain workers from India. The Chairman then noted that this labor shortage may provide Omani workers with some leverage with respect to worker rights and wages. The Minister noted that the minimum wage is approximately \$312 per month. He also

said that in accord with the Omani basic law, workers have the right of association and can pursue labor disputes in court. The Chairman responded that it is far clearer to use internationally recognized standards, noting that Members will examine how Oman measures up with respect to the eight International Labor Organization core labor standards.

Congresswoman Johnson asked in particular about enforcement of ILO standards on child labor, noting that Oman has not ratified the ILO convention on this subject. She noted that for many Members whose districts have been devastated by trade with China, supporting free trade agreements is difficult, and support from Democrats is therefore essential to achieve a majority. She pledged her support for an agreement with Oman but said that it is a political challenge, noting in particular that the United States must make sure that it can enforce its trade agreements.

The discussion then moved to how the entire Middle East region can be integrated. Chairman Thomas noted the particular problems associated with Saudi Arabia. He said that he is interested in including Tunisia because he hopes that it might lead to integration of Algeria and Libya. He noted that Egypt is a “pivot” country.

Congresswoman Johnson inquired about USAID programs in Jordan, noting that she supports efforts to develop middle management and entrepreneurship, particularly in countries like Oman that have such a young population. Chairman Thomas added that he supports additional technical assistance in this area, and the Minister suggested a workshop.

Congressman McNulty then asked the Minister for his views about whether the peace process can be restarted. The Minister said that once Arafat dies, Palestinians will have to elect a new President. While he said that he does not know if the Palestinians can agree on who the candidate should be, he believes the election will be peaceful. Chairman Thomas added that elections empower the people. In response to a question from Congresswoman Johnson, the Minister said that there is a “readiness” to have a Palestinian state and to accept Israel.

Congressman English then raised the topic of university education, noting that several universities in his district are seeking foreign students. The Minister said that despite having raised the issue four times with the United States, post 9/11 visa restrictions make it difficult for Omani university students to travel to the United States, and Australia is becoming an increasingly attractive destination. U.S. Ambassador Baltimore responded that people “think” it takes a long time and is difficult to obtain a visa, but he emphasized that the process is “not onerous” and is “much better” than it used to be, taking only one month to obtain the visa.

The delegation and the Minister then discussed how to attract American tourists to Oman. The Ambassador said that this summer, Oman will be the first Middle Eastern country to be featured in the yearly folk festival on the Mall in Washington, D.C.

Congressman English asked what the United States “should do better to put forward our case here.” The Minister replied that diplomacy is very much affected by the U.S. media. He said that the United States “doesn’t always consult with its friends,” sometimes “embarrassing U.S. friends in the region.” It is “difficult or impossible” for the United States to do better.

Congressman English responded that any mistakes “are mistakes of the heart” because there is a strong desire by the American people for peace in the region. He emphasized that he is “grateful that our friends have stayed with us in difficult times when we’ve shouldered responsibility for our mutual benefit.” Congresswoman Johnson agreed, noting that “we need a richer dialogue because the United States can’t take the lead on everything.” Some of the structures that have been relied upon have been unsatisfactory, she noted.”

The Chairman and the Minister then concluded the meeting. Chairman Thomas noted that he has set forth an ambitious schedule for an FTA but said that it should not be an insurmountable challenge. He said that he is concerned that delay could spoil chances for such an FTA if the Bahrain agreement moves forward but there is a delay of several years for other agreements, or if “the political winds change.” The Minister agreed and pledged to try hard.

Meeting with His Majesty Sultan Qaboos bin Said, Sultan of Oman

The delegation traveled to Sohar, one of the Sultan’s palaces, for an audience with the Sultan. Chairman Thomas began the meeting by stating that he believes that there is a six-month window to negotiate an FTA with Oman because of the expiration of TPA. He said that few countries have shown as much progress as Oman. The Sultan emphasized that Oman wants to be a U.S. trading partner.

Congressman McNulty agreed with the Chairman about expanding the friendship between the two countries, noting the 1833 friendship treaty that began the relationship. Congresswoman Johnson commended the Sultan for including women in the right to vote. She also congratulated the Sultan for moving to a health care system dependent on electronic records. This “sound thinking,” she said, allows for prevention and management of disease, not just treatment. Congressman English said that his earliest exposure to Oman was a report that he wrote in grade school, and he noted how much the country has transformed since that time. He said that he looks forward to negotiating a trade agreement if it is mutually beneficial. Congressman Lewis noted that he hopes to return to Oman.

