

**Media Roundtable hosted by  
Ambassador Susan Schwab  
United States Trade Representative  
Washington, DC  
June 9, 2006**

**Ambassador Schwab:** This morning, I think my appointment papers were signed this morning so we started making calls this morning to some of the Ministers I haven't had a chance to see since the President nominated me. I had a chance this morning to speak with Minister Nath from India and Celso Amorim from Brazil. In the last couple of weeks at the APEC Ministerial in Vietnam and at the OECD meeting in Paris I had a chance to meet with quite a number of other Ministers most of whom I had met with in the past. Most of them were in Hong Kong along with several of you at the Ministerial in December. But it was a matter of renewing old acquaintances and chatting with them for the first time in my capacity as a nominee. So we got a couple of calls made this morning, but it being Friday -- There's a limited window to work the globe.

Anyway, I'm delighted to be here for a whole lot of reasons. I'm Susan Schwab. [Laughter]. If we can just go around the room.

[Introduction of the media].

**Ambassador Schwab:** Super. Thank you.

And do you know everybody here?

**Press:** All too well, yeah. [Laughter].

**Ambassador Schwab:** Okay. [Laughter].

I assume we're going to be doing Q&A. As I said, I'm very, very pleased to be here. I started out at USTR as a GS single-digit 29 years ago, as an agricultural negotiator, trying to open the Japanese market for US beef and citrus. I would note for the record that at the conclusion of that negotiation there were maybe \$77 million worth of beef flowing, and I think until 2003 when we ran into the BSE issue we were up to \$1.3 billion, so at least we had some progress to account for during that period of time.

It was a thrill to come back to USTR last fall in the Bush Administration as Deputy USTR and have a chance to work with Rob Portman, and obviously I am honored and humbled and flattered and a little overwhelmed at being here now as the US Trade Representative.

For those of you who know me, you know my checkered background includes growing up overseas, primarily West Africa, North Africa, Asia, Europe as a kid. Then professionally after here, worked at the US Embassy in Tokyo negotiating telcom market access issues.

Came back to the United States, decided to go to work on the Hill because I needed to figure out how the Hill worked in trade policy if I was ever going to be a good executive branch trade policy person. Spent eight years on the Hill with Jack Danforth as his trade LA and as his leg

director, and Jack, for those of you who are familiar with Senator Danforth, was the Chair of the International Trade Subcommittee and the Senate Finance Committee, and just a wonderful man and had a really strong sense of the importance of opening markets for US exports.

In the first Bush Administration I was sort of on the operations side, the implementing side of the trade picture was helping to promote US exports into the markets that were opened, and then subsequently went to work for Motorola to see how the business side of that equation worked, doing M&A work for Motorola, business development, mainly international, mainly Asia again. Then became an academic for ten years at the University of Maryland School of Public Policy, and then heading up the System Foundation. So I took a little bit of a detour, played the intellectual for a while, and now I'm back in the game and just really, really pleased and honored to be a part of this Administration.

Let me stop there and I think Neena suggested if we're going to do this on time we need to have one question each, and obviously logical follow-ups if you have it.

I think my trade agenda going forward I talked about in my confirmation hearing, talked about when the President nominated me, but I think it's pretty straightforward, one, creating more trade internationally, global trade; opening markets for US exports; the implications in terms of US economic growth, global economic growth, alleviation of poverty. Those are not tag lines. I believe very very strongly that international trade is a way of really moving the global ball forward for everybody. So that, first and foremost, is my objective and really is the objective of the President.

In terms of delivering on that, pursuing a bipartisan trade policy here in the United States. Helping to rebuild a bipartisan consensus for a pro-trade agenda, and it really is a pro-trade agenda.

I look forward to doing both of those things and I think they're critically linked.

So why don't you start?

**Press:** What's your take on the current status of the WTO talks? What are your expectations out of the Ministerial meeting at the end of the month as senior --

**Ambassador Schwab:** I'll be in Geneva in the so-called Green Room at the end of the month. We're obviously coming to a crunch in terms of the Doha negotiations. As you all know, US Trade Promotion Authority expires July 1, 2007, and if you work backwards in terms of the requirements that we have for consultations and notification and moving legislation, we really have to have the Doha Round totally wrapped up by the end of this year. To do that, including the obvious exchanges of schedules and so on among 150 countries, if we're not done with all of the critical elements by the end of July it's going to be very very hard to keep that schedule.

I think Pascal Lamy is correct in his assumption that if we don't get a breakthrough in terms of "modalities", WTO speak, but the fundamental parameters of that agreement in agriculture and non-agriculture market access by the end of June it is going to be really tough sledding going forward.

**Press:** What are the chances of doing it?

**Ambassador Schwab:** It's going to be tough, but the United States is absolutely determined to seek the most ambitious, robust possible outcome. If you do a multilateral trade negotiation once a generation and this is a once in a generation opportunity to open markets globally, and build economic growth and alleviate poverty, then let's make sure we do it right, and doing it right means a robust package. So we'll keep pressing for that.

**Press:** Are you worried at all that the US is getting isolated on that demand for going for an ambitious round? We've seen the EU call for realism on the part of the US. Brazil said recently that it's willing to take less in terms of market access to get more from domestic subsidies. Are you worried that the US is getting isolated in calling for an ambitious round?

**Ambassador Schwab:** I do not think the US is isolated in terms of wanting an ambitious outcome. There may be some countries that are sort of indicating that they're willing to settle. We're certainly not willing to settle for something less than an ambitious outcome. But I think when you have -- in the private conversations that I've had with ministers and even right after my nomination and Rob Portman's nomination were announced, he and I went to Geneva and met with representatives of close to 90 countries, mainly ambassadors, to the WTO. Everybody talks about an ambitious outcome. I think there was a serious desire for an ambitious outcome. The question is, is there enough political will to deliver it. On the part of the United States there is enough political will to deliver it.

