
Clinton Presidential Records Mandatory Declassification Review

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**Outline of International Issues
for December 22, 2000
Meeting with Larry Lindsay**

- I. NEC: Is it necessary? What is its role?
- II. NEC: Process and interaction with the NSC; areas for improvement.
- III. Broad Themes for the Next Administration.
 - A. How International Economics More Important than Ever
 - 1. Importance of global markets to domestic economy.
 - 2. Ditto on global financial architecture.
 - B. Need to Address Broad Strategic Trading Issues
 - 1. What is the strategy for commencing negotiations on a New Round?
 - 2. How should we advance negotiations for FTAA?
 - 3. Where do bilateral treaties in this hemisphere fit in?
 - 4. What role will labor and environment play in these negotiations?
 - C. Need to Resolve Pending Disputes
 - 1. Number of serious disputes with our closest trading partners, e.g. with EU: FSC, Airbus, biotechnology, bananas, beef; with Canada: softwood lumber; with Japan: Autos agreement.
 - 2. Need to consider innovative ways to manage these disputes ahead of more serious difficulties.
 - D. Attention to domestic legislation with impacts on trade.
 - 1. Proliferation of unilateral sanctions regimes – e.g. Iran/Iraq Act, ILSA, Helms-Burton – present regular difficulties with trading partners; need to simplify legislative thicket.
 - a. Legislative attempts to lift/reform sanctions have created their own problems, e.g. the Nethercutt bill possibly lifting ag/med sanctions against Taleban absent new legislation.
 - 2. Trade disrupting legislation such as the Byrd Amendment (awarding import duties imposed under our antidumping and countervailing duty trade laws from the United States Treasury to the companies filing those trade cases).

IV. Specific Issues for the Next NEC Director

A. Negotiations for New Round

1. Critical question is how to develop consensus before next WTO ministerial – must be held before end of 2001 – or whether launch might be to launch a new WTO round separate from the ministerial.
2. Most agree best way to advance negotiations already underway on services and agriculture is to broaden agenda. Will require next Administration to build pro-liberalization constituencies domestically, address the different interests of LDCs and work with complex political timetables we face in coming year (e.g. German and French elections).

B. Negotiating New Trade Agreements and Expanding the Scope of Existing Ones

1. Singapore and Chile FTAs

- a. Modeled after Jordan FTA but more far reaching (e.g. dispute settlement, investment, rule of origin).
- b. NEC will have important role in brokering interagency agreement on investment chapters given divide between domestic regulatory agencies and agencies promoting US overseas investment.
- c. Negotiations likely will not be completed before end of Administration.
- d. Will be important to consider how these agreements will establish precedents for FTAA (below).

2. Free Trade Agreement of the Americas (FTAA)

- a. Began with hemispheric summit in December 1994 of 34 countries; agreed to conclude negotiations no later than 2005. (USG has joined many in urging accelerated timetable with discussions to conclude by 2003.)
- b. Next Summit of Americas scheduled for April 2001, at which expect to have bracketed text for portion of agreement.

3. PRC Accession to WTO Agreements

- a. Will need to follow steps by PRC to meet WTO obligations.

C. Strengthening Global Financial Architecture

1. Likely that a number of countries will face precarious financial situations, e.g. Argentina and Turkey, requiring close attention.

2. Will demand continued support for IFI's as they push for greater emphasis on transparency and accountability.
3. Will need to focus on rising trend of countries to adopt US dollar as their own currency and historical US stance of "no accommodation."
4. Will also need to continue support for US participation in financing of the Cologne debt initiative (\$375 million over next five years).
5. Will need to strike balance between international interest in qualifying countries for expanded debt relief against need to ensure that such countries have sufficiently sound economic reform and poverty reduction strategies in place.

D. Managing Bilateral Trade Disputes

1. US/EU Disputes: Major ones include bananas, beef, biotechnology; Airbus, US tax provisions relating to foreign sales corporations, and US legislation mandating "carousel" retaliation
 - a. On some, we are making progress – e.g. bananas and beef – even as for these, a failure to reach agreement could force us to invoke carousel retaliations, which would prompt EU to move for immediate retaliation on \$4 billion in allegedly improper FSC subsidies.
 - b. Others are more difficult – trade in biotechnology products remains a serious issue.
 1. For example, corn growers losing up to \$200 million per year in exports because of EU refusal to approve 7 corn varieties that are co-mingled with the sole EU-approved variety.
 2. Recent StarLink incident underscores need for domestic actions as well.
 - c. With Airbus decision to launch A3XX superjumbo jet project, subsidies of European government will become a major trade dispute.
2. US/Japan Trade Disputes: 1995 Agreement on trade in autos and auto parts expires 12/31/00. Japanese unwilling to renew the agreement, which seeks to expand sales and opportunities for US auto and auto parts industry in Japan.
 - a. Negotiators met earlier this week; We proposed to renew for one year with talks on what to happen after that year; Japanese willing to talk but not to renew the agreement.
 - b. We told them that we would bring Japanese unwillingness to attention of new Admin.