Chairman Thomas then returned to the timing and content of an FTA. He said that if the United States and Oman are going to move together in a timeframe that has never been done before, the two countries will need to use means that have been successful before. He pointed to Morocco labor laws and Bahrain standards as examples, noting that Oman’s considerable reforms in the insurance and banking sectors demonstrate that Oman knows how to use and apply standards. He said that the United States has used a “ruler” in all of its agreements, and this ruler must be applied in an Oman agreement to have rapid, successful Congressional consideration. The most difficult political issue for the United States, he emphasized, is labor. The Administration is likely to send a letter to Congress shortly notifying it of its intent to negotiate an FTA with Oman. The negotiations can move rapidly, he said, but if any issue slows them down, it will become difficult.

The Sultan asked if there are specific areas of concern. The Chairman replied that Democrats examine whether a country complies with the standards of the International Labor Organization, the most fundamental being collective bargaining, the right to strike, and whether

the court structure is independent of political influence. If the Omani model moves away from this structure, he said, it is less familiar to Congress. The Chairman also pointed to the need for approval by the Omani government of investments with over 70 percent foreign investment, noting that the United States prefers transparent standards. With regard to Omanization, he said that he understands that Oman is trying to employ Omanis, but because decision-making is not transparent, opponents can argue that there is an opportunity for discrimination. The Chairman said that on other issues, Oman has worked “very professionally” to accede to the WTO.

The Sultan then assured the Chairman that Oman will work on these issues. He told the Members that Oman wants to make everything transparent because it has “nothing to hide” and wants to be “just across the board.” He mentioned Oman’s close relationship with India and Pakistan and then noted that his biggest concern is employment for Omanis. Each person is responsible for himself, he said, but the government is blamed for not creating employment opportunities and cannot employ everyone.

Chairman Thomas expressed his amazement at the transformation in Oman in providing educational opportunities so that people can be employed. An FTA, he added, brings long term changes. Unlike the EU, the United States opens its market to countries that are “shining examples.” If other countries in the region want this relationship too, they will have to earn it because they will not be rewarded merely for having a strategic relationship. The way this relationship is earned is by meeting standards so that U.S. companies are comfortable in investing, the Chairman said.

The Sultan replied that he has made the hard decision not to expand the government sector. Oman is providing special retirement opportunities for people to move to the private sector. Future employment in the public sector will be only as needed. He emphasized that access to a job should not be based merely on holding an education certificate but on demonstrated ability to carry out the job requirements. He is spending money on the private sector to make it strong so it can develop for the future. He is working hard to educate Omanis to give them the tools to find jobs because Omani workers have to compete with immigrants to show that they can do the job. Education is not a guarantee of a salary, he said, which must instead be earned.

Chairman Thomas agreed with this philosophy, noting the “multiplier effect” of private sector job creation, while the public sector creates only an “arithmetic” effect. “We want to promote the private sector with you,” he emphasized.

The Sultan added that he is placing special emphasis on self employment through small business loans, youth funding, and management skills training. The opportunity for young girls, he said, is quite substantial, and family members try to find jobs for the women in the family because their employment improves the family. Oman must “open doors but leave things for the people to decide” through indirect help and by keeping the government away.

Congresswoman Johnson commended the appointment of women to visible positions of power. She noted that the fastest-growing group of small businesses in the United States is

female-owned, and she encouraged Oman to emphasize such businesses. The Sultan agreed and replied that he is working on this quietly.

Chairman Thomas said that he wants to promote the Sultan's image with his people by creating additional opportunities for them through trade with the United States. He promised to do everything he can to make sure that Oman will have an FTA by the middle of next year, but he emphasized that Oman will have to do its part.

Congresswoman Johnson then inquired about the situation in Iraq. The Sultan replied that Iraq is ready for elections, noting that the United States "has given Iraq an opportunity to help itself" that should not be thrown away. It is "very important for Iraq to hold these elections," he emphasized. Whether the elections should be for the whole country, he said, may be "rather difficult," but that difficulty should not result in missed opportunities for the rest of the country. "We must help Iraq to help itself and to achieve its own destiny," he said. Chairman Thomas agreed that at some point, Iraq has to control its own destiny, just as Oman has.