This is not the first time that the United States has had to take a leadership role to bring everyone else along to an ambitious conclusion, and if you look at the Uruguay round it was a very similar pattern where things were simply not moving and Bill Brock got out there and gave that extra push. If the United States had not put on the table the very forward leaning agricultural proposal that we put on the table the end of October there would be no negotiations at all going on. We wouldn't be talking about a green room in June. So don't give up yet.

**Press:** Do you have any sort of strategic notion of how you get at the outcome you want? Ambassador Zoellick talked about competitive liberalization, the idea that the lower level deals would push the higher level ones. You've got a lot of bilaterals, but nothing yet at the regional or international levels. Do you have any sort of strategic notion of how you get the outcome you want?

**Ambassador Schwab:** I think actually it all fits, when you think about US trade policy, and I talked in the beginning about this overall notion of pushing for more open trade globally. How do you get there? The way that translates in terms of US trade policy, the President's trade agenda, you've got the multilateral negotiations going on through Doha. You have the bilateral and a very active bilateral agenda that we're working. Then you've got the enforcement side. We've talked about Doha. In terms of the bilateral side we have the Oman FTA ready to launch on the Hill, we've got the Peru and Colombia deal.

**Press:** There's clearly been a lot done. The question is have they pushed an outcome that --

**Ambassador Schwab:** Oh, I think they are. I believe very strongly, and in the third element in terms of enforcement, I believe all three of those elements are mutually reinforcing. Everyone knows that the US is fully capable -- If there is no Doha agreement we're fully capable of moving ahead on the bilateral track. If there is a strong Doha agreement there are countries that would like to do more that will move ahead with us bilaterally. If you are not able to negotiate the kind of comprehensive and deep bilateral FTAs that the United States has been negotiating, then you can go to sort of the broader common denominator, multilateral scheme. Then at the end of the day you've got to enforce all of it. So I think it is mutually --

**Press:** And you're quite comfortable with that even --

**Ambassador Schwab:** Oh yes, very comfortable.

As an academic I can argue the multilateral track -- You can run statistics. A multilateral track ultimately is the best for the world, but only if what the outcome of the multilateral track is something stronger than the lowest common denominator. And if all you get is the lowest common denominator then you really need to be working bilaterals.

In this case we're working both multilateral and bilateral. Yeah, I'm very comfortable with it.

**Press:** [inaudible] If you were to come out and say we're going to make that 60 or 70 or 80 or even 90, if you don't get what you want in return you can take it off the table, so why not expand the offer?

**Ambassador Schwab:** At the moment no one, in terms of what we currently have on the table, in terms of the October proposal which is extremely ambitious and very real, and I will come back to that point, no country or group of countries has come close in terms of agriculture market access to what we would need to keep what we have on the table in terms of cuts in domestic support.

It was a conditional offer, so you don't rule out improving it and you don't rule out pulling it back. It really depends on what is the outcome in terms of market access.

Let me go to the market access question and the PR exercise. Every single study that you could get your hands on that talks about what is going to promote global economic growth and development out of a trade round comes back to market access. Period. Full stop. Look at the OECD report that just was issued within the last two or three days. OECD put out a report on agriculture. The bulk of the benefits from a trade round in agriculture will come from market access -- not from cuts in domestic support, not even from cuts in export subsidies, by the way, and we have a great agreement, the one thing that came out of Hong Kong that we can all point to is the elimination of ag export subsidies by 2013. That's the OECD study.

You look at the World Bank study. Same thing. If you look strictly on development, benefits to developing countries, and this is supposed to be the Doha Development Agenda, by far the most benefits come from market access -- not from cuts in domestic support.

So if you're talking about priorities, a focus on domestic support is a misplaced priority. That said, the US has shown it is absolutely committed, willing and able to address the domestic support side of the equation, conditioned on, in exchange for, real market access cuts.

Now just quickly on the question of the proposal that we have on the table. The proposal we have on the table has an equivalent of a 52, 53 percent cut overall; a 60 percent cut in the Amber Box, the most trade distorting; and if you look at how our farm programs are constructed, there is no way that we could implement what we currently have proposed, the conditional offer we currently have on the table, without making radical changes to domestic US agriculture farm programs.

So we are talking about making fundamental changes in our farm programs under the existing offer, and even something short of the existing offer would require -- even a 50 percent cut rather than a 60 percent cut -- would require dramatic changes in terms of our domestic farm programs.

**Press:** A follow-up and a question on your point three on the bipartisan agenda.

What constitutes ambitious outcome in terms of rules? And how much room is there for the United States and Europe to work together on achieving a mutually acceptable outcome on the rules -- not regionalism, but rather [inaudible]? And then in your desire to build this bipartisan support for trade agenda, Mr. [inaudible] this week expressed serious doubts that anything can move on the Hill in terms of trade agreements given the election. What do you want to see there? Is Vietnam ahead of the queue? Or is your desire --

**Ambassador Schwab:** How many more questions are you going to ask me? [Laughter].

**Press:** Is your desire to have the Vietnam agreement move ahead of the line?

**Ambassador Schwab:** Let's --

**Press:** What constitutes ambitious outcome?

**Ambassador Schwab:** Let's start with ambitious outcome. We've spent a lot of time talking about agriculture so far. A Doha round outcome that is only agriculture is not a satisfactory outcome to anybody. The US and the EU, for example, are absolutely, our ambitions are absolutely in line in terms of non-agricultural market access, market access for industrial products. We are very much in synch on services issues. And a variety of other issues. I mean you can look at some of the development elements, the specific development elements. Aid for Trade, trade facilitation, and so on.

On rules, the engagement has started. I think we can come out with a good outcome on rules. Part of our concern about the way antidumping and countervailing duty practices -- laws, policies, practices work in other countries is they are so opaque, they are so not transparent. So one of the things that we are very interested in is far more transparency in those rules because we are so very transparent. And a clear set of processes and rule of law. So we need to see how that is going to play out.

