

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

OFFICE OF PUBLIC & MEDIA AFFAIRS

600 17th Street, N.W.
Washington, D.C. 20508
Phone: 202.395.3230/ Fax: 202.395.7226

**TABLE OF CONTENTS
PRESS RELEASES FOR JUNE 2000**

- June 5, 2000 00-43 USTR Announces Progress in Combating Optical Media Piracy in Ukraine
- June 8, 2000 00-44 USTR Barshefsky Hails House Ways and Means Committee Vote on
WTO
- June 15, 2000 00-45 USTR Seeks Public Comments on U.S.-Jordan Free Trade Agreement
- June 16, 2000 00-46 USTR Notes Progress on Telecom Issues in the United Kingdom,
Germany and South Africa, Cites Continued Need to Monitor
Implementation
- June 20, 2000 00-47 United States Delegation Visits South Africa and Nigeria to Strengthen
Trade Relations and Promote Economic Growth and Opportunity in Africa
- June 21, 2000 00-48 United States Resolves WTO Dispute Over Australia's Prohibited Export
Subsidies on Automotive Leather
- June 22, 2000 00-49 USTR Barshefsky Hails Overwhelming House Vote on WTO, Bipartisan
Vote Rejects U.S. withdrawal from WTO

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

OFFICE OF PUBLIC & MEDIA AFFAIRS

600 17th Street, N.W.

Washington, D.C. 20508

Phone: 202.395.3230/ Fax: 202.395.7226

**TABLE OF CONTENTS
PRESS RELEASES FOR JULY 2000**

- July 10, 2000 00-52 USTR, CEQ Release Draft Guidelines on Implementation of Executive Order Regarding Environmental Reviews of Trade Agreements
- July 14, 2000 00-53 U.S. Submits Framework Proposal at WTO for Opening Services Markets, Using Innovative Negotiating Approaches
- July 17, 2000 00-54 WTO Panel Finds U.S. Acted Prematurely on Bananas, but U.S. Duties Not Affected

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

OFFICE OF PUBLIC & MEDIA AFFAIRS
600 17th Street, N.W.
Washington, D.C. 20508
Phone: 202.395.3230/ Fax: 202.395.7226

**TABLE OF CONTENTS
PRESS RELEASES FOR JULY 2000**

July 18, 2000	00-55	United States and Japan Agree on Interconnection Rates
July 19, 2000	00-56	Barshefsky Hails Significant Achievements Under Enhanced Deregulation Initiative
July 19, 2000		Third Joint Status Report Under the US-Japan Enhanced Initiative on Deregulation and Competition Policy
July 28, 2000	00-57	US to Request WTO Consultations with Mexico Regarding Telecommunications Trade Barriers

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 - 43

For Immediate Release Contact: Brendan Daly

June 5, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**USTR Announces Progress in Combating
Optical Media Piracy in Ukraine**

President Clinton and Ukrainian President Kuchma today issued a joint statement expressing their agreement to a plan of action to combat the unauthorized production and export of optical media products (e.g., CDs, CD-ROMs, DVDs) in Ukraine. The Government of Ukraine has committed to implement this plan by November 1, 2000.

"We are highly encouraged by the positive approach the Government of Ukraine is taking to address the serious problem of optical media piracy, and we look forward to Ukraine's implementation of the agreed upon action plan," said United States Trade Representative Charlene Barshefsky. "Ukraine has been working on developing a modern intellectual property regime since gaining its independence and it has made real progress, including adhering to several key international conventions for the protection of intellectual property. While much work lies ahead, these efforts will help Ukraine to satisfy some of the key conditions for membership in the World Trade Organization."

In recognition of this commitment by the Government of Ukraine as well as its recent actions in fighting optical media piracy, Ambassador Barshefsky will defer from August to December 2000 the decision on whether to designate Ukraine a "Priority Foreign Country" under "Special 301" which examines the adequacy and effectiveness of intellectual property protection among the United States' trading partners. The Government of Ukraine has indicated that it will make every effort to obtain passage of key legislative elements in the action plan before the Ukrainian parliament goes on recess in mid-July. Full implementation of the action plan, including prompt enactment of key legislation, will pave the way for a decision to exclude Ukraine from the list of "Priority Foreign Countries."

Background

The Government of Ukraine has succeeded in suspending production at the five known pirate optical media plants operating in the country. It has committed to keeping these plants under strict supervision and monitoring, in conjunction with the U.S. copyright industry, to ensure that in the future, plants that reopen will engage only in authorized production. In recent years, pirates operating in Ukraine have exploited weaknesses in the intellectual property regime to produce and export, as well as sell domestically, tens of millions of unauthorized CDs.

In 1999, Ukraine was Europe's leading producer and exporter of pirated CDs. This piracy has caused severe damage to both the U.S. and Ukrainian copyright industries. The U.S. copyright industry estimates that in 1999 more than \$200 million in revenues were lost due to piracy in Ukraine.

Under the agreed action plan, the Government of Ukraine has committed to, among other things: 1) seek the prompt adoption of legislation to provide protection to all U.S. and other foreign sound recordings previously released within the past fifty years; 2) seek the prompt enactment of amendments to its penal code to provide strong remedies, including criminal penalties with imprisonment, for the violation of the copyright law, including in particular the violation of the rights of producers of sound recordings; 3) adopt a comprehensive set of regulations relating to the import and export of optical media products, raw materials, and manufacturing equipment; and, 4) adopt regulations requiring the licensing of all entities involved in the manufacture or distribution of sound recordings, and requiring the use of unique identifiers in the manufacturing process.

Copies of the joint statement will be available from the White House Web site: www.whitehouse.gov.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 -44

For Immediate Release Contact: Brendan Daly

June 8, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

USTR Barshefsky Hails House Ways and Means Committee Vote on WTO

United States Trade Representative Charlene Barshefsky today hailed the 35-0 vote by the House Ways and Means Committee to reject a resolution that would withdraw Congressional support for continued U.S. participation in the World Trade Organization.

"Today's vote in support of the WTO reinforces how critical it is that the U.S. remains a leader of the global trading system, and I commend the Ways and Means committee for its decisive action," said Ambassador Barshefsky.

"As the world's largest importer and exporter, the U.S. has benefitted more than any other country from the WTO and its framework of rules designed to ensure that our products and services receive fair and predictable treatment around the world. U.S. membership in the WTO helps advance American competitiveness in agriculture, manufacturing and high technology industries, advances the rule of law in commerce, and promotes stability in times of economic crisis."

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 - 45

For Immediate Release Contact: Brendan Daly

June 15, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

USTR Seeks Public Comment on U.S.-Jordan Free Trade Agreement

The Office of the U.S. Trade Representative (USTR) today published a notice in the *Federal Register* seeking comments from the public on all negotiating objectives for a free trade agreement with Jordan.

Last week, President Clinton and King Abdullah II of Jordan announced that the United States and the Hashemite Kingdom of Jordan will enter into a bilateral negotiation of a free trade agreement. These discussions will include labor and environmental issues.

"We share with Jordan a fundamental belief that trade is vital to supporting peace and stability in the Middle East and to improving the quality of life," said U.S. Trade Representative Charlene Barshefsky. "We are entering a new era of economic cooperation with Jordan, the benefits of which will contribute not only to Jordan's economic growth, but the economic prosperity of the entire region. Jordan's persistence and steady commitment to achieving a comprehensive peace for the region has made it an invaluable partner in the Middle East peace process."

In addition to the *Federal Register* notice soliciting public comments from the private sector, non-governmental

organizations and other interested parties, USTR has requested that the U.S. International Trade Commission conduct a study on the potential economic impact of the agreement on the United States.

The agreement will also address labor and environmental issues, and USTR will seek public input on these matters as well. In addition, pursuant to Executive Order 13141, an inter-agency team will perform an environmental review of the free trade agreement. Jordan also intends to conduct its own environmental review of the impact of the agreement.

Two-way trade between Jordan and the United States totaled \$307 million in 1999, \$276 million in U.S. exports to Jordan and \$31 million in U.S. imports from Jordan.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR Web Site at www.ustr.gov.

00 -46

For Immediate Release Contact: Brendan Daly

June 16, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**USTR NOTES PROGRESS ON TELECOM ISSUES IN
THE UNITED KINGDOM , GERMANY AND SOUTH AFRICA,
CITES CONTINUED NEED TO MONITOR IMPLEMENTATION**

United States Trade Representative Charlene Barshefsky announced today results of ongoing reviews under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988. In April, USTR established a June 15 deadline for further review of telecommunications services trade barriers for the United Kingdom, Germany and South Africa. "Each of these countries have shown progress in addressing the concerns we expressed in our annual review of telecommunications agreements," said Ambassador Barshefsky. "However, USTR will continue to monitor the situation closely in each country to ensure full implementation of their telecommunications trade commitments."

United Kingdom

"The United Kingdom has made significant strides towards opening its telecommunications market to competition in advanced data services that make high-speed Internet access possible," said Ambassador Barshefsky. "Although competitors continue to face delays in obtaining access to the facilities needed for these services, the UK intends to establish pro-competitive rules for this market later this year. We welcome this progress and look forward to the prompt introduction of full competition in the UK's advanced data service market."

USTR will monitor progress in introducing competition in the advanced data services market (Digital Subscriber Lines, or DSL services) until December 15, by which time the UK regulator (OFTEL) is expected to issue regulations to promote competition in the DSL market. USTR will review these regulations to assess how they meet the goal of fully opening the advanced data services market. USTR will also monitor the UK's willingness to permit pro-competitive "line-sharing," which was endorsed by the European Commission earlier this year. "Line-sharing" permits subscribers to use a single line for both voice and high-speed Internet access.

Germany

"Germany has taken helpful steps to address the persistent problem of Deutsche Telekom's backlog in processing interconnection requests," stated Ambassador Barshefsky. "Without timely interconnection, competition cannot take root. We urge the German government to re-double its efforts to ensure that Deutsche Telekom quickly reduces its remaining interconnection backlog."

USTR will continue to monitor progress in this and other key areas affecting the competitive environment that are relevant to Germany's WTO commitments. Germany is also expected to take action this year to reduce excessive licensing fees, which the European Commission has recognized as an impediment to competitive market entry.

South Africa

"We are pleased that South Africa's monopoly telecommunications supplier, Telkom, has agreed to restore access to its network for value-added services, as required by South Africa's WTO commitments," said Ambassador Barshefsky. "Nevertheless, we remain concerned that Telkom may seek to impose WTO-inconsistent restrictions on its value-added services competitors. We urge the South African government to ensure that businesses and consumers enjoy a truly competitive value-added services market. We will continue to monitor the situation in South Africa closely to ensure that Telkom's competitors are able to offer the full range telecommunications services consistent with South Africa's WTO commitments."

Telkom took a step forward by agreeing that value-added service suppliers can lease Telkom's circuits to offer value-added services on a "shared basis," allowing them to transmit data to and from multiple customers on a single line. Refusal to permit shared use of Telkom's leased lines would have required Telkom's value-added service competitors to use the lines in an economically unsustainable manner.

Administrative proceedings are underway in South Africa to determine the scope of value-added services under South African law. "We urge the South African Government to define value-added services as expansively as possible to encompass all services covered by South Africa's WTO commitments," said Ambassador Barshefsky.

Background

USTR released its annual review of certain foreign countries' compliance with telecommunications trade agreements under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988 earlier this year. The review established a June 15 deadline for further review of Germany, South Africa and the United Kingdom; a July 28 deadline for further review of Japan and Mexico; and, an October 2 deadline for further review of Canada and Peru.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 - 47

For Immediate Release Contact: Brendan Daly

June 20, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**United States Delegation Visits South Africa and Nigeria to Strengthen
Trade Relations and Promote Economic Growth and Opportunity in Africa**

Deputy United States Trade Representative Susan G. Esserman arrives in South Africa today, where she will lead a U.S. delegation to Durban and Johannesburg until Saturday, and to Lagos and Abuja, Nigeria from June 24 to 27.

During the official visit to South Africa, Ambassador Esserman will participate in the World Economic Forum's Southern African Economic Summit, and she will meet with African trade ministers, senior African officials and public and private sector representatives to review the many benefits and opportunities offered to African countries and businesses under the recently-enacted African Growth and

Opportunity Act (AGOA), and other U.S. market access initiatives. In Nigeria, she will open the Inaugural Meeting of the U.S.- Nigeria Trade and Investment Council.

"The Africa Growth and Opportunity Act will stimulate market-led investment, economic growth, and rising living standards in some of the world's poorest countries, and we are pleased that so many African public and private sector leaders have expressed such an overwhelming and positive response to it," said Ambassador Esserman. "We are now working to ensure that information about the new law and its potential benefits is widely available both in the United States and in Africa. We believe the legislation will provide significant incentives and opportunities for trade-based economic growth throughout Africa, and will strengthen U.S.-Africa business ties."