With regard to Arafat's imminent death, the Sultan said that Palestinians will have a new opportunity if they take it and if they avoid rivalries. He emphasized that the Palestinians need a leader who will lead on the basis of institutions, not for himself. Palestinians need someone who is respected and will allow the government to function. Chairman Thomas agreed that a leader who will lead is crucial, and Congresswoman Johnson pointed to the need to build an economic base.

Meeting with Omani Minister of Commerce and Industry Maqbool bin Ali Sultan

Minister Maqbool opened the meeting by stating that two meetings have been held with Ambassador Zoellick and one with Cathy Novelli of the U.S. Trade Representative's Office regarding a free trade agreement between the United States and Oman. He expressed that Oman is eager to move forward with an agreement. He noted that Ambassador Zoellick has explained the stages required by trade promotion authority. Minister Maqbool asked the delegation to discuss areas in which Oman's policies need reform. He noted that Oman has had a free market economy for a long time, since 1835, and wants more American investment.

Chairman Thomas said that moving forward with a free trade agreement should not be too difficult. The United States has an objective ruler to determine eligibility for a free trade agreement. It is not country-specific. Countries cannot pick and choose the parts of the free trade agreements that they would like, he said, although it is acceptable to go above the baseline commitments established in the free trade agreement, such as Singapore's commitments on financial services. He noted that Morocco made significant changes to its labor laws and that Morocco's constitution provided the right to strike. He commented that some Democrats in Congress will not be interested in the cultural, political, and economic differences that cause Oman to maintain certain labor laws but instead will apply a International Labor Organization checklist. He said that Oman's rule which requires approval of any investments with greater than 70 percent foreign ownership is not transparent. If Oman wants to conclude an agreement by next July, it must work with the U.S. Trade Representative's office on these issues. He

emphasized that he wants Oman to go through the process quickly, and he recommended that Oman examine the criteria and determine whether it could meet these tests.

The Commerce Minister replied that he believed that Oman has resolved the issues regarding the 70 percent foreign ownership limit. Oman is not interested in limiting U.S. investment, he said; the rule is designed to limit smaller investments like barbershops. Chairman Thomas noted that it could still be a problem because Members of Congress will be concerned about possible discrimination against any investors. Minister Maqbool replied that the agreement would be between Oman and the United States, not any others, and Oman has no problem with any American company.

The Commerce Minister said that he believes that Oman would have no trouble making commitments comparable to those of Bahrain on labor issues and he acknowledged that Oman benefits from the free trade agreement more than the United States. Chairman Thomas said that Oman is an important trading partner for the United States because of its strategic location and the example it could set for the region. The Commerce Minister commented that not all free trade agreements are the same. Chairman Thomas agreed but said that there is a baseline that must be met, especially on labor issues and the need to meet International Labor Organization standards. The Commerce Minister assured the delegation that he does not believe that it will be a problem to meet this baseline. Chairman Thomas said that he expects a letter from the President to the Congress announcing the intention to initiate free trade negotiations with Oman would be coming very soon.

Association of Early Intervention for Children with Special Needs (Spouse Program)

The Association has developed a number of programs to comprehensively serve children with special needs aged 0-6. Programs include a specialized day care center, an assessment unit, a home-visiting educational service, and support groups for parents. The Association's programs focus on developing the social skills, independence, and self-esteem of the children with the goal of integrating them into regular schools or minimizing their disabilities for an improved quality of life. The Director, Ms. Masooma al-Saleh, noted that the Association also strives to educate the community and increase public awareness and understanding of people with special needs.

The Association is supported solely by private donations and is staffed by trained professionals. During an observational visit, the spouse delegation learned that the primary obstacle facing the Association at this time is the lack of trained personnel including physical, occupational, speech, and psychological therapists. The Director acknowledged that it has been a challenge getting students to study in these fields. Although the Center has a capacity of 60 children, only 50 spaces have been filled due to the lack of trained staff. As part of its program, the Association provides continuous training for staff and volunteers to develop professional skills in different areas related to disability.

The National Association for Cancer Awareness (NACA) (Spouse Program)

Initiated in 2002, NACA has become the leading advocacy group in Oman for cancer awareness. The spouse delegation met with the President of NACA, Yuthar Al-Rawahy, and discussed the goals and achievements of the organization.