The other area of rules, aren't fish subsidies within the rules negotiations?

**Voice:** Yes.

**Ambassador Schwab:** Another area where unfortunately very much overlooked but I think extremely interesting and could be a fabulous - fabulous is maybe too strong a word - a very, very important outcome of this round is the elimination of fish subsidies, fishing subsidies. Again, both for trade, but in particular in that case for environmental reasons.

**Press:** But we know the focus is not on fish subsidies. The focus is on the friends of antidumping wanting the United States to agree to change in the set rules. That will be the crux. I know we should all be thin, i.e., other people should have transparent rules, but it's not just about other people's rules. Where do you see the ability to work in the European Union --

**Ambassador Schwab:** It's a negotiation.

**Press:** Is there --

**Ambassador Schwab:** It's a negotiation.

**Press:** -- the European Union on board?

**Ambassador Schwab:** It's a negotiation.

Now would you like me to answer, what were the other two questions you asked?

**Press:** I wanted to know about your preference on terms of moving trade. Mr. [McQuery] expressed some doubt that any trade agreement would --

**Ambassador Schwab:** Ah, on the legislative agenda. Very good question.

On the legislative agenda we have or are in the process of teeing up a number of pieces of legislation. I mentioned the Oman FTA which is ready to go. We've had what is known as the mock markup in both the House and Senate. We have the Peru FTA just about ready to go, the ITC report just came out. The Colombia FTA, we're still finalizing details in terms of the text, but that will be ready soon.

As you said, as of last week with the signing of the bilateral agreement between the United States and Vietnam on Vietnam's WTO accession, at some point between now and the time that Vietnam joins the WTO the United States would want to act on PNTR, Permanent Normal Trade Relations for Vietnam, lifting the Jackson-Vanik restrictions.

**Press:** What's that timeframe?

**Ambassador Schwab:** This is what I was going to get, and I think that was [Press] question. We'd like it all now. Ultimately it is up to the Ways and Means and Finance Committees and the House and Senate leadership to decide in what order and in what timeframe. So I'm not in a

position to say this comes first, that comes second, and this is when it shows up. What we need to do and what we are doing is teeing them up, getting them ready to go and then we're in consultations with the House and Senate leadership and in particular Ways and Means and Finance because that's the first step to see when we can move them.

**Press:** And the broader context of Vietnam itself would be?

**Ambassador Schwab:** I think Vietnam, the way the WTO accession process works, as you know, Vietnam now has to sit down with the working group in Geneva, so you've got this multilateral negotiation that has to take place that we assume will not take more than a handful of months and so conceivably Vietnam could be ready to join the WTO by the end of this year, by January.

Vietnam obviously would like it to move as quickly as possible. We would like to get it moving, get that legislation moving.

**Press:** If I can follow up on Peru. There were some press reports that President-elect Garcia may want some changes in the Peru agreement. Have you heard that specifically from any source in Peru to confirm that he does want to reopen it? And what's the reaction to that request?

**Ambassador Schwab:** Our understanding from President-elect Garcia's office is they're not asking for changes. And President Toledo is talking about or perhaps has already started the legislative process in Peru to move that, to move the legislation that they're in.

**Press:** We have newspapers in the upper Midwest where there's a large Mung population. They read about these trade agreements with Vietnam and other countries and they're concerned about conditions in Laos and whether there will be a Free Trade Agreement in Laos that doesn't address the issue of human rights for the Mung.

If you could just translate what's happening with your office for readers back there it would be very helpful.

**Ambassador Schwab:** In terms of the potential for a trade agreement with Laos?

**Press:** With Laos. And communist countries in general. I grew up in an era where communism was something that, I'm still having trouble figuring out how the US changed its position on communism, but --

**Ambassador Schwab:** Because communism failed.

**Press:** Pardon me?

**Ambassador Schwab:** Communism self-destructed. Failed.

**Press:** Well it still exists in several countries, and you hear stories about treatment of people in places like Laos and still in China. I just wonder.

**Ambassador Schwab:** I must say the visit to Vietnam last week was very, very interesting. I would recommend that any of you who have a chance to visit a former transitional communist country and see what happens when markets start working, it's a pretty amazing sight. What happens in terms of the political and human rights equations when you start having seen a growth of the middle class and demands for more access to information and rule of law.

One of the most important things that comes with a trade agreement, particularly accession to the WTO is countries have to take on obligations related to rule of law, related to transparency, related to due process. And things that you start building into your economic and commercial structure that almost immediately have to translate into the broader political base. It's a very, very interesting phenomenon.

In terms of our bilateral negotiations, there is no prospect at all right now for a bilateral FTA with Laos. That isn't even in the cards.

And keep in mind in the case of Vietnam what we're talking about is Vietnam joining the World Trade Organization and having to take on all the obligations and disciplines that come with that. Again, transparency, rule of law.

I think these trade agreements, you don't have to be fully immersed in WTO speak or be a trade wonk to appreciate how introducing very basic commercial rules can contribute to democratization and I think there is evidence of that all over the world.

**Press:** You talked about trade imports as being a critical part of your overall trade strategy, and earlier this year some of us were [inaudible] where Jim Mendenhall talked about the significant uptick in the number of WTO cases. As far as I'm aware, you guys have only filed one WTO case so far this year. Are there more that are in the offering? What countries or what topics are at the top of your agenda?

**Ambassador Schwab:** I think the enforcement side, I talked about the multilateral trade negotiations, talked about the free trade, bilateral agenda, and the third critical element is the enforcement side. For those of you sort of looking at [Press] and [Press] with whom I've worked over many many years, you know that most of the time that I spent on the Hill was on the enforcement side of the equation and developing more open markets through the exercise of both reciprocal trade agreements, but making certain that the United States was not unilaterally making concessions.

We do have, and this started under Ambassador Zoellick's jurisdiction or tenure and continued under Rob Portman's, we do have an active enforcement game plan. The idea is to look at all of the tools available, and that includes the market liberalizing negotiations and filing cases, to make sure you get the job done.

