

IV. OTHER MULTILATERAL ACTIVITIES

The United States pursues its trade and trade-related interests in a wide range of other international fora. In addition to opening new trade opportunities, such efforts focus on establishing an infrastructure for international trade that is transparent, predictable and efficient, and prevents restrictive practices and other impediments to expanded trade and sustainable economic growth and prosperity. These efforts also are aimed at ensuring that U.S. strategies and objectives relating to international trade, environment, labor and other trade-related interests are balanced and mutually supportive.

A. Trade and the Environment

As President Bush stated when he signed the Trade Act of 2002, “history shows that as nations become more prosperous, their citizens will demand, and can afford, a cleaner environment.” The United States, understanding that advancing trade and environmental objectives are mutually supportive, has been very active in promoting a trade policy agenda that pursues economic growth in a manner that integrates economic, social, and environmental policies.

As provided for in the Trade Act of 2002, and consistent with Executive Order 13141 (1999) and its implementing guidelines, the Administration conducts environmental reviews of ongoing trade negotiations. These reviews are the product of rigorous interagency consultations and are an increasingly important dimension of trade policy formulation. The reviews identify environmental issues to be taken into account during trade negotiations and inform the public about trade and environment interactions in the context of specific negotiations. In 2005, the program of work on reviews included preparation and release of interim reviews for the United States-Andean, United States-Oman, United States-UAE and United States-Thailand FTAs; completion of a final review for the United States- CAFTA– DR; and significant progress on the interim review for the WTO Doha Round. USTR and the Council on Environmental Quality (CEQ) also continued their joint effort to assess cumulative experiences with environmental reviews of trade agreements in order to provide a basis for gauging success.

The United States continues to take an active role in the WTO Committee on Trade and Environment (CTE) to put into effect our commitment to the simultaneous promotion of expanded trade, environmental improvement, and economic growth and development.

The Congress specified certain objectives with respect to trade and environment in the Trade Act of 2002, and USTR took these into account in coordinating interagency development of negotiating positions. Also during 2005, USTR consulted closely with Congress on the environmental provisions of each FTA throughout the negotiations.

In addition, USTR has participated both in multilateral and regional economic fora and in international environmental agreements, in conjunction with other U.S. agencies. USTR also has worked bilaterally with U.S. trading partners to avert or minimize potential trade frictions arising from foreign and U.S. environmental regulations.

1. Multilateral Fora

As described in more detail in the WTO section of this report, the United States is active on all aspects of the Doha trade and environment agenda. In particular, the United States has contributed to the intensification of work on liberalization of trade in environmental goods in the Committee on Trade and

Environment (CTE) in Special Session in 2005 by introducing a list of 155 environmental products including air pollution filters and solar panels. The United States believes that increased market access for environmental goods and services is an effective means to enhance access to environmental technologies around the world and has continued to advance innovative ideas for developing modalities in negotiations on environmental goods. In the Rules Negotiating Group, the United States continues to lead in pressing for stronger disciplines on fisheries subsidies, including the prohibition of the most harmful subsidies.

With respect to the Doha trade and environment agenda that does not specifically involve negotiations, the United States played an active role, particularly in emphasizing the importance of capacity-building. This included environmental reviews of trade negotiations, and the role of the CTE in Regular Session in discussing the environmental implications of all areas under negotiation in the Doha Development Agenda.

USTR co-chairs United States participation in the OECD Joint Working Party on Trade and Environment (JWPTE), which met twice in 2005. Work has focused on trade, environment and development issues with an emphasis on the role of environmental goods and services liberalization in promoting “win-win-win” scenarios. These activities are discussed further in the OECD section of this report (Chapter V, Section C).

USTR participates in U.S. policymaking regarding the implementation of various multilateral environmental agreements to ensure that the activities of these organizations are compatible with both U.S. environmental and trade policy objectives. Examples include the Convention on International Trade in Endangered Species of Wild Fauna and Flora, the Montreal Protocol on Substances that Deplete the Ozone Layer, the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, the United Nations Framework Convention on Climate Change, international fisheries management schemes, the Cartagena Protocol on Biosafety and the Stockholm Convention on Persistent Organic Pollutants. USTR also continues to be involved in the trade-related aspects of international forest policy deliberations, including in the newly formed permanent United Nations’ Forum on Forests – the successor to the Commission on Sustainable Development’s *ad hoc* Intergovernmental Forum on Forests – and in the International Tropical Timber Organization. In addition, USTR has participated extensively in U.S. policymaking regarding the International Commission for the Conservation of Atlantic Tuna’s revision of its compliance regime.

2. Bilateral Activities

The Bush Administration has continued to advance the policy of enhancing environmental cooperation with our new FTA partners. To complement negotiation of FTAs, the Department of State leads interagency efforts to negotiate parallel environmental cooperation mechanisms. For example, as a complement to the Morocco FTA negotiations, the United States and Morocco negotiated a Joint Statement on Environmental Cooperation that establishes a Working Group on Environmental Cooperation to set priorities for future environment-related projects. Such cooperative activities are already underway in Morocco. An Environmental Cooperation Agreement (ECA) with parties to the CAFTA-DR was completed in 2005. This ECA identifies several areas, such as institutional strengthening and enforcement of environmental laws, for priority attention and is innovative in its use of mechanisms to establish benchmarks and monitoring procedures to measure progress.

USTR has included in all of its recent FTAs environment chapters core obligations to promote high levels of environmental protection, ensure effective enforcement of environmental laws, and restrict FTA

partner governments from inappropriately derogating from these laws to encourage increased trade or investment.

Additionally, all FTA environment chapters include provisions to advance public participation, remedial action for violations of environmental laws and measures to enhance environmental performance. CAFTA-DR, in particular, includes an innovative public submissions mechanism that allows members of the public to have independent review of their written submissions on enforcement matters and promote action by the Environmental Cooperation Commission under the ECA to build capacity to address enforcement problems. USTR is currently negotiating FTA environment chapters with the five countries of SACU, the United Arab Emirates, Thailand, and Panama.

USTR concluded the Peru Trade Promotion Agreement (PTPA) in December 2005. The PTPA environment chapter included the core provisions of other FTAs and specific recognition of the importance of conserving and protecting biological diversity.

With respect to implementation of recently concluded FTAs, USTR has worked with the State Department, USAID and other agencies to follow up with implementation of eight environmental cooperation projects outlined in the United States-Chile FTA. The U.S.-Chile Environmental Affairs Committee met in October 2005 to discuss progress made on these projects. Additionally, USTR and other agencies focused in 2005 on implementation of other cooperation mechanisms, such as those involving Middle East FTA partners and Singapore. In 2005, the State Department and USTR worked with Central American countries and the Dominican Republic to conclude a work plan for the CAFTA-DR Environmental Cooperation Agreement (ECA) with a goal of beginning project implementation in early 2006.

