

EXECUTIVE OFFICE OF THE PRESIDENT
**OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE**

OFFICE OF PUBLIC & MEDIA AFFAIRS

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**FOR IMMEDIATE RELEASE
Monday, June 1, 1998**

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**PRESIDENT CLINTON PROVIDES IMPORT
RELIEF FOR U.S. WHEAT GLUTEN INDUSTRY**

In response to a unanimous finding by the United States International Trade Commission (USITC) that imports of wheat gluten have substantially injured the U.S. industry and their unanimous recommendation that the industry should receive "safeguard relief," President Clinton today announced temporary import relief to enable the industry to adjust to import competition. For the first time in decades, the wheat gluten industry experienced financial losses due to a surge in imports. The President's decision was made after thorough interagency review of the USITC report and its recommendations, and represents an appropriate response to the needs of the U.S. wheat gluten industry under Section 201 of U.S. trade law and our international obligations and demonstrates the Administration's commitment to a trade policy that works for all U.S. industry.

"The actions we have taken today are designed to provide relief to U.S. interests, which have been injured by imports," said U.S. Trade Representative Charlene Barshefsky. "This action provides the U.S. industry with relief from surging import competition, and is fully consistent with our international trade obligations."

A main element of the action is a temporary import quota on wheat gluten from all countries, excluding our free-trade agreement partners and developing countries. The quota will last just over three years (June 1, 1998 through June 1, 2001), and will grow by a specified percentage in the second and third years. The President has also directed the U.S. Trade Representative, with the assistance of the Secretary of Agriculture, to seek to initiate international negotiations to address the underlying cause of the increase in wheat gluten imports or otherwise to alleviate the injury. Details on the specific actions are set out in the attached background section.

Background

The President has implemented the following actions with respect to imports of wheat gluten:

Temporary Quota Relief: Effective June 1, 1998, a quota on imports of wheat gluten under tariff subheadings 1109.00.10 and 1109.00.90 will be established in the amount of 126.812 million pounds. The quota will increase six percent annually for the duration of the relief period, which will expire on June 1, 2001. Individual country quotas are established for imports from Australia, the EU and an "other countries" category. The country quotas will also increase by six percent annually. The quota for the year beginning June 1, 1998, will be 62.425 million pounds for Australia; 54.041 million pounds for the EU; and 10.346 million pounds for the "other countries" category. The U.S. Trade Representative is authorized to reallocate any significant unused quota allocations in order to ensure that the quota is substantially filled.

The overall quota that begins on June 1, 1998, is equal to average U.S. imports of wheat gluten from all sources in 1993-1995. This is the most recent period prior to a surge in imports that led to the serious injury now being faced by the domestic industry. The country quotas were determined by applying average country import shares during 1993-1995 to the overall quota plus adding, on a pro rata basis, average imports of excluded countries (primarily Canada) during 1993-1995.

The President found pursuant to the NAFTA Implementation Act that imports of wheat gluten from Canada do not contribute importantly to the injury caused by imports and that imports from Mexico do not account for a substantial share of imports of wheat gluten. As such, imports of wheat gluten from Canada and Mexico are excluded from the quota. Similarly, the quota will not apply to imports of wheat gluten from Israel, the beneficiary countries under the Caribbean Basin Economic Recovery Act and the Andean Trade Preference Act, as well as developing countries that have accounted for a minor share of wheat gluten imports. Of the countries mentioned above, only Canada exports significant quantities of wheat gluten to the United States.

Monitoring: The USITC will monitor developments with respect to the domestic wheat gluten industry, including progress and specific efforts made by workers and firms in the domestic industry to make a positive adjustment to import competition, and will provide to the President and the Congress a report of its monitoring no later than the mid-point of the relief period, approximately year-end 1999.

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FOR IMMEDIATE RELEASE
Thursday, June 4, 1998
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**FOREIGN SHARE OF THE JAPANESE SEMICONDUCTOR MARKET
REACHES 32.7% IN THE FOURTH QUARTER**

Foreign share of the Japanese semiconductor market rose slightly to 32.7% in the fourth quarter of 1997, up slightly from the third quarter, but below the record high of 35.8% attained in the second quarter. Overall, the 1997 average share was 33.3% compared with 27.5% in 1996, and 25.4% in 1995.

Although total foreign sales decreased between the third and fourth quarter, U.S. sales remained essentially flat or only decreased slightly between the two periods. At the same time, however, the Japanese market contracted by more than 10 percent, mainly due to reduced DRAM production. (The Japanese market has been shrinking since reaching a high in mid-1995.) The combination of these factors is a small increase for both U.S. and total foreign share.

"I am reassured to see that the foreign share of the Japanese semiconductor market has regained its upward trajectory after a temporary set-back in the third quarter," said Ambassador Charlene Barshefsky. "I also am pleased that the average annual share for 1997 is almost six percentage points above the average for 1996 and that interest in international industry cooperative activities is at an all-time high. However, it is important to recognize that this growth has occurred in a shrinking market, which once again underscores the need for Japan to take meaningful steps to stimulate the economy."

Foreign Market Share

Q3 1991	14.3%
Q4 1991	14.4%
Q1 1992	14.6%
Q2 1992	16.0%
Q4 1992	15.9%
Q1 1993	20.2%
Q2 1993	19.6%
Q3 1993	19.2%
Q4 1993	18.1%
Q1 1994	20.7%
Q2 1994	21.9%
Q3 1994	23.2%
Q4 1994	23.7%
Q1 1995	22.8%
Q2 1995	22.9%
Q3 1995	26.2%
Q4 1995	29.6%
Q1 1996	26.9%
Q2 1996	26.4%
Q3 1996	27.1%
Q4 1996	29.4%
Q1 1997	32.6%
Q2 1997	35.8%
Q3 1997	32.1%
Q4 1997	32.7%

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EMBARGOED UNTIL 4:00 AM
Friday, June 5, 1998

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AMBASSADOR BARSHEFSKY ANNOUNCES CONCLUSION OF
APEC TELECOMMUNICATIONS EQUIPMENT MUTUAL RECOGNITION
ARRANGEMENT

United States Trade Representative Charlene Barshefsky today welcomed the conclusion of a Mutual Recognition Arrangement (MRA) for telecommunications equipment among members of APEC.

"The APEC Telecom MRA will boost trade in telecommunications and information equipment goods among members of APEC, affecting roughly \$45 billion in current trade flows, or one-third of the global market. It will accelerate the completion of technical testing (MRA phase one) and certification (MRA phase two) procedures and accelerate necessary regulatory actions and cut redundant testing of these high technology goods," stated Ambassador Barshefsky.

"The MRA will allow U.S. telecommunications equipment makers to take greater advantage of new technology and the ever-shortening product life cycles of high tech equipment," said Ambassador Barshefsky. The MRA builds on the gains realized by the Information Technology Agreement in expanding opportunities for America's high tech industries and their highly-skilled workers, while lowering the cost of imported components for the United States' own National Information Infrastructure."

The APEC Telecommunications Equipment Mutual Recognition Arrangement, like the telecommunications equipment chapter of the multi-sectoral U.S.-E.U. MRA signed on May 18, is intended to streamline the conformity assessment procedures for a wide range of telecommunications and telecommunications-related equipment and thereby facilitate trade among

the participating Parties. An MRA does not require harmonization of mandatory technical requirements.

The MRA is part of the "early voluntary sectoral liberalization" initiative launched by APEC Leaders last November in Vancouver. It is one of 15 sectors selected for a program of liberalization, and one of the 9 of these targeted for early action in the first half of 1998. APEC Trade Ministers will meet in Kuching, Malaysia on June 22-23 on the remaining 8 sectors (environmental goods and services, medical equipment and instruments, chemicals, energy sector, forest products, fish, toys, and gems and jewelry).

Ambassador Barshefsky further stated, "The APEC Telecom MRA is the first multilateral MRA on telecom equipment. The completion of the work on the Telecom MRA is an encouraging indication that the early voluntary sectoral liberalization initiative begun last year is producing concrete results. I look forward to matching the progress made on the MRA with progress in the other sectors at Kuching."

Background

The conclusion of the arrangement came at a gathering of APEC Ministers for Telecommunications and Information on June 5 in Singapore. The ministers released a declaration endorsing the MRA and specifying dates for sixteen of the eighteen APEC economies which have immediate plans for bringing the MRA's provisions into effect. Chile and New Zealand indicated that participation is unnecessary for their economies due to the relative simplicity of their regulatory regimes for telecommunications equipment.

The APEC Telecommunications Equipment MRA provides a mechanism whereby the exporting party may designate Conformity Assessment Bodies to test and/or certify telecommunication equipment to the mandatory telecommunication requirements of the importing party. Testing and certification are expensive procedures for exporters, importers and regulators, with costs that flow on to users. All stakeholders benefit from simplified procedures that can reduce these costs. At the same time, regulators need to have confidence in the quality of testing that provides the basis for certification of equipment. As technology advances, the need for specialized knowledge and equipment increases. The MRA gives regulators in importing economies a framework for confidence in the integrity of testing and certification of equipment undertaken in other economies. It also provides remedies where any deficiencies are discovered.

The key elements of the Arrangement include:

- (1) its scope, which includes all equipment subject to telecommunication regulations, including wireline and wireless, terrestrial and satellite equipment;
- (2) detailed procedures for designating, recognizing and monitoring conformity assessment bodies;
- (3) a requirement for the acceptance of the results of conformity assessment procedures

performed by these conformity assessment bodies;

(4) a transition period for training and confidence building;

(5) a Joint Committee to facilitate the implementation and running of the Arrangement; and,

(6) due process requirements for protection of all parties to the Arrangement.

While APEC Ministers endorsed the conclusion of the MRA text, this does not, in and of itself, create legally binding international obligations. It is up to each economy to decide how it will use the MRA. The intention of the United States is to rely upon exchanges of letters to bring the MRA into force as a trade agreement with interested APEC trade partners.