The key is getting the job done. If your objective is market access then what you want to do is use the tool that is most effective. So in the case of intellectual property rights we have our special 301 process. In the last set of 301 announcements we made it very clear which countries



are the most egregious violators of intellectual property. That could be the basis for cases going forward.

The largest case that has ever been taken to the WTO is the Airbus case that we took. The most recent case that we took was the China auto parts case. As you know, that is the third case, I believe it's only the second case ever to be filed against China since China joined the WTO, and the first case was also ours, which was successfully delivered, solved, having to do with semiconductors and VAT tax.

The second case that we were going to file had to do with Kraft liner board and their countervailing duty program, and in that particular case the case was ready to file and as a courtesy on a Friday afternoon Ambassador Bhatia picked up the phone and called the Chinese Ambassador and said on Monday we're going to file this case in Geneva, and by Sunday the problem had gone away. So we never filed that case. So auto parts was the most recent.

So it's a fairly active program. Here's the crux of it. You don't file cases just to file cases. You file cases to get markets open or to correct problems, so we are looking at options for cases going forward where we believe that filing a case in the WTO is the most likely to result in the desired outcome, the market opening. In some cases there are bilateral fora that work much better. I mean with China we also had the JCCT. We had a pretty good meeting of the JCCT a month or two ago, and some of the problems we were addressing were addressed through that. So that's enforcement.

**Press:** -- be impervious to political pressure to file these cases on Capital Hill? [Inaudible] to open up markets?

**Ambassador Schwab:** The key is, is it going to open up markets? The key question to be asked is, what is the market you want open? What is the product, what is the market, and what is the best way of doing it? In some cases it's a bilateral negotiation. In some cases it is going to be through bilateral consultations. In some cases threatening to bring a case. In some cases it's actually bringing a case. But I think the answer is you calibrate on the basis of what's most likely to succeed. Then it becomes incumbent upon you to explain to those who want to achieve the market opening why you think this is the best way to proceed, or why is this particular approach maybe better than another approach.

**Press:** You were talking about the auto parts case if it actually had the entire [inaudible] done is requested consultations, or --

**Ambassador Schwab:** We've requested -- It's the first. You're getting into the weeds. We have formally requested --

**Press:** -- case.

**Ambassador Schwab:** We've requested consultations. If consultations do it, so much the better.

**Press:** I wanted to ask a sort of how you see the world question, but in relation to prospects for renewal or another shot at Fast Track authority next year. Obviously Zoellick had to pay a rather steep price of the steel tariff to get the last go-round. One can argue easily that much has changed in the United States and Congress that's different. There was a group of [inaudible] on the Dubai Ports World, various things. China wasn't really on the stage nearly the way it is now in 2000. I'd like you to talk a little bit about how you see the domestic attitude towards trade, and particularly your prospects for getting renewed fast track.

But I think there's also much that's changed in the world outside of the US. There's a prospect of a President being elected in Mexico, for instance, that's running on a basically anti-NAFTA ticket. There's a huge amount of not necessarily anti-American, but anti-globalization spirit now in South America.

I'm just curious what sort of world you think you're inheriting, both domestically and internationally on the trade front. I think one could argue it's a more difficult one than what Zoellick had.

**Ambassador Schwab:** I suspect every trade representative, anyone who's ever been in this position has probably assumed that the geopolitical and the domestic political situation that he or she is facing is the toughest that any trade representative has faced.

Let me go to the first part of your question which has to do with Fast Track Authority. Fast Track Authority expires July 1, 2007. Obviously anyone in this office would want Fast Track Authority to be there and to not expire, for there not to be a gap. Given the fact that the last time there was an eight year gap between the expiration of Fast Track and the renewal of Fast Track, or the expiration of Fast Track and the introduction of Trade Promotion Authority, nobody can count on that happening as of July 1, 2007.

We will want to pursue it, but in terms of the Doha question that [Press] was asking earlier, none of us, not our trading partners, not the United States, can count on Fast Track being available. So this abbreviated schedule is one that we have to be very conscious of.

In terms of the broader picture, global trade continues to grow dramatically. Economic development we have seen in terms of the economy. The US economy continuing to be strong. I mean 3.5 percent growth last year; 5.3 percent in the first quarter of this year. Obviously we're looking at a good economic growth year. Unemployment down to 4.6 percent. So in terms of the fundamentals here, and inflation low, we're in pretty good shape.

Japan, the economy seems to be picking up steam again finally. You've got China and some of the East Asian countries and some of the Latin countries looking at very impressive growth rates. And trade following along.

So I think in terms of global trade and global economic growth rates, there are some good things going on.

In terms of the politics of trade, there has been some erosion in the bipartisan consensus favoring a pro-trade agenda, favoring an agenda that is steadily continuingly opening market. That the

United States launched initially in 1934 in reaction to the Smoot-Hawley Tariff Bill of 1930, and then really picked up steam in the late '40s with the general agreement on tariffs and trade coming into being. And as we've moved through these various multilateral trade rounds and the US has been in a leadership role in this, there are some who would like to use trade politics as a partisan wedge. But I will tell you, in my conversations with Republicans and Democrats on the Hill as recently as yesterday, Members of Congress, many of them, Republicans and Democrats, would like to be voting for a pro-trade agenda. They understand the benefits that accrue to the nation as a whole but they also, they're politicians and they also have to be cognizant of the fundamental truths about trade liberalization. Those are everybody benefits except that there are going to be pockets, individuals, companies, plants, communities, that are negatively impacted, and we all have to be conscious of making sure that we have alternatives and that we look out for those individuals who are negatively impacted without jeopardizing the potential benefits for everybody else, and that's the political equation. And in a way it's the geopolitical equation because other countries have to do the same thing.