In Durban and Johannesburg, Ambassador Esserman will co-host two seminars with South African Minister of Industry and Trade Alec Erwin on implementation of AGOA and other U.S. market access initiatives. The seminars are part of the Administration's on-going efforts to reach out to sub-Saharan African countries to assist them in understanding the requirements and potential opportunities of the new law. The African Growth and Opportunity Act provides greater duty-free access to U.S. markets for countries in sub-Saharan Africa and is expected to stimulate market-led investment, economic growth, and rising living standards in some of the world's poorest countries.

In addition to these seminars, Ambassador Esserman will lead the U.S. Delegation to the World Economic Forum's Southern Africa Economic Summit and hold bilateral meetings with African leaders and trade ministers from a number of sub-Saharan African countries. A primary objective of these meetings will be to continue dialogue and consultations with sub-Saharan African countries on World Trade Organization (WTO) issues, including agriculture, services, and institutional reform of the WTO. Ambassador Esserman will also address the U.S. and South African business community and civil society representatives at the Ron Brown Center in Johannesburg.

In Nigeria, Ambassador Esserman will lead the U.S. Delegation at the Inaugural Meeting of the U.S.- Nigeria Trade and Investment Council, which was created under the Trade and Investment Framework Agreement signed in February by U. S. Trade Representative Charlene Barshefsky and the Vice President of Nigeria, Atiku Abubakar. The Trade and Investment Council will examine, among other items, the African Growth and Opportunity Act, agriculture trade issues, and ways to boost overall U.S.- Nigeria trade and investment.

"Supporting Nigeria, and its democratically-elected government, is a priority for the Clinton Administration. This first meeting of the TIFA Council will permit us to develop specific strategies to enhance our trade and investment relations," Ambassador Esserman said.

Ambassador Esserman will also meet with Vice President Abubakar, trade officials, and members of parliament. In Lagos, she will consult with representatives of the U.S. and Nigerian business communities. On June 27, Ambassador Esserman will launch a U.S.-sponsored National WTO Workshop, which will provide technical assistance to government officials and the private sector to facilitate Nigeria's full integration into the world trading system.

Background

The African Growth and Opportunity Act was signed by President Clinton on May 18. The Act provides for preferential access (including duty-free treatment) to the U.S. market for certain products from eligible sub-Saharan African countries. The Act also provides for other measures, such as the creation of an U.S.-sub-Saharan Africa Economic Forum, to enhance the dialogue and to strengthen economic and trade relations between the U.S. and African countries.

The United States and South Africa have a Trade and Investment Framework Agreement under which the governments committed to working to strengthen trade and investment ties. Two-way trade was approximately \$5.8 billion in 1999, with \$2.6 billion in U.S. exports to South Africa and \$3.2 billion in U.S. imports from South Africa.

The U.S.-Nigeria Trade and Investment Framework Agreement signed in Washington, D.C. on February 16 creates a Council on Trade and Investment composed of representatives of both governments, and establishes a structured dialogue for developing specific steps to remove impediments and to develop strategies to increase bilateral trade and investment flows between the two countries. Nigeria is the United States' largest trading partner in sub-Saharan Africa and its fifth largest supplier of oil in the world. Two-way trade was just under \$5 billion in 1999, with U.S. exports to Nigeria totaling more than \$628 million.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR Web Site at www.ustr.gov.

00-48

For Immediate Release Contact: Brendan Daly

June 21, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**United States Resolves WTO Dispute Over
Australia's Prohibited Export Subsidies on Automotive Leather**

United States Trade Representative Charlene Barshefsky announced today that the United States has resolved a dispute it brought to the World Trade Organization (WTO) over subsidies to Australia's sole exporter of automotive leather. Under the agreement, the subsidy recipient agreed to a partial repayment of the prohibited export subsidy it received, and the Australian Government committed that it will exclude this industry from current and future subsidy programs, and provide no other direct or indirect subsidies.

"This agreement is proof that the WTO dispute settlement process works for U.S. interests," said Ambassador Barshefsky. "By pursuing this matter through the WTO Dispute Settlement Body, we were able to reach a mutually satisfactory resolution that will allow our industry to compete on an equal footing with its foreign competitors."

The agreement is the result of a WTO case brought by the United States in 1998, when Australia - after consultations with the United States - excluded its automotive leather industry from two export subsidy programs, but then compensated its automotive leather exporter by means of a \$30 million grant. The United States alleged, and the dispute settlement panel agreed, that this grant was a "de facto" export subsidy, and had to be withdrawn. Australia announced in September 1999 that it had complied with the WTO ruling by having the recipient repay less than 27 percent of the grant, which it called the

prospective portion. At the same time, Australia announced a new loan subsidy to the exporter's parent.

In response, the original WTO panel was reconvened at the request of the United States. The panel concluded that Australia had failed to comply with the WTO ruling because the repayment was insufficient and that the new loan subsidy had nullified even that insufficient repayment. Following this decision, the United States and Australia began exploring a mutually satisfactory resolution of this matter.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR Web Site at www.ustr.gov.

00 -49

For Immediate Release Contact: Brendan Daly

June 22, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**USTR Barshefsky Hails Overwhelming House Vote on WTO,
Bipartisan Vote Rejects U.S. Withdrawal From WTO**

United States Trade Representative Charlene Barshefsky hailed last night's overwhelmingly bipartisan vote by the House of Representatives to reject a resolution that would withdraw Congressional support for continued United States participation in the World Trade Organization (WTO). Today's vote, 363-56, far exceeds the 288-146 vote cast in November 1994, which established U.S. membership in the newly-created WTO.

"Today's vote is a clear validation of the benefits of our membership in the WTO and sends a strong signal to our trading partners that they can count on the United States' continued leadership in the global trading system," said Ambassador Barshefsky. "The opening of markets around the world, which has been a top priority of this Administration, has been a driving force in the longest period of economic growth in our history. The United States is the world's largest exporting and importing nation, carrying on \$2.2 trillion in two-way trade with the world in 1999. That represents a \$1 trillion expansion in trade since 1992."

"Today's strong show of support for the WTO, combined with last month's passage of the Africa and Caribbean trade bills, and the House's passage of Permanent Normal Trade Relations for China all ensure that increased trade will continue to fuel our economic growth. Finally, I would like to thank Speaker Hastert and Minority Leader Gephardt for their leadership and support on this issue," said Ambassador Barshefsky.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 - 50

For Immediate Release Contact: Brendan Daly

June 29, 2000 (202) 395-3230

ANDY SOLOMON

(202)720-4623

GLICKMAN AND BARSHEFSKY UNVEIL U.S. AGRICULTURE

NEGOTIATING PROPOSAL TO THE WTO

Agriculture Secretary Dan Glickman and U.S. Trade Representative Charlene Barshefsky today unveiled the agriculture negotiating proposal the United States will present in Geneva tomorrow as part of world agriculture trade talks.

"Our proposal is bold and comprehensive," said Glickman. "It opens up markets and levels the playing field for American farmers and ranchers."

"This proposal is ambitious, fair, technologically progressive, and bipartisan," said U.S. Trade Representative Charlene Barshefsky. "It is a major step forward, and with it, we are looking ahead to an more open, stable and prosperous world in agriculture, which offers more opportunity to farm families in America, more fairness for farmers in the developing world, and better prices and more choice for consumers all over the world."

Building on earlier world trade reforms, the United States proposes to:

- Eliminate export subsidies

- Reduce and strictly limit domestic supports
- Further open global markets by lowering tariffs and raising quotas
- Limit the use of agricultural monopolies that control imports and exports
- Give special consideration to the needs of the least developed and developing countries
- Recommit to the concept of the availability of food for all

The WTO's Committee on Agriculture is meeting in special session in Geneva, starting today, to discuss further liberalization in world agricultural trade. This is the first opportunity for countries to present their negotiating proposals for the talks.

- 30 -

PRESS CONFERENCE ON WTO AGRICULTURAL PROPOSAL

Ambassador Charlene Barshefsky

U.S. Trade Representative

Washington, DC

June 29, 2000

As Prepared for Delivery

Good afternoon, and thank you all for coming.

We are meeting at a moment of great historic importance to American agriculture. Two weeks ago Congress passed, and the President signed, a disaster relief bill providing \$15 billion to assist farm and ranch families struggling with an economic crisis now in its fourth year. Although the Administration differed with aspects of that legislation, we view the assistance it provides as critical to our commitment to improving the economic opportunities of farmers, ranchers and rural America.

Today we are unveiling a second component of that strategy. This is a plan for fundamental and long-term reform of agricultural trade: opening markets overseas, eliminating unfair export subsidies, and leveling the competitive playing field for U.S. agriculture.

This is a comprehensive plan which will create new opportunities for our farm and ranch families, strengthen the trading system and also strengthen guarantees of fairness for farmers in poor and developing countries worldwide.

With one in three of our farm acres now producing for world markets, the ability to export is fundamental to prosperity in rural America. Over the past seven years, agriculture has thus been central to American trade policy. We have come a long way -- opening key markets and creating the first substantial international rules for agricultural trade -- but we have much more work ahead. American farmers still live in a world marked by high foreign trade barriers; by export subsidies that reduce farm incomes worldwide; and in some cases pervasive government involvement in agricultural trade through state trading enterprises.

U.S. PROPOSAL AT THE WTO

The proposal we will introduce tomorrow in Geneva takes these head on. The WTO committed itself to broad agricultural negotiations five years ago, and opened the talks on schedule in February. Since then, we have been consulting with Congress; farmers, ranchers and agricultural industry; and with our trading partners.

The proposal we will introduce tomorrow in Geneva incorporates the views we heard. Let me make four main points about it.

First, it is ambitious. It addresses every major issue from market access to export competition and domestic support. We call for substantial reductions or elimination of tariffs, expansion of remaining tariff-rate quotas, elimination of export subsidies, disciplines on the use of export restrictions on agricultural products, disciplines on state trading enterprises, simplification of rules applying to domestic support, and establishment of a ceiling on trade-distorting support that applies equally to all countries.

Second, it is fair. It will reduce or eliminate disparities in tariffs and subsidies worldwide, ensuring that farmers are competing not against government treasuries, but against one another based on productivity and skill. At the same time, it recognizes the appropriate role governments can play in supporting farmers and rural economies, as long as they do not do so at the expense of people on the land elsewhere in the world. All countries can use government policy tools to address national objectives -- our proposal simply emphasizes that this support should be provided through non-trade distorting means.

Third, it simplifies rules for agricultural trade. Our proposal, for example, will replace complicated border measures with simple tariffs. It will streamline domestic support rules to ensure all trade-distorting support measures are disciplined, while clarifying approaches countries can take to support farmers through non-trade-distorting measures. And it will call for reforms that facilitate trade in new technologies, when proven safe by fair, transparent and science-based regulations.

Fourth, it is bipartisan. This proposal reflects the ideas and advice of producer groups from around the country; Members of Congress from both parties; and our trading partners with whom we share a commitment to agricultural reform. It places us in partnership with developing countries and others committed to reform in today's world market. It places us in a role of leadership setting the agenda for the next agricultural negotiations.

CONCLUSION

We want a more open, stable, and prosperous world agricultural trading system, one which offers more opportunity to farm families in America; fairness for farmers in the developing world; and better prices and choice for consumers everywhere. This proposal is a major step forward, and I would like to thank our friends in Congress, in producer and consumer groups, and of course the USDA for the advice and ideas they have contributed.

Thank you very much for coming, and let me now turn to Secretary Glickman.

U.S. WTO AGRICULTURE PROPOSAL

The U.S. proposal builds on the structure of the existing WTO rules for agriculture and identifies a framework and ambitious reform goals with the objective of substantially reducing high levels of protection and support that disadvantage U.S. farmers, ranchers and processors.

Key Elements of the U.S. Proposal:

- substantial reductions in all tariffs and increases in all tariff-rate quotas, in all markets;
- elimination of export subsidies;
- disciplines on the use of export restrictions and embargoes on agricultural products;
- disciplines on state trading enterprises;
- simplification of rules applying to domestic support, and establishment of a ceiling on trade-distorting support that applies equally to all countries; and
- rules to ensure market access for products of new technologies.