NACA primarily focuses on educating both the public and health care providers about cancer, particularly the need for repeated regular examinations for early diagnosis and prevention. The organization achieves these objectives by conducting seminars, visiting schools, distributing educational materials at a variety of sites, and organizing various fundraising activities. Some achievements include moving NACA's operations from in-home to donated office space, increasing participation in the annual walkathon from 600 to 1000, and hosting a representative from the U.S. National Cancer Institute at NACA's annual conference. Ms. Rawahy expressed NACA's appreciation of the grant from the U.S. State Department that funded the purchase of vital office equipment and some consultant services. In the near future, NACA hopes to operate a toll-free number and establish a mobile one-stop diagnostic clinic that can reach remote areas.

EGYPT

Country Briefing with Ambassador David Welch

Ambassador Welch provided the delegation with a briefing on the U.S. – Egypt bilateral relationship as well as on political and economic changes taking place in the country. The Ambassador started the briefing by noting that the U.S. – Egypt bilateral relationship is strong but the Egyptian Government was “shocked” that the Lantos Amendment, which would have shifted \$325 million from U.S. military aid to Egypt to U.S. economic aid, received some support. He also noted that Egyptian elections will be held in 2005 and while a leadership change is expected, there is no obvious successor.

Chairman Thomas said that the focus of the delegation is trade and that he plans to discuss the potential for establishing Qualifying Industrial Zones (QIZs) in Egypt and for launching negotiations for a U.S. – Egypt Free Trade Agreement. On QIZs, the Chairman noted that it is unfortunate that Egypt waited so long to utilize the QIZ process, as the expiration of the WTO Multifiber Agreement on January 1, 2005, means that any QIZ benefits might easily be overtaken by the predominance of Asia. Chairman Thomas also noted that Egypt's best chance to receive Administration approval for the QIZs is to diversify as much as possible beyond textiles.

On a potential FTA, the Chairman said he plans to make it clear that the U.S. Congress has an objective ruler by which it measures a country's readiness for an FTA, and Egypt will be measured by that ruler just like all other potential FTA partners. In response, the Ambassador noted Egypt has undertaken serious reforms in recent months, and the new Egyptian cabinet includes reformers from the private sector who are pushing ahead with meaningful economic reform in the country. Such changes include reductions and simplifications for personal and corporate tax rates, as well as reforms in the financial sector, customs administration, and

intellectual property rights. At the same time, the Ambassador noted that particular problems continue, including Egypt's authorization of copycat versions of U.S. pharmaceuticals, Egypt's suspension of U.S. beef imports without scientific basis due to BSE concerns, and Egypt's restrictions on imports of poultry for failure to meet Halal (Islamic dietary) requirements.

The Ambassador also briefed the delegation on his assessment of a post-Arafat Middle East, stating that it is important to work with existing Palestinian leadership to ensure a stable transition. He said that once new Palestinian leadership is in place, the goal is to quickly start to work on a disengagement plan and move forward with the Road Map.

On Iraq, the Ambassador said that Egypt is hosting a major international conference to build international support for Iraq on November 22-23, 2004. The conference will include representatives from the G-8 nations, the European Union, United Nations, Arab League, Gulf Cooperation Council, the Islamic Conference, and Iraq's neighboring states (including Syria and Iran). This is the first significant international event to discuss Iraq and build international support.

Meeting with President Hosni Mubarak

Chairman Thomas began the meeting by introducing the delegation and describing the role of the Ways & Means Committee in trade policy. He described the purpose of the trip as visiting friends in the region, with a focus on economic progress in the region. He is trying, he said, to grow a trade relationship with Egypt.

President Mubarak described his views on a post-Arafat world, noting that the governing authority will form a committee, and he hopes that it will come up with one decision and will give hope to the people. Chairman Thomas agreed that he hopes the Palestinians will come to agreement and if joint leadership is named, the leaders can work together, and if a single leader is named, he can truly lead. The President said that he is "confident" that the Palestinians can reach agreement.

Congressman McNulty praised the President as a "great visionary leader," commending him for "risking his life for peace." He said that he is confident that they will make progress on political and trade issues.