**Press:** So Fast Track, you're not saying whether you're going to make a run for renewal or not.

**Ambassador Schwab:** Am I announcing that we're going to pursue an extension of Fast Track today? No. I can't imagine any US Trade Representative wanting to be in this office without Fast Track. You're obviously in a much better position to have it than not have it, so I would expect to pursue it but I'm realistic enough to know that there could well be a gap. It could be a one month gap, it could be a one year gap. And I'm not going to bet the Doha round on it at this point.

**Press:** But I guess the question is, it's a very serious thing and you may at the same time be trying to do a Korea agreement, you may be trying to do a Doha agreement. Are you telling us --

**Ambassador Schwab:** Our focus --

**Press:** Are you telling us that you may be really willing to commit the resources and the schmoozing and everything else that goes on and the [inaudible] or whatever else might go on to get a Fast Track deal next year?

**Ambassador Schwab:** No. What I'm saying is at this point in time the only thing that I know for a fact is that we have access to Fast Track until July 1, 2007 and therefore we have a finite number of trade agreements that we are pursuing with the expectation of finishing them in time to use this Fast Track. So that's the Doha agreement, that is the Korea FTA negotiation, that is the Malaysian FTA negotiation, and a couple of others that are underway but are not moving as aggressively.

The Koreans were here this week. For those of you who live in Washington you probably didn't miss that. The Koreans were here this week for negotiations on the FTA. Those seem to have gone well. The first round of the Malaysian negotiation is next week in Kuala Lumpur. So we're moving ahead with that.

**Press:** Can I just follow-up on the question of bipartisanship on the Hill. I think it was kind of widely believed that your predecessor had an astonishing ability to talk in fact to both sides of

the Hill and was widely respected. Given the length of time since you've worked there, do you think you have perhaps the same clout with the same ability to bring people along?

**Ambassador Schwab:** I think it comes from being serious about bipartisanship. What is bipartisanship? Bipartisanship or working to achieve bipartisanship is reaching out, being willing to listen, being willing to take seriously the interests and the needs and having a real dialogue. I am fully ready, willing and able to do it, and in fact since I've been here in this job have spent a lot of time up on the Hill with Republicans and Democrats, House and Senate, having these conversations. So that's, as far as I'm concerned, that dialogue is on track and it's not something that happens overnight. The erosion of bipartisanship in the trade arena didn't happen overnight. So it's a slog, but it's in process.

I'm very comfortable, very confident and have a lot of old friends who work on the Hill and have made a lot of new friends in the last six months.

**Press:** Going back to Doha, how does the US contribute to a breakthrough without retreating on what we've defined as an ambitious outcome or as a work in that respect done and we just need to convince other people to come around to the US point of view.

How does the US contribute to getting a breakthrough in Doha without retreating from what we've defined as an ambitious outcome?

**Ambassador Schwab:** Actually, we made our contribution in October. Our first contribution in October jogged things loose. The issue is one of political will and convincing our trading partners that the October offer in agriculture was real and was in fact conditional, that it can't be pocketed, and walked away.

I'll tell you what is not going to work. We are not going to have a successful Doha outcome if the next step is everybody comes in with sweeteners. Sweeteners will not close a Doha round. And as I said during my confirmation hearing when asked about what is our fallback, the answer is there is no Plan B.

**Press:** What is a sweetener?

**Ambassador Schwab:** You hear various individuals or delegations talking about topping up existing offers, adding sweeteners to different offers. Some of them have been defined, some of them haven't. But incremental changes will not result at this point in an ambitious, robust outcome. Period.

**Press:** Can I ask about airplanes?

**Ambassador Schwab:** Yes.

**Press:** Wall Street is saying that Airbus really needs the launch aid because they're going to have to go a whole new A350, they can't do it on the cheap like they were hoping to so there's going to be some pressure on them to cut some kind of deal with you that will let them get the money.

Where do things stand? I know you had some technical discussions recently. What's going on with that case?

**Ambassador Schwab:** This is an area that's been under my jurisdiction as Deputy USTR and we've been in negotiations with the Europeans since the beginning of this year on the issue of launch aid and eliminating launch aid.

The US position on launch aid hasn't changed, which is we oppose launch aid. And if Airbus and the EU member states suddenly announce that there is going to be launch aid for the A350 or whatever they're going to call it, that certainly is not going to further the negotiations. We've been going through a lot of technical issues and leading up to what would be or could be a solid political agreement that would really be of benefit to both sides, certainly the taxpayers within the European Union. But is there pressure for us to do a deal? The only pressure we feel to do a deal is if we can get an agreement on Airbus that does not include launch aid and that works for both Airbus, Boeing and I might add there are a lot of suppliers that have an interest in this outcome.

**Press:** Can you share with us some of these areas where you're seeing progress?

**Ambassador Schwab:** In the past these talks have gotten hung up on what is a subsidy, what is not a subsidy, so that the conversation that has been going on, the negotiations that have been going on have to do with the different stages of development, creation development, production in the life of a large civil aircraft, what constitutes a government financial contribution, direct or indirect, financial contribution on the part of a government that needs to be eliminated or disciplined.

But those negotiations have been going on in good faith and if all of a sudden the EU member states announce that they're going to give X billions of dollars, what's the number, \$3, \$4 billion to Airbus --

**Press:** That they've already said they're allowed to give.

**Ambassador Schwab:** I would suggest that that is not going to contribute to a successful outcome to a negotiation, how's that?

**Press:** Are you horse trading on some of these other things? The production aid, the facilities assistance tax breaks, whatever all these --

**Ambassador Schwab:** I'm not going to get into specifics of the negotiation. I will note that one of the elements that the EU has pointed to as being most aggravating to them over the years was FSC, the Foreign Sales Corporation. As you know, the United States Congress has eliminated the Foreign Sales Corporation. So we are acting on our convictions.

**Press:** Can you go back to South Korea for a moment and expand on how you see the talks progressed this week? And if you could comment on Russia and what progress there might be happening there with bilateral [inaudible] political?