The United States proposal:

- is a framework for reform, to be amplified with more specific approaches by next spring;
- is comprehensive, with proposals addressing trade-distorting measures in each of the areas of market access, export competition, and domestic support;
- is reformist, calling for elimination of export subsidies and substantial reductions in tariffs and trade-distorting domestic support;
- addresses disparities in allowed levels of protection and support, focusing on bringing down high tariff and excessive trade-distorting subsidies that benefit our competitors and keep us out of foreign markets;
- will simplify world trade in agriculture by closing loopholes that allow countries to maintain high subsidy levels and complicated tariff and customs procedures;
- affords flexibility to the U.S. Congress as it prepares for the next Farm Bill by allowing for unlimited rural and farm support through non-trade-distorting programs and allowing a continuation of trade-distorting subsidies at more equal levels;
- encourages resource conservation and environmental protection programs;
- is proportionate, the more trade-distorting the measure, the deeper the reform:
 - *elimination* of export subsidies,
 - *substantial reforms in border protection* through an aggressive approach that will put pressure on countries with high tariffs in agriculture,

- establishing a *shared standard* for the level of *trade-distorting domestic support*,
 - *continuing availability* of *export credit* and *food aid programs*,
 - and allowing *unlimited* amounts of support through *non-trade-distorting* measures;
- is balanced, calling for substantial reforms that can be realistically and expeditiously achieved in this round of negotiations.

Background: WTO agriculture negotiations were mandated to begin this year under the provisions of the Uruguay Round agreement in 1994. WTO members set a deadline of the end of the year for initial negotiating proposals, with latitude for countries to amend and amplify their initial proposals in the first quarter of 2001.

June 29, 2000

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR Web Site at www.ustr.gov.

00 -51

For Immediate Release Contact: Brendan Daly

July 3, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

USTR RECOMMENDS GSP SUSPENSION OF BELARUS

and

ANNOUNCES TERMINATION OF WORKER RIGHTS REVIEW OF THAILAND

United States Trade Representative Charlene Barshefsky announced today that President Clinton has decided to suspend Belarus's benefits under the Generalized System of Preferences (GSP) program. This decision was based on a finding by an interagency committee, chaired by USTR, that Belarus has not taken sufficient steps to conform to internationally recognized worker rights. The GSP program provides duty-free treatment on a large number of tariffs from developing countries in order to promote economic development, maintain U.S. competitiveness, and reinforce the United States' trade policy agenda.

"One of the fundamental criteria for GSP eligibility is evidence that a country is taking steps to provide internationally recognized worker rights," Ambassador Barshefsky said. "We have, for some time, been reviewing worker rights problems in Belarus concerning freedom of association, and the right to organize and bargain collectively. Unfortunately, the Government of Belarus continues to suppress trade union rights and harass union leaders. We therefore recommended that Belarus be suspended from the GSP program."

In evaluating the worker rights situation in Belarus, the GSP committee noted that trade preferences were extended to the Central and Eastern European countries after the fall of the Berlin Wall, and to the Newly Independent States, including Belarus, following the collapse of Communism in the early 1990s. The objective of these GSP designations was to assist the former communist countries in making the transition to democracy, pluralism, and the market economy.

Ambassador Barshefsky also announced the termination of the GSP investigation concerning the provision of core worker rights in Thailand. With enactment of the new State Enterprises Labor Relations Act (SELRA) in February, which subsequently received Royal Assent and was published in the Royal Gazette in Bangkok, the administration of Thai Prime Minister Chuan has succeeded in re-instituting fundamental worker rights which had been denied to Thai workers employed by state enterprises for the past nine years.

"We welcome the important steps taken by Thailand to restore key worker rights to employees in government-controlled companies, measures which have been absent in Thailand for nearly a decade," said Ambassador Barshefsky. "We are also encouraged that Thailand is considering further actions that will soon allow unions representing state enterprise workers to associate with private sector labor organizations."

Background

Belarus:

In 1997, the AFL-CIO filed a petition with the Office of the U.S. Trade Representative to remove eligibility from the Republic of Belarus to participate in the Generalized System of Preferences (GSP). The petition claimed Belarus had failed to afford internationally recognized worker rights in accordance with the requirements of Section 502(b)(7) of the Trade Act of 1974, as amended. U.S. officials met repeatedly with their Belarus counterparts but were unable to persuade the Government of Belarus to make sufficient improvements in the worker rights situation.

Review by the inter-agency GSP committee corroborated the key allegations of the AFL-CIO. As written, the Constitution of Belarus upholds the right of workers (except state security and military personnel) to form and join independent unions on a voluntary basis and to carry out actions in defense of worker rights, including the right to strike. However, these rights are not respected in practice, and independent trade unions are suppressed.

Thailand:

Following the coup in Thailand in 1991, the interim government suspended the ability of state enterprise workers to enjoy key worker rights including the right to organize, to strike and to bargain collectively. In response to this action, the AFL-CIO in 1991 filed a GSP petition which was accepted in 1992. Since that time, Thai labor practices have been the subject of an ongoing review under the worker rights provisions of the GSP statute pending attempts by successive administrations in Thailand to enact new

legislation restoring these rights.

The GSP program grants duty-free treatment to specified products that are imported from more than 140 designated developing countries and territories.

-30-

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR Web Site at www.ustr.gov.

00 -52

For Immediate Release Contact: Brendan Daly

July 10, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**USTR, CEQ RELEASE DRAFT GUIDELINES ON
IMPLEMENTATION OF EXECUTIVE ORDER REGARDING
ENVIRONMENTAL REVIEWS OF TRADE AGREEMENTS**

The Office of the United States Trade Representative (USTR) and the Council on Environmental Quality (CEQ) today released draft guidelines for implementing Executive Order 13141-Environmental Reviews of Trade Agreements. The Executive Order, signed by President Clinton last November, commits the United States to careful assessment and consideration of the environmental impacts of future trade agreements, including written reviews of certain major trade agreements, and directs USTR and CEQ to develop implementing guidelines.

"These draft guidelines show that when it comes to trade and the environment, we don't have to choose one or the other," said United States Trade Representative Charlene Barshefsky. "We can negotiate trade agreements that continue to open markets around the world to U.S. goods and services, protect the environment and promote sustainable development. The key to these guidelines is public involvement early in the process to identify the relevant environmental issues, which will enable our negotiators to craft a strategy that will produce a good trade agreement and protect the environment."

CEQ Acting Chairman George T. Frampton, Jr. said: "This Administration is committed to ensuring that our efforts to promote free trade serve to strengthen, not weaken, environmental protections worldwide. These draft guidelines will help achieve that goal by ensuring full and open environmental reviews of major trade agreements, and by helping our trade negotiators identify win-win opportunities to both strengthen the global economy and protect our environment."

The draft guidelines, which will be published in the *Federal Register* tomorrow, propose procedures for public comment to identify potential environmental issues as early as possible in the development of the trade agreement, to maximize their usefulness for informing the negotiators. The guidelines also propose significant opportunities for public participation, including an open and public process for determining the scope of the review and in most cases an opportunity to comment on a draft review.

In keeping with the Clinton Administration's commitment to reach out to all interested stakeholders, USTR and CEQ solicited public comment on issues to be addressed in the guidelines and consulted closely with its advisory committees, including the Trade and Environment Policy Advisory Committee (TEPAC). TEPAC provided a number of detailed recommendations, many of which are reflected in the present draft. Key environmental, economic, and foreign affairs agencies also worked with USTR and CEQ in developing the draft.

USTR and CEQ are continuing their outreach efforts by seeking additional public and advisory committee comment on the draft in the next few months. A public hearing on the draft guidelines will be held in Washington on August 2 and 3. The guidelines will be finalized in the fall.

Background

Executive Order 13141 institutionalizes, for the first time, the procedures for integrating consideration of environmental issues into the negotiating process. The Order recognizes that environmental reviews are an important tool to help identify potential environmental effects of trade agreements, both positive and negative, and to help facilitate consideration of appropriate responses to those effects whether in the course of negotiations, through other means, or both.

Sections 1 and 4(a) of the Order commit the United States to careful assessment and consideration of the environmental impacts of future trade agreements, including environmental reviews of certain major agreements (comprehensive multilateral trade rounds, multilateral or bilateral free trade agreements, and major new agreements in natural resource sectors). Further, Section 4(c) of the Order provides that environmental reviews may also be done for other agreements based on such factors as the significance of reasonably foreseeable environmental impacts, although it is anticipated that most sectoral liberalization agreements will not require reviews.

The United States has previously conducted environmental reviews of several major trade agreements, including the North American Free Trade Agreement in 1991-92 and the Uruguay Round Agreements in 1994. In November 1999, the United States prepared a study of the economic and environmental effects of the proposed Accelerated Tariff Liberalization initiative with respect to forest products. Currently,

USTR is conducting environmental reviews of the Free Trade Area of the Americas and the Jordan Free Trade Agreement negotiations.

-30-

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 -53

For Immediate Release Contact: Brendan Daly

July 14, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**U.S. SUBMITS FRAMEWORK PROPOSAL AT WTO FOR OPENING SERVICES MARKETS,
USING INNOVATIVE NEGOTIATING APPROACHES**

The United States today put forward a far-reaching framework proposal for services negotiations. The paper was submitted in the WTO Council for Trade in Services, which serves as the WTO services negotiating body.

"Services are the infrastructure of today's modern economy," said United States Trade Representative Charlene Barshefsky. "The United States has a significant comparative advantage in services and our interests are served by removing foreign barriers to American service providers. Our goal in this negotiation will be to secure maximum market opening across a broad array of services sectors through a broadening and deepening of the services commitments of all WTO countries. As our framework proposals in agriculture and now services demonstrate, the United States is intent on setting the parameters and pace of negotiations in the WTO."

These negotiations, mandated as part of the WTO's "built-in agenda," began earlier this year. The negotiations cover all services sectors, including financial services, telecommunications, express delivery, energy, environmental, professional services, and travel and tourism.

WTO Members agreed in May to a "roadmap" governing the first phase of the negotiations through March 2001, during which Members will submit negotiating proposals and conclude technical work. Today's U.S. paper, the first submitted under the roadmap, provides a number of proposals on how the negotiations should be carried forward and what they should achieve.

The U.S. paper challenges all countries to undertake substantial services liberalization. It specifically proposes that:

- WTO countries use innovative negotiating approaches to achieve agreed negotiating objectives, including sector-specific "model schedules" of commitments.
- The starting point for negotiations reflect countries' trade-liberalization that has occurred since the end of the Uruguay Round, rather than the static "bound" commitments made in the Uruguay Round negotiations. This means that countries should not propose commitments less liberal than their current practice.
- Countries agree to a "standstill" for the duration of the negotiation; that is, not to apply any new trade-restrictive measures in services that would improve a country's negotiating position.
- The negotiations be concluded by December 2002.
- Given the complexity and changing nature of services, GATS commitments must become more comprehensive - encompassing more sectors - and be made more transparent.
- GATS classification should be improved to better reflect the reality of the marketplace.
- Developing countries should participate actively in the negotiations, both as parties seeking and as parties providing new GATS commitments.
- The U.S. proposal recognizes and affirms that governments must be able to continue to have the right to set high levels of protection for consumers, health, safety, and the environment. These governmental responsibilities must not be diminished in the GATS negotiations.

The United States anticipates submitting additional papers later in the year setting out substantive proposals for services trade liberalization in specific sectors.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR Web site at WWW.USTR.GOV.

00 - 54

FOR IMMEDIATE RELEASE Contact: Brendan Daly

July 17, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

WTO Panel Finds U.S. Acted Prematurely on Bananas, But U.S. Duties Unaffected

The Office of the U.S. Trade Representative announced today that a dispute settlement panel of the World Trade Organization has concluded that the United States acted inconsistently with WTO rules when it changed import requirements for a period of six and one-half weeks last year before WTO dispute proceedings had concluded in the *Bananas* dispute. However, the panel rejected arguments by the European Union that U.S. tariffs now in place in the *Bananas* dispute violate those rules. The panel's ruling requires no action by the United States.

"While the panel concluded that we acted prematurely when we changed our Customs bonding requirements on EU goods last year, it rejected the EU claim that the tariffs now in place as a result of the *Bananas* dispute are not consistent with WTO procedural requirements. The EU would be better served if, instead of pursuing litigation, it addressed the source of the problem by bringing its WTO-inconsistent banana regime into compliance," said U.S. Trade Representative Charlene Barshefsky.

The EU's complaint addressed the U.S. announcement of March 3, 1999 that it would change bonding requirements on certain imports from EU countries. The United States took this step in order to ensure that it could, from that date, collect any duties that might be applied after a WTO arbitrator in the *Bananas* dispute completed a report on the level of harm to the U.S., which had been scheduled for March 2. Because the March 3 bonding requirements were a temporary measure in place only until WTO proceedings finished on April 19, 1999, the panel's finding requires no action by the United States.

While the panel found against U.S. bonding requirements, it rejected EU arguments that the United States violated WTO procedural rules by not requesting separate panels to determine whether, and by how much, the EU banana regime harmed U.S. exports. The EU had argued that because only one panel considered both questions, current U.S. duties on bananas are inconsistent with WTO rules. The EU has presented this argument to several WTO panels; not one has accepted it.