The Federal Communications Commission (FCC), by a 5-0 vote on May 14, adopted a notice of proposed rulemaking (NPRM) which is the first step towards U.S. implementation of the APEC Telecom MRA, as well as the telecom chapter of the multi-sectoral U.S.-E.U. MRA. The FCC proposal (NPRM in ET Docket 98-68) is available for review at "www.fcc.gov/oet/dockets/".

The FCC proposal suggests that USTR take responsibility for investigating and enforcing trade partners' good faith compliance with the terms of the MRA.

The APEC Telecom MRA is consistent with WTO rules that inhibit the use of standards and mandatory regulations as technical barriers to trade. The WTO Agreement on Technical Barriers to Trade recognizes that members may enter into Mutual Recognition Agreements that give mutual satisfaction regarding their potential for facilitating trade in the products concerned, as one means of facilitating trade.

Annex to the Telecommunications Ministerial Declaration
Indicative Schedule for Early Voluntary Sectoral Liberalization in the Mutual Recognition
Arrangement on Conformity Assessment for Telecommunications Equipment

	<i>Mutual Recognition of Test Reports (Phase I)</i>	<i>Mutual Recognition of Equipment Certifications (Phase II)</i>
<i>Australia</i>	Australia already accepts test reports from other parties	Suppliers' declarations are accepted now. Australia does not require certification.
<i>Brunei Darussalam</i>	2003	2003
<i>Canada</i>	End of 1998	End of 1999
<i>China</i>	2002 for network terminals	To be advised.
<i>Hong Kong, China</i>	Already in effect	Two-three month process required.
<i>Indonesia</i>	2005	To be advised
<i>Japan</i>	July 1999	July 1999 (targeted, but could be 2000)
<i>Korea</i>	July 1999	To be advised.
<i>Malaysia</i>	2003	2003
<i>Mexico</i>	June 2001	to be advised
<i>New Zealand*</i>	see footnote	see footnote
<i>Papua New Guinea</i>	December 2001	To be advised
<i>Philippines</i>	2005	2006
<i>Singapore</i>	July 1999	End of 1999
<i>Chinese Taipei</i>	Already in effect	2000 (targeted, but could be 2001)
<i>Thailand</i>	2004	2006
<i>United States</i>	FCC currently accepts test data from other parties.	July 1999

* The responsibility for setting the standards for attachment to telecommunications networks in New Zealand rests with network operators, not the Government - except in as far as electrical safety and electro-magnetic compatibility are concerned. Recognizing its potential to contribute towards removal of NTMs in the APEC region, New Zealand proposes to endorse the MRA."

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FOR IMMEDIATE RELEASE
Friday, June 5, 1998

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**USTR RESPONDS TO WTO REPORT
ON U.S. HIGH-TECHNOLOGY EXPORTS**

The Office of the United States Trade Representative today issued the following statement regarding a WTO Appellate Body report that found that the EU had not violated its WTO obligations by raising tariffs on U.S. computer networking equipment:

We are evaluating the Appellate Body's report. Naturally, we are disappointed with the report. However, we are gratified that bringing the case forward has already resulted in substantial commercial gains for our industry.

Under the Information Technology Agreement (ITA), tariffs that were 7.5% when we brought the case are now 3.75%, and will be reduced to 1.9% on January 1, 1999, and will go to zero on January 1, 2000 no matter where LAN equipment is classified. Consequently, this decision will have a limited economic impact. The leverage of filing this case helped us in achieving commercial gains including successful conclusion of the Information Technology Agreement.

The United States brought the WTO case after the EU and its member states began assessing duties on computer networking equipment and multimedia personal computers at rates higher than those provided for in their tariff concessions. The United States also sought to remedy this practice by negotiating a safety net in the ITA. As a result, the ITA provides that the EU and other ITA participants must eliminate tariffs on a list of high technology products - including computer networking equipment and multimedia PCs - regardless of previous tariff commitments.

Background

The dispute in this case concerned increases in tariffs on computer networking equipment and one type of multimedia personal computer. In 1994, the EU agreed to cut its tariff rates on the tariff category for automatic data processing machines (ADP machines), which include all types of computer equipment. But soon afterward, UK and Irish customs authorities began to reclassify imports of computer networking equipment to the category for telecommunications equipment, and reclassified one type of multimedia PC as a television receiver. The effect was to nearly double tariffs on these products. In 1995 the EU reclassified local area network (LAN) adapter cards as telecommunications products. In the Information Technology Agreement concluded in 1997, the EU agreed to lower the tariffs on all electronics products to zero by January 1, 2000.

After technical talks in 1996 failed to achieve progress, in November 1996 the United States requested WTO consultations with the EU on this issue. In February 1997 the WTO Dispute Settlement Body established a dispute settlement panel to examine the U.S. complaint. The United States also pursued dispute settlement against Ireland and the UK; these complaints were also dealt with by the same panel. The panel's final report was released on February 5, 1998.

The panel report found that the tariff concession on "automatic data processing machines" (category 84.71) in the EU's Uruguay Round tariff schedule applies to computer networking equipment. Since the EU has been applying higher tariffs to computer networking equipment than the tariffs provided for in category 84.71, the panel found that the EU is in violation of its tariff obligations. The Appellate Body disagreed with this finding.

In this litigation the United States also addressed the EU's tariff treatment of certain types of multimedia personal computers (PCs). The panel found that (1) PCs that incorporate a TV tuner card can be regarded either as PCs capable of receiving TV or televisions that can also function as computers, and (2) the panel could not make a decision in the U.S.' favor on the basis of the evidence before it. However, this U.S. point had been raised due to concerns that the EU might treat any PC with multimedia capabilities as a television for tariff purposes. But when the EU implemented the ITA in July 1997, it confirmed the classification of multimedia PCs as computers, not televisions, and effectively restored the original tariff treatment to multimedia PCs. This too was because of the leverage generated by the pending WTO litigation.

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**FOR IMMEDIATE RELEASE
Tuesday, June 9, 1998**

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**U.S. TRADE REPRESENTATIVE NAMES DAVID S. KIM
TO CONGRESSIONAL AFFAIRS POSITION**

U.S. Trade Representative Charlene Barshefsky announced the appointment of David S. Kim to serve as Deputy Assistant U.S. Trade Representative for Congressional Affairs.

"I am delighted to add David Kim to my congressional affairs team," said Ambassador Barshefsky. "David's background as a lobbyist and long-time legislative staff person at both the federal and state levels will greatly enhance our efforts to work closely with Congress on trade-related issues."

As Deputy Assistant U.S. Trade Representative for Congressional Affairs, Kim will help to advance the Clinton Administration's trade agenda on Capitol Hill. He will also facilitate regular briefings and consultations on emerging trade issues and negotiations with members of Congress, congressional staff and key committees.

Kim, 35, previously served as a lobbyist in Washington, D.C. for the City of Los Angeles. He also spent a decade working on the staff of numerous elected officials in Washington D.C., Los Angeles and Sacramento, including Representative Xavier Becerra (D-CA) and former State Senator David Roberti (D-Los Angeles). Kim earned a Bachelor of Arts Degree in Political Science from Occidental College and a Master's Degree in Public Administration from the University of Southern California.

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FOR IMMEDIATE RELEASE
Wednesday, June 10, 1998

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FOREIGN COMPUTER MANUFACTURERS' SALES TO JAPANESE PUBLIC SECTOR
CONTINUE TO DECLINE

In response to newly released U.S. computer industry data showing a second consecutive annual decline in the foreign share of Japan's public sector computer market, United States Trade Representative Charlene Barshefsky today expressed concern that Japan's public sector procurement programs are out of sync with open, fair and competitive practices.

Ambassador Barshefsky stated, "The continued downward trend in Japanese Government procurement of foreign computers is very troubling. Not only does this run counter to the goals of our bilateral agreement with Japan on computers, but it is also inconsistent with the relative success that U.S. computer firms have enjoyed in the Japanese market overall." Ambassador Barshefsky noted that the foreign-manufactured share of the Japanese commercial computer market is almost four times that of the public sector market.

The 1996 data (the latest year for which data is available for these categories of computers), compiled by the computer industry's Computer Systems Policy Project (CSPP), was released on June 9, 1998. CSPP's figures highlighted the downward trend, showing that in the area of mid-range/main frame computers, the foreign share of the public Japanese market slipped from 10.2 percent to 9.3 percent from 1995 to 1996. This followed a drop from 13.7 percent to 10.2 percent in the 1994-1995 time frame. A significant decline can also be seen in Japanese public procurement of foreign-made personal computers (PCs), which fell from 10.9 percent to 7.7 percent from 1995-1996. Similarly, public procurement of foreign PCs decreased from 11.6 percent to 10.9 percent in the 1994-1995 time frame.

Representatives from the two governments will meet this summer in Washington D.C. to review implementation of the Bilateral Computer Agreement. This agreement, concluded in 1992, is aimed at expanding Japanese government procurement of foreign computer equipment, software and services through non-discriminatory and transparent procedures.

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FOR IMMEDIATE RELEASE
June 23, 1998

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U.S. TRADE REPRESENTATIVE HAILS APEC PROGRESS ON TRADE

Kuching, Malaysia -- United States Trade Representative Charlene Barshefsky praised progress made at this week's meeting of APEC Trade Ministers in advancing the nine sectoral market opening initiatives launched by APEC Leaders last November in Vancouver. Ambassador Barshefsky issued the following statement at the Minister's meeting:

"This was one of the more remarkable APEC Trade Ministers' meetings of the last ten years. In the midst of the current economic turmoil, APEC economies have demonstrated that they are broadly committed to advancing our goal of open trade across the region. I particularly want to commend the Malaysian Chair in forging agreement on the need to move this important work forward."

"I was especially impressed that the developing economies at this meeting -- including those hardest hit by the current economic situation -- strongly reaffirmed their support for APEC's market opening agenda, and endorsed a fully comprehensive package. This \$1.5 trillion initiative is clearly focused on the opening of markets in nine important areas of trade. In addition, we have moved decisively to define the product scope, measures that would be covered (including tariff end rates and non-tariff measures) and basic timetables."