3. US/Canada Trade Disputes: Major and longstanding issue involves Canadian lumber exports to US (1/3 of US softwood lumber consumption). Five-year agreement setting TRQ expires March 31, 01.
 - a. Positions line up along familiar lines: consumer groups want TRQ to expire; envtl grps and producers want tougher TRQ.
 - b. Agreement expiration comes just weeks before April "Summit of the Americas" which POTUS likely to attend

E. Multilateral Economic Fora

1. APEC: need to keep APEC the primary regional economic forum and ensure continuity of the forum with top-level US participation.
 - a. Important year with Chinese chairmanship this year (leaders summit in Shanghai, Oct. 20-21).
 - b. Need to push toward Bogor regional free trade targets of regional free trade for develop economies by 2010 and 2020 for developing economies
 - c. Need to prevent APEC eclipse by ASEAN +3 forum
2. G-7/8: Numerous issues addressed through this forum ranging from universal education, infectious diseases, biotechnology, the global digital divide, oil prices, decommissioning the Chernobyl reactors, and transnational threats.
 - a. Will need to focus on Russian desire to dispense with G-7 meetings.
 - b. Will want to keep focus on reform of international financial architecture and dept reduction for least developed countries with appropriate plans to use freed up funds for education, disease reduction and other social goods.

F. Grab bag of other issues likely to be on the next NEC Director's agenda.

1. Energy issues – oil prices, Caspian energy, Iran/Iraq sanctions
2. Agricultural issues – sanctions/Nethercutt, Ag Export credits, food aid numbers, Farm Bill (export programs/subsidies) for 2002.
3. Anti-corruption – compliance with OECD Anti-Bribery Convention, money laundering.
4. Commercial advocacy and business community issues.

International Economic Issues

Sgt. Sharpe
Book.

Briefing Papers for Bush-Cheney Transition Team

January 5, 2001

Issues of urgency or facing near-term action-forcing events

Byrd Amendment (EU/Japan others have initiated WTO consultations; need for repeal in FY 2002 budget submission) - ~~KISSINGER~~ *Corbett*

Canada Trade Disputes – softwood lumber TRQ expires March 01) - BRUNS

Energy (oil, home heating oil, natural gas prices, Iran/Iraq sanctions, Caspian energy) - MINSK

EU Trade Disputes - Airbus/A3XX (commercial financing) - ROBYN

EU Trade Disputes - Beef/Bananas/Carousel - CORBETT

EU Trade Complaint Against U.S. - FSC (procedural agreement to decide WTO consistency before retaliation) - DUNCAN

G-8 – Upcoming Sherpa Meeting in Rome Feb 2-3 (less than two weeks after inauguration) – and preparation for Sherpa meetings in March, May, June and G-8 Summit in Genoa in July
DUNCAN

Global Financial Architecture strengthening (Argentina, Turkey, Philippines etc.) - WESCOTT

OECD Agricultural Trade Credit Negotiations - CORBETT

Steel (import relief requested) - CORBETT

Core issues

Chile FTA - ~~SAMANS~~ *Kissinger*

China WTO (slow progress on accession agreement) - ROSEN

FTAA (slow by steady progress must conclude by 2005, should by 2003 – Chile may be model) - BRUNS

Jordan FTA (Congressional approval) - ~~SAMANS~~ *Kissinger*

New WTO Round (antidumping – Japan, investment/competition – EU) – CORBETT

Singapore FTA – BRUNS

Issues where White House involvement will be necessary within 2001

AIDS/Vaccines (EU pricing proposal, G-8 AIDS/infectious disease initiative) - EFROS

Anti Corruption – compliance with OECD Convention spotty at best – KISSINGER

APEC – Need to keep forward momentum toward Bogor Goals (free trade by 2010/2020) – ROSEN

Biotech (200 M in corn sales lost per year, Starlink incident, etc.) – ~~SAMANS~~ Kissinger

Child Labor issues - ~~SAMANS~~ Kissinger

Diamonds in Africa (conflict diamonds, Liberia sanctions, diamond certification efforts) - DUNCAN

Dot Force (Report due for Genoa Ministerial in July 01, question re ongoing nature) - KALIL

HIPC Debt Forgiveness (Brits and others prefer speed over quality) - ~~SAMANS~~ Kissinger

IFIs (need for continuing reform of IMF, WB, etc.) - WESCOTT

Japan Auto Parts Agreement (stalled, we propose to renew for one year) - BRUNS

NAFTA Mexico – Trucks and Sugar not resolved - BRUNS

Nethercutt Sanctions (lifting ag/med sanctions may include Taliban other terrorist entities) - BRUNS

Plutonium Disposition - DUNCAN

Russia Nuclear Safety (NSWG Concerns) - DUNCAN

Russia WTO Accession (very slow – needs Putin push to make happen) – DUNCAN

Ukraine Chernobyl Shutdown and related R4-K2 Financing – DUNCAN

U.S./EU Summit – CORBETT

Environment – COP6 Climate Change, ECAs – ~~SAMANS~~ Kissinger

International Crime – Anti money laundering initiatives, etc. -- WESCOTT

Holtz

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DRAFT

January 12, 2001

To: Lawrence Lindsey
Condoleezza Rice

From: Gene Sperling

Subject: International Economic Issues – Expected Developments in January-June 2001

This is to alert you to major international economic issues that will require the attention of you and your international economic policy team over the first six months of the year. Papers on substantive issues are provided at separate tabs. G-7/G-8 Summit preparations are covered in a separate briefing book.