Background

The United States Customs Service requires that importers post bonds to ensure that they pay all duties which may be due and meet other U.S. legal requirements. The U.S. action on March 3, 1999 consisted of changing those bonding requirements on certain imports from EU countries to ensure that higher duties could be collected following completion of WTO proceedings authorizing duty increases. Those proceedings were not completed until April 19, 1999.

The EU argued that the U.S. action discriminated against imports from EU countries and imposed charges in violation of various provisions of the General Agreement on Tariffs and Trade 1994. The EU also argued that the United States violated various provisions of the WTO Dispute Settlement Understanding by acting against the EU before WTO proceedings were complete. Finally, the EU argued that the United States and the *Bananas* arbitrator failed to follow procedural rules, rendering all U.S. *Bananas* tariffs WTO-inconsistent.

While the WTO panel agreed with the EU that the United States acted prematurely in changing bonding requirements on March 3, it rejected the EU argument that the tariffs now in place are WTO-inconsistent because of WTO procedural requirements. The panel supported the U.S. position on these procedural requirements, and disagreed with the EU that the WTO panel in *Bananas* was incorrect in applying them. These procedures prevent a non-implementing party such as the EU from engaging in endless litigation to delay compliance or the consequences of non-compliance.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 -55

For Immediate Release Contact: Brendan Daly

July 18, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

UNITED STATES AND JAPAN AGREE ON INTERCONNECTION RATES

President Clinton hailed the agreement announced today by United States Trade Representative Charlene Barshefsky substantially lowering Japanese telecommunication interconnection rates. The agreement was reached as part of the Enhanced Initiative on Deregulation and Competition Policy and is included among new Japanese deregulation commitments secured in the Third Joint Status Report of the U.S.-Japan Enhanced Initiative on Deregulation.

"This important agreement on interconnection rates will help further reduce regulatory barriers to trade between the United States and Japan," said President Clinton. "It will level the playing field for America's cutting edge technologies and increase the number of Japanese consumers connected to the Internet. It's a win-win for the United States and Japan, and represents an important step as we prepare to discuss the impact of information technology on the global economy at the G7/G8 Summit."

"This deal opens Japan's telecommunications market to genuine competition and should save telecommunications carriers around the world more than \$2 billion dollars over the next two years," said Ambassador Barshefsky. "In the information age, lowering these interconnection rates will unleash enormous economic opportunities for U.S. telecommunication carriers and Internet services providers,

as well as for Japanese consumers and the Japanese economy as a whole.

The telecommunications commitments will substantially improve U.S. firms' access to Japan's

\$130 billion telecommunications market. Under the deal struck early Wednesday morning in Tokyo, Japan has agreed to lower its rates for regional access by 50 percent over two years and local access by 20 percent over two years. These cuts will be front-loaded and made retroactive to April 1 of this year and there will likely be further substantial cuts in the third year (2002).

Ambassador Barshefsky also announced that "Japan also agreed to further liberalize its telecommunications market by opening up the 'last mile' to competition - unbundling' subscriber lines. This will allow new entrants to lease those lines at cost-based rates to provide services such as high speed Internet access."

FACT SHEET

US-JAPAN AGREEMENT ON INTERCONNECTION RATES

Background: Over-regulation of new entrants in Japan's telecommunications sector and weak controls over the powerful dominant carrier, NTT, have stifled competition in Japan's \$130 billion telecommunications market and deprived the Japanese economy of the benefits of innovative services and low prices. In an attempt to address these problems, the United States has called for a "Telecommunications Big Bang," pressing for elimination of unnecessary regulations and stronger safeguards against anti-competitive behavior by dominant carriers.

Accomplishments: To address these problems, Japan has agreed to:

- Reduce the cost for competition to interconnect with NTT's system by about 50% at the regional level (of greatest importance to U. S. companies) and 20% at the local level over the next two years (2000 and 2001). These cuts will be retro-active to April 1, 2000.
- Conduct a thorough review of NTT's interconnection rates in 2002, based on an improved rate calculation model. This process should result in additional and substantial rate reductions in 2002.
- Open new points of access ("unbundling") to NTT's network and enact rules to ensure fair usage rates and conditions in order to allow new entrants to compete in providing high-speed Internet services.
- Enhance new entrants' ability to build new networks by 1) eliminating restrictions on new competitors' ability to construct their own networks in the most efficient way, and 2) removing certain road construction restrictions and promoting measures to improve access to underground tunnels controlled by NTT and electric utilities.
- Determine by March 2001 if interconnection with NTT DoCoMo, Japan's largest wireless provider, should be regulated more strictly because of DoCoMo's "dominant" market power.

Benefits to the U. S.: These agreements will improve U. S. firms' access to Japan's \$130 billion telecommunications sector, the second largest in the world. Lowering interconnection rates to the levels agreed above will in itself save competitive carriers over \$2 billion over the next two years. The benefits for new competitors should be even more significant in 2002, as interconnection rates will likely drop even more sharply. Japanese consumers will benefit from better service and lower costs. Interconnection cuts will reduce the cost of business-to-business transactions and Internet usage. They will also stoke Japan's economic recovery, stimulating trade between the world's two largest economies.

**OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20508**

USTR PRESS RELEASES ARE AVAILABLE ON THE USTR WEBSITE AT WWW.USTR.GOV.

**FOR IMMEDIATE RELEASE
JULY 18, 2000**

**00 -55
CONTACT: BRENDAN DALY
AMY STILWELL
TODD GLASS
(202) 395-3230**

UNITED STATES AND JAPAN AGREE ON INTERCONNECTION RATES

President Clinton hailed the agreement announced today by United States Trade Representative Charlene Barshefsky substantially lowering Japanese telecommunication interconnection rates. The agreement was reached as part of the Enhanced Initiative on Deregulation and Competition Policy and is included among new Japanese deregulation commitments secured in the Third Joint Status Report of the U.S.-Japan Enhanced Initiative on Deregulation.

"This important agreement on interconnection rates will help further reduce regulatory barriers to trade between the United States and Japan," said President Clinton. "It will level the playing field for America's cutting edge technologies and increase the number of Japanese consumers connected to the Internet. It's a win-win for the United States and Japan, and represents an important step as we prepare to discuss the impact of information technology on the global economy at the G7/G8 Summit."

"This deal opens Japan's telecommunications market to genuine competition and should save telecommunications carriers around the world more than \$2 billion dollars over the next two years," said Ambassador Barshefsky. "In the information age, lowering these interconnection rates will unleash enormous economic opportunities for U.S. telecommunication carriers and Internet services providers, as well as for Japanese consumers and the Japanese economy as a whole.

The telecommunications commitments will substantially improve U.S. firms' access to Japan's \$130 billion telecommunications market. Under the deal struck early Wednesday morning in Tokyo, Japan has agreed to lower its rates for regional access by 50 percent over two years and local access by 20 percent over two years. These cuts will be front-loaded and made retroactive to April 1 of this year and there will likely be further substantial cuts in the third year (2002).

Ambassador Barshefsky also announced that "Japan also agreed to further liberalize its telecommunications market by opening up the 'last mile' to competition - unbundling' subscriber lines. This will allow new entrants to lease those lines at cost-based rates to provide services such as high speed Internet access."

FACT SHEET

US-JAPAN AGREEMENT ON INTERCONNECTION RATES

Background: Over-regulation of new entrants in Japan's telecommunications sector and weak controls over the powerful dominant carrier, NTT, have stifled competition in Japan's \$130 billion telecommunications market and deprived the Japanese economy of the benefits of innovative services and low prices. In an attempt to address these problems, the United States has called for a "Telecommunications Big Bang," pressing for elimination of unnecessary regulations and stronger safeguards against anti-competitive behavior by dominant carriers.

Accomplishments: To address these problems, Japan has agreed to:

- Reduce the cost for competition to interconnect with NTT's system by about 50% at the regional level (of greatest importance to U. S. companies) and 20% at the local level over the next two years (2000 and 2001). These cuts will be retro-active to April 1, 2000.
- Conduct a thorough review of NTT's interconnection rates in 2002, based on an improved rate calculation model. This process should result in additional and substantial rate reductions in 2002.
- Open new points of access ("unbundling") to NTT's network and enact rules to ensure fair usage rates and conditions in order to allow new entrants to compete in providing high-speed Internet services.
- Enhance new entrants' ability to build new networks by 1) eliminating restrictions on new competitors' ability to construct their own networks in the most efficient way, and 2) removing certain road construction restrictions and promoting measures to improve access to underground tunnels controlled by NTT and electric utilities.
- Determine by March 2001 if interconnection with NTT DoCoMo, Japan's largest wireless provider, should be regulated more strictly because of DoCoMo's "dominant" market power.

Benefits to the U. S.: These agreements will improve U. S. firms' access to Japan's \$130 billion telecommunications sector, the second largest in the world. Lowering interconnection rates to the levels agreed above will in itself save competitive carriers over \$2 billion over the next two years. The benefits for new competitors should be even more significant in 2002, as interconnection rates will likely drop even more sharply. Japanese consumers will benefit from better service and lower costs. Interconnection cuts will reduce the cost of business-to-business transactions and Internet usage. They will also stoke Japan's economic recovery, stimulating trade between the world's two largest economies.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 -56

For Immediate Release Contact: Brendan Daly

July 19, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**BARSHEFSKY HAILS SIGNIFICANT ACHIEVEMENTS UNDER ENHANCED
DEREGULATION INITIATIVE**

TOKYO -- United States Trade Representative Charlene Barshefsky today hailed significant new Japanese deregulation measures achieved under the Third Joint Status Report of the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy.

Ambassador Barshefsky issued the following statement this afternoon:

"The measures achieved under this initiative, particularly our agreement in telecommunications, will translate into substantial gains for U.S. firms doing business in Japan. Meaningful deregulation will support continued recovery of the Japanese economy, and Japanese consumers will benefit across the board from lower prices, greater choice, and more innovative new products.

"The achievements detailed in the Third Joint Status Report build on and significantly expand our previous two years' of work under the Enhanced Initiative. It covers a broad range of sectors, including telecommunications, energy, housing, medical devices, pharmaceuticals and financial services. It also focuses on cross-cutting

structural issues related to distribution, transparency and competition policy.

"The United States' experience with deregulation over the past 20 years demonstrates the tangible and positive benefits that result when the interests of consumers are placed at the top of regulatory policy objectives. This Enhanced Initiative seeks to eliminate the bottlenecks that inhibit Japanese structural change and economic adjustment, and represents a giant step forward in Japan's efforts to foster and sustain economic renewal.

"Our work is not yet complete and we look forward to working with Japan as it continues its deregulation efforts."

(Fact sheet on the Third Joint Status Report follows)

- 30 -

FACT SHEET

THIRD JOINT STATUS REPORT UNDER THE U.S.-JAPAN ENHANCED INITIATIVE ON DEREGULATION AND COMPETITION POLICY

July 19, 2000

OVERVIEW

In light of Japan's low economic growth, the Government of Japan has undertaken significant fiscal and monetary stimulus. These have been necessary measures to rekindle sustainable growth, but will prove insufficient unless coupled with structural change driven by deregulation that frees up the economy to greater competition.

Initiated by President Clinton and then-Prime Minister Hashimoto at the Denver Summit of 1997, and carried out by U.S. Trade Representative Charlene Barshefsky and then Foreign Minister Yukihiko Ikeda, the Enhanced Initiative on Deregulation and Competition Policy seeks to eliminate bottlenecks that inhibit Japanese structural change and economic adjustment. This report on the third year of the Enhanced Initiative was agreed to by the U.S. and Japan under the co-chairmanship of Deputy U.S. Trade Representative Richard Fisher and Japan's Deputy Foreign Affairs Minister Yoshiji Nogami. It focuses on telecommunications, energy, housing, medical devices, pharmaceuticals, and financial services. It also addresses cross-cutting competition policy, transparency, and distribution.

Building on achievements made over the past two years, the new measures contained in this Joint Status Report constitute a significant step forward in Japan's ongoing efforts to clear out the regulatory thicket that has prevented the world's second-largest economy from realizing sustainable economic recovery. Simultaneously, this Initiative remains a crucial component of the Clinton Administration's strategy to further open markets in Japan. It is crafted to complement our multilateral agenda in APEC and the WTO and our ongoing bilateral trade agreements on issues such as autos and auto parts, government procurement and insurance.

The measures under this Initiative will translate into significant gains for U.S. firms doing business in Japan. At the same time, Japanese consumers will benefit across the board from lower prices, greater choice, and more innovative new products. Most importantly, these deregulatory steps will contribute to sustainable recovery of the Japanese economy. This is good for Japan, Japan's trading partners, and the world.