"At the same time, we recognized that there is work left to be done to conclude agreements in these sectors before the Leader's Meeting, including most importantly, determining how much flexibility would be allowed in meeting the basic time tables. Ministers recognized the need for such flexibility, while noting that such flexibility could not undermine the mutual benefits of opening markets or upsetting the balance of interests reflected in this package. Given the broad-based expressions of determination to move this package to a successful closure this year, I am optimistic that we will fulfill the mandate of our Leaders."

“In addition to the sectoral package, APEC Ministers stressed the importance they attach to the successful conclusion of the ITA II negotiations at the WTO by June 30. This is an important build-out of the ITA which was largely created through the leadership of APEC.”

Background

APEC Trade Ministers, representing the 18 economies of the Asia-Pacific region, meet twice annually to review and advance APEC’s broader goal of achieving free and open trade and investment in the region by 2010/2020. In addition to their agreement on sectoral liberalization, Ministers took steps to advance work in other APEC areas aimed at fulfilling these goals, including implementation of “Individual Action Plans” by economies and advancement of “Collective Action Plans.”

A cornerstone of APEC’s market-opening actions is the “early voluntary sectoral liberalization” initiative, which was launched by APEC Leaders last November in Vancouver. At that time, 15 sectors were selected for market-opening. Nine of these were selected for early action in 1998. They are: chemicals, energy sector goods and services, environmental goods and services, fish, forest products, gems and jewelry, medical equipment and instruments, toys, and a mutual recognition agreement in telecommunications products and systems. In addition to advancing work on the 9 sectors in Kuching, Ministers also directed officials to further develop work in the other six sectors for review in November. These sectors are: oilseeds, food, fertilizer, autos, natural and synthetic rubber, and civil aircraft. Trade in these six sectors represents another \$1.5 trillion.

TARIFF END RATES AND DATES FOR NINE “EVSL” SECTORS

<u>Sector</u>	<u>End Rate</u>	<u>End Date</u>
Forest products	Elimination	By 1 January 2002/2004 for wood and furniture By 1 January 2000/2002 for pulp, paper and printed products
Fish and fish products	Elimination	By December 31, 2005
Toys	Elimination	By 2000-2005
Gems and jewelry	Elimination/reduction to 5%	By 2005
Chemicals	CTHA* harmonized rates	By 2001 for rates below/equal to 10%; by 2004 for other rates
Medical equipment and instruments	Elimination	By 2001

Environmental goods
and services

Elimination

tbd

Energy

Elimination

By 2003/2004

Telecommunications MRA N/A

N/A

*Chemical Tariff Harmonization Agreement

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USTR Barshefsky Reacts to EC Banana Decision

FOR IMMEDIATE RELEASE

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Today, the Agriculture Council of the European Community (EC) reached agreement on changes to its banana regime that fail to bring the EC regulations regime into line with the EC's WTO commitments.

"We regret that despite our repeated requests for EC representatives to work with us on a new banana regime that is WTO-consistent and that allows vulnerable Caribbean countries to continue to export their bananas, the European Commission has declined to cooperate with us in developing an EC banana policy that would resolve this longstanding dispute," said Ambassador Barshefsky. "Instead, the Commission and now the Agriculture Council, has adopted an approach that would perpetuate WTO violations" and the discrimination against U.S. companies and Latin American countries that has been in place since 1993.

Ambassador Barshefsky said that "the United States will not hesitate to exercise its full rights under the WTO and take all available actions to protect U.S. interests. Our rights include WTO procedures allowing for withdrawal of concessions on EC goods and services." In 1995, USTR found EC banana policies cost U.S. companies hundreds of millions of dollars.

Background

The EC's record in the banana dispute is one of increased protectionism and discrimination against Latin America and U.S. interests. The EC converted growing and open banana markets in the majority of member States to a single closed market in mid-1993. The EC has ignored GATT/WTO rules -- refusing, in 1993 and again in 1994, to implement GATT panel reports against its banana policies.

The United States and four Latin American countries (Ecuador, Guatemala, Honduras, and Mexico) initiated panel proceedings under the WTO in April 1996. In May 1997, the panel circulated its report finding the EC regime to violate the GATT and the General Agreement on Trade in Services (GATS) on over a dozen counts. The WTO Appellate Body agreed on September 9, 1997, and the WTO Dispute Settlement Body adopted the reports on September 26

1997, recommending that the EC bring its measures into line with the recommendations and rulings of the two reports.

In late 1997 the EC explicitly agreed to implement all of the WTO recommendations and rulings. However, the proposal first put forward by the European Commission in January 1998, with minor modifications now endorsed by Agriculture Council regulations, fails to make any significant changes to bring the EC's regime in line with WTO provisions.

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WASHINGTON, D.C.
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FOR IMMEDIATE RELEASE
July 1, 1998

Contact: 98 -64
Jay Ziegler
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**USTR Announces New GSP Initiative to Benefit African Trade and
Other Developing Countries**

U.S. Trade Representative Charlene Barshefsky today announced changes to the Generalized System of Preferences (GSP) that will enhance market access opportunities in the United States for eligible developing countries.

The new reforms are particularly focused on encouraging Sub-Saharan African countries to accelerate their economic integration and work collectively to expand their exports. African countries which are members of any one of the three regional associations will be permitted to accumulate their value-added contributions (on GSP imports) making it easier for these countries to meet the 35 percent value-added requirement of the GSP rule of origin. Specifically, these countries will be allowed to cumulate the direct costs of growth, production, manufacture and assembly of a product with other qualifying members of their association.

"This initiative continues our focus on using the GSP program to provide trade benefits to the least developed countries of the world, and in particular, to expand trade with Sub-Saharan Africa," said Ambassador Charlene Barshefsky. In making this announcement Ambassador Barshefsky noted that "The United States Government wishes to support accelerated African economic integration in order to improve the continent's competitiveness in global markets." She added, "Regional trade integration will expand market size and make member states more attractive to private investors, both local and foreign."

In 1997, the Administration, along with the U.S. International Trade Commission, submitted two reports addressing the issue of the United States' economic and trade relations with Africa. Integrating Africa into the world economy is a cornerstone of the President's Partnership Initiative for Economic Growth and Opportunity in Africa. This initiative, in turn, complements the African Growth and Opportunity Act, which has been passed by the House of Representatives

and is pending Senate approval. The bill provides enhanced trade benefits and cooperation for reforming Sub-Saharan African economies and calls for increased technical assistance, financing, and equity and infrastructure investment funds for Sub-Saharan Africa to promote economic development and further reform.

The cumulation benefit is being granted immediately to all members of the West African Economic and Monetary Union (Burkina Faso, Benin, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo). This is being done in recognition of the advanced stage of economic integration already achieved by these countries. Two other regional organizations, the Southern African Development Community (SADC) and the Tripartite Commission of East African Cooperation (EAC) also have been designated as qualifying for cumulation.

Three members of the SADC presently qualify for this benefit since they have ratified the SADC Trade Protocol. These countries are: Botswana, Mauritius, and Tanzania. The Protocol aims to create a free trade area among its fourteen members. Other members of SADC will be considered for this new benefit upon ratification of the protocol. These countries are: Angola, Democratic Republic of Congo, Lesotho, Malawi, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Zambia, and Zimbabwe.

EAC members are preparing to sign an agreement that will formalize their efforts at trade integration. Once an effective trade liberalizing mechanism is operational, Ambassador Barshefsky will extend GSP cumulation to the EAC members: Kenya, Tanzania, and Uganda.

Ambassador Barshefsky also announced the results of the 1997 Annual GSP Review which considered twenty six petitions for GSP product modifications. Decisions on these petitions are contained in Annex I. In addition, fifty two *de minimis* waivers have been granted and eight products redesignated. These are listed in Annex II and III. Annex IV lists products that exceeded the competitive need limits in 1997.

The GSP program grants duty-free treatment to specified products that are imported from 139 designated beneficiary countries and territories. The program's objective is to create trade opportunities for developing countries in an effective, cost-efficient manner and to encourage broad-based economic development. GSP is designed to encourage beneficiaries to eliminate or reduce significant barriers to trade in goods, services, and investment, to afford all workers internationally recognized worker rights, and to provide adequate and effective means for foreign nationals to secure, exercise and enforce exclusive intellectual property rights.

Although authorization for the GSP program is scheduled to expire on June 30, 1998, the Administration is supporting reauthorization on a multi year basis. To that end, the Administration included a request for a three-year program renewal in its budget-proposal to Congress. Recent lapses in the program have created uncertainty about the dependability of the program as a development incentive.

Note: There is a five-page attachment to this press release.

ACTIONS UNDER THE GENERALIZED SYSTEM OF PREFERENCES PROGRAM GRANTING REGIONAL CUMULATION TO MEMBERS OF ASSOCIATIONS, WAIVING COMPETITIVE NEED LIMITS, AND ENACTING OTHER MODIFICATIONS TO THE GSP PROGRAM

Note: The Annexes are available on the USTR Fax Retrieval Services at 202/395-4809.

1. Regional Treatment of GSP

- The President has extended the benefit of cumulating value added for GSP rule of origin purposes to members of Sub-Saharan associations of countries that are fostering regional economic integration and trade liberalization.
- These Sub-Saharan associations are the West African Economic and Monetary Union (WAEMU), the Southern African Development Community (SADC), and the Tripartite Commission of East African Cooperation (EAC).
- This benefit encourages accelerated regional liberalization of trade and investment regimes. The members of WAEMU qualify for immediate utilization of the cumulation benefit as do the three members of SADC that have signed the SADC Protocol (Botswana, Mauritius, and Tanzania).

2. De Minimis Waivers of the Statutory Competitive Need Limits

- The President has the discretionary authority to waive the 50 percent share of U.S. imports competitive need limit (CNL) in cases where total U.S. imports of a product did not exceed the *de minimis* dollar value of the CNL. In 1997 the *de minimis* CNL value was \$13.5 million.
- Imports of 52 products totaling a value of \$133 million were granted waivers of the 50 percent CNL that would have terminated duty-free treatment of the products.