Decisions on presidential travel to major international economic events

Canada will host the Summit of the Americas on April 20-22 in Quebec City. This will be a key opportunity for progress towards a Free Trade Agreement of the Americas, currently targeted for conclusion by 2005. Progress towards completion of the U.S.-Chile Free Trade Agreement could attract significant attention at this time.

Sweden, in its current position as holder of the six-month, rotating EU presidency (from January 1, 2001 through June 30, 2001), will host the U.S.-EU Summit in Stockholm on June 13-14, 2001. This will be a key opportunity for building momentum towards the launch of a new round of WTO negotiations and to resolve or advance major bilateral trade disputes (bananas, beef, Airbus and FSC). The summit takes place twice annually, hosted by the EU presidency in June and by the United States in December.

China will host the APEC Ministerial and Leaders meetings in Shanghai during October 17-21, 2000. If not previously completed, progress towards completion of the U.S.-Singapore Free Trade Agreement could attract significant attention at this time.

The WTO Ministerial Conference, the governing body of the organization, will meet late in 2001. The USTR is the U.S. delegate to the conference. The conference dates and site are undecided. (Santiago, Qatar and Geneva are possibilities.) Presidential involvement, including the possibility of traveling to the conference, should be considered in connection with U.S. strategy to launch a new round of WTO negotiations.

Issues involving congressional action

Members of the Congressional Steel Caucus wrote President Clinton on January 3, 2001 to renew a request for Administration action under Trade Act Section 201 to self-initiate an investigation seeking comprehensive relief for the steel industry from unfairly traded

imports. Caucus members reportedly have written a similar letter to President-elect Bush. A slowdown in domestic demand for steel, an increase in imports and a plunge in market prices have lowered industry profits and induced bankruptcy filings in November-December 2000 by Wheeling-Pitt (West Virginia), Northwestern (Illinois) and LTV (Ohio). Industry officials in late 2000 were divided on the likelihood a comprehensive Section 201 action could receive successful review from the International Trade Commission, an independent agency.

The Byrd Amendment, adopted as part of the FY 2001 Agricultural Appropriations bill, provides for petitioners and others involved in antidumping and countervailing duty cases to receive the proceeds of duties levied. The EU and eight other WTO Members have jointly requested dispute settlement consultations, charging that the legislation is WTO-inconsistent. In its FY 2002 budget proposal, the Bush Administration must either seek repeal or plan for implementation of this measure.

The Trade Sanctions Reform and Export Enhancement Act, also adopted as part of the FY 2001 Agricultural Appropriations bill, greatly limits the President's authority to impose international economic sanctions on agricultural commodities, medicine and medical devices. The Bush Administration should consider whether to work with Congress to restore the president's discretion to impose sanctions on agricultural goods and medicine if he deems it in the national interest. Agencies are working to finalize regulations that will implement the TSRA by the statutory deadline of February 26, 2001.

Draft implementing legislation for the U.S.-Jordan Free Trade Agreement was submitted to Congress on January 6, 2001. Action on implementing legislation by both houses of Congress is necessary to bring the FTA into force.

Imminent developments on major international economic issues

January

Prime Minister Mori of Japan has signaled a desire for a January or February visit to call upon President Bush. Opening the market of the world's second-largest economy has been the objective of U.S. trade policy toward Japan since the late 1970's. While U.S. exports to Japan increased significantly between 1993 and 1996, they have stagnated since, owing largely to Japan's macroeconomic problems. Our bilateral trade deficit with Japan reached \$73.4 billion in 1999, and may top \$80 billion in 2000. The Bush Administration will need to decide on an approach ~~on for~~ perennial sectoral issues, including autos and auto parts (our bilateral agreement expired on December 31), insurance, flat glass, government procurement and agriculture.

February

A trio of issues dominates our trade agenda with Mexico: telecom (where we are demandeur) trucking and sugar (where the Mexicans are looking for changes in our current policies). We have made substantial progress on telecommunications in recent

weeks, but the Mexican government has not changed rules that prevent service suppliers from negotiating competitive rates for calls between the United States and Mexico. The Bush Administration will need to decide before February 1 whether to review the decision to form a WTO dispute settlement panel on that date. [Current thinking at USTR is (given the shortness of time you might want to make some recommendation)] Regarding trucking, if the adverse finding against the US in the preliminary NAFTA panel decision ~~against the U.S does not change~~ is preserved in the final NAFTA report (expected in early February) the incoming administration will have 30 days after that report's issuance to negotiate a deal or face a likely Mexican move to withdraw NAFTA benefits for some or our exports. Of lesser urgency is an ongoing dispute over sugar and High Fructose Corn Syrup