TELECOMMUNICATIONS

Background: Over-regulation of new entrants in Japan's telecommunications sector and weak controls over the powerful dominant carrier, NTT, have stifled competition in Japan's \$130 billion telecommunications market and deprived the Japanese economy of the benefits of innovative services and low prices. In an attempt to address these problems, the United States has called for a "Telecommunications Big Bang," pressing for elimination of unnecessary regulations and stronger safeguards against anti-competitive behavior by dominant carriers.

Accomplishments: To address these problems, Japan has agreed to:

- Reduce the rates for competitors to interconnect with NTT's network by about 50% at the regional level (of greatest importance to U.S. companies) and 20% at the local level by 2001.
- Conduct a thorough review of NTT's interconnection rates in 2002, based on an improved rate calculation model. This process should result in additional and substantial rate reductions in 2002.
- Open new points of access ("unbundling") to NTT's network and enact rules to ensure fair usage rate and conditions in order to allow new entrants to compete in providing high-speed Internet services.
- Enhance new entrants' ability to build new networks by 1) eliminating restrictions on new competitors' ability to construct their own networks in the most efficient way, and 2) removing certain road construction restrictions and promoting measures to improve access to underground tunnels controlled by NTT and electric utilities.

- Determine by March 2001 if interconnection with NTT DoCoMo, Japan's largest wireless provider, should be regulated more strictly because of DoCoMo's "dominant" market power.

Benefits to the U.S.: These agreements will improve U.S. firms' access to Japan's \$130 billion telecommunications sector, the second largest in the world. Lowering interconnection rates to the levels agreed above will in itself save competitive carriers over \$2 billion over the next two years. The benefits for new competitors should be even more significant in 2002, as interconnection rates will likely drop even more sharply. Japanese consumers will benefit from better service and lower costs. Interconnection cuts will reduce the cost of business-to-business transactions and Internet usage. They will also stoke Japan's economic recovery, stimulating trade between the world's two largest economies.

ENERGY

Background: Japan is the third-largest energy market in the world, behind the U.S. and China. Japan's ten utilities together produce about three-quarters of Japan's power needs.

In March, Japan opened nearly one-third of its electricity market to competition, allowing large industrial customers to choose their electricity supplier. This reform is intended to help reduce Japan's energy prices, which are the highest in the OECD, and in doing so, increase economic growth and create thousands of new jobs. During this year's energy dialogue under the Enhanced Initiative, the U.S. and Japan reached agreement on key measures related to implementation of this electricity deregulation, which will help ensure its success. The agreement reached between the two governments also will lay the groundwork for further deregulation in this important sector.

Accomplishments:

- Japan has pledged to fully implement and enforce measures designed to ensure fair, open, and non-discriminatory access to its electricity transmission grid - the utility-owned network that is the only channel for transmitting electricity from one point to another in Japan.
- Japan will disclose information on the development of transmission rates by utilities so that new firms seeking to compete in the market can determine if these rates are being set fairly.
- To foster the shift from a monopoly to a competitive market in the electricity sector, Japan agreed to eliminate its antitrust exemption for natural monopolies (including electricity and gas), enforce competition guidelines and expand them as appropriate, and actively promote competition in this sector.

- Japan agreed to establish a fair, transparent, and non-discriminatory framework for access to its natural gas sector, which is to be liberalized next year.
- Japan also agreed to review the results of these initial liberalization steps in three years. We expect this view to lead to further liberalization of the energy sector.

Benefits to the U.S.: U.S. firms will be able to produce, sell, and trade power in Japan's \$135 billion electric power market. Japan's reforms also will create new opportunities for exports to Japan's \$15 billion market for electrical generation equipment, as well as to Japan's growing energy services market.

HOUSING

Background: Japan's \$42 billion home building materials market is the second-largest in the world. Unwieldy rental market restrictions and government-imposed limits on the size of wooden buildings have stymied market access and driven up housing costs for Japanese consumers.

Accomplishments: This year's progress under the Enhanced Initiative includes:

- A December 1999 change to Japan's Land and House Lease Law governing lease renewals. This reform will allow Japan to develop a quality rental housing market, improving housing choices for millions of Japanese families and creating enormous opportunities for domestic and foreign builders and suppliers. Experts project this change will lead to a 17% increase in new housing starts within an hour's drive of Tokyo.
- Continuing our efforts from previous years, Japan has agreed to reduce restrictions against four-story wood-frame buildings. This step will strengthen the current boom in construction of wood-frame houses, and could ultimately mean substantial increases in the sales of U.S. wood products.
- Japan has agreed to help improve housing appraisals by ensuring that maintenance and renovation are factored into appraisal value. We have also encouraged Japan's government mortgage bank to make mortgage terms for resale housing more compatible with the terms already offered for new houses, a change likely to happen this year. As a result, more realistic valuations and increased transparency will make housing more affordable for young Japanese families.

Benefits to the U.S.: The U.S. now sells approximately \$3.3 billion in building materials to Japan each year. These reforms will create important new opportunities for U.S. firms, who stand to benefit from hundreds of millions of dollars in new sales while spurring Japan's economic growth and providing more affordable, high-quality homes for Japanese consumers.

MEDICAL DEVICES, PHARMACEUTICALS AND NUTRITIONAL SUPPLEMENTS

Background: Continued over-regulation and inefficiencies in Japan's medical device, pharmaceutical and nutritional supplement sectors have slowed the introduction of innovative, cost-effective products into Japan. Increasing the availability of these products is a key to helping Japan meet the challenge of providing increased quality health care to its aging population while limiting overall costs.

Accomplishments: Japan has agreed to take 25 concrete new deregulation measures that will increase the access of U.S. manufacturers to Japan's health care market, including:

- From October 2000, establish an unbiased and transparent appeals process that will allow U.S. suppliers to challenge unfavorable pricing decisions for medical devices and pharmaceuticals under Japan's national health insurance system.
- Implement a transparent and speedy process for creating new medical device pricing categories and provide appropriate interim prices for new devices (within four months) while their final prices are being implemented, and take steps to prevent disproportionate price cuts on U.S. products due to restructuring of functional categories.
- Work toward increasing the availability of innovative medicines in the marketplace through Japan's pharmaceutical pricing reform process.
- Take specific measures to improve the transparency and speed of the approval procedures for both drugs and medical devices, including increased use of foreign clinical data. This will result in faster patient access to cutting-edge products.
- Abolish restrictions on the shape and maximum daily dosages of many common vitamins and minerals, and allow manufacturers to provide Japanese consumers with information about the nutritional and health benefits of these products.

- On April 1, 2000, Japan implemented a reduction in the approval processing time for new drugs from 18 months to 12 months.

Benefits to the U.S.: Japan is the world's second largest market for medical devices and pharmaceuticals. In both sectors, U.S. firms are the dominant worldwide suppliers of innovative products and will be the key beneficiaries of the measures Japan has committed to implement under this year's deregulation package. U.S. firms now hold 12% of Japan's \$60 billion pharmaceutical market and almost 30% of Japan's \$20 billion medical devices market. In the nutritional supplements sector, U.S. companies have captured approximately \$500 million of Japan's \$6.5 billion market. While significant, these market shares are less than in other developed countries. The steps Japan will take are critical to ensuring that the steady stream of innovative medical devices and drugs being developed by U.S. firms can gain timely access to the Japanese market.

DISTRIBUTION AND CUSTOMS

Background: Japan's rigid and inefficient distribution and customs systems have restricted market access to U.S. firms in many sectors, including glass, film, and paper. Japan's new Large Store Location Law marks an important step forward, but must be carefully monitored to ensure that its implementation does not unfairly discriminate against large stores. Japan's inefficient customs system has burdened both Japanese and foreign businesses with high costs and unwieldy procedures.

Accomplishments: Significant new Japanese measures include:

- On June 1, 2000, Japan replaced the Large Stores Law with the Large Scale Retail Store Location Law (Store Location Law). Japan has agreed to ensure that this new law is implemented in a consistent, transparent, and fair manner
- Local governments are responsible for implementing the Stores Location Law. Japanese, U.S., and other foreign retailers, however, have expressed concerns that small shop owners will intervene with local authorities to make unreasonable demands on large retailers over issues related to traffic, parking, noise, and trash removal. To address these concerns, the Ministry of International Trade and Industry (MITI) is establishing official contact points in Tokyo and around the country to field complaints and facilitate their resolution.
- To address concerns that local governments will not implement the Store Location Law in a uniform manner, Japan has committed to an information campaign to ensure maximum awareness about the new law, and to provide local governments with technical assistance with regard to its implementation.
- By increasing the amount of goods that Customs officers are allowed to process during overtime work, Japan Customs has effectively reduced the costs of releasing goods imported into Japan, saving U.S. and other foreign importers millions of dollars a year.

- Over the next year, Japan Customs will introduce a new Simplified Declaration Procedure that will move imports into Japan more efficiently through streamlined procedures for duty payments and reporting requirements.

Benefits to the U.S.: These reforms will help American retailers achieve additional progress in gaining access to Japan's \$1.5 trillion retail market. U.S. retailers already operating in Japan - including Toys R Us, Gap, Eddie Bauer, and Costco - will continue to benefit from increasing deregulation in this sector. Japan's streamlined customs procedures are expected to yield substantial savings to American businesses. One U.S. firm, for example, estimates that its overtime fees will be cut by millions of dollars a year due to the increased number of pieces customs officials are allowed to inspect per hour.

FINANCIAL SERVICES

Background: Japan's pool of individual savings - valued at over \$12 trillion - is the largest outside the United States. But, until recently, Japanese investors had a very limited range of investment choices, and most of these funds have been held in low-return assets. Strict regulations narrowly defined the scope of financial firm activities, reducing competition and innovation in the sector, as well as limiting the opportunities available to American financial services providers.

Accomplishments: Japan's "Big Bang" financial liberalization initiative, which builds on and extends Japan's undertakings in the 1995 U.S.-Japan Financial Services Agreement, commits Japan to a fundamental deregulation of the financial sector. Bilateral financial services discussions have sought to ensure that Big Bang measures were extended and fully implemented, and that foreign firms share fully in the new opportunities opening up. Notable deregulation measures in this report include:

- Full liberalization of brokerage commissions on stock transactions (October 1999) will greatly increase competition among brokerages, as it has in other financial markets
- The elimination of restrictions on the scope of business of cross-industry subsidiaries (e.g., securities subsidiaries of banks) has eliminated much of the artificial segmentation of the financial services industry
- The elimination in June 2000 of the requirement to liquidate portfolio holdings when switching private pension fund managers greatly increases the ability of new entrants to compete for existing pension fund business. Japan will eliminate the corresponding requirement for public pensions by April 2001, and permit investment advisers to directly manage public pension funds
- The initiation by the Financial Services Agency of a system of response to written inquiries, including requests for published guidance and no-action letters, to improve transparency and predictability in the regulatory process.

Benefits to the U.S.: Drawing on their technological and innovative strengths, American financial

services providers have already reaped significant commercial opportunities from the liberalization of Japanese financial markets. The Japanese investment trust (mutual fund) market has expanded sharply this year, and the number of foreign-affiliated investment trust companies has more than doubled in the past two years. This year, for the first time, a jointly-owned American-Japanese firm (Nikko Salomon Smith Barney) led the market in new equity issuances. American firms captured the top four spots as advisers to M&A transactions. American firms have also entered the Japanese banking, securities, and insurance sector through the acquisition of Japanese firms. Opportunities for U.S. firms will continue to expand in the future, as Japan's financial market continues to develop, and as the Japanese invest in an increasingly sophisticated range of financial products.

INSURANCE

Background: Japan's insurance market is the largest in the world at \$331 billion in direct net premiums for 1998. Yet it continues to be over-regulated, non-transparent, and presents serious challenges to U.S. firms, including an inadequate product and rate approval system and shortages of skilled staff.

Japan's government-owned and operated postal insurance system, or Kampo, is the largest insurer in the world, with over \$1 trillion in invested assets and more than 82 million policies. Kampo's state-owned status makes it exempt from certain areas of government oversight, inspection, and financial obligations.

Accomplishments: As a result of this year's Initiative, Japan's new pledges include:

- Speeding new and innovative insurance products to the market by shortening standard product examination periods and reviewing whether the streamlined "notification" system can be extended to additional commercial and personal insurance lines.
- Examining ways in which Japan's published insurance product examination regulations can be clarified.
- Providing more information to private firms in writing.
- Ensuring a level playing field for all firms by examining insurance product applications in the order they were submitted.
- Avoiding product approval bottlenecks through more efficient use of Japan's regulatory personnel and technical resources.

- Affirming that the GOJ has no current plans to expand Kampo into additional areas of non-life insurance, and that the Ministry of Posts and Telecommunications will explain upon request to foreign insurance providers and other interested parties any plans to change Kampo insurance offerings.