3. Redesignation of Products

- The President has the discretionary authority to redesignate individual countries previously excluded from GSP benefits for a particular product if imports of the product in 1997 fell below the 1997 CNL dual thresholds of \$80 million and 50 percent of U.S. imports of the item.
- Imports of eight products with 1997 imports valued at \$132 million were redesignated as GSP eligible. These products previously exceeded the CNL causing them to lose GSP eligibility in earlier years.

4. Exclusion of Products that Exceeded Competitive Need Limits in 1997

•In 1997 imports of 14 products from 11 countries valued at \$890 million exceeded the CNLs and were newly excluded from GSP treatment.

5. 1997 Annual GSP Product Review

•There were 26 petitions for changes in GSP product eligibility that were reviewed in 1997 based on 1996 import data. Of the 15 petitions to add a product to GSP, 11 products with imports from GSP eligible countries valued at \$70 million were granted GSP eligibility. The one petition to remove a product was granted, and five of the ten petitions for waivers of the competitive need limitations were granted affecting GSP imports of \$84 million.

Annex I. Decisions on Product Petitions of the 1997 GSP Annual Review

Case		Product	Decision
		A. Petitions to Add Products to GSP	
97-1	0409.00.00	Natural Honey	Denied
97-2	0703.10.40	Fresh Onions	Granted
97-3	0712.90.75	Tomato Powder (dried)	Granted*
97-4	0812.10.00	Cherries (provisionally preserved)	Denied
97-5	2002.90.00	Tomato Powder (prepared, not in vinegar)	Granted*
97-6	2917.12.10	Adipic Acid	Denied
97-7	3204.12.20	Acid Dyes	Granted**
97-8	3204.12.30	Acid Dyes	Granted**
97-9	3204.12.45	Acid Dyes	Granted**
97-10	3204.12.50	Acid Dyes	Granted**
97-11	3824.90.28	Vegetable Oil Distillate	Granted
97-12	7108.12.50	Unwrought Gold (for electronics, dental)	Granted***
97-13	7108.13.70	Semi-manufactured Gold	Granted***
97-14	8108.10.50	Unwrought Titanium	Pending
97-15	8704.10.50	Articulated Dump Trucks	Granted***
		B. Petition to Remove Product from GSP	
97-16	3920.62.00	Polyethylene Terephthalate Film	Granted
		C. Petitions to Waive Competitive Need Limits for [Country]	
97-17	0811.20.20	Raspberries (frozen) [Chile]	Granted
97-18	1604.30.20	Caviar [Russia]	Granted
97-19	2849.90.50	Carbides [South Africa]	Granted***
97-20	2933.71.00	Caprolactam (6-Hexanelactam) [Russia]	Granted
97-21	4011.10.10	Car Tires, Radial [Brazil]	Denied
97-22	4011.10.50	Car Tires, Non -Radial. [Brazil]	Denied
97-23	4011.20.10	Truck Tires, Radial [Brazil]	Denied
97-24	4011.20.50	Truck Tires, Non-Radial. [Brazil]	Denied
97-25	8108.90.60	Wrought Titanium [Russia]	Granted
97-26	1701.11.10	Sugar [Brazil]	Denied

* Except for Turkey

** Except for Argentina and India

*** Implementation dates for eligibility and CNL waiver to be established by USTR

ANNEX II De MINIMIS WAIVERS

HTSUSBENEFICIARY	\$ VALUE	SHARE OF US IMPORTS (1997)	DESCRIPTION
0304.10.30 Namibia.....	103,019	59.7%	Hake, filleted or minced, fresh or chilled
0305.20.20 Russia.....	18,500	100.0%	Sturgeon roe, dried, smoked, salted or in brine
0711.40.00 India.....	3,244,857	63.4%	Cucumbers including gherkins, provisionally preserved
0804.50.80 Thailand.....	1,424,365	51.1%	Guavas, mangoes, and mangosteens, dried
0813.40.10 Thailand.....	763,232	76.1%	Papayas, dried

4. Exclusion of Products that Exceeded Competitive Need Limits in 1997

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* Except for Turkey

** Except for Argentina and India

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0711.40.00 India.....	3,244,857	63.4%	Cucumbers including gherkins, provisionally preserved
0804.50.80 Thailand.....	1,424,365	51.1%	Guavas, mangoes, and mangosteens, dried
0813.40.10 Thailand.....	763,232	76.1%	Papayas, dried

1102.30.00	Thailand.....	3,321,954	78.7%	Rice flour
2008.99.35	Thailand.....	4,320,883	92.1%	Lychees and longans, otherwise prepared or preserved,
2309.90.70	Hungary.....	636,076	95.2%	Other preparations with a basis of vitamin B12
2619.00.30	Venezuela.....	1,549,624	83.5%	Ferrous scale
2707.99.40	Venezuela.....	779,143	65.1%	Carbazole, from dist. of hi- temp coal tar
2819.10.00	Kazakhstan.....	3,797,016	64.0%	Chromium trioxide
2825.30.00	Republic of South Africa*..	11,030,395	99.7%	Vanadium oxides and hydroxides
2825.70.00	Chile.....	7,613,271	68.9%	Molybdenum oxides and hydroxides
2841.70.10	Chile.....	4,740,596	73.7%	Ammonium molybdate
2841.90.10	Republic of South Africa*..	647,477	62.1%	Vanadates
2841.90.20	Kazakhstan.....	930,738	53.0%	Ammonium perrhenate
2903.23.00	Brazil.....	8,645,517	79.7%	Tetrachloroethylene (Perchloroethylene)
2903.61.10	Brazil.....	729,541	96.6%	Chlorobenzene
2903.69.05	Hungary.....	28,381	73.7%	3-Bromo-alpha,alpha,alpha- trifluorotoluene
2907.29.25	Republic of South Africa*..	131,704	57.2%	tert-Butylhydroquinone
2929.10.15	Brazil.....	2,207,908	86.6%	Mixtures of 2,4- and 2,6- toluenediisocyanates
2931.00.25	Brazil.....	2,107,735	99.8%	Pesticides of aromatic organo-inorganic
2933.19.45	Slovakia.....	8,502	66.9%	Nonaromatic drugs of heterocyclic compounds
2933.40.08	Hungary.....	402,977	100.0%	4,7-Dichloroquinoline
2938.10.00	Brazil.....	1,111,143	79.6%	Rutoside (Rutin) and its derivatives
3808.30.20	Brazil.....	1,426,893	82.9%	Herbicides, antisprouting products and plant-growth
4202.22.35	Philippines.....	366,450	92.6%	Handbags with or without shoulder strap
4412.13.25	Brazil.....	2,604,109	56.2%	Plywood sheet n/o 6 mm thick, tropical hard wood
4412.14.25	Brazil.....	6,109,853	95.9%	Plywood sheet n/o 6 mm thick, outer ply of nontropical
4412.19.10	Brazil.....	963,513	96.8%	Plywood of wood sheets, n/o 6 mm thick each
4412.29.15	Russia.....	6,320,630	72.7%	Plywood nesoi, at least one hardwood outer ply nesoi,
4412.92.10	Brazil.....	67,670	100.0%	Plywood nesoi, softwood outer plies, least 1 ply tropical
4412.99.15	Brazil.....	315,711	100.0%	Plywood nesoi, softwood outer plies, no tropical hardwood
4412.99.45	Brazil.....	755,428	85.1%	Plywood nesoi, softwood outer plies, no trop. hard wood
5607.30.20	Philippines.....	4,577,085	81.8%	Twine, cordage, rope and cables of abaca
6116.99.35	Thailand.....	58,468	68.4%	Gloves, mittens & mitts specially designed for sports,
6501.00.30	Czech Republic.....	2,360,882	52.6%	Hat forms, hat bodies and hoods, not blocked to shape
7113.20.30	Mauritius.....	959,876	68.2%	Base metal clad w/precious metal clasps and parts
7202.80.00	Russia.....	3,997,199	90.0%	Ferrotungsten and ferrosilicon tungsten
7604.10.30	Slovenia.....	4,847,079	72.6%	Aluminum (o/than alloy), bar and rods

8112.91.50	Chile	5,912,127	77.4%	Rhenium, unwrought; rhenium, powders
8112.99.00	Chile	3,224,801	52.4%	Gallium, hafnium, indium, niobium, rhenium, and thallium
8410.13.00	Egypt	835,000	62.5%	Hydraulic turbines and water wheels
8419.81.10	Thailand	4,446,374	50.2%	Microwave ovens for making hot drinks or for cooking
8455.90.40	Russia	3,060,128	57.5%	Parts for metal-rolling mills, other than rolls
8525.20.28	Thailand	6,810,286	50.8%	Radio transceivers, low power, operating on frequencies
8528.21.34	Thailand	140,210	87.2%	Non-high definition color video monitors, nonprojection
8543.90.64	Thailand	1,831,602	74.2%	Printed circuit assemblies of ion implanters
9013.10.30	Ukraine	3,090,335	70.3%	Telescopic sights for rifles designed for infrared
9401.90.15	Czech Republic	2,109,419	66.4%	Parts of seats nesoi, for bent-wood seats
9506.19.40	Czech Republic	1,557,025	76.5%	Cross country snow-ski equipment nesoi, and parts
9601.90.20	Philippines	3,938,643	57.5%	Shell, worked and articles thereof

* Implementation dates for waivers to be established by USTR

(The descriptions are generic and unofficial. Official definitions are contained in the U.S. Harmonized Tariff Schedule under the relevant HTSUS numbers. The abbreviations nes, nesi, and nesoi in the descriptions indicate basket categories of articles not included in other related tariff lines)

ANNEX III: REDESIGNATIONS

HTSUS	BENEFICIARY'S	VALUE / SHARE OF US IMPORTS (1997)	DESCRIPTION
2916.31.15	Estonia	7,243,484 48.9%	Benzoic Acid
4411.19.40	Brazil	4,123,268 6.1%	Fiberboard nesoi, density exceeding 0.8 g/cm ³
7103.99.10	Thailand	27,275,630 22.7%	Precious or semiprecious stones, nesoi, cut but not set
7615.19.10	Thailand	17,625 0.1%	Aluminum, cast cooking and kitchen ware, enameled or glazed
8112.11.60	Kazakhstan	0 0.0%	Beryllium, unwrought; beryllium, powders
8409.99.91	Brazil	52,800,233 14.3%	Parts nesoi, used solely or principally with the engines
8409.99.99	Brazil	39,612,490 13.4%	Parts nesoi, used solely or principally with compression
9025.11.20	Brazil	945,127 35.6%	Clinical thermometers, liquid-filled, for direct reading

ANNEX IV : NEW ARTICLES EXCEEDING COMPETITIVE NEED

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FOR IMMEDIATE RELEASE
July 1, 1998

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Trade Preferences for Honduras Restored

United States Trade Representative Charlene Barshefsky announced today that in recognition of the steps that the Government of Honduras has taken to stop broadcast piracy, she has restored, effective June 30, the trade preferences suspended earlier this year.