3. The North American Free Trade Agreement (NAFTA)

USTR continues to work actively with EPA and other agencies in the institutions created by the NAFTA environmental side agreement, the North American Agreement on Environmental Cooperation (NAAEC) and the border environmental infrastructure agreement. These institutions were designed to enhance the mutually supportive nature of expanded North American trade and environmental improvement. The Border Environment Cooperation Commission and the North American Development Bank develops and finances needed environmental infrastructure projects along the U.S.-Mexico border.

The trilateral Commission on Environmental Cooperation (CEC) has responsibility for implementation of the NAAEC. USTR worked closely with EPA to accomplish a first-ever strategic plan on trade and environment in 2005. This strategic plan identifies six priority areas for CEC projects: renewable energy; trade and enforcement of environmental laws; ongoing environmental assessments of NAFTA; green purchasing; market-based mechanisms for sustainable use; and invasive alien species.

Additionally, the CEC sponsored the Third North American Symposium on Assessing the Environmental Effects of Trade in 2005. USTR participated on the Advisory Group that organized this symposium, which resulted in a number of important studies on the environmental aspects of NAFTA.

B. Trade and Labor

The trade policy agenda of the United States includes a strong commitment to protecting the rights of workers, both in America and in countries with which we trade which promotes a level playing field for workers. Expanded trade benefits all Americans through lower prices and greater choices in products available to consumers.

Many American workers benefit from expanded employment opportunities created by trade liberalization. The Bush Administration has consistently supported workers through both trade negotiations and the use of safeguard trade laws to ensure a level international playing field.

A concerted focus on worker training and education policies will continue to ensure that the American workforce can compete with anyone. For workers displaced by trade, the Trade Adjustment Assistance (TAA) Reform Act of 2002 [Title XXI of the Trade Act of 2002] modifies and expands the TAA program. TAA helps workers adversely affected by foreign trade through the provision of re-employment services, including skills training for displaced workers, income support while in training and job search and relocation assistance. Important changes to the program introduced in 2002 include expanded eligibility to more worker groups, increased benefits and tax credits for health insurance coverage assistance. In pursuing trade liberalization, we rely on the congressional guidance contained in the Bipartisan Trade Promotion Authority Act of 2002 (“TPA”) to bring the benefits of trade and open markets to America and the rest of the world. During this past year, USTR continued to consult with Congress on the labor provisions of each agreement throughout the negotiations. USTR also continued to work cooperatively with other U.S. agencies in multilateral, regional and bilateral fora to promote respect for core labor standards, including the abolition of the worst forms of child labor, in pursuing labor provisions in numerous trade agreements consistent with the bipartisan guidance contained in the Trade Act of 2002.

1. Bipartisan Trade Promotion Authority Act of 2002 (TPA) Guidance on Trade and Labor

The importance of the linkage between trade and labor is underscored by the fact that the Bipartisan Trade Promotion Authority Act of 2002 (TPA) contains labor-related clauses in three sections of the legislation: overall trade negotiating objectives; principal negotiating objectives; and the promotion of certain priorities to address U.S. competitiveness in the global economy.

The overall labor-related U.S. trade negotiating objectives are threefold. The first objective is to promote respect for worker rights and the rights of children consistent with the core labor standards of the International Labor Organization (ILO). TPA defines core labor standards as: (1) the right of association; (2) the right to organize and bargain collectively; (3) a prohibition on the use of forced or compulsory labor; (4) a minimum age for the employment of children; and (5) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health. The second objective is to strive to ensure that parties to trade agreements do not weaken or reduce the protections of domestic labor laws as an encouragement for trade. The third objective is to promote the universal ratification of, and full compliance with, ILO Convention 182 – which the United States has ratified – concerning the elimination of the worst forms of child labor.

The principal trade negotiating objectives in TPA include, most importantly for labor, the provision that a party to a trade agreement with the United States should not fail to effectively enforce its labor laws in a manner affecting trade. TPA recognizes that the United States and its trading partners retain the sovereign right to establish domestic labor laws, and to exercise discretion with respect to regulatory and compliance matters, and to make resource allocation decisions with respect to labor law enforcement.

To strengthen the capacity of our trading partners to promote respect for core labor standards is an additional principal negotiating objective, as is to ensure that labor, health or safety policies and practices of our trading partners do not arbitrarily or unjustifiably discriminate against American exports or serve as disguised trade barriers. A final principal negotiating objective is to seek commitments by parties to trade agreements to vigorously enforce their laws prohibiting the worst forms of child labor.

In addition to seeking greater cooperation between the WTO and the ILO, other labor-related priorities in TPA include the establishment of consultative mechanisms among parties to trade agreements to strengthen their capacity to promote respect for core labor standards and compliance with ILO Convention 182. The Department of Labor is charged with consulting with any country seeking a trade agreement with the United States concerning that country's labor laws, and providing technical assistance if needed. Finally, TPA mandates a series of labor-related reviews and reports to Congress in connection with the negotiation of new trade agreements. These include an employment impact review of future trade agreements, the procedures for which are modeled after the Executive Order 13141, which establishes environmental impact reviews of trade agreements. A report addressing labor rights, and a report describing the extent to which there are laws governing exploitative child labor, are also required for each of the countries with which we are negotiating a free trade agreement.

2. Multilateral Efforts

At the WTO Ministerial meetings in Singapore (1996) and Seattle (1999), the United States was among a group of countries supporting the creation of a WTO working party to examine the interrelationships between trade and labor standards. At the 2001 Doha WTO Ministerial, the United States supported a similar EU proposal which a group of developing countries adamantly opposed. The text of the Doha Ministerial Declaration, adopted by consensus, therefore, includes the following:

“We affirm our declaration made at the Singapore Ministerial Conference regarding internationally recognized core labor standards. We take note of work underway in the International Labor Organization (ILO) on the social dimensions of globalization.”

In the Hong Kong Ministerial Declaration adopted during the 2005 WTO Ministerial, the governments reaffirmed the declarations and decisions adopted in Doha and their full commitment to give effect to them.

In February 2004, the ILO's World Commission on the Social Dimension of Globalization issued its report, “A Fair Globalization: Creating Opportunities for All.” The report presented several general groups of suggestions on how the world could take advantage of the benefits of globalization: national measures that countries could implement to build and strengthen democracy and good governance; measures to reform international trade, production, and financial systems; suggestions concerning specific issues, such as cross-border movement of people, debt relief and greater social protection; and creating stronger, transparent and more accountable international organizations. Since the report was issued, numerous discussions have taken place on how the ILO might implement some of the report's labor related recommendations. In October 2005, the United States participated along with representatives from other ILO member countries, worker and employer organizations, non-governmental organizations, the WTO, and the World Bank in the Tripartite Meeting on Promoting Fair Globalization in Textiles and Clothing in a Post-MFA Environment that was held in Geneva.