Benefits to the U.S.: These new measures build on progress in deregulating the Japanese insurance market achieved through the 1994 and 1996 bilateral insurance agreements, and will further approve U.S. firms' access to Japan's \$331 billion insurance market. By streamlining the current product approval system and clarifying Japanese Government rules and regulations covering insurance, a wider array of new, innovative, and cost-competitive insurance products will become more readily available to Japanese consumers. Further, a focus on limiting potential expansion of Kampo will ensure that the private sector, fully capable of meeting all of the insurance needs of the Japanese public, is not inappropriately challenged by government intervention in this important market.

COMPETITION POLICY

Background: A key goal of the Enhanced Initiative is to ensure that government deregulation is not undone by anti-competitive actions orchestrated by private-sector players. Preventing incumbent firms in once heavily regulated sectors from using their market power to stifle competition is of particular concern. The same holds for preventing cartels from undermining the health of the economy and excluding foreign competition. Bid rigging on public procurement projects is especially problematic in Japan. Strong antitrust enforcement is needed to combat such problems. The upcoming reorganization of the Japanese Government, however, threatens to compromise the independence of the Japan Fair Trade Commission's (JFTC) oversight of the posts and telecommunications sectors, as MPT will be placed in the same ministry as JFTC.

Accomplishments: Significant new measures to address these problems include:

- The JFTC will actively enforce Japan's antitrust laws against incumbent firms in partially or fully deregulated sectors (such as the telecommunications and energy sectors) that try to use their dominant market position to exclude or harm competitors.
- Japan has pledged it will not allow the upcoming government reorganization to affect JFTC independence in antitrust enforcement and competition policy promotion related to the posts and telecommunications sectors.
- The National Police Agency (NPA) and the JFTC will initiate a new cooperation mechanism for investigating bid rigging; the NPA will provide the assistance to local police departments necessary to ensure they can vigorously and effectively investigate criminal bid-rigging, or *dango* activities.
- The JFTC will survey the competition effects of financial ties and other relationships between manufacturers and distributors and take additional measures to promote an efficient and competitive distribution and retail sector.

- The JFTC will strengthen its capabilities to act against cartels by improving the effectiveness of its searches, fortifying its ability to obtain evidence stored on computers, actively seeking penalties against obstruction of its investigations and aggressively pursuing international cartels.

Benefits to the U.S.: Active competition - safeguarded by vigorous Antimonopoly Law enforcement and broad-based government support for competition principles - will help reinvigorate Japan's economy and help open Japanese markets to American firms. Japan's agreement to ensure an independent JFTC committed to actively enforcing the law against exclusionary practices in deregulated sectors such as electricity and telecommunications will be a key factor in ensuring true market access for American competitors. Strengthened efforts to root out cartels and bid rigging conspiracies should also help eliminate private anti-competitive barriers hindering U.S. exports of goods and services to Japan.

TRANSPARENCY OF THE REGULATORY SYSTEM

Background: Despite improvements in recent years, Japan's regulatory system continues to lack the transparency and accountability necessary to ensure that all players have the same access to public information and the policymaking process. New market entrants and competitors need adequate information on Japan's regulatory system in order to base their decisions on accurate assessments of potential costs, risks and market opportunities. This is especially true for foreign firms, which do not have the same access to the bureaucracy as domestic firms.

Accomplishments:

- In January 2001, Japan will increase regulatory transparency and bureaucratic accountability by introducing a government-wide policy evaluation system.
- Last year, Japan introduced a Public Comment Procedure that allows the public to review and comment on draft regulations. The U.S, however, has ongoing concerns about the Procedure's implementation, including overly short comment periods and the fact that public comments rarely appear to be reflected in final regulations. As a result, Japan has agreed to examine the Procedure's implementation, including the length of comment periods used and reasons why the ministries do not use the Procedure in particular cases. The public will have an opportunity to comment on the survey.
- When Japan enacted its 1999 government information disclosure law, it exempted special public corporations (*tokoshu hojin*) from the information disclosure obligations. However, a special government committee is preparing recommendations for legislation to require these corporations to disclose information to the public in the same way already mandated for central government ministries and agencies.

Benefits to the U.S.: Reforms that increase the transparency of the regulatory process and make the bureaucracy more accountable help curb onerous discretionary powers of the bureaucracy and shift

power to the public. Such reforms also help level the playing field for foreign firms, reducing the special advantages traditionally enjoyed by Japan's domestic firms. For example, Japan's policy assessment system will, beginning in January 2001, require ministries and agencies to evaluate the effects of their policies both before and after implementation and make their policy evaluations public.

LEGAL SERVICES

Background: There is not enough legal expertise in Japan to support the increased merger and acquisition and commercial restructuring activity that is critical to the recovery of the Japanese economy. Moreover, by continuing to bar Japanese lawyers from becoming partners with foreign lawyers, Japan has limited the ability of Japanese and foreign businesses to obtain the fully integrated transnational legal services they need for efficiently effecting domestic and cross-border transactions.

Accomplishments: This year, the Government of Japan has recognized the need to modernize and liberalize its legal system, and has agreed to take significant first steps to begin that process:

- Japan has established a Judicial Reform Council to review a wide range of steps to make the legal system more responsive to the needs for increased legal services in Japan.
- The Japanese Federation of Bar Associations (Nihibenren) has lifted the ban on business advertising by Japanese and foreign lawyers. They are now allowed to advertise their areas of practice, background and fees through newspapers, magazines and on the Internet.
- Japan has increased the number of successful applicants to the annual Bar Examination by about 1000. While this number represents an incremental change, it falls short of the number needed to meet Japan's burgeoning legal demands. However, the Japanese Government is considering further increases, and the Judicial Reform Council is investigating ways to address this need.

Benefits to the U.S.: Japanese and U.S. businesses are actively contributing to the Japanese Government's efforts to address the deficiencies in Japan's legal system. Lifting the advertising ban will allow U.S. legal professionals to raise their visibility in the Japanese market, and also enable U.S. firms to more easily locate needed legal services to effect business development, investments, and merger and acquisition activity. Increasing the number of Japanese lawyers will also help alleviate demands for legal expertise necessary for U.S. firms to successfully do business in Japan.

(End)

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20508

USTR PRESS RELEASES ARE AVAILABLE ON THE USTR WEBSITE AT WWW.USTR.GOV.

FOR IMMEDIATE RELEASE
JULY 19, 2000

00 -56
CONTACT: BRENDAN DALY
AMY STILWELL
TODD GLASS
(202) 395-3230

**BARSHEFSKY HAILS SIGNIFICANT ACHIEVEMENTS UNDER
ENHANCED DEREGULATION INITIATIVE**

TOKYO – United States Trade Representative Charlene Barshefsky today hailed significant new Japanese deregulation measures achieved under the Third Joint Status Report of the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy.

Ambassador Barshefsky issued the following statement this afternoon:

“The measures achieved under this initiative, particularly our agreement in telecommunications, will translate into substantial gains for U.S. firms doing business in Japan. Meaningful deregulation will support continued recovery of the Japanese economy, and Japanese consumers will benefit across the board from lower prices, greater choice, and more innovative new products.

“The achievements detailed in the Third Joint Status Report build on and significantly expand our previous two years’ of work under the Enhanced Initiative. It covers a broad range of sectors, including telecommunications, energy, housing, medical devices, pharmaceuticals and financial services. It also focuses on cross-cutting structural issues related to distribution, transparency and competition policy.

“The United States’ experience with deregulation over the past 20 years demonstrates the tangible and positive benefits that result when the interests of consumers are placed at the top of regulatory policy objectives. This Enhanced Initiative seeks to eliminate the bottlenecks that inhibit Japanese structural change and economic adjustment, and represents a giant step forward in Japan’s efforts to foster and sustain economic renewal.

“Our work is not yet complete and we look forward to working with Japan as it continues its deregulation efforts.”

(Fact sheet on the Third Joint Status Report follows)

FACT SHEET

THIRD JOINT STATUS REPORT UNDER THE U.S.-JAPAN ENHANCED INITIATIVE ON DEREGULATION AND COMPETITION POLICY

July 19, 2000

OVERVIEW

In light of Japan's low economic growth, the Government of Japan has undertaken significant fiscal and monetary stimulus. These have been necessary measures to rekindle sustainable growth, but will prove insufficient unless coupled with structural change driven by deregulation that frees up the economy to greater competition.

Initiated by President Clinton and then-Prime Minister Hashimoto at the Denver Summit of 1997, and carried out by U.S. Trade Representative Charlene Barshefsky and then Foreign Minister Yukihiko Ikeda, the Enhanced Initiative on Deregulation and Competition Policy seeks to eliminate bottlenecks that inhibit Japanese structural change and economic adjustment. This report on the third year of the Enhanced Initiative was agreed to by the U.S. and Japan under the co-chairmanship of Deputy U.S. Trade Representative Richard Fisher and Japan's Deputy Foreign Affairs Minister Yoshiji Nogami. It focuses on telecommunications, energy, housing, medical devices, pharmaceuticals, and financial services. It also addresses cross-cutting competition policy, transparency, and distribution.

Building on achievements made over the past two years, the new measures contained in this Joint Status Report constitute a significant step forward in Japan's ongoing efforts to clear out the regulatory thicket that has prevented the world's second-largest economy from realizing sustainable economic recovery. Simultaneously, this Initiative remains a crucial component of the Clinton Administration's strategy to further open markets in Japan. It is crafted to complement our multilateral agenda in APEC and the WTO and our ongoing bilateral trade agreements on issues such as autos and auto parts, government procurement and insurance.

The measures under this Initiative will translate into significant gains for U.S. firms doing business in Japan. At the same time, Japanese consumers will benefit across the board from lower prices, greater choice, and more innovative new products. Most importantly, these deregulatory steps will contribute to sustainable recovery of the Japanese economy. This is good for Japan, Japan's trading partners, and the world.

TELECOMMUNICATIONS

Background: Over-regulation of new entrants in Japan's telecommunications sector and weak controls over the powerful dominant carrier, NTT, have stifled competition in Japan's \$130 billion telecommunications market and deprived the Japanese economy of the benefits of innovative services and low prices. In an attempt to address these problems, the United States has called for a "Telecommunications Big Bang," pressing for elimination of unnecessary regulations and stronger safeguards against anti-competitive behavior by dominant carriers.

Accomplishments: To address these problems, Japan has agreed to:

- Reduce the rates for competitors to interconnect with NTT's network by about 50% at the regional level (of greatest importance to U.S. companies) and 20% at the local level by 2001.
- Conduct a thorough review of NTT's interconnection rates in 2002, based on an improved rate calculation model. This process should result in additional and substantial rate reductions in 2002.
- Open new points of access ("unbundling") to NTT's network and enact rules to ensure fair usage rate and conditions in order to allow new entrants to compete in providing high-speed Internet services.
- Enhance new entrants' ability to build new networks by 1) eliminating restrictions on new competitors' ability to construct their own networks in the most efficient way, and 2) removing certain road construction restrictions and promoting measures to improve access to underground tunnels controlled by NTT and electric utilities.
- Determine by March 2001 if interconnection with NTT DoCoMo, Japan's largest wireless provider, should be regulated more strictly because of DoCoMo's "dominant" market power.

Benefits to the U.S.: These agreements will improve U.S. firms' access to Japan's \$130 billion telecommunications sector, the second largest in the world. Lowering interconnection rates to the levels agreed above will in itself save competitive carriers over \$2 billion over the next two years. The benefits for new competitors should be even more significant in 2002, as interconnection rates will likely drop even more sharply. Japanese consumers will benefit from better service and lower costs. Interconnection cuts will reduce the cost of business-to-business transactions and Internet usage. They will also stoke Japan's economic recovery, stimulating trade between the world's two largest economies.

ENERGY

Background: Japan is the third-largest energy market in the world, behind the U.S. and China. Japan's ten utilities together produce about three-quarters of Japan's power needs.

In March, Japan opened nearly one-third of its electricity market to competition, allowing large industrial customers to choose their electricity supplier. This reform is intended to help reduce Japan's energy prices, which are the highest in the OECD, and in doing so, increase economic growth and create thousands of new jobs. During this year's energy dialogue under the Enhanced Initiative, the U.S. and Japan reached agreement on key measures related to implementation of this electricity deregulation, which will help ensure its success. The agreement reached between the two governments also will lay the groundwork for further deregulation in this important sector.