President Flores, who took office this year, and his administration have in the past months made significant progress in protecting intellectual property rights ("IPR"), an area of longstanding concern to the United States. Among a number of recent actions in this area, the Honduran government temporarily shut down and collected fines from television stations which had pirated U.S. programming and videos. In addition, the Honduran government has committed to shut the stations down again for a longer period and to impose higher fines if copyright piracy resumes. The United States looks forward to moving ahead with Honduras on a bilateral IPR agreement that, when concluded, should further improve the protection of intellectual property and the investment climate in Honduras.

On March 30, 1998, the United States Trade Representative (USTR) announced that, under authority of Section 301 of the Trade Act of 1974, she was suspending duty free treatment accorded certain Honduran products with an annual import value of approximately \$5 million under the Generalized System of Preferences (GSP) and Caribbean Basin Initiative (CBI) programs. She took this action in response to Honduras' failure to provide adequate and effective protection of intellectual property rights.

Background

In 1992 the Motion Picture Association filed a petition asking that tariff preference benefits to Honduras under GSP and CBI programs be withdrawn due to widespread, blatant copyright piracy in Honduras. For example, television stations in Honduras routinely broadcasted pirated U.S. videos and rebroadcasted U.S. satellite-carried television programming. Since the receipt of that petition, U.S. officials consulted repeatedly with the Government of Honduras, but that

government's actions against broadcast piracy were not sufficient to provide adequate and effective protection of intellectual property. In May of 1997, the Trade Policy Staff Committee (TPSC), the interagency committee concerned with trade, recommended partial suspension of GSP and CBI benefits unless the Government of Honduras improved enforcement of intellectual property rights. In order to implement the TPSC recommendation, on October 31, 1997, Ambassador Barshefsky initiated an investigation under Section 301 of the Trade Act of 1974 with respect to IPR protection in Honduras and requested public comment on a proposal to suspend GSP and CBI tariff preference benefits with respect to certain Honduran products. On March 30, 1998 Ambassador Barshefsky announced the partial suspension of the trade benefits Honduras receives under the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI) programs.

The USTR's action restores the GSP and CBI trade benefits which were suspended by the USTR's March decision in recognition of the Honduran government's recent progress in addressing the longstanding problem of copyright piracy. The Office of the U.S. Trade Representative will continue to monitor intellectual property protection in Honduras under Section 306 of the Trade Act.

The GSP program grants duty-free treatment to specified products that are imported from more than 140 designated developing countries and territories. The program includes an eligibility requirement concerning the extent to which the foreign country provides adequate and effective protection of intellectual property rights.

The CBI program, which grants duty-free treatment to specified products from Caribbean Basin countries, also includes eligibility requirements concerning the extent to which the foreign country provides under its laws adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property. The CBI also has an eligibility requirement which considers the extent to which the foreign country prohibits its nationals from engaging in the broadcast of copyrighted material belonging to United States copyright owners without their express consent.

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FOR IMMEDIATE RELEASE
July 1, 1998

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UNITED STATES-JAPAN BILATERAL INSURANCE AGREEMENT

The Office of the U.S. Trade Representative announced today that, under the U.S.-Japan Insurance Agreement, the United States does not support the initiation of the two-and-one-half year clock to open the third sector of Japan's insurance market. Under the bilateral Insurance Agreement reached in December 1996, the two governments were to determine by July 1, 1998 whether Japan has fully implemented a number of specific deregulatory measures designed to open Japan's primary insurance sectors to effective competition. Deregulation of the primary sectors, comprising 95 percent of Japan's \$335 billion insurance market, is a key element of the bilateral insurance agreement and essential to increasing market access for U.S. and other foreign firms in Japan.

At issue are provisions of the 1994 and 1996 Insurance Agreements dealing with actions to be taken by Japan to deregulate the primary sectors of Japan's insurance market, as well as guarantees provided by Japan to protect the smaller third sector where non-Japanese insurance companies have been positioned to get a toe-hold in the closed Japanese market.

Japanese companies dominate Japan's insurance market, particularly in the primary sector where they control 98% of the life business and 97% of the non-life business. They also control 84% of the third sector's non-life business but only have a 32% share of third sector life underwriting, where foreign firms, led by U.S. companies AFLAC, AIG and CIGNA, have acquired a 68% market share.

Ambassador Barshefsky stated, "I am disappointed that Japan is unwilling to open its insurance market to genuine competition. Japan has not fully implemented all of the specific deregulation actions called for in our bilateral insurance agreement on the time line envisioned by both governments. The United States opposes starting the process to terminate certain measures contained in the bilateral agreement concerning the third sector until Japan fully meets its primary sector deregulation obligations."

In particular, Japan has not fully implemented its obligations regarding rating organization reform. The rating organizations act as cartels imposing uniform industry-wide insurance rates on consumers for such products as voluntary automobile insurance and fire insurance. The United States has expressed its deep concerns that the changes to the rating organizations being implemented by Japan are inconsistent with the Ministry of Finance's (MOF) stated objective of fundamental reform. Specifically, U.S. concerns include continued collection by the rating organizations of expense data from member firms, lack of transparency and foreign participation in the decisions of the rating organizations, and expansion of the rating organizations' authority to cover new product categories.

Japan also has not fully implemented its obligations regarding the processing of new product and rate applications. The United States has raised with Japan a number of specific cases where MOF unjustifiably exceeded the standard 90-day period for processing insurance applications for new products or rates. Delays in approval of new, innovative products are inconsistent with a deregulated environment and Japan's obligations under the agreement. MOF's product approval process has not functioned effectively due to, among other factors, non-transparent criteria and guidelines, arbitrary administrative decision making, and an inability to cope with an increasing influx of applications.

The United States has presented Japan with specific suggestions for addressing rating organization reform and the product approval process. The United States looks forward to working with Japan over the coming weeks to ensure that in practice the primary sector deregulation sought by both governments is fully implemented.

In addition to primary sector deregulation, the United States is extremely concerned with Japan's licensing of a cancer rider to Tokyo Anshin, the life subsidiary of a large Japanese insurance company, Tokyo Fire and Marine. Based on its design and marketing, this rider is clearly intended to circumvent the third sector provisions of the 1996 Insurance Agreement as it is essentially equivalent to cancer policies prohibited for sale by Japanese life subsidiaries. As such, the U.S. calls on MOF to remedy this issue, prevent any further marketing of this product, and disapprove similar licenses for other life subsidiaries of Japanese non-life firms.

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FOR IMMEDIATE RELEASE
Thursday, July 2, 1998

Contact: 98 - 67
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**U.S. TRADE REPRESENTATIVE CHARLENE BARSHEFSKY REACTS TO
EUROPEAN ATTACK ON U.S. TAX LAW**

On July 1, the European Commission announced that it would request the establishment of a World Trade Organization (WTO) dispute settlement panel to consider its claim that the Foreign Sales Corporation (FSC) provisions of the U.S. Internal Revenue Code violate U.S. obligations under the WTO.

Reacting to this announcement, Ambassador Barshefsky stated: "I am extremely disappointed that the European Community has decided to reopen a matter which was long ago settled, especially as they have failed to respond to our requests for any evidence to suggest that European commercial interests have been disadvantaged. We will vigorously defend our WTO-consistent system of taxation against this unwarranted attack." The FSC provisions were enacted in 1984 following earlier European challenges in the GATT to the Domestic International Sales Corporation (DISC) provisions of U.S. tax law and U.S. challenges to GATT-illegal tax measures in Belgium, France and the Netherlands. "The FSC legislation was enacted expressly to conform to an understanding reached 17 years ago in the GATT which articulated the proper relationship between different systems of taxation and international trade rules," Barshefsky said. "This unjustifiable action cannot help but detract from our joint efforts to explore greater cooperation with the Community in the trade and economic spheres."

Background

On November 18, 1997, the EC requested WTO dispute settlement consultations, alleging that the FSC provisions are inconsistent with WTO rules, in particular with the Subsidies Agreement. On March 4, 1998, the EC expanded its complaint to include the Agreement on Agriculture. Three rounds of consultations were held in December 1997 and February and April of this year. The EC's request for a panel will be taken up at the July 23 meeting of the WTO's Dispute

Settlement Body. The EU's claim is that the FSC provisions constitute an export subsidy and an import substitution subsidy, both of which are prohibited under the WTO Subsidies Agreement, and that our failure to account for the FSC in implementing export subsidy obligations under the WTO Agriculture Agreement constitutes a violation of that agreement.

The FSC was introduced after the predecessor DISC provisions and certain European tax provisions were found to be prohibited export subsidies under the GATT. In adopting the ruling against the DISC and the European tax provisions in 1981, the GATT Council expressed an understanding (now also reflected in the WTO Subsidies Agreement) encompassing the following principles:

economic processes (including transactions involving exported goods) located outside the territorial limits of the exporting country need not be subject to taxation; such processes should not be regarded as export activities in terms of GATT Article XVI:4, which essentially prohibits export subsidies on non-primary products;

arm's length pricing should be observed for tax purposes in transactions between exporting enterprises and related foreign buyers; and

GATT Article XVI:4 does not prohibit the adoption of measures to avoid double taxation of foreign source income.