Congresswoman Johnson mentioned that after her visit to Egypt in 1999, she introduced a resolution to encourage the Administration to negotiate an FTA with Egypt because Egypt was negotiating with Europe. She said that she is discouraged that more progress has not been made and that she is looking forward to working with the President. She emphasized that she needs to tell her constituents that any agreement would represent "fair" trade, so she will be looking at intellectual property enforcement and an end to the BSE beef ban. She added that peace and stability need to be bolstered by an economic relationship between the United States and Egypt. The President noted the economic reforms that he has already undertaken on banking, customs, and taxation, acknowledging that there is work still to do. "It is moving," he said, "but it will take time." Chairman Thomas said that the President's commitment to continue reforms is important. The President agreed, stating that the government cannot be afraid to move forward

because some say that there should be another way. Congressman Lewis thanked the President for his leadership and associated himself with the remarks of Congresswoman Johnson.

President Mubarak mentioned that earlier in the year, the business community said that it was ready to stand for free trade. The QIZ program, he said, is a good step forward. Chairman Thomas responded that his “heart is heavy” on the QIZ issue because the greatest opportunity for movement in the QIZs is textiles, but the window is narrow because of the expiration of the WTO Multifiber Agreement in January 2005. He said that it would have been better had the QIZs had been considered a few years ago. President Mubarak said that at least the request now is a step. Chairman Thomas agreed.

Congressman English stated that the strategic relationship with Egypt is central to progress in the Middle East. He would like to see a more strategic partnership between the United States and Egypt in the WTO, he added, because the WTO represents an opportunity to help the developing world. He welcomed the opportunity to act together to move the European Union in the negotiations and achieve success.

Chairman Thomas stated that trade brings countries together. He said that he hoped that Egypt would have the political courage to “say no to protectionism,” noting that the United States has such protectionist forces too. The QIZ, he said, is a first step, and he hopes that after that point there will be consistent progress together, noting that such progress has been a concern in the past.

The Chairman praised the President for “an impossible job that you’ve done well,” stating that he wants to take this leadership focus and move it to trade. The President said that customs and tax reform have never been made before, and the Chairman responded that the United States is anxious to move forward and see these changes realized.

The Chairman concluded by saying that he needs to convince his Congressional colleagues about the trade relationship with Egypt and will continue to work to do so; “treading water” can be difficult. What has been done is remarkable, he said, and he hopes to see continued progress.

Meeting with Egyptian Prime Minister Ahmed Nazif, Minister of Trade and Industry Rachid Mohamed Rachid, Minister of Finance Dr. Youssef Boutros Ghali, Minister of State for International Cooperation Fayza Abul Naga, and Minister of Investment Development Dr. Mahmoud Mohamed Safwat Mohei-Eddin

Chairman Thomas started the meeting by introducing the delegation, describing the role of Congress, and in particular the role of the Ways and Means Committee, in setting U.S. trade policy, and emphasizing that the delegation’s primary focus is trade. The Chairman emphasized that he would like to see an expanding trade relationship with Egypt.

The Prime Minister said it is important that the United States and Egypt always have a good relationship, and he emphasized the recent reforms that have taken place in Egypt. He said the new Egyptian Cabinet has a specific mandate to accelerate economic, social, and political

reforms, and the new Ministers are pushing forward with major structural changes. The Prime Minister said that these reforms are “seen positively” by both the Egyptian “man on the street” and internationally. He said he recognizes that it is important that the new Cabinet establish credibility, and he noted that the reforms have introduced more confidence between the Egyptian government and society. The Prime Minister also said that the Egyptian Parliament was to convene that week, and he expected new legislation to be introduced to reduce and reform personal and corporate tax rates, which will encourage increased trade and investment in Egypt.

The Prime Minister noted the importance of the United States as a trading partner to Egypt; the United States is Egypt’s number one export market, and second largest source of imports into Egypt. He said Egypt wants to conclude a Free Trade Agreement (FTA) with the United States and also establish QIZs. He said that Egypt is a strong ally of the United States and the country “needs reassurance” that the United States is backing Egypt’s reform program.

Chairman Thomas discussed U.S. trade policy toward the region and stated his support for a Middle East Free Trade Area. He noted that the United States already has FTAs with Morocco and Jordan, and a U.S. – Bahrain FTA is ready for Congress to implement. The Chairman said he would like to see these FTAs expanded and linked to include all countries along the Mediterranean. The Chairman also mentioned the positive prospects for FTA talks to be launched with Oman and the United Arab Emirates.