Accomplishments:

- Japan has pledged to fully implement and enforce measures designed to ensure fair, open, and non-discriminatory access to its electricity transmission grid - the utility-owned network that is the only channel for transmitting electricity from one point to another in Japan.
- Japan will disclose information on the development of transmission rates by utilities so that new firms seeking to compete in the market can determine if these rates are being set fairly.
- To foster the shift from a monopoly to a competitive market in the electricity sector, Japan agreed to eliminate its antitrust exemption for natural monopolies (including electricity and gas), enforce competition guidelines and expand them as appropriate, and actively promote competition in this sector.
- Japan agreed to establish a fair, transparent, and non-discriminatory framework for access to its natural gas sector, which is to be liberalized next year.
- Japan also agreed to review the results of these initial liberalization steps in three years. We expect this view to lead to further liberalization of the energy sector.

Benefits to the U.S.: U.S. firms will be able to produce, sell, and trade power in Japan's \$135 billion electric power market. Japan's reforms also will create new opportunities for exports to Japan's \$15 billion market for electrical generation equipment, as well as to Japan's growing energy services market.

HOUSING

Background: Japan's \$42 billion home building materials market is the second-largest in the world. Unwieldy rental market restrictions and government-imposed limits on the size of wooden buildings have stymied market access and driven up housing costs for Japanese consumers.

Accomplishments: This year's progress under the Enhanced Initiative includes:

- A December 1999 change to Japan's Land and House Lease Law governing lease renewals. This reform will allow Japan to develop a quality rental housing market, improving housing choices for millions of Japanese families and creating enormous opportunities for domestic and foreign builders and suppliers. Experts project this change will lead to a 17% increase in new housing starts within an hour's drive of Tokyo.
- Continuing our efforts from previous years, Japan has agreed to reduce restrictions against four-story wood-frame buildings. This step will strengthen the current boom in construction of wood-frame houses, and could ultimately mean substantial increases in the sales of U.S. wood products.
- Japan has agreed to help improve housing appraisals by ensuring that maintenance and renovation are factored into appraisal value. We have also encouraged Japan's government mortgage bank to make mortgage terms for resale housing more compatible with the terms already offered for new houses, a change likely to happen this year. As a result, more realistic valuations and increased transparency will make housing more affordable for young Japanese families.

Benefits to the U.S.: The U.S. now sells approximately \$3.3 billion in building materials to Japan each year. These reforms will create important new opportunities for U.S. firms, who stand to benefit from hundreds of millions of dollars in new sales while spurring Japan's economic growth and providing more affordable, high-quality homes for Japanese consumers.

MEDICAL DEVICES, PHARMACEUTICALS AND NUTRITIONAL SUPPLEMENTS

Background: Continued over-regulation and inefficiencies in Japan's medical device, pharmaceutical and nutritional supplement sectors have slowed the introduction of innovative, cost-effective products into Japan. Increasing the availability of these products is a key to helping Japan meet the challenge of providing increased quality health care to its aging population while limiting overall costs.

Accomplishments: Japan has agreed to take 25 concrete new deregulation measures that will increase the access of U.S. manufacturers to Japan's health care market, including:

- From October 2000, establish an unbiased and transparent appeals process that will allow U.S. suppliers to challenge unfavorable pricing decisions for medical devices and pharmaceuticals under Japan's national health insurance system.
- Implement a transparent and speedy process for creating new medical device pricing categories and provide appropriate interim prices for new devices (within four months) while their final prices are being implemented, and take steps to prevent disproportionate price cuts on U.S. products due to restructuring of functional categories.
- Work toward increasing the availability of innovative medicines in the marketplace through Japan's pharmaceutical pricing reform process.
- Take specific measures to improve the transparency and speed of the approval procedures for both drugs and medical devices, including increased use of foreign clinical data. This will result in faster patient access to cutting-edge products.
- Abolish restrictions on the shape and maximum daily dosages of many common vitamins and minerals, and allow manufacturers to provide Japanese consumers with information about the nutritional and health benefits of these products.
- On April 1, 2000, Japan implemented a reduction in the approval processing time for new drugs from 18 months to 12 months.

Benefits to the U.S.: Japan is the world's second largest market for medical devices and pharmaceuticals. In both sectors, U.S. firms are the dominant worldwide suppliers of innovative products and will be the key beneficiaries of the measures Japan has committed to implement under this year's deregulation package. U.S. firms now hold 12% of Japan's \$60 billion pharmaceutical market and almost 30% of Japan's \$20 billion medical devices market. In the nutritional supplements sector, U.S. companies have captured approximately \$500 million of Japan's \$6.5 billion market. While significant, these market shares are less than in other developed countries. The steps Japan will take are critical to ensuring that the steady stream of innovative medical devices and drugs being developed by U.S. firms can gain timely access to the Japanese market.

DISTRIBUTION AND CUSTOMS

Background: Japan's rigid and inefficient distribution and customs systems have restricted market access to U.S. firms in many sectors, including glass, film, and paper. Japan's new Large Store Location Law marks an important step forward, but must be carefully monitored to ensure that its implementation does not unfairly discriminate against large stores. Japan's inefficient customs system has burdened both Japanese and foreign businesses with high costs and unwieldy procedures.

Accomplishments: Significant new Japanese measures include:

- On June 1, 2000, Japan replaced the Large Stores Law with the Large Scale Retail Store Location Law (Store Location Law). Japan has agreed to ensure that this new law is implemented in a consistent, transparent, and fair manner.
- Local governments are responsible for implementing the Stores Location Law. Japanese, U.S., and other foreign retailers, however, have expressed concerns that small shop owners will intervene with local authorities to make unreasonable demands on large retailers over issues related to traffic, parking, noise, and trash removal. To address these concerns, the Ministry of International Trade and Industry (MITI) is establishing official contact points in Tokyo and around the country to field complaints and facilitate their resolution.
- To address concerns that local governments will not implement the Store Location Law in a uniform manner, Japan has committed to an information campaign to ensure maximum awareness about the new law, and to provide local governments with technical assistance with regard to its implementation.
- By increasing the amount of goods that Customs officers are allowed to process during overtime work, Japan Customs has effectively reduced the costs of releasing goods imported into Japan, saving U.S. and other foreign importers millions of dollars a year.
- Over the next year, Japan Customs will introduce a new Simplified Declaration Procedure that will move imports into Japan more efficiently through streamlined procedures for duty payments and reporting requirements.

Benefits to the U.S.: These reforms will help American retailers achieve additional progress in gaining access to Japan's \$1.5 trillion retail market. U.S. retailers already operating in Japan - including Toys R Us, Gap, Eddie Bauer, and Costco - will continue to benefit from increasing deregulation in this sector. Japan's streamlined customs procedures are expected to yield substantial savings to American businesses. One U.S. firm, for example, estimates that its overtime fees will be cut by millions of dollars a year due to the increased number of pieces customs officials are allowed to inspect per hour.

FINANCIAL SERVICES

Background: Japan's pool of individual savings - valued at over \$12 trillion - is the largest outside the United States. But, until recently, Japanese investors had a very limited range of investment choices, and most of these funds have been held in low-return assets. Strict regulations narrowly defined the scope of financial firm activities, reducing competition and innovation in the sector, as well as limiting the opportunities available to American financial services providers.

Accomplishments: Japan's "Big Bang" financial liberalization initiative, which builds on and extends Japan's undertakings in the 1995 U.S.-Japan Financial Services Agreement, commits Japan to a fundamental deregulation of the financial sector. Bilateral financial services discussions have sought to ensure that Big Bang measures were extended and fully implemented, and that foreign firms share fully in the new opportunities opening up. Notable deregulation measures in this report include:

- Full liberalization of brokerage commissions on stock transactions (October 1999) will greatly increase competition among brokerages, as it has in other financial markets.
- The elimination of restrictions on the scope of business of cross-industry subsidiaries (e.g., securities subsidiaries of banks) has eliminated much of the artificial segmentation of the financial services industry
- The elimination in June 2000 of the requirement to liquidate portfolio holdings when switching private pension fund managers greatly increases the ability of new entrants to compete for existing pension fund business. Japan will eliminate the corresponding requirement for public pensions by April 2001, and permit investment advisers to directly manage public pension funds
- The initiation by the Financial Services Agency of a system of response to written inquiries, including requests for published guidance and no-action letters, to improve transparency and predictability in the regulatory process.

Benefits to the U.S.: Drawing on their technological and innovative strengths, American financial services providers have already reaped significant commercial opportunities from the liberalization of Japanese financial markets. The Japanese investment trust (mutual fund) market has expanded sharply this year, and the number of foreign-affiliated investment trust companies has more than doubled in the past two years. This year, for the first time, a jointly-owned American-Japanese firm (Nikko Salomon Smith Barney) led the market in new equity issuances. American firms captured the top four spots as advisers to M&A transactions. American firms have also entered the Japanese banking, securities, and insurance sector through the acquisition of Japanese firms. Opportunities for U.S. firms will continue to expand in the future, as Japan's financial market continues to develop, and as the Japanese invest in an increasingly sophisticated range of financial products.

INSURANCE

Background: Japan's insurance market is the largest in the world at \$331 billion in direct net premiums for 1998. Yet it continues to be over-regulated, non-transparent, and presents serious challenges to U.S. firms, including an inadequate product and rate approval system and shortages of skilled staff.

Japan's government-owned and operated postal insurance system, or Kampo, is the largest insurer in the world, with over \$1 trillion in invested assets and more than 82 million policies. Kampo's state-owned status makes it exempt from certain areas of government oversight, inspection, and financial obligations.

Accomplishments: As a result of this year's Initiative, Japan's new pledges include:

- Speeding new and innovative insurance products to the market by shortening standard product examination periods and reviewing whether the streamlined "notification" system can be extended to additional commercial and personal insurance lines.
- Examining ways in which Japan's published insurance product examination regulations can be clarified.
- Providing more information to private firms in writing.
- Ensuring a level playing field for all firms by examining insurance product applications in the order they were submitted.
- Avoiding product approval bottlenecks through more efficient use of Japan's regulatory personnel and technical resources.
- Affirming that the GOJ has no current plans to expand Kampo into additional areas of non-life insurance, and that the Ministry of Posts and Telecommunications will explain upon request to foreign insurance providers and other interested parties any plans to change Kampo insurance offerings.

Benefits to the U.S.: These new measures build on progress in deregulating the Japanese insurance market achieved through the 1994 and 1996 bilateral insurance agreements, and will further approve U.S. firms' access to Japan's \$331 billion insurance market. By streamlining the current product approval system and clarifying Japanese Government rules and regulations covering insurance, a wider array of new, innovative, and cost-competitive insurance products will become more readily available to Japanese consumers. Further, a focus on limiting potential expansion of Kampo will ensure that the private sector, fully capable of meeting all of the insurance needs of the Japanese public, is not inappropriately challenged by government intervention in this important market.

COMPETITION POLICY

Background: A key goal of the Enhanced Initiative is to ensure that government deregulation is not undone by anti-competitive actions orchestrated by private-sector players. Preventing incumbent firms in once heavily regulated sectors from using their market power to stifle competition is of particular concern. The same holds for preventing cartels from undermining the health of the economy and excluding foreign competition. Bid rigging on public procurement projects is especially problematic in Japan. Strong antitrust enforcement is needed to combat such problems. The upcoming reorganization of the Japanese Government, however, threatens to compromise the independence of the Japan Fair Trade Commission's (JFTC) oversight of the posts and telecommunications sectors, as MPT will be placed in the same ministry as JFTC.

Accomplishments: Significant new measures to address these problems include:

- The JFTC will actively enforce Japan's antitrust laws against incumbent firms in partially or fully deregulated sectors (such as the telecommunications and energy sectors) that try to use their dominant market position to exclude or harm competitors.
- Japan has pledged it will not allow the upcoming government reorganization to affect JFTC independence in antitrust enforcement and competition policy promotion related to the posts and telecommunications sectors.
- The National Police Agency (NPA) and the JFTC will initiate a new cooperation mechanism for investigating bid rigging; the NPA will provide the assistance to local police departments necessary to ensure they can vigorously and effectively investigate criminal bid-rigging, or *dango* activities.
- The JFTC will survey the competition effects of financial ties and other relationships between manufacturers and distributors and take additional measures to promote an efficient and competitive distribution and retail sector.
- The JFTC will strengthen its capabilities to act against cartels by improving the effectiveness of its searches, fortifying its ability to obtain evidence stored on computers, actively seeking penalties against obstruction of its investigations and aggressively pursuing international cartels.

Benefits to the U.S.: Active competition - safeguarded by vigorous Antimonopoly Law enforcement and broad-based government support for competition principles - will help reinvigorate Japan's economy and help open Japanese markets to American firms. Japan's agreement to ensure an independent JFTC committed to actively enforcing the law against exclusionary practices in deregulated sectors such as electricity and telecommunications will be a key factor in ensuring true market access for American competitors. Strengthened efforts to root out cartels and bid rigging conspiracies should also help eliminate private anti-competitive barriers hindering U.S. exports of goods and services to Japan.