The FSC rules are consistent with these principles. The FSC rules permit certain income generated outside the territorial limits of the United States to be exempt from certain U.S. taxes under conditions which reflect the understanding reached in 1981. To qualify for these exemptions, the FSC must have a foreign presence, meet certain management requirements and meet certain economic process requirements addressing both the extent and nature of the sales activities undertaken abroad as well as requiring that a minimum level of direct costs be incurred abroad with respect to certain sales activities (e.g., advertising, order processing, etc.). Sales made through FSCs must also meet certain pricing requirements to qualify as foreign trading income eligible for the tax exemption; for sales between related parties, transfer pricing rules designed to approximate arm's length pricing are used to determine the FSC's foreign trade income.

The FSC provisions are used by a wide variety of U.S. industries, and legislation enacted last year extended and/or clarified their application to U.S. software firms.

Internet Freedom

By Charlene Barshefsky

The Washington Post; Thursday, July 9, 1998; Page A19

Just as did the printing press in the 16th century and the telegraph in the 19th, electronic communications and the Internet in particular will change almost all aspects of daily life. And if we act now to make sure global electronic commerce is allowed to reach its full potential, the changes may be most profound in business and international trade.

Today 45 percent of all business equipment investment in America is in information technology. Businesses are buying computers, setting up networks and Web sites, and taking the initial steps that will support a leap in electronic commerce, in the United States alone, from \$8 billion today to \$300 billion in the year 2000.

These figures may make us think first of the growth of big companies and technological leaders. And Americans rightly take pride in the success of high-tech companies that lead the world. We may well find, however, that the benefits of electronic commerce will be greatest for Americans now often shut out of trade because they are in rural areas, reservations or inner cities -- or simply lack the capital to get started.

The information superhighway is just as safe for small cars as for 18-wheelers. With the Internet, small businesses, individuals with good ideas or rural cooperatives can find international customers and products in seconds at almost no cost. They can get customs forms and fill them out more rapidly and at less expense. They can deal directly with faraway buyers, eliminating transactional costs and other barriers that make it difficult for smaller businesses to export. Best of all, they can do most of this free -- because today, in trade terms, the Internet is pristine.

Today there are no customs duties on cross-border telephone calls, fax messages or computer data links. This duty-free treatment includes electronic transmission on the Internet. And that is why a few minutes on the computer now finds the Hopi Nation in northern Arizona advertising kachina dolls to urban buyers, and warning them to protect the tribe's intellectual property by refusing to buy fakes, and small hotels and restaurants in the rural West advertising to prospective tourists.

But there is a threat to these bright prospects. Governments may see electronic commerce not as a way to increase productivity and help entire nations prosper but as a threat to domestic special interests or as an opportunity for revenue through taxes and tariffs. The de facto free-trade zone on the Internet could be hampered or even crippled by new tariffs and non-tariff barriers, drastically slowing the development of global electronic commerce.

If we act now, we can prevent this, and the early signs are good. At the recent World Trade Organization ministerial conference in Geneva, the 132 member economies agreed on a "standstill," in which no member will impose new tariffs on electronic commerce.

This is just the beginning. With hard work, we will preserve the Internet as a duty-free zone for commerce, and set out a work program that eliminates non-tariff measures, unnecessary paperwork and needless bureaucracy.

If this continues, our country will be more prosperous. Society will be more mobile and offer more opportunity for even impoverished citizens to become entrepreneurs. The American dream will be easier for all of us to reach. The same thing will happen in every country around the world. It is an opportunity we will get only once, and by acting now, we can take advantage of it.

The writer is the U.S. Trade Representative.

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FOR IMMEDIATE RELEASE
Monday, July 13, 1998
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USTR APPEALS WTO SHRIMP-TURTLE REPORT

Today the Office of the United States Trade Representative filed its formal notice of appeal of the WTO panel report that addressed U.S. measures restricting shrimp imports. The panel report, issued on April 6, 1998, found the import restrictions to be inconsistent with U.S. obligations under the WTO Agreement.

The United States 'Shrimp-Turtle Law' at issue in the case restricts imports of shrimp harvested with equipment that harms endangered species of sea turtles. At the time the panel report was issued, USTR Charlene Barshefsky announced that the United States believed the panel reached the wrong conclusion, and noted that the WTO Agreement recognizes the rights of WTO members to adopt these types of laws for the purpose of conserving exhaustible natural resources.

The appeal will be heard by a three-member panel of the WTO's standing Appellate Body. The Appellate Body should issue its findings within ninety days.

The panel report is publicly available in the USTR Reading Room and on the WTO website, www.wto.org.

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FOR IMMEDIATE RELEASE
Tuesday, July 21, 1998

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**USTR BARSHEFSKY ANNOUNCES SUPPORT FOR
WTO AND WIPO JOINT INITIATIVE ON TRIPS IMPLEMENTATION**

USTR Charlene Barshefsky emphasized the critical importance of the initiative announced today by the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Under this initiative, the two organizations will take special steps to help developing countries meet their WTO obligations to protect American intellectual property. A major accomplishment of the creation of the World Trade Organization is its IPR Agreement --the so-called "TRIPS" Agreement -- which sets out these obligations. Developing countries must meet these obligations by January 1, 2000, less than a year and half away.

Ambassador Barshefsky said: "I am pleased that these two organizations are deciding to undertake this effort. Intellectual property products are some of our most competitive. One of our major WTO priorities is full implementation of the TRIPS Agreement by all countries, which will translate into greater efforts by other countries to prevent the piracy and counterfeiting of American products. I applaud a coordinated effort by the WTO and WIPO to help developing countries meet these obligations."

This initiative will help bring copyright, patent, trademark, and other areas of intellectual property laws in line with the TRIPS Agreement. It will also provide for effective enforcement of these laws in order to deal with piracy and counterfeiting other intellectual property infringements, which cost U.S. industry billions of dollars in annual losses.

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**FOR IMMEDIATE RELEASE
Wednesday, July 29, 1998**

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CANADA'S INITIATIVE ON MAGAZINES LOOKS LIKE SAME OLD STORY

United States Trade Representative Charlene Barshefsky today issued the following statement regarding the announcement by the Canadian government concerning its actions under a WTO decision which found that existing practices unfairly discriminate against foreign magazine companies:

"Regrettably, the approach outlined by the Canadian government appears simply to represent a new prohibition against U.S. companies' ability to do business in Canada. Such an approach would be every bit as inconsistent with Canada's international trade obligations as its current discriminatory practices. Consequently, the United States has requested consultations immediately on this important issue. I will send a team of experts to Ottawa next week to pursue our concerns."

Ambassador Barshefsky continued, "We are deeply disappointed by Canada's announcement today. Canada's practices with regard to split-run magazines were clearly aimed to keep U.S. magazines out of the Canadian market, as the WTO found with respect to the excise tax. The new measure appears to continue that policy objective. If so, this "new" policy is the same old story."

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**FOR IMMEDIATE RELEASE
Monday, August 3, 1998**

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NAFTA Countries Eliminate Tariffs on Nearly \$1 Billion in Trade

President Clinton on Friday proclaimed the elimination of tariffs on a range of Mexican products, in accordance with an agreement of the United States, Mexico, and Canada to eliminate tariffs on nearly \$1 billion in trilateral trade.

Ambassador Barshefsky stated: "This agreement to eliminate tariffs on a wide range of goods further demonstrates the value of the NAFTA and the broad support for increased trade between the NAFTA countries. The hundreds of items which can now trade duty-free among the NAFTA partners were selected based on requests by consumers, producers and traders who are eager to take advantage of the benefits of free trade throughout North America."

Under the agreement, Mexico is eliminating tariffs on an equivalent set of U.S. products, and Mexico and Canada are eliminating tariffs between their two countries on a parallel package of goods. The tariff cuts under the agreement were effective August 1, 1998. The NAFTA originally scheduled the elimination of tariffs on the products included in the agreement through periods extending to the year 2008. Following procedures set out in the NAFTA, Ambassador Barshefsky and her Mexican and Canadian counterparts agreed to accelerate the elimination of tariffs on these goods.

Items included in the tariff eliminations include chemicals, pharmaceuticals, fabrics, yarns, bedding, hats, stainless steel products, locomotive parts, watches and toys. A full list of items is available from USTR. This concludes the second NAFTA tariff acceleration exercise; results of a first round were implemented effective July 1, 1997. The NAFTA countries will consider additional tariff acceleration requests and expect to announce procedures for doing so shortly.

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FOR IMMEDIATE RELEASE
Tuesday August 4, 1998

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**MORE WTO MEMBERS TAKE STEPS FOR ENTRY INTO FORCE
OF GLOBAL TELECOMMUNICATIONS AGREEMENT**

The majority of WTO members who missed an earlier deadline (seven of thirteen countries) have now taken the necessary steps for their market opening commitments on telecommunications services to enter into force. The enrollment of these seven countries (Argentina, Belgium, Bolivia, Chile, Dominican Republic, Poland and Romania) brings the number of participating countries to sixty-four WTO members that have now committed to the terms of this agreement. This is the final step necessary to lock in commitments to open global markets in this \$675 billion industry.

United States Trade Representative Ambassador Barshefsky stated, "The WTO basic telecommunications agreement, in its first six months of operation, has already led to lower prices and better service for U.S. users of international telecommunications networks. It is ushering in a wave of new investment and job-creation in this sector, both in the United States and among our trade partners. This will provide the infrastructure for the global information economy of the next century."

The seventy parties to the agreement include sixty-nine distinct territorial entities, of which fifteen are E.U. Member States, and the E.U. Presidency at the time (Luxembourg), on behalf of the European Communities. In adding seven additional WTO members that have formally obligated themselves under the agreements, over 92% of WTO member telecom revenue is now represented on the global pact. The number of late parties declined to thirteen in January, and now has declined to six. The U.S. will continue to pressure these governments to fulfill their earlier commitments.