**Ambassador Schwab:** On Korea, it was the first round and Neena handed me a little piece of paper to tell me that on the first round of negotiations on the Malaysia deal next week is in Penang, not in KL, so I correct the record.

In the case of Korea I will tell you the Koreans are still here and Wendy Cutler, who is our Assistant USTR for Korea, hasn't fully briefed me, so that plus the fact that once you're actually in the negotiation you don't like talking about what you're negotiating on.

I'm not going to get into any details other than there are texts exchanged. We know, going back to your question about Fast Track, about Trade Promotion Authority, we know we're on an accelerated track, so the fact that we're already exchanging texts and we're working through texts and getting down to some of the, at the front of these negotiations you try to work out the issues that are most easy to work out, your early wins. Anyone who's studied management, you go for your early wins. And you sort of collapse the negotiation ultimately into the issues that are toughest for both sides, and we seem to be progressing. This is just the first week, but progressing very much along that line and at a far better or far faster pace than some of our other FTAs in the past because we just don't have the time to do it.

You asked about Russia. That is not, from our perspective that is not a political negotiation. That is a straightforward commercial negotiation. For those of you who don't track this, Russia is interested in joining the World Trade Organization. We are interested in having Russia be a member of the World Trade Organization, for a whole variety of reasons, not the least of which the ones that [Press] was asking about in terms of the relationship between trade and democratization.

But fundamentally from this office's perspective for a country that large, of that significance, they should be within the WTO and should be subject to the obligations and rules of the WTO and should enjoy the benefits of the WTO. To accomplish that we have to finish our bilateral, then they go to the multilateral stage. We're not there yet on the bilateral. I think both sides are trying to work constructively to get that done. There are a number of critical, outstanding issues that I can't talk about, but we want to get it done and a strong commercial outcome to that negotiation, as soon as we reach a strong commercial outcome to that negotiation we'll have a deal and then Russia would go to the next stage in terms of its accession.

**Press:** There was some talk about getting that done before mid July. Is that still -- before the G8 Summit.

**Ambassador Schwab:** Maybe. It's not beyond the realm of possibility. Again, it has to do -- Here's the key to that negotiation, any negotiation. The key is the substance, not the pacing. When we have the outcome that we need, the strong commercial outcome that we need, the deal is done. It could be tomorrow, it could be a year from now, but what drives it is the substantive outcome, not the timing.

**Press:** Can I ask, related to that, are you hearing from the Russians anything about them bringing extraneous issues into that negotiation, such as American interests in natural gas exploration?

**Ambassador Schwab:** The negotiations that we have had, that I've been involved with with Ambassador Portman up to this point, have been strictly focused on the trade issues that come into play in a WTO accession negotiation. So the answer is that our negotiations are confined to the commercial issues that we would negotiate, and the most recent WTO negotiations have involved -- Vietnam being the most recent one, Ukraine before that, and it's the same set of issues. It's confined to those issues.

**Press:** But you [inaudible] mention that in other fora.

**Ambassador Schwab:** You pick it up in the paper periodically, but as far as the negotiation is concerned it's a straightforward commercial negotiation.

**Press:** Back to the OECD study that you referred to earlier. It looked at halving domestic subsidies, halving tariffs. The G20 proposal calls for average tariff cuts of 52 percent --

**Ambassador Schwab:** Fifty-two or 54, depending on how you look at it.

**Press:** The US proposal --

**Ambassador Schwab:** Sixty-six.

**Press:** -- subsidy overall, domestic subsidy cuts, so 53 percent for the United States. Would a 50/50 solution reach a deal? Fifty percent tariff cuts and 50 percent domestic subsidy cuts. Would that be an ambitious result?

**Ambassador Schwab:** You mean something that's even south of G20, no.

**Press:** Okay, then 53/53, something like that?

**Ambassador Schwab:** No. Think ambitious. Think market access. Think big. You're right, though, the difference --

**Press:** So the tariff cuts have to be bigger than the subsidy cuts, is that what you're saying?

**Ambassador Schwab:** Think market access. If you look at the OECD, we had this conversation, it's funny, had this very conversation earlier about the OECD. Why did the OECD pick 50 percent and why did the World Bank pick 100 percent liberalization? I asked our chief economist and the answer was they have to pick some number on which to do their analysis and that's the number they picked. So it's not indicative of anything.

I would note, the US position in terms of market access is 66 percent, you know how the tiers work, but it's ultimately an average 66 percent cut in tariffs. That hasn't changed.

**Press:** You really are holding firm on the notion that no outcome, failure of this round is better than something that's significantly less ambitious than where the US is right now?

**Ambassador Schwab:** If you do one of these once every generation, and if your objective is to liberalize trade, why would you settle for something that doesn't do a whole lot to liberalize trade?

Keep in mind, what you're talking about is cuts from bound rates. And depending on which country you look at, you can cut 50 percent off of bound rates and not even cut into an applied rate.

Our position is fully in sync with the 2004 Doha Declaration which was for, and is for, substantial increases in market access, meaning real trade flows, real new trade flows. If you can't get real new trade flows, why bother doing the rest of the deal?

**Press:** What happens if it fails? What are the consequences of just declaring there's not an ambitious deal, the Doha round has failed?

**Ambassador Schwab:** It's too early to talk that way. This can be done. This is a matter of political will. This can be done.

**Press:** On textiles, your predecessors I guess through political concerns have always had to walk a fine line between the domestic industry and the importers. I'm wondering how you plan to walk that line and how that would play itself out in something like the textile sectoral initiative that the domestics are pushing for.

**Ambassador Schwab:** One of the things I'm looking forward to doing as USTR is getting to know a variety of constituencies that we'll be working with here. As Deputy I've gotten to know some more than others. I used to have a very good working relationship with the textile, apparel and footwear sectors when I worked on the Hill and look forward to renewing and strengthening those conversations. I have not had a conversation yet about their ambitions, their interests in terms of Doha. Obviously the issue of textiles and apparel is always a politically touchy -- Agriculture and textiles and apparel in my experience are the two touchiest sectors in any country, in any trade negotiation. So it will be interesting to see how it plays out.