In 2005, the ILO released the document “A global alliance against forced labor” as part of its yearly “Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work.” In this document, the ILO proposed action by member states against forced labor. These recommendations included identification of labor market characteristics that facilitate forced labor ensuring law enforcement agents have the capacity and resources to implement the law and establishment of time-bound action programs to eliminate forced labor.

The United States remains the largest donor to the work of the ILO. The United States has been particularly supportive of the ILO's International Program on the Elimination of Child Labor (IPEC). ILO-IPEC efforts have focused on the means to eliminate the worst forms of child labor, including child prostitution and pornography, forced or bonded child labor, and work in hazardous or unhealthy conditions.

Activities to combat the worst forms of child labor continued in 2005, including in many of our trading partner countries. Total U.S. contributions to ILO-IPEC and other organizations in fiscal year 2005 amounted to \$69.8 million and helped finance 26 projects in over 30 countries.

3. Regional Activities

The Fourteenth Inter-American Conference of Ministers of Labor (IACML), hosted by Mexico in September 2005, continued the implementation of the labor-related mandates of the Third Summit of the Americas that began with the Ottawa IACML meeting in 2001 and the Brazil meeting in 2003. The Declaration of Mexico, endorsed by labor ministers at the IACML in 2005, focuses on the role of decent work in improving living conditions and recognizes the significant contribution of economic integration and trade liberalization in fighting poverty and strengthening democratic governance. The Fifteenth meeting of the IACML will be hosted by Trinidad and Tobago in September 2007.

The Plan of Action of Mexico endorsed by the Ministers of Labor to implement the Declaration provides for the continued examination of the labor dimensions of free trade agreements and regional integration processes within IACML Working Group 1, with a focus on decent work as an instrument of development and democracy in the context of globalization. Working Group 1 will be chaired by Argentina and vice-chaired by Costa Rica and Chile. Working Group 2 will continue its focus on capacity-building of Labor Ministries and will emphasize strengthening the capacities of the ministries to respond to the challenges of promoting decent work in the context of globalization, including improving the ability of Ministries to promote the ILO Declaration on Fundamental Principles and Rights at Work. This working group will be chaired by El Salvador and vice-chaired by Uruguay and the United States. The ILO, the Organization of American States, the Inter-American Development Bank, the UN's Economic Commission for Latin America and the Caribbean, the Business Technical Advisory Committee on Labor Matters and the Trade Union Technical Advisory Committee will all be involved in the working group's activities.

The North American Agreement on Labor Cooperation (NAALC) Secretariat, along with the IACML and the OAS, sponsored a workshop in 2004 entitled Supporting Economic Growth through Effective Employment Services. This workshop provided a forum for a discussion of how the fundamentals of employment service systems can support economic growth. The workshop marked the first North American contribution to the implementation of the Action Plan of the XIII IACML. The NAALC Secretariat continued its efforts in 2005 by establishing an expert working party to further examine employment services opportunities and committed to continuing support of the IACML process and implementation of the Plan of Action of Mexico in 2006. Other NAALC activities are described in the NAFTA section of this report.

In their November 2002 Quito Declaration, the hemisphere's Trade Ministers not only renewed the commitment to observe the ILO Declaration, but also noted the IACML Working Group's examination of the inter-relation of globalization and labor and requested that the results of that work be shared with them. In response to this request, the IACML "troika" leadership (the Ministers of Labor from Canada,

Brazil and Mexico), attended the FTAA Trade Ministerial in Miami in November 2003 to report on the IACML's work on labor and integration.

The Labor Ministers called for the strengthening of social dialogue in the Summit of the Americas process so that economic integration under the Summit process is pursued in a mutually beneficial manner.

During the January 2004 special Summit held in Monterrey, Mexico, in the Declaration of Nuevo Leon, governments reaffirmed their dedication to observe the ILO Declaration and recognized the importance of achieving poverty reduction and job creation while protecting the rights of workers.

At the Fourth Summit of the Americas, in Mar del Plata, Argentina in November 2005, President Bush joined the other 33 democratically elected leaders of the Western Hemisphere in addressing common 21st Century challenges. In particular, the leaders focused on creating decent job opportunities, especially for the region's poor; creating conditions to achieve sustained economic growth through greater trade, investment and development; fighting poverty; and strengthening democratic governance and institutions. In the Declaration of Mar del Plata, leaders again affirmed their commitment to the ILO Declaration stating: We reaffirm our respect for the rights set forth in the ILO Declaration on Fundamental Principles and Rights at Work (1998) and undertake to promote these fundamental rights. We will develop and implement policies and programs that help labor markets to function efficiently and transparently and that help workers respond to the opportunities created by economic growth and new technologies.

In the Declaration of Mar del Plata, leaders also recognized "the vital contributions of Ministries of Labor to the achievement of the objectives of the Fourth Summit of the Americas" and committed to strengthening the ministries with the goal of ensuring that they have sufficient national budgetary and technical resources to carry out their duties. Leaders called upon ministers of labor to promote skills development; to implement programs that provide for efficient functioning of labor markets; and to effectively enforce national labor laws. The leaders further committed to combat gender-based discrimination in the work place and to promote equal opportunities for men and women in the working world, as well as to protect children from economic exploitation and from any tasks that may interfere with their education and integral development, and to take immediate and effective measures to prevent and eradicate the worst forms of child labor.

Other regional trade and labor activities carried out under NAFTA/NAALC and the OECD are noted in those sections of this report.

4. Bilateral Activities

i. FTAs

The Administration continued to negotiate bilateral trade agreements that fully incorporated the congressional guidance on trade and labor contained in TPA. During 2005, Congress approved an FTA with Bahrain and USTR concluded negotiations of FTAs with Peru and Oman. The Oman FTA marks further progress on the President's commitment to creating a Middle East Free Trade Area (MEFTA) by 2013.

The FTA process has helped to encourage many of our trading partners to pass new labor law reforms. For example, reform of the labor code languished in the Moroccan Parliament for 20 years before United States-Morocco FTA negotiations helped provide the momentum for Morocco to update its labor code.

Labor reforms made during the negotiation of the U.S.-Bahrain FTA fully supported and complemented the democratic reforms by the Kingdom of Bahrain. Bahrain enacted significant labor law reforms in 1993 and 2002 to allow for independent labor unions for the first time since the early 1970s, and committed to additional statutory reform in 2005 to further support trade union rights.

In 2005, Congress also approved the CAFTA-DR. With the CAFTA-DR countries, the United States committed to a long-term effort to improve the application and enforcement of labor laws and to provide an institutional framework for technical cooperation on labor issues in the future.

Recently concluded agreements with Oman and Peru continue the models begun with the Chile and Singapore FTAs to incorporate TPA-consistent labor provisions and promote respect for international core labor standards by our trading partners.