"It is essential that all the parties to the agreement formally meet their commitments in writing, and we are following up with them to assure that result. In the meantime, with the adoption of the Declaration on Electronic Commerce at the WTO Ministerial meeting in May, including duty free cyberspace, the United States and its fellow WTO members are on course to assure the predictable and stable environment that is vital to the growth of electronic commerce and telecommunications," said Ambassador Barshefsky

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FOR IMMEDIATE RELEASE
Wednesday August 5, 1998

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UNITED STATES WINS WTO CASE ON KOREAN LIQUOR TAXES

In response to news reports out of Germany, a dispute settlement panel of the World Trade Organization did find that Korean taxes on distilled spirits violate Korea's WTO obligations concerning discriminatory taxes. This decision on a case brought before the WTO last year by the United States and the European Union should have constructive market-opening results for U.S. exports of distilled spirits.

In response to the WTO panel's decision on Korean liquor taxes, U.S. Trade Representative Charlene Barshefsky stated: "This WTO case reflects our concern about discriminatory taxes overseas that have restricted market access for U.S. products. We expect Korea to undertake the necessary steps to eliminate these unfair discriminatory trade barriers and open its markets in line with its WTO obligations."

The dispute settlement panel report, issued on July 31, supports the U.S. challenge to two Korean laws that apply higher taxes to U.S. distilled spirits exports than to Korea's domestically produced distilled spirit, soju. The panel found that these taxes violate Article III:2 of the General Agreement on Tariffs and Trade because they afford protection to domestic production of soju.

Background:

In 1996, the United States exported \$1.4 million of whiskey to Korea, including \$1.03 million of bourbon whiskey. Despite Korean consumer interest in U.S. whiskey, U.S. exports remain at very low levels and account for less than 1 percent of the total Korean market for distilled spirits because of the exorbitant taxes and tariffs they face. U.S. exports to Korea of other distilled spirits (rum, brandy, gin, vodka, cordials and liqueurs) totaled \$443,000 in 1996. The U.S. industry anticipates that U.S. exports of whiskey and other spirits will grow dramatically if they are accorded tax

treatment equal to that granted to soju and other local spirits.

Korea's taxation of alcoholic beverages is based on a two-tiered taxation regime. First, under a general liquor tax law, Korea imposes an ad valorem tax of 100 percent on whiskey and brandy and of 80 percent on vodka, rum and gin. Meanwhile, Korea applies a tax of only 35% to soju, its locally produced distilled spirit which has been compared to vodka. This differentiation is made even more dramatic by the application of an Education Tax that is higher when the liquor tax rates are higher. The result of this tax rate differentiation is a tax burden on U.S. whiskey this is over four times greater than the burden on soju, assuming the actual prices were the same.

The United States and EU have complained about Korea's discriminatory taxation policies for many years following Korea's elimination of its formal ban on imported distilled spirits in 1986. After numerous consultations failed to settle the dispute, the WTO established a panel on October 16, 1997.

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FOR IMMEDIATE RELEASE
Friday, August 7, 1998

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USTR ANNOUNCES CLOSURE ON MARKET ACCESS PACKAGE WITH TAIWAN

Ambassador Charlene Barshefsky announced today the formal conclusion of the bilateral market access portion of the negotiations for Taiwan's accession to the World Trade Organization (WTO). Ambassador Barshefsky said, "I am pleased that we are now formally completing this phase of our work on Taiwan's accession."

The United States and Taiwan have been working bilaterally to verify the details of the tariff and services package agreed in February and will now formally submit this package to the WTO. Work is continuing on the multilateral side of the negotiations, as Taiwan attempts to reach agreement with WTO members on the protocol setting out Taiwan's commitments on implementation of WTO rules. Recent discussions have focused on Taiwan's subsidies and agricultural import procedures.

Background

On February 20, 1998, the United States and Taiwan reached agreement on a bilateral market access package that included significant tariff cuts on key U.S. exports of industrial and agricultural products. Taiwan also made important commitments in the services sector, including the areas of telecommunications and financial services. Taiwan will also be joining the WTO Agreement on Government Procurement and the Agreement on Trade In Civil Aircraft.

While Taiwan authorities have begun implementing the bilateral aspects of the February market access agreement, most of the commitments are linked to Taiwan's accession to the WTO. Since the February agreement, WTO members have met twice with Taiwan in Geneva to discuss the multilateral aspects of the accession. Further meetings are anticipated in the Fall.

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**FOR IMMEDIATE RELEASE
Monday, August 10, 1998**

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**USTR ANNOUNCES DEVELOPMENTS UNDER
SPECIAL 301 ACTION IN PARAGUAY**

United States Trade Representative Charlene Barshefsky today announced that the Special 301 investigation of Paraguay would be extended for three months to allow for negotiations with the administration of President-elect Raul Cubas Grau. On January 16, USTR identified Paraguay as a "priority foreign country" under the Special 301 provisions of the Trade Act because of growing losses suffered by U.S. industry as a result of inadequate intellectual property protection and enforcement in Paraguay.

Ambassador Charlene Barshefsky stated in announcing her decision, "We are pleased to see Paraguay has made progress on some issues, such as the passage of an improved trademark law, since the initiation of this investigation. However, we are disappointed that proposed copyright legislation further weakens legal protection and that there continues to be a lack of significant, well-publicized enforcement actions against pirates and counterfeiters. Despite the best efforts of certain Paraguayan Government officials, insufficient progress has been made in the last six months toward addressing the rampant piracy and counterfeiting that remain the norm in Paraguay."

On August 15, President-elect Cubas Grau will assume office in Paraguay. "We look to the incoming administration to make significant progress on IPR enforcement and to address the fundamental legal and institutional deficiencies evident in Paraguay," stated Ambassador Barshefsky. She continued, "I strongly urge the new administration to use this short extension of the 301 investigation period to take swift enforcement actions to reduce piracy and bring into force adequate and effective intellectual property laws without further delay. Otherwise, I will have no choice but to take appropriate action against Paraguay."

When identifying Paraguay as a "priority foreign country" in January, Ambassador Barshefsky highlighted two principal concerns: Paraguay's failure to take effective internal enforcement action against piracy and counterfeiting, especially at its borders

and Paraguay's failure to enact adequate and effective intellectual property legislation covering copyrights, patents, and trademarks. Paraguay produces, and is a major transshipment point for, illicit goods destined for significant markets in Latin America, such as Argentina and Brazil. The U.S. copyright and trademark industries suffer hundreds of millions of dollars in losses in the region annually as a result of this activity.

On February 17, 1998, one month after Paraguay was identified as a "priority foreign country," USTR initiated an investigation of Paraguay's acts, policies and practices related to intellectual property protection. The Section 301 statute allows such investigations to be extended for a period of not more than three months beyond the standard six month time frame when complex or complicated issues are involved. In light of the scope and extent of the deficiencies in Paraguay's intellectual property regime, as well as the impending change in government, Ambassador Barshefsky today determined that such complex and complicated issues warrant extending this investigation. However, failure by Paraguay to address U.S. concerns prior to the close of the investigation could lead to the imposition of bilateral trade sanctions.

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FOR IMMEDIATE RELEASE
Tuesday, August 11, 1998

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**Interim WTO Report Supports U.S. Position on
Unnecessary Japanese Testing Requirements**

In response to earlier Japanese press reports, the Office of the U.S. Trade Representative today confirmed that a dispute settlement panel of the World Trade Organization has made interim findings that Japanese testing requirements for agricultural products violate Japan's WTO obligations. This report, if finalized by the panel in October, should result in new opportunities for U.S. exporters of apples, nectarines, cherries, walnuts, and other agricultural products. This would be the third successful outcome for the United States in disputes against Japan at the WTO. The earlier cases related to differential taxation policies (distilled spirits) and intellectual property (sound recordings).

In response to the WTO panel's interim decision, U.S. Trade Representative Charlene Barshefsky stated, "This WTO case reflects our concern about Japan's use of groundless testing requirements that serve only to restrict market access for U.S. agricultural products. We are pleased that the panel has recognized that there is no scientific basis for the Japanese measures."

The interim dispute settlement panel report, issued on August 6, accepts the U.S. position on Japan's varietal testing requirement. Japan requires repeated testing of established quarantine treatments each time an additional variety of an already approved commodity is presented for export. The panel has recognized that Japan's varietal testing requirement is not supported by scientific evidence, is more trade restrictive than required and is non-transparent. It is therefore inconsistent with Articles 2.2, 5.6 and Annex B of the Agreement on Sanitary and Phytosanitary Measures.

Background

Japan requires repeated testing of established quarantine treatments each time that a new variety of an already approved commodity is presented for export. For example, Japan has approved red and golden delicious apples for export, but is requiring that the quarantine treatment be retested for efficacy on several other varieties. While Japan is within its rights to require treatment of agricultural commodities that are hosts for quarantine pests, this redundant testing requirement has no scientific

basis and serves as a significant barrier to market access. Completion of the testing for each variety takes a minimum of two years and is very costly to the United States Government and U.S. producers.

The fruits of immediate export concern are apples, cherries, walnuts and nectarines. In addition, there are at least five other commodities that could benefit from this WTO report - pears, peaches, quinces, apricots and plums. Japan asserts that all of these commodities may be hosts to codling moth, a pest not known to occur in Japan.

Japan "liberalized" its trade for apples in 1971. However, since that time, GOJ officials have continually denied permission for the importation of U.S. apples, allegedly due to phytosanitary concerns. It was only in 1994 that the first apples were actually approved for import.

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USTR ANNOUNCES SPECIAL 301 ACTION ON TAIWAN

United States Trade Representative Charlene Barshefsky today announced that Taiwan would be placed on the Special 301 "watch list" because of continuing concerns about enforcement of intellectual property rights (IPRs) in Taiwan.

In announcing this decision, Ambassador Barshefsky stated, "While Taiwan authorities have made some progress since April on IPR enforcement, I am concerned that overall these actions have not been effective in reducing the production and export of pirated and counterfeit goods, especially video games and components, CD-ROMs, and music and video CDs."

Taiwan remains one of the top four sources of infringing goods that U.S. Customs seizes on importation and is also a major source of such exports to Latin American markets, especially Paraguay.