The Chairman also emphasized that the United States remains committed to multinational trade liberalization through the World Trade Organization, but because each WTO member country is entitled to a veto, the process is slow, so the United States is also seeking bilateral and regional trade agreements in the meantime with countries that are ready. He emphasized that an important element in such agreements is that they be uniform, particularly in areas such as financial services, transparency, and agriculture non-tariff barriers to trade, because exceptions in these areas make it difficult to conclude an agreement. Also, unequal FTAs would make it difficult to integrate various FTAs in the region in the future to create larger regional and ultimately multinational agreements. The Chairman emphasized that all U.S. FTAs and FTA partners need to meet objective standards and this is why it is so important that Egypt undertake much needed economic reforms without delay. The Chairman said that Egypt’s recent steps are a positive signal, but Egypt will need to show a positive and sustained record of concrete economic reforms before it will be ready for an FTA. The Prime Minister responded that U.S. skepticism regarding Egypt’s reforms are “rightfully in place” but the recent reforms are not just promises, they are concrete actions and time will prove it.

The Prime Minister then said that Egypt does not have the luxury of time to wait, and Egypt is trying to show that it is “two steps ahead.” He said that Egypt is serious about reform, and President Mubarak has issued a mandate for both short term and long term reform goals. Minister Boutros Ghali interjected his opinion that nothing will happen on the MEFTA until there is an FTA with Egypt because Egypt “is the center of gravity.” He said the countries with which the United States has been negotiating FTAs are too small to be significant. Instead, Minister Boutros Ghali believes the only way to attract other large countries in the region such as Saudi Arabia is to conclude an FTA with Egypt. Chairman Thomas reiterated that when Egypt

meets the objective criteria by which all potential FTA partners are judged, FTA negotiations with Egypt can begin.

On QIZs, Chairman Thomas noted that the QIZ program has been available to Egypt for a long time, and unfortunately the opportunity to maximize the benefits of QIZs for apparel is diminished with the impending end of the WTO Multifiber Agreement in January 2005. Nevertheless, the U.S. Administration and Congress are consulting on QIZs for Egypt. Chairman Thomas noted that one positive aspect of Egyptian QIZs compared to Jordanian QIZs is that it appears likely that Egyptian investment capital and Egyptian inputs would be used in Egyptian QIZs. Conversely, Jordanian QIZs have historically relied on both foreign investment capital as well as foreign fabric in apparel production.

Delegation Panel Discussion with Members of the American Chamber of Commerce in Egypt

The delegation participated in panel discussion with members of the American Chamber of Commerce in Egypt on the topic “U.S.-Egypt Partners for Growth.” The business community was particularly interested in the prospects for establishing QIZs in Egypt and negotiations for a potential U.S. –Egypt Free Trade Agreement.

Chairman Thomas started the panel by explaining that the delegation is traveling through the region to focus on trade and investment and to encourage economic development. He said that the inclusion of private sector leaders such as Minister Rachid in the new Egyptian Cabinet is a positive sign of reform in Egypt and can bode well for a potential U.S. – Egypt FTA in the future. The Chairman said he views Egypt as having tremendous potential for economic progress, and he cited several reform measures by the new government that will help improve economic conditions. He said that Egypt is pivotal to long term Middle East policy, but at the same time the United States uses an objective yardstick to measure whether a country is ready to negotiate an FTA with the United States.

Members of the business community asked questions on timing for the establishment of QIZs. Chairman Thomas responded by saying that unfortunately Egypt has a sad history of lost opportunities, noting that only now is Egypt expressing an interest in participating in the QIZ program, which was established in 1996. Congressman McNulty noted that the failure to obtain an agreement on QIZs resulted from Egypt’s reluctance to engage economically with Israel.

The delegation was asked what came to mind when people in the United States, and Washington, D.C. in particular, thought of Egypt. The response from the delegation overwhelmingly pointed to Egypt’s strong and steady leadership from the late President Sadat, who pioneered peace in the region, to President Mubarak, who continues to work for a larger regional peace.

Congresswoman Johnson addressed some economic and trade issues associated with U.S.—Egypt bilateral relations and the Middle East region. On the question of reform and a Middle East Free Trade Area (MEFTA), Congresswoman Johnson observed that Egypt is the country by which all others in the region are judged and judge themselves.

At the end of the event, the President of the American Chamber of Commerce in Egypt, Dr. Taher Helmy, thanked the delegation and presented them with honorary memberships to AmCham Egypt.