Keep in mind, the difference, in our case we do have a slightly different mandate on textiles and apparel in Trade Promotion Authority, in the trade legislation governing what we're doing, having to do with comparability. I'm not sure how that translates, but it's certainly something we have to take into account as we negotiate. So it's too early to talk about sectorals. It's too early to talk about sectorals, and right now we're really focused on, as you know, the fundamental parameters of the non-agricultural market access, the NAMA numbers, the coefficients.

**Press:** As you know, one of the concerns on the Hill is about China. It's one of the things that held up for a little while your confirmation.

**Ambassador Schwab:** I noticed. [Laughter].

**Press:** I'm wondering specifically if Senator Schumer was concerned about access of the US financial institutions to China and I wondered if you could be more specific about what you



might have said to multiply those concerns, and also address in general what your office can do in terms of dissuading some concern about China on the Hill.

**Ambassador Schwab:** Good question. Senator Schumer and others have an interest in making sure that the US, that the Administration, that the US Trade Representative's office is tough in our dealings with China and realistic. The sort of thing that members of Congress -- Republicans and Democrats -- have been calling for for years and years and years, not just with respect to China, but previously with Japan, with other countries, with the EU.

I needed to be in a position to reassure and to assure members of the Senate Finance Committee and ultimately the United States Senate, that I will actively pursue US interests, aggressively pursue US interests, whether it's vis-à-vis China or any other country.

Ultimately it goes to what is the best way of doing that, and goes to the tool box we have. That ranges from negotiating new trade liberalizing agreements to enforcing other agreements.

In the case of financial services, as with the case, by the way, on most issues we deal with here, we're working with other agencies. So in the case of trade and financial services we work very closely with the Treasury Department. Depending on, if you saw the questions that Senator Lindsey Graham, Senator Schumer sent me, we'll provide you a copy of that. But what you will see from that is there are certain areas where China has made commitments as part of its WTO accession agreement, where those commitments need to be implemented by the end of this year. That is an enforcement issue. If their commitments are not lived up to, what enforcement activities do we undertake.

There are other areas where there are no existing commitments and therefore either through the services negotiation during the Doha round or through the GATS, General Agreement on Trade and Services negotiations where you address those issues.

So it depends on are you talking about insurance, are you talking about brokerage, are you talking about banking. We'll get you a copy of the letter because it lays it all out.

**Press:** They seem to want in general on the Hill a more aggressive, tougher stance towards China, and seem to be criticizing USTR for having been too diplomatic or [inaudible] or whatever you want to say. Do you expect to --

**Ambassador Schwab:** It goes to the question of enforcement. The point I'm trying to make is it's not just vis-à-vis China. It is if you are going to have a successful trade policy that is widely supported on a bipartisan basis in the US Congress and outside the Beltway, it has to be credible. That means when you negotiate trade agreements you need to be willing to enforce them. You need to show that other countries are going to live up to those trade agreements, and that we're willing to live up to those trade agreements.

One of the issues we talked about, Foreign Sales Corporation, the WTO found that our Foreign Sales Corporation legislation was illegal. We eliminated it. Cotton. Step two program, was found to be illegal. We've eliminated it. That's an export subsidy program.

So I think it works both ways. I think Congress is willing to address our policies and laws that are inconsistent with our international obligations if and only if we are actively enforcing agreements that other countries have committed to.

**Press:** To go back to your interest in restoring bipartisan consensus on trade, the issue that seems to be most standing in the way of that bipartisan consensus is labor. Is there anything new you feel you can offer the House Democrats, in particular, on labor since that seems to be potentially a road block to the FTA's with Oman and Peru?

**Ambassador Schwab:** I think the key on labor, the way we have negotiated the labor elements of the Free Trade Agreements, we've done it on a country by country basis, because each country's situation is different from that of another country. The situation in Peru is different from the situation in Bahrain, is different from the situation in the CAFTA countries. We have been very comfortable with the notion that yes, we would like to see through these FTAs internationally recognized standards pursued, enforced, and that those can be built into these trade agreements.

Under Trade Promotion Authority we are expected to negotiate agreements where each side enforces our own labor laws. That's existing. So what we've done in the context of these FTA negotiations is getting our trading partners to improve their labor laws that they ultimately will be enforcing under the FTAs.

Those are conversations that are going on all the time. I mean if the question that you're asking is is my door open to have these conversations with the House Democrats, absolutely. We think we're doing a pretty good job and we'll continue the dialogue.

**Press:** The April trade deficit figure came out today. So far this year the deficit is running six percent above last year's record. It will be the fifth straight year of a record deficit. Do you expect a record for this year? And how much of a problem is that going to be, given this is an election year? Do you expect that to be an issue?

**Ambassador Schwab:** I think you need to look at the composition and the context of the trade numbers. If you look at the first quarter of this year, we have over 11.7, almost 12 percent growth in US exports in the first quarter. A little over 12 percent increase in US imports. You look at the composition of US imports and you discover, particularly in the last month, the last month's number, so much of that is petroleum.

So if you are looking at what part of the trade balance is affected by US trade policy, it's the US export side primarily, and that's a pretty darn good picture.

We had a question about China earlier. US exports to China, obviously the US trade deficit with China is very, very large, incredibly large, and yet US exports to China were up over 20 percent last year, over 20 percent the year before last. And then you look at the trade numbers -- So that's the composition of the trade numbers. You look at the context of the trade numbers, and it's in the context of 3.5 percent growth last year and 4.6 percent unemployment and two million jobs created in the last 12 months.

So the answer is, the trade deficit is always a good talking point, but when you start looking at how it's made up, the context and the composition of the trade deficit, you see a picture that is certainly much more complicated and much less dire than the folks who just use it as a talking point.