Ambassador Barshefsky further stated, "I also am concerned by the persistent difficulties U.S. patent, trademark and copyright holders face defending their interests against infringements in Taiwan courts and administrative bodies. These obstacles must be eliminated. I look to Taiwan authorities to take definitive enforcement actions and make other necessary changes to its laws quickly to remedy these long-standing bilateral irritants. Should this occur, I certainly will consider removing Taiwan from the "watch list."

Background

On May 1, USTR announced the results of its the annual Special 301 review. With respect to Taiwan, the announcement indicated that Taiwan authorities had made recent assurances to address U.S. concerns and that USTR would closely monitor implementation of the specific measures over the following several months. Today's announcement is the result of that monitoring.

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FOR IMMEDIATE RELEASE
Wednesday, August 12, 1998

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ADMINISTRATION CALLS ON JAPAN TO MAKE PROGRESS UNDER
AUTO AGREEMENT, DESPITE RECESSION

The Clinton Administration, in its semi-annual auto monitoring report released today, urged the Japanese Government to take additional concrete steps to improve market access under the Automotive Agreement, the economic slowdown in Japan notwithstanding.

"Japan's recession is compounding the trade and regulatory barriers that have long impeded U.S. auto and auto parts sales to Japan," said U.S. Trade Representative Charlene Barshefsky. She continued, "Excessive regulation and barriers to competition block U.S. exports and hurt Japan's own efforts to restore growth and prosperity. We are making some progress under the Agreement, but it is critical that Japan take further steps to open and deregulate its automotive market to achieve the goals of our Agreement and to strengthen its own economy."

Secretary of Commerce William M. Daley stated, "Japan's economic difficulties have clearly exacerbated market access problems for U.S. automotive manufacturers in Japan. We urge the new Japanese Government to undertake measures that would accelerate progress under the Agreement and help stimulate the Japanese economy. During these difficult economic times, it is even more crucial that Japan take actions that would further open and deregulate this important sector."

The report, which notes the disproportionate impact of Japan's recession on foreign automakers, assesses progress based on 17 objective criteria included in the Agreement and highlights areas where additional Japanese Government efforts are needed.

- Foreign automakers are losing share in a shrinking market; sales in Japan of vehicles produced by U.S.-based auto manufacturers are down 26 percent during the first five months of 1998 while the overall Japanese automotive market diminished by 17 percent during the same period. At the same time, the recession has compounded the difficulties faced by U.S. automakers in adding new, high quality dealerships needed to gain direct

and fair access to Japan's automotive market. The "big three" have added 187 new franchise agreements with Japanese dealers since the signing of the Agreement, an increase of 45 since the last auto monitoring report. While Japanese Government efforts have improved the competitive environment to some degree, additional steps are needed to eliminate persistent business practices that unreasonably restrict competition in this sector.

- The pace of deregulation in the auto parts aftermarket continues to be haltingly slow. To achieve further progress under the Agreement, the Japanese Government needs to pursue deregulatory actions in areas affecting aftermarket sales, including periodic vehicle inspections; disassembly repair regulations; certification of auto mechanics; and other regulations of government-certified garages.
- U.S. auto parts exports to Japan continued to grow and rose 12 percent in the first quarter of 1998 while sales of U.S.-made auto parts to Japanese transplants grew 10 percent in the Japanese fiscal year ending last March 31. However, with new purchase orders beginning to decline and little momentum for meaningful deregulation, concerns that progress could stall or even reverse over the coming months are growing.

The semi-annual report was the fifth to be issued by the USTR-Commerce co-led interagency task force formed to monitor progress under the Agreement.

NOTE: This report is available on the USTR web-site at www.ustr.gov in the "Reports" section, and on the Department of Commerce web-site at www.ita.doc.gov/auto.

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**For Immediate Release
August 19, 1998**

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Administration Releases First Monitoring Report on Foreign Access to Japan's Film Sector

The Clinton Administration today released its first semi-annual report assessing Japan's implementation of the representations it made to the World Trade Organization (WTO) regarding the openness of its photographic film and paper market. "Our assessment of current market conditions underscores that further Japanese Government efforts to open Japan's film market and foster greater competition in this sector are clearly needed to bring its actions fully in line with Japan's representations to the WTO," United States Trade Representative Charlene Barshefsky said.

The Administration established the interagency Monitoring and Enforcement Committee, co-chaired by the Office of the U.S. Trade Representative and the Department of Commerce, last February to review implementation of formal representations made by Japan to a WTO panel regarding its efforts to ensure the openness of its market to imports of film. "Our Monitoring and Enforcement Committee has contributed to initial improvements in foreign access to Japan's photographic materials market," Secretary of Commerce William M. Daley said. "We will continue to scrutinize Japan's efforts to open these markets in accordance with its WTO representations."

In its representations to the WTO, Japan claimed that it is implementing policies that promote improved foreign access and does not tolerate unreasonable restraints on competition. In preparing its report, the Committee surveyed the Japanese photographic film and paper market and assessed information and data obtained from U.S. and other foreign film manufacturers and the Japanese Government.

The report shows distinctly different trends in the availability of foreign film in the two main segments of the market. Availability declined slightly in the traditional photospecialty stores, which comprise nearly half of the Japanese film market by sales volume. Competition in this segment of the market continues to be less robust. Meanwhile, the report finds that the availability of foreign film has doubled over the past three years in "non-traditional" outlets, such as supermarkets, department stores, convenience stores and other non-photospecialty stores. These stores comprise a segment of the market that is relatively more open and where competition is more vigorous than in the rest of

the photographic materials market. "Where market forces are evident, foreign access to Japan's photographic materials market is improving," Secretary Daley said. "As a result, Japanese consumers are being offered greater choice and lower prices."

The report attributes the improved access in non-traditional stores to several factors. Among these are the heightened focus on this issue over the past few years as a result of U.S. trade actions, nascent structural changes in Japan's distribution system, and initial steps by the Japanese Government to address exclusionary business practices in this sector. Continued efforts by Kodak and other foreign film manufacturers to actively market their products in Japan also have played a role. However, the continued use by Fuji and its primary wholesalers of unreasonable business practices that exclude its competitors has contributed to the lack of improvement in access to the traditional photospecialty stores, which remain a key film distribution channel.

"Our report clearly points to the need for more aggressive action by the Japanese Government to ensure that all market access barriers and practices that unreasonably restrict competition in this sector are eliminated. We will continue to press Japan through formal and informal means to reform its archaic distribution structure and address practices that unreasonably restrain trade," Ambassador Barshefsky said.

Linking the report's findings to the need for Japan to broaden deregulatory and market-opening steps, Ambassador Barshefsky stated, "The closed distribution systems and exclusionary business practices in this sector are indicative of the barriers that exist throughout the Japanese economy. Eliminating these barriers will help unleash Japan's vast economic potential to become an engine of growth for the Asia-Pacific region."

The report states that the Monitoring and Enforcement Committee will continue to closely scrutinize Japan's actions to ensure that it lives up to its WTO representations and to monitor market access trends in this sector. As part of these efforts, Committee members will visit Tokyo in the coming months to meet with Japanese Government officials, and U.S. and Japanese industry representatives. The group also will continue to work closely with the U.S. Embassy in Tokyo and U.S. industry to gather information on conditions in the market. The Administration will issue its next report in early 1999.

The report cites specific areas where additional action by the Ministry of International Trade and Industry and the Japan Fair Trade Commission is warranted. Among these are steps to improve dissemination of MITI and JFTC guidelines regarding business and distribution practices, ensure that new measures regulating large stores are not allowed to unreasonably restrict competition or to favor small- and medium-sized stores, and intensify JFTC monitoring of Fuji actions, especially tying arrangements and retaliatory threats by Fuji against retailers who promote foreign brands of photographic film or paper.

NOTE: *The film monitoring report will be available on the USTR website under the "Reports" section, at www.ustr.gov and on the Department of Commerce web-site at www.ita.doc.gov.*

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**FOREIGN SHARE OF THE JAPANESE SEMICONDUCTOR MARKET
FALLS IN FIRST QUARTER 1998**

The foreign share of the Japanese semiconductor market fell to 31.7% in the first quarter of 1998, a 1 percentage decline from the 32.7% registered in the fourth quarter of 1997, and the lowest share since the fourth quarter of 1996. Foreign share of the Japanese market averaged 33.3% in 1997, up from an average of 27.5% in 1996.

Sales from all export regions declined. However, the share remained flat or increased slightly for all regions except Korea where sales fell by nearly one-third from the previous quarter. The Japanese market, which registered a 10% decline in the fourth quarter 1997, fell by another 4 percent in the first quarter 1998, reflecting sagging demand in computers and other products.

"We are carefully watching the semiconductor situation in Japan, which graphically demonstrates the negative effects of the current recession/downturn in the Japanese economy," said Ambassador Charlene Barshefsky. "That U.S. semiconductor companies have been able to maintain their market share in a declining Japanese market is a tribute to the competitiveness of U.S. products."

One of the key elements of the 1996 semiconductor agreement is the provision for cooperative activities between foreign semiconductor suppliers and Japanese users, in areas such as automotive, telecommunications and emerging applications. "We are pleased by the high level of interest shown by U.S. suppliers and Japanese users in the industry cooperative activities taking place under the framework of the 1996 U.S.-Japan semiconductor agreement and look forward to seeing another full program of activities in 1999," Ambassador Barshefsky said.

Foreign Market Share

Q3 1991	14.3%
Q4 1991	14.4%
Q1 1992	14.6%
Q2 1992	16.0%
Q3 1992	15.9%
Q4 1992	20.2%
Q1 1993	19.6%
Q2 1993	19.2%
Q3 1993	18.1%
Q4 1993	20.7%
Q1 1994	20.7%
Q2 1994	21.9%
Q3 1994	23.2%
Q4 1994	23.7%
Q1 1995	22.8%
Q2 1995	22.9%
Q3 1995	26.2%
Q4 1995	29.6%
Q1 1996	26.9%
Q2 1996	26.4%
Q3 1996	27.1%
Q4 1996	29.4%
Q1 1997	32.6%
Q2 1997	35.8%
Q3 1997	32.1%
Q4 1997	32.7%
Q1 1998	31.7%