Another feature of U.S. FTAs is the intention that monetary assessments for labor violations be spent on programs to fix the problems that gave rise to the assessments. The proceeds of an assessment would go into a fund, established under the agreement, and can be expended only upon the direction of a joint commission (consisting of representatives of both parties to the agreement). The intention is for the funds to be used to address underlying labor problems. The assessment must be paid each year until the respondent party comes into compliance with its obligations. If a party fails to pay an assessment within a reasonable period, the other party may take appropriate steps to collect the assessment, including suspending tariff concessions under the FTA sufficient to collect the assessment, bearing in mind the agreement's objective of eliminating barriers to bilateral trade while seeking to avoid unduly affecting parties or interests not party to the dispute.

In each of these FTAs the parties reaffirm their obligations as ILO members and commit to strive to ensure that core labor standards, including the ILO Declaration and ILO Convention 182 concerning elimination of the worst forms of child labor are recognized and protected by domestic labor laws. Each party is also obligated not to fail to effectively enforce its labor laws, recognizing the discretion parties have in matters such as allocation of resources.

Cooperation and consultations are the preferred means to resolve differences over a party's compliance with its obligations under an FTA's labor chapter. If cooperation and consultations fail to resolve such a disagreement, our FTAs permit a party to ask a dispute settlement panel to determine whether the other party has violated its obligation not to fail to effectively enforce its labor laws in a manner affecting trade. If a panel determines that the respondent party has violated this obligation, and if the parties are unable to agree on an action plan for bringing that party into compliance, then the panel may establish a monetary assessment to be paid by that party, based on criteria such as the trade effect and pervasiveness of the violation.

On December 17, 2004, the Bureau of International Labor Affairs of the U.S. Department of Labor renamed its National Administrative Office as the Office of Trade Agreement Implementation, and designated it as the contact point for labor provisions of free trade agreements.

The labor provisions of the Morocco and Bahrain FTAs and the CAFTA-DR (once it enters into force) will be added to its existing responsibilities to administer the NAALC and the labor provisions of the Chile, Singapore, and Australia FTAs.

We continue to include a labor cooperation mechanism in each agreement to help ensure the longer-term capacity of our trading partners to effectively enforce labor laws, including capacity building programs designed to strengthen the ability of our partners to better protect worker rights.

These initiatives include a regional project in Central America that was expanded to include the Dominican Republic and Panama. The program is funded through an \$8.75 million grant from the Department of Labor to increase workers' and employers' knowledge of their national labor laws, strengthen labor inspections systems, and bolster alternative dispute resolution mechanisms.

The Bush Administration committed an additional \$20 million in FY2005 for labor and environment initiatives in CAFTA-DR countries. For FY2006, the administration requested and successfully obtained \$40 million which was appropriated in the form of \$20 million in Economic Support Funds and \$20 million in Developmental Assistance (DA). An interagency group including the Departments of State and Labor, USTR, USAID and others is working to program the FY2006 funds. The Administration will propose and support similar levels of spending on labor and environment capacity assistance in FY2007 through FY2009.

The United States is in the process of identifying appropriate activities at this time. Several programs are also being carried out in Morocco aiming to train workers on worker rights issues, enhance the Labor Ministry's capacity to increase compliance with labor laws, and to help eradicate the worst forms of child labor.

Pending bilateral FTA negotiations with the United Arab Emirates, the Southern African Customs Union (SACU), Thailand, Panama, and the Andean countries as well as any newly initiated negotiations will follow the same approach to include TPA consistent labor provisions.

ii. Other Bilateral Agreements and Programs

Our bilateral textile agreement with Cambodia, which terminated at the end of 2004, had a unique aspect that allowed import quotas to be increased dependent upon the efforts of the Cambodian government to effectively enforce its labor laws and protect the fundamental rights of Cambodian workers. With funds jointly provided by the U.S. Department of Labor, the Government of Cambodia and the apparel manufacturers association, the ILO monitored working conditions in Cambodian enterprises and reported on the results of that monitoring. Although the quota mechanism under the agreement is no longer in effect, Cambodia has pledged to contribute funds for sustaining the ILO garment sector monitoring project after the U.S. Department of Labor funding expires at the end of 2005. The ILO has already secured commitments for funding beyond that date, including from the Government of Cambodia, the French Government, and USAID. Other donors such as the World Bank have also expressed an interest in helping fund the proposed three year transition from ILO monitoring to monitoring conducted by a Cambodian institution beginning in 2009 to ensure credible and transparent monitoring in the long run.

The U.S. bilateral textile agreement with Vietnam, which terminated at the end of 2004, also included a labor provision. Both parties reaffirmed their commitments as members of the ILO, and also indicated their support for implementation of codes of corporate social responsibility as one way of improving working conditions in the textile sector. The agreement also called for a review of progress on the goal of improving working conditions in the textile sector when the U.S. Department of Labor and the Ministry of Labor, Invalids and Social Affairs of the Socialist Republic of Vietnam meet annually to review the implementation of a Memorandum of Understanding between the two ministries signed in November 2000. The United States and Vietnam continue to hold an annual "labor dialogue" to discuss issues of mutual concern, including issues pertaining to international labor standards, worker rights, and labor market reform.

A final aspect of trade and labor bilateral activities relates to the worker rights provisions of U.S. trade preference programs, such as the African Growth and Opportunity Act (AGOA), the Andean Trade Preference Act (ATPA), the Caribbean Basin Trade Preferences Act (CBTPA), and the Generalized System of Preferences (GSP). Pursuant to the ATPA, there is an annual petitioning process to review the eligibility of countries. ATPA petitions concerning working rights in Ecuador were filed in 2005 and the Trade Policy Staff Committee (TPSC) continued to review worker rights conditions in that country. Any modifications to the list of beneficiary developing countries or eligible articles resulting from this review of progress will be published in the *Federal Register*.

As part of the 2005 GSP Annual review process, USTR continued its review of a country practice petition concerning worker rights in Swaziland and accepted a new petition concerning worker rights in Uganda. These petitions request GSP trade benefits be withdrawn from the two countries for not taking steps to afford internationally recognized worker rights. At the end of 2005, reviews of the two worker rights petitions were still in progress.

C. Organization for Economic Cooperation and Development

Thirty democracies in Europe, North America, and the Pacific Rim comprise the Organization for Economic Cooperation and Development (OECD), established in 1961 and headquartered in Paris. In 2004, these countries accounted for 59 percent of world GDP (in purchasing-power-parity terms), 75 percent of world trade, 95 percent of world official development assistance, and 18 percent of the world's population. The OECD is not just a grouping of these economically significant nations, but also a policy forum covering a broad spectrum of economic, social, and scientific areas, from macroeconomic analysis to education to biotechnology. The OECD helps countries - both OECD members and non-members - reap the benefits and confront the challenges of a global economy by promoting economic growth, free markets, and efficient use of resources. Each substantive area is covered by a committee of member government officials, supported by Secretariat staff. The emphasis is on discussion and peer review, rather than negotiation, though some OECD instruments are legally binding, such as the Anti-Bribery Convention. OECD decisions require consensus among member governments. In the past, analysis of issues in the OECD often has been instrumental in forging a consensus among OECD countries to pursue specific negotiating goals in other international fora, such as the WTO.

The OECD conducts wide-ranging outreach activities to non-member countries and to business and civil society, in particular through its series of workshops and "Global Forum" events held around the world each year. In 2005, the OECD completed its first comprehensive overview of the Chinese economy, and is pursuing a similar overview for India's economy. Non-members may also participate as observers of committees when members believe that participation will be mutually beneficial. The OECD carries out a number of regional and bilateral cooperation programs. The Russia program, for instance, supports Russia's efforts to establish a market economy and eventually join the OECD.

In November 2005, the OECD's member countries announced the appointment of Angel Gurría, former Foreign Minister and Finance Minister of Mexico, as the new Secretary-General of the OECD, effective June 1, 2006, replacing Donald J. Johnston of Canada, who announced that he will retire after 10 years in the post. The Secretary-General oversees the work of the OECD's Secretariat, and chairs the OECD's decision-making Council.

1. Trade Committee Work Program

In 2005, the OECD Trade Committee, its subsidiary Working Party, and its joint working groups on environment, competition, and agriculture, continued to address a number of issues of significance to the multilateral trading system. Members asked the Secretariat to focus its analytical resources on work that would advocate freer trade and facilitate WTO negotiations, deepening understanding of the rationale for continued progressive trade liberalization in a rules-based environment. The Trade Homepage on the OECD website (www.oecd.org/trade) contains up-to-date information on published analytical work and other trade-related activities.

Several major analytical pieces were completed under the Trade Committee during 2005. These included studies on “Trade and Structural Adjustment,” which address ways developed and developing countries can adjust to new sources of competition, technological change, or shifting consumer preferences, while limiting adjustment costs for individuals, communities, and society as a whole, and on “Looking Beyond Tariffs: The Role of Non-Tariff Barriers in World Trade,” which examines various non-tariff impediments to trade, such as import quotas and import licenses, and suggests ways to reduce their negative effects. The Trade Committee also released a number of Working Papers on topics such as the “Impact of Changes in Tariffs on Developing Countries Government Revenue” and “Intertwined: Foreign Direct Investment in Manufacturing and Trade in Services.”

In conjunction with the Committee on Agriculture, the Trade Committee prepared an analysis comparing how agriculture is treated in Regional Trading Arrangements versus the multilateral trading system. In preparation for the December 2005 Hong Kong WTO Ministerial, the OECD completed work analyzing the economic impact of trade facilitation. Studies looked at the costs of introducing and implementing trade facilitation measures, in order to address developing country concerns in this area, as well as at the benefits, to highlight the positive impact of trade facilitation measures on government revenue, trade flows, and investment attractiveness. A Global Forum held in October 2005 in Sri Lanka provided an opportunity to share the results of OECD work on trade facilitation with government officials and businesspeople from many nations. Work was also completed in 2005 on studies addressing some developing countries’ concerns related to trade liberalization: one on the potential impacts of the erosion of trade preferences, a second on the impacts of tariff cuts on developing countries’ government revenues. Additionally, reacting to the December 2004 tsunami in South Asia, the Committee prepared a study on the “Trade Interests of the Tsunami-Affected Countries.”

The Committee also laid the groundwork for a meeting of OECD member country trade ministers in May 2005. U.S. Trade Representative Portman headed the U.S. delegation. Ministers from a number of key non-members also participated. Those discussions made a positive contribution to the WTO negotiations.

In addition, in October 2005, the Trade Committee discussed aspects of its work and issues of concern with representatives of civil society, including members of the OECD’s Business and Industry Advisory Council and Trade Union Advisory Council.

Competition Policy and Trade

The Joint Group on Trade and Competition (JG) continued work on issues at the intersection of trade and competition policy, with the aim of providing an improved analytical foundation for the consideration of this topic in the OECD and other fora. The JG has helped to promote mutual understanding and interaction between the trade and antitrust “cultures,” as well as better clarity and coherence of approaches toward issues of common interest.

The JG met in February and October 2005, and completed a study on regional trade agreements with competition provisions. The JG continued its discussions of several case studies from developing countries that had faced competition problems that also affected development and export competitiveness. The case addressed issues in studies from Brazil (government concessions for port facilities and a steel cartel), problems with the dominant telecommunications providers in Poland and South Africa, and a cartel of aluminum producers in Jordan. The case studies will be assembled into a booklet for use in a Global Forum on Trade and Competition scheduled for February 2006, to which many non-OECD countries have been invited.

The OECD Anti-Bribery Convention: Deterring Bribery of Foreign Public Officials

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions entered into force in February 1999. The Convention was adopted by the then 29 members of the OECD and five non-members. The non-members were Argentina, Brazil, Chile, Bulgaria, and Slovakia (now an OECD member). In 2001, non-member Slovenia became a party to the Antibribery Convention, and in 2004, Estonia, also a non-member, acceded to the Convention.

The Convention requires parties to criminalize the bribery of foreign public officials in executive, legislative, and judicial branches, impose dissuasive penalties on those who offer, promise or pay bribes, and implement adequate accounting procedures to make it harder to hide illegal payments. All 36 parties have adopted legislation to implement the Convention.

Prior to the entry into force of the Convention, the United States was alone in criminalizing the bribery of foreign public officials. As a result, U.S. firms had lost international contracts with an estimated value of billions of dollars every year due to bribery payments to corrupt officials. Such payments also distort investment and procurement decisions in developing countries, undermine the rule of law and create an unpredictable environment for business, consequences that can be particularly damaging in developing countries.

By the end of 2005, all parties except Estonia had undergone a review of their respective national legislation implementing the Convention (i.e., Phase 1 review). The parties to the Convention commenced the second phase (i.e., Phase 2) of peer monitoring – the evaluation of enforcement – in November 2001. By end of 2005, a review had been completed for 22 countries. Information on these reviews is available on the internet at www.export.gov/tcc and www.oecd.org. The United States has successfully pressed for an accelerated Phase 2 monitoring schedule and ensured that there are sufficient OECD budget funds to support it. The Working Group on Bribery will undertake six more country reviews in 2006 with the goal of completing the first country enforcement review cycle in early 2008.

The United States is working to ensure that an effective peer-review monitoring process remains in place to ensure needed action by other parties to the OECD Antibribery Convention.

4. Dialogue with Non-OECD Members

The OECD has continued its contacts with non-member countries to encourage the integration into the multilateral trade regime of developing and transition economies, such as the countries of Eastern Europe and Central Asia, leading developing economies in South America and Asia, and sub-Saharan African countries.

Throughout much of 2005, the Trade Committee and its Working Party engaged in intensive discussion on how to enhance outreach to non-members. At its October meeting, the Committee adopted a new, more pro-active strategy for outreach. In light of the framework provided by the strategy, the Trade Committee will decide which non-members could both benefit from and contribute most positively to its work, and will consider inviting those economies to be observers, on a longer-term or an ad hoc basis. The current regular observers in the Trade Committee are Argentina, Brazil, Chile, Hong Kong, and Singapore. These five observers, plus China, Egypt, India, Indonesia, Kenya, Rwanda, Russia, and South Africa, also accepted the OECD's invitation to participate in the trade ministers' meeting at the May 2005 Ministerial Council Meeting, which focused on advancing the WTO Doha Development Agenda.

Israel, Chinese Taipei, and Romania all participated as *ad hoc* observers in the March 2005 meeting of the Trade Committee. Delegates from these non-member economies contributed actively to the Trade Committee's discussions on developments in the Doha Round and on "trade and corporate social responsibility." Representatives from the OECD's Business and Industry Advisory Council also participated in those discussions, allowing Trade Committee members the opportunity to learn more about the specific perspectives and concerns of the business community.

5. Environment and Trade

The OECD Joint Working Party on Trade and Environment (JWPTE) met twice in 2005 to continue its analysis of the effects of environmental policies on trade and the effects of trade policies on the environment, as well as its efforts to promote mutually supportive trade and environmental policies. During the year, the JWPTE contributed important work on environmental goods and services to support the DDA. The JWPTE published a paper exploring the synergies between liberalization of environmental goods and environmental services.

Also in the area of environmental goods and services, the JWPTE published three additional papers prior to the WTO Hong Kong Ministerial Meeting: one on liberalizing trade in renewable energy technologies; a synthesis of case studies focusing on the benefits from liberalization of environmental goods and services markets; and a paper on liberalizing trade in certain environmentally preferable products (EPPs). The JWPTE continued its work to support the trade and environment-related elements of the September 2002 World Summit for Sustainable Development plan of implementation, focusing on successful transfer of environmentally-sound technologies. The JWPTE also began substantial new work on environmental aspects of regional trade agreements (RTAs), which is expected to highlight innovative environmental provisions in U.S. Free Trade Agreements. In November 2005, the JWPTE organized a Global Forum on Trade Technical Assistance and Capacity Building for Trade and Environment in San Jose, Costa Rica, which was attended by a number of developing country representatives from Latin America, Asia and the Middle East.

6. Export Credits

The OECD Arrangement on Guidelines for Officially Supported Export Credits (the Arrangement) places limitations on the terms and conditions of government-supported export credit financing so that competition among exporters is based on the price and quality of the goods and services being exported, rather than on the terms of government-supported financing. It also limits the ability of governments to tie their foreign aid to procurement of goods and services from their own countries (tied aid).

The Participants to the Arrangement (Participants), a stand-alone policy-level body of the OECD, are responsible for implementing the 27-year-old Arrangement and for negotiating further disciplines to reduce subsidies in official export credit support.

The Administration estimates that the Arrangement saves U.S. taxpayers about \$800 million annually. First, rules on minimum interest rates ensure that the Export-Import Bank of the United States, the U.S. export credit agency, no longer has to offer loans with below-cost interest rates and long repayment terms to compete with such practices by other governments. Second, agreement on minimum exposure fees for country risk has generally reduced costs. Finally, the "level playing field" created by the Arrangement's tied aid disciplines has created conditions for U.S. exporters to increase their exports by about \$1 billion a year. These exports alone would have cost taxpayers about \$300 million annually since 1993 if the United States had had to create its own tied aid program.

The OECD tied aid rules continue to reduce tied aid dramatically and redirect it from capital projects, where it has had trade-distorting effects, toward rural and social sector projects. Tied aid levels were nearly \$10 billion in 1991 before the rules were adopted, but were only \$3.5 billion in 2004 (compared to \$2.1 billion in 2002 -- its lowest level on record). For the first half of 2005, the Participants provided \$2.5 billion in tied aid, with annual totals expected to exceed the level in 2004; however, the tied aid rules ensure that tied aid-financed projects remain in sectors that do not distort trade and are viewed as bona fide development aid.

The biggest challenge facing Participants is on how to address developing country concerns that the Participants – the wealthiest countries - are not taking developing country concerns into account when setting the rules for the provision of export credits. WTO disputes over export credits for aircraft have highlighted the need for aircraft-manufacturing Participants to consult with Brazil, which is not an OECD member, on aircraft trade. Thus, the Participants have launched a formal review of the OECD agreement on aircraft, with Brazil participating as a full partner in the negotiations. The Administration is coordinating closely with U.S. exporters on these negotiations.

The Participants will continue to work with non-OECD members to improve and refine the Arrangement rules to ensure a level playing field for all governments providing official export credit support.

7. Investment

The Investment Committee is the primary forum for addressing international investment issues in the OECD. The Committee's discussions and analytical work help build international consensus on key emerging policy challenges with respect to international investment and on ways to promote sound investment policy and high standards of investment protection. The Committee also seeks to promote voluntary adherence by multinational enterprises to sound business practices and to strengthen understanding of the relationship between investment and development. The Committee is responsible for monitoring and implementing the OECD Codes of Liberalization and the OECD Declaration on International Investment and Multinational Enterprises. The United States plays a major role in shaping investment-related work within the OECD.

In 2005 the Investment Committee completed significant analytical work with respect to international practice on key provisions of investment agreements (e.g., fair and equitable treatment, indirect expropriation) and how that practice is being influenced by the changing environment in which these commitments are negotiated. The Committee worked on emerging issues relating to investor-state arbitration, such as transparency, third-party involvement, consolidation of investor claims, and the possibility of an appellate mechanism for arbitral awards.

It is exploring jointly with the International Center for the Settlement of Investment Disputes (ICSID) and UNCTAD the possibility of a facility for assisting non-OECD member countries in understanding how to prepare for international investment arbitration. The Committee also recently completed with the OECD

Development Assistance Committee a joint study on synergies between official development assistance and foreign direct investment.

In 2005, the OECD continued its investment policy dialogue with non-members. This includes an initiative aimed at helping countries in the Middle East and North Africa to improve their investment policies. This initiative, which was endorsed by the G-8 during the 2004 summit, will hold its first ministerial meeting in Amman, Jordan in February 2006. The investment policy dialogue also includes ongoing consultations with Russia and China and preliminary contacts with India and South Africa. The Investment Committee expects to complete work this spring on a multi-year effort, in conjunction with key non-member governments and in consultation with other OECD bodies, to develop a comprehensive Policy Framework for Investment that will be the cornerstone of future OECD outreach with non-member governments and cooperative programs with APEC, the World Bank, and other institutions promoting improved policies to encourage foreign and domestic investment. The Framework will assist countries in analyzing ten broad policy areas (ranging from investment and trade to competition and corporate governance) that have an important impact on the ability of countries to encourage foreign and domestic investment.

Finally, the Investment Committee continued to play an active role in promoting corporate social responsibility through its oversight of the voluntary OECD Guidelines for Multinational Enterprises. The Committee continued its examination of the role of private firms in countries characterized by weak governance and has nearly completed work on a tool to assist firms in assessing the risks facing operations in such challenging environments. With the involvement of its Business and Industry Advisory Committee, the Committee will complement this work in 2006 with the preparation of a practical resource guide to help firms identify sources of information on experiences in confronting operational challenges in specific contexts. The Committee also continues to serve as a forum for exchanges of experience on the Guidelines among national contact points (NCPs), as a source of clarification of the Guidelines, and as a source of guidance in addressing the role of NCPs in promoting the Guidelines and in assisting firms in the resolution of issues that arise between them and others regarding their activities in relation to the Guidelines.

8. Labor and Trade

The Trade Union Advisory Committee (TUAC) to the OECD, made up of over 56 national trade union centers from OECD member countries, has played a consultative role in the operation of the OECD and its various committees since 1962.

As part of the OECD Ministerial Council meeting in May 2005, joint consultations were held with TUAC and BIAC (the Business and Industry Advisory Committee). TUAC submitted a statement to the May 2005 OECD Ministerial Council meeting, emphasizing that quality employment must be at the heart of the agenda to cut global poverty and reduce economic insecurity, highlighting a number of key policy areas in which good employment should be promoted. In October 2005, the Trade Committee held its seventh informal consultation with civil society organizations, addressing recent developments in the Doha Development Agenda and expectations for the December 2005 WTO Ministerial Conference. TUAC was one of the organizations participating in the consultations, and submitted a Trade Union Statement addressing the agenda for the WTO Ministerial Conference, stating that the global governance system should be rebalanced so that social and environmental issues are given equal consideration with trade and the economy, and providing a number of recommendations to trade ministers.

As noted, in 2005, the OECD issued a study on “Trade and Structural Adjustment,” which addressed ways developed and developing countries can adjust to new sources of competition, technological change,

or shifting consumer preferences, while limiting adjustment costs for individuals, communities, and society as a whole. This study was reviewed Ministers at the OECD Ministerial Council meeting in May 2005 by Ministers, who welcomed the study and its policy messages, recognizing that policies must be put in place to ensure that globalization benefits all.

9. Regulatory Reform

Since 1998, the OECD Trade Committee has contributed to OECD work on domestic regulatory governance with country reviews of regulatory reform efforts.

The United States has supported this work on the grounds that targeted regulatory reforms (e.g., those aimed at increasing transparency), can benefit domestic and foreign stakeholders alike by improving the quality of regulation and enhancing market openness.

The Trade Committee's work on regulatory reform has two aspects: country reviews and product standards. In conducting country reviews, the Committee evaluates regulatory reform efforts in light of six principles of market openness: transparency and openness of decision-making; non-discrimination; avoidance of unnecessary trade restrictions; use of internationally harmonized measures where available/appropriate; recognition of the equivalence of other countries' procedures for conformity assessment where appropriate; and application of competition principles.

The Trade Committee has reviewed twenty OECD Members, including all the G7 countries. In 2005 the Trade Committee carried out a review of regulatory reform in Switzerland from the perspective of market openness. Following the completion in 2005 of the Committee's first review of a non-member, Russia, the OECD issued a report providing recommendations on regulatory reform in Russia entitled "Russia: Building Rules for the Market." Based in large part on the lessons learned in these country reviews, in April 2005 the OECD Council adopted Guiding Principles for Regulatory Quality and Performance, which updated the Recommendations for Regulatory Reform that the OECD had adopted in 1997. These principles in turn fed into the APEC-OECD Integrated Checklist on Regulatory Reform, which was approved by the Special Group on Regulatory Policy in the OECD in March 2005, and endorsed by APEC Ministers Responsible for Trade in June 2005.

10. Services

Work in the OECD on trade in services has continued to provide analysis and background relevant to WTO negotiations, with emphasis on issues of importance to developing countries in the negotiations.

In 2005, the OECD published papers on: (1) the relationship between foreign direct investment in manufacturing and trade in services; (2) managing request offer negotiations under the GATS, focusing on the case of environmental services (a study done in cooperation with UNCTAD); and (3) a synthesis of studies of 17 countries with respect to benefits realized from liberalization of trade in environmental goods and services. In February 2005, the OECD held its fifth "services experts" meeting in Paris, organized jointly with the World Bank, addressing trade and universal service goals in the context of liberalized markets. Discussions at the meeting focused on experiences in four sectors – telecommunications, financial services, environmental infrastructure services, and energy.

At the May 2005 OECD Ministerial Council Meeting, Ministers welcomed an OECD study on Growth in Services, which analyzed the contribution made by the services sector to employment growth, innovation and productivity, and identified policies that could enhance growth in the services sector.

11. Steel

As noted in the “Steel Trade Policy” section of this report, the Administration continued its efforts to address market-distorting steel subsidies at the OECD. A number of non-OECD steel-producing countries, including China and Russia, have been active in the OECD steel activities including the January 2005 Global Steel Conference and the reactivation of the permanent OECD Steel Committee in October 2005. Beginning in 2006, the OECD Secretariat plans to enhance outreach to non-members in part by supplementing its regular meetings in Paris with conferences to be held in developing countries.

Developing Countries

The OECD Trade Committee gave special focus in 2005 to issues of particular concern to developing countries, mindful that addressing these issues is essential to making progress the DDA.

In June 2005, the OECD Trade Directorate, with support from the World Bank and the Organization of American States, organized a Global Forum on Trade in Barbados addressing issues with respect to Special and Differential Treatment of developing countries in the context of the Doha Development Agenda. In October 2005, the Trade Directorate organized a Global Forum in Sri Lanka addressing the implications for developing countries of the WTO negotiations on trade facilitation.

At its October 2005 meeting, the Trade Committee received a presentation from the Chair of the OECD Development Assistance Committee (DAC) on “Aid for Trade,” focusing on how to deliver Aid for Trade most effectively and how to maximize the impact of trade on poverty alleviation. Trade Committee delegates welcomed the presentation and the Aid for Trade initiative. The DAC held a special meeting on Aid for Trade later that same week, focusing on the issues of effectiveness and the mechanisms for delivering such aid, in particular with respect to proposals to enhance the Integrated Framework, as well as how to leverage resources to support trade-related technical assistance and capacity building.

D. Semiconductor Agreement

On June 10, 1999, the United States, Japan, Korea and the European Commission announced a multilateral Joint Statement on Semiconductors designed to ensure fair and open global trade in semiconductors. Chinese Taipei subsequently endorsed the objectives of the Joint Statement and became the Agreements fifth party. The 1999 Joint Statement reflected over a decade of progress under three previous semiconductor agreements toward opening up the Japanese market to foreign semiconductors, improving cooperation between Japanese users and foreign semiconductor suppliers, and eliminating tariffs in the top five semiconductor producers (the United States, Japan, Korea, the European Union, and Chinese Taipei). The 1999 Joint Statement also broadened discussions beyond the Japanese market to cover a broad range of issues aimed at promoting the growth of the global semiconductor market through improved mutual understanding between industries and governments and cooperative efforts to respond to challenges facing the semiconductor industry.

In 2005, the five parties to the Joint Statement reached a landmark agreement to reduce to zero the duties on multichip integrated circuits (MCPs). MCPs are an evolutionary new semiconductor, which was not yet in existence when duties on most other semiconductors were eliminated in 1996 through the Information Technology Agreement. The global market for MCPs is over \$4 billion, and is expected to

increase to nearly \$8 billion by 2008. The agreement is expected to provide momentum for the Doha negotiations on non-agricultural market access.

In May 2005, industry CEOs representing all five 1999 Joint Statement parties held their sixth World Semiconductor Council (WSC) meeting. The WSC was created under the 1996 Joint Statement to provide a forum for industry representatives to discuss and engage in cooperation concerning global issues such as standardization, environmental concerns, worker health and safety, intellectual property rights, trade and investment liberalization, and worldwide market development. National/regional industry associations may become members of the WSC only if their governments have eliminated semiconductor tariffs or committed to eliminate these tariffs expeditiously. The India Semiconductor Association has written to the WSC, expressing interest in joining. In addition, reflecting China's increasing importance as a producer and consumer of semiconductors, the WSC has invited China to become a party to the 1999 Joint Statement. China is expected to become the second-largest market for semiconductors, behind the United States, by 2010.

The 1999 Joint Statement also calls for the parties to hold a Government/Authorities Meeting on Semiconductors (GAMS) at least once a year to receive and discuss the recommendations of the WSC regarding policies that may affect the future outlook and competitive conditions within the global semiconductor industry. The sixth GAMS was held in September 2005, hosted by Korea. At that meeting, the WSC recommended that government authorities pursue the following policies: promptly make MCPs duty-free; focus in the Doha Round on measures that promote complete open access for semiconductors and other information technology goods; expand participation and product coverage of the Information Technology Agreement (ITA); fully protect intellectual property rights and support requests for transparency under TRIPS Article 63.3; enforce WTO national treatment rules to prevent discrimination against foreign products; promote fair and effective antidumping rules; discourage the use of copyright levies on digital equipment; and promote sound environmental and safety practices that are based on sound and widely accepted scientific principles and do not impede the effective functioning of the market. The major deliverable of the 2005 GAMS was the agreement to reduce MCP duties to zero, as described above. The GAMS members are working to complete domestic procedures with a view to having the zero duty in place early in 2006.

E. Steel Trade Policy

In 2005, the Administration continued to address concerns related to the rapidly changing trade situation in the global steel sector, continuing its work at the Organization for Economic Cooperation and Development (OECD) and other fora to monitor and address steel subsidies and other market-disrupting practices.

Participants in the OECD High Level Group (HLG) on Steel decided in June 2004 to shift the focus of negotiations on a possible Steel Subsidies Agreement (SSA) to less formal bilateral and plurilateral consultations. The United States and the OECD Secretariat consulted with various participants in an attempt to find mutually acceptable ways to move the SSA negotiations forward. The Secretariat completed its extensive consultation process in March 2005 and released a blueprint containing potential compromises on key sticking points with the hope that it could serve as a starting point for resuming talks.

After receiving comments from participants on the blueprint, including from the United States, in October 2005, the OECD Secretariat concluded that while all participants found the process valuable, as it has shed light on important issues within the steel sector, participants could not agree on the basis to resume

formal talks at that time. Nonetheless, nearly all participants agreed that the permanent OECD Steel Committee can serve as an important forum to discuss common policy approaches on issues such as subsidies.

Recently, the Secretariat proposed a reorientation of the HLG's work to address four key areas: (i) steel-specific trade issues, (ii) structural adjustment in steel, (iii) the situation in steel in developing economies and (iv) the environmental challenges facing the industry. According to the proposal, the HLG would work alongside the Steel Committee to identify and elaborate on areas of possible agreement within the four areas mentioned. The Administration plans to review this latest proposal carefully. Regardless of the outcome of this proposal, the Administration will continue to work with the OECD Secretariat and other participants to build further consensus about disciplining steel subsidies in 2006.

The Administration joined other OECD steelmaking countries in noting growing concern in global markets over continued growth in steel production capacity in many countries. While much of the added capacity is being financed from market sources in response to rising global demand, much of it is also attributable to government support and other types of aid. China, the world's largest steel producer and consumer, continued to rapidly expand its production capacity in 2005, while the growth of demand for steel in China began to slow considerably. As a result China went from being a large net importer in 2003 to an emerging net exporter.

Because of concerns that excess capacity and production will lead to supply imbalances and trade flow disruptions, the Administration has worked within the OECD, and with industry and the governments of Canada and Mexico to gather and analyze information on steel capacity, government support and other market-distorting practices in non-NAFTA countries. The United States also raised specific concerns bilaterally, at the OECD and in WTO accession negotiations about steel policies that contribute to excess capacity and production including subsidies and export duties and other restrictions on steelmaking raw materials.

The Administration works closely with the governments of Canada and Mexico on policy issues of importance to the steel industry in the North American Steel Trade Committee (NASTC), a government /industry collaboration born out of our outreach efforts in the OECD steel subsidies exercise.

While the work of the NASTC is wide-ranging, the primary focus has been on the frequency and magnitude of government intervention in the global steel sector and the resulting distortions of such interventions on international trade. In recent months, the NASTC has concentrated on its mandate under the Security and Prosperity Partnership (SPP) initiative to draft and implement a "North American Steel Strategy." The steel strategy will address several areas of work, including cooperation in multilateral negotiations of importance to steel, particularly the WTO Rules Negotiations.

During 2005, the Department of Commerce also finalized the Steel Import Monitoring Program, a web-based, automatic licensing and data system for U.S. imports of steel to collect timely detailed statistics on steel imports and to provide stakeholders with information about import trends in this sector. The Administration also worked with the governments of Canada and Mexico to enhance compatibility of the similar import monitoring systems maintained by all three NAFTA countries.