**Press:** Can I ask another question about China in line with promoting exports over there? The Commerce Department's getting ready to come out with new regulations designed to further restrict the export of advanced technology that has some military potential for the Chinese. A number of industries, particularly in software, are concerned that's going to end up costing them potential exports and the Chinese will be able to get the technology anyway elsewhere. Are you confident that Congress has the balance right between national security and economic development?

**Ambassador Schwab:** Let me suggest that one of my hallmarks in this job would be to stay within my area of competence, and I couldn't begin to second guess what Commerce is doing on export controls. As you know, Commerce, State and Defense are the three agencies with the most influence over that. I can't speak to the changes you're describing.

I will say that when you look at the US trade deficit with China, studies that I've seen would indicate that US export controls have very, very little impact on, very little depressing impact in terms of US exports to China. That's my understanding in terms of the data. But I can't speak to what Commerce, what the BIS is working on now. Sorry.

**Press:** Just going back to the economic backdrop when you talked about the economic growth and the global unemployment rate. Those seem to be items that usually aren't associated with hostility in trade or protectionism, yet we seem to see a lot of bipartisan weariness. Why do you think that is this time? What's the concern about it?

**Ambassador Schwab:** Big numbers. Last year's trade deficit, it's just revised, so north of \$700 billion. That's a large number. The US trade deficit with China is a large number. \$202 billion is a large number. It is reflective of a couple of things. One, the US market is the most open market in the world and we are consistently an engine of growth for the rest of the world. We'd like to see other engines revving up to help. But that's not to say that a large trade deficit necessarily means that it is somehow unhealthy in terms of our economy. Again, you look at the context and you look at the unemployment rate and you look at US innovation and you look at the composition of the trade deficit and you discover that once you have looked at the content it is not cause to be alarmed. But those are big numbers. We would like to see more US exports. We'd like to see greater global economic growth so that other countries are also absorbing the exports of developed and developing countries, but I think that's really the answer.

**Press:** If I can just follow up on that, Ambassador Portman was clear in saying that the trade deficit, both universally and with China, is unsustainable. Are you saying to day that you don't think that's the case because these other factors --

**Press:** No, no. I think the question that was asked had to do with, I took it to mean causality. I agree with Ambassador Portman, I don't think the deficits are sustainable the way they are. But what I'm saying is, are they reflective, are the trade deficits causing fundamental harm in the

economy? And the trade deficits are in fact reflective of broader forces. The trade deficit is a reflection of global economic growth, different growth rates among countries. It is reflective of our very low savings rate which is clearly unhealthy. So savings and investment differences.

If the question is is the trade deficit the cause of harm to the economy - I don't think Ambassador Portman was saying that either - but is the trade deficit sustainable? There are causes related, things that cause the trade deficit that we'd like to see change and improve. I hope that helps.

**Press:** Can I ask about softwood lumber? [Laughter].

**Ambassador Schwab:** You saved the easy one for last. Okay, let's do softwood lumber.

**Press:** You said in your hearing on the 16<sup>th</sup> of May that you thought it would be a few weeks to where the details --

**Ambassador Schwab:** We're still working on it. [Laughter].

**Press:** Have you got any dates in mind for when it might be [inaudible]?

**Ambassador Schwab:** I like to think we're within a couple of weeks of closing it. It took us 24 years to get the term sheet, so it's taken us a few more weeks to iron out the details of the actual agreement.

**Press:** Was there anything in particular that's taken longer than you thought it would?

**Ambassador Schwab:** You're addressing a problem that is as complex as the softwood lumber dispute, and you have, actually at the time 24 strands of litigation. I think there are even more now. There have been more court cases filed since the term sheet. There are so many players. You look on the Canadian side, you've got different companies, different provinces with different interests, and it just takes a while to pull it all together. It's natural.

It's aggravating, once you think you've reached the decision on the really tough core issues, and then you have to do all the details, but it comes with the territory.

**Press:** How does that affect the US paper industry?

**Ambassador Schwab:** The US paper industry?

**Press:** Yeah.

**Ambassador Schwab:** The softwood lumber agreement is as market based as you could possibly get, and certainly more market based than having antidumping and countervailing duties that are now in place or would be in place under a lumber five, another set of litigation. So I think the answer is compared to the status quo and compared to what would happen in the absence of an agreement, the paper industry should find it has more certainty and more stability in terms of its access to raw material, whether it's US or Canadian. And shouldn't be affected otherwise.

**Press:** It's a total soft ball. [Laughter].

I think it's saying nothing derogatory about you to say that one thing that's changed with you taking over is potentially some relationships on the Hill. Ambassador Portman is probably more ideally suited than any person on the planet to serve as a connection from the Administration to Capital Hill. So what I'm wondering is do you feel you need to spend a little bit more time there? Are you going to regularize your approach? Are you going to try to, even though I understand you have some old friends there, you've been sitting in leadership meetings, is there, on the Hill, is there some approach you're taking to try to build relationships there that is systematic? Have you thought out --

**Ambassador Schwab:** It's a good question. There are, I'd say two parts to the answer. One is yes, I intend to be systematic in my approach to the Hill and that means going up there often. It means reaching out to members in the Finance and Ways and Means Committees, in the Senate Agriculture Committee and the House Agriculture Committee, but also members who aren't necessarily on the traditional trade and tax law writing committees. It means listening, doing a lot of listening and finding out what the concerns are. But I would also point out that the USTR alumni team is very well placed in this Administration and that includes Rob Portman who's now head of the Office of Management and Budget, and Josh Bolden who used to be the General Counsel here, who is now White House Chief of Staff. So there are a number of us who have good relationships in the Congress and want to be building new and better relationships. I will certainly be doing my share of that.

**Press:** And there's Ambassador Zoellick too.

**Ambassador Schwab:** You're absolutely right. There's Bob over at --

**Press:** [Laughter].

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