TRANSPARENCY OF THE REGULATORY SYSTEM

Background: Despite improvements in recent years, Japan's regulatory system continues to lack the transparency and accountability necessary to ensure that all players have the same access to public information and the policymaking process. New market entrants and competitors need adequate information on Japan's regulatory system in order to base their decisions on accurate assessments of potential costs, risks and market opportunities. This is especially true for foreign firms, which do not have the same access to the bureaucracy as domestic firms.

Accomplishments:

- In January 2001, Japan will increase regulatory transparency and bureaucratic accountability by introducing a government-wide policy evaluation system.
- Last year, Japan introduced a Public Comment Procedure that allows the public to review and comment on draft regulations. The U.S, however, has ongoing concerns about the Procedure's implementation, including overly short comment periods and the fact that public comments rarely appear to be reflected in final regulations. As a result, Japan has agreed to examine the Procedure's implementation, including the length of comment periods used and reasons why the ministries do not use the Procedure in particular cases. The public will have an opportunity to comment on the survey.
- When Japan enacted its 1999 government information disclosure law, it exempted special public corporations (*tokoshu hojin*) from the information disclosure obligations. However, a special government committee is preparing recommendations for legislation to require these corporations to disclose information to the public in the same way already mandated for central government ministries and agencies.

Benefits to the U.S.: Reforms that increase the transparency of the regulatory process and make the bureaucracy more accountable help curb onerous discretionary powers of the bureaucracy and shift power to the public. Such reforms also help level the playing field for foreign firms, reducing the special advantages traditionally enjoyed by Japan's domestic firms. For example, Japan's policy assessment system will, beginning in January 2001, require ministries and agencies to evaluate the effects of their policies both before and after implementation and make their policy evaluations public.

LEGAL SERVICES

Background: There is not enough legal expertise in Japan to support the increased merger and acquisition and commercial restructuring activity that is critical to the recovery of the Japanese economy. Moreover, by continuing to bar Japanese lawyers from becoming partners with foreign lawyers, Japan has limited the ability of Japanese and foreign businesses to obtain the fully integrated transnational legal services they need for efficiently effecting domestic and cross-border transactions.

Accomplishments: This year, the Government of Japan has recognized the need to modernize and liberalize its legal system, and has agreed to take significant first steps to begin that process:

- Japan has established a Judicial Reform Council to review a wide range of steps to make the legal system more responsive to the needs for increased legal services in Japan.
- The Japanese Federation of Bar Associations (Nichibenren) has lifted the ban on business advertising by Japanese and foreign lawyers. They are now allowed to advertise their areas of practice, background and fees through newspapers, magazines and on the Internet.
- Japan has increased the number of successful applicants to the annual Bar Examination by about 1000. While this number represents an incremental change, it falls short of the number needed to meet Japan's burgeoning legal demands. However, the Japanese Government is considering further increases, and the Judicial Reform Council is investigating ways to address this need.

Benefits to the U.S.: Japanese and U.S. businesses are actively contributing to the Japanese Government's efforts to address the deficiencies in Japan's legal system. Lifting the advertising ban will allow U.S. legal professionals to raise their visibility in the Japanese market, and also enable U.S. firms to more easily locate needed legal services to effect business development, investments, and merger and acquisition activity. Increasing the number of Japanese lawyers will also help alleviate demands for legal expertise necessary for U.S. firms to successfully do business in Japan.

(End)

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

Washington, D.C.

20508

USTR Press Releases are available on the USTR website at www.ustr.gov.

00 - 57

For Immediate Release Contact: Brendan Daly

July 28, 2000 Amy Stilwell

Todd Glass

(202) 395-3230

**U.S. TO REQUEST WTO CONSULTATIONS WITH MEXICO REGARDING
TELECOMMUNICATIONS TRADE BARRIERS**

United States Trade Representative Charlene Barshefsky today announced that the United States will request World Trade Organization (WTO) consultations with Mexico regarding barriers to competition in Mexico's \$12 billion telecommunications market.

"These barriers adversely affect U.S. interests and deprive Mexican citizens of the benefits of competition," said Ambassador Barshefsky. "We have informally consulted with the Mexican government on these issues for some time, most recently for two days in Mexico City this week, and have repeatedly been promised decisive action. However, U.S. carriers continue to face serious barriers to competition in the Mexican market, and the time has come to address these issues in the WTO."

The United States seeks resolution of three related issues: lack of effective disciplines over the former monopoly, Telmex, which is able to use its dominant position in the market to thwart competition; failure to ensure timely, cost-oriented interconnection that would permit competing carriers to connect to Telmex customers to provide local, long-distance, and international service; and finally, failure to permit alternatives to an outmoded system of charging U.S. carriers above-cost rates for completing international calls into Mexico.

"The Mexican government has indicated that it hopes to resolve many of these issues over the next few

months," said Ambassador Barshefsky. "The WTO process should provide an effective forum for addressing these issues."

Failure to resolve these complaints, which are echoed by many Mexican companies, will put Mexico at an enormous disadvantage. Already, Mexico has fewer phone lines per capita than almost every other major Latin America country, and the growth in adding new lines over the past four years is far less than that of Guatemala, Chile, Brazil, and many other countries in Central and South America. Barriers to competition also undermine Mexico's ability to attract investment and develop Internet services and electronic commerce, all of which require a competitive telecommunications market.

"For the sake of Mexico's long-term economic growth, and the vibrant economic partnership we have forged over the past decade, we urge Mexico to work with us for a timely resolution of these vital issues," said Ambassador Barshefsky.

BACKGROUND

USTR is taking action in response to complaints received pursuant to the annual review of telecommunications trade agreements conducted under section 1377 of the Omnibus Trade and Competitiveness Act of 1988. In April, USTR announced it would determine by today whether to take additional action against Mexico. The United States seeks resolution of concerns regarding commitments Mexico undertook in the WTO, in particular under the basic telecommunications agreement, which came into force in February 1998. These issues include:

(1) Disciplines over dominant carrier: Although Mexico's telecommunications market has been open to competition since 1996, during the past three years, Mexico's dominant carrier has actually increased its market share of long-distance customers from 74 to 81 percent, and has thwarted competitive carriers' attempts to build out alternate local networks. Mexico's WTO obligations require it, among other things, to maintain appropriate measures to prevent a major supplier from engaging in anti-competitive practices. To date, the Mexican government has not introduced effective measures to prevent Telmex from denying competitors phone lines, pricing services at predatory rates, refusing to interconnect, and refusing to pay competitors fees it owes them. To avoid such problems, many countries, including the United States, have introduced rules designed to address the specific problem of a carrier abusing its dominant position in the market. Mexico is now developing such rules, but it is unclear when they will be finalized and how they will be enforced.

(2) Interconnection: Mexico's WTO commitments require it to ensure timely, cost-oriented interconnection at any technically feasible point in the network. This obligation is designed to permit competitors to reach Telmex's customers, which constitute 98 percent of the fixed-line subscribers in Mexico. Telmex's interconnection rate for connecting long-distance carriers to Telmex customers is approximately 4.6 cents per minute, which represents the single largest cost for competitive long-distance carriers. This compares with rates in the United States, Canada and Chile of about half a cent, and rates in Argentina and Peru of roughly one cent. U.S.-affiliated carriers are also unable to obtain interconnection to provide local service and face anti-competitive rates for the transport of calls to regions where they have not yet built out their networks.

(3) Charging mechanisms for international calls: Mexico's WTO commitments provide for a broad range of options for terminating international calls into Mexico. Nevertheless, Mexico maintains above-cost termination rates, thereby inflating the rates consumers pay for calls between the United States and Mexico. Mexico's current rate of 19 cents per minute contrasts with rates of roughly 6 cents per minute for calls into Canada and the United Kingdom. In addition, under Mexican rules, only the dominant carrier - which has an incentive to keep the rate as high as possible - negotiates the international rate. Real competition in the termination of international calls into Mexico would lead to dramatic reductions in the cost of U.S.-Mexico calls and would greatly enhance the ability of the 20 million Mexicans and Mexican-Americans living in the United States to stay in touch with families and friends in Mexico.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20508

USTR PRESS RELEASES ARE AVAILABLE ON THE USTR WEBSITE AT WWW.USTR.GOV.

FOR IMMEDIATE RELEASE
JULY 28, 2000

00 - 57
CONTACT: BRENDAN DALY
AMY STILWELL
TODD GLASS
(202) 395-3230

**U.S. TO REQUEST WTO CONSULTATIONS WITH MEXICO REGARDING
TELECOMMUNICATIONS TRADE BARRIERS**

United States Trade Representative Charlene Barshefsky today announced that the United States will request World Trade Organization (WTO) consultations with Mexico regarding barriers to competition in Mexico's \$12 billion telecommunications market.

"These barriers adversely affect U.S. interests and deprive Mexican citizens of the benefits of competition," said Ambassador Barshefsky. "We have informally consulted with the Mexican government on these issues for some time, most recently for two days in Mexico City this week, and have repeatedly been promised decisive action. However, U.S. carriers continue to face serious barriers to competition in the Mexican market, and the time has come to address these issues in the WTO."

The United States seeks resolution of three related issues: lack of effective disciplines over the former monopoly, Telmex, which is able to use its dominant position in the market to thwart competition; failure to ensure timely, cost-oriented interconnection that would permit competing carriers to connect to Telmex customers to provide local, long-distance, and international service; and finally, failure to permit alternatives to an outmoded system of charging U.S. carriers above-cost rates for completing international calls into Mexico.

"The Mexican government has indicated that it hopes to resolve many of these issues over the next few months," said Ambassador Barshefsky. "The WTO process should provide an effective forum for addressing these issues."

Failure to resolve these complaints, which are echoed by many Mexican companies, will put Mexico at an enormous disadvantage. Already, Mexico has fewer phone lines per capita than almost every other major Latin America country, and the growth in adding new lines over the past four years is far less than that of Guatemala, Chile, Brazil, and many other countries in Central and South America. Barriers to competition also undermine Mexico's ability to attract investment and develop Internet services and electronic commerce, all of which require a competitive telecommunications market.

"For the sake of Mexico's long-term economic growth, and the vibrant economic partnership we have forged over the past decade, we urge Mexico to work with us for a timely resolution of these vital issues," said Ambassador Barshefsky.

BACKGROUND

USTR is taking action in response to complaints received pursuant to the annual review of telecommunications trade agreements conducted under section 1377 of the Omnibus Trade and Competitiveness Act of 1988. In April, USTR announced it would determine by today whether to take additional action against Mexico. The United States seeks resolution of concerns regarding commitments Mexico undertook in the WTO, in particular under the basic telecommunications agreement, which came into force in February 1998. These issues include:

(1) Disciplines over dominant carrier: Although Mexico's telecommunications market has been open to competition since 1996, during the past three years, Mexico's dominant carrier has actually increased its market share of long-distance customers from 74 to 81 percent, and has thwarted competitive carriers' attempts to build out alternate local networks. Mexico's WTO obligations require it, among other things, to maintain appropriate measures to prevent a major supplier from engaging in anti-competitive practices. To date, the Mexican government has not introduced effective measures to prevent Telmex from denying competitors phone lines, pricing services at predatory rates, refusing to interconnect, and refusing to pay competitors fees it owes them. To avoid such problems, many countries, including the United States, have introduced rules designed to address the specific problem of a carrier abusing its dominant position in the market. Mexico is now developing such rules, but it is unclear when they will be finalized and how they will be enforced.

(2) Interconnection: Mexico's WTO commitments require it to ensure timely, cost-oriented interconnection at any technically feasible point in the network. This obligation is designed to permit competitors to reach Telmex's customers, which constitute 98 percent of the fixed-line subscribers in Mexico. Telmex's interconnection rate for connecting long-distance carriers to Telmex customers is approximately 4.6 cents per minute, which represents the single largest cost for competitive long-distance carriers. This compares with rates in the United States, Canada and Chile of about half a cent, and rates in Argentina and Peru of roughly one cent. U.S.-affiliated carriers are also unable to obtain interconnection to provide local service and face anti-competitive rates for the transport of calls to regions where they have not yet built out their networks.

(3) Charging mechanisms for international calls: Mexico's WTO commitments provide for a broad range of options for terminating international calls into Mexico. Nevertheless, Mexico maintains above-cost termination rates, thereby inflating the rates consumers pay for calls between the United States and Mexico. Mexico's current rate of 19 cents per minute contrasts with rates of roughly 6 cents per minute for calls into Canada and the United Kingdom. In addition, under Mexican rules, only the dominant carrier - which has an incentive to keep the rate as high as possible - negotiates the international rate. Real competition in the termination of international calls into Mexico would lead to dramatic reductions in the cost of U.S.-Mexico calls and would greatly enhance the ability of the 20 million Mexicans and Mexican-Americans living in the United States to stay in touch with families and friends in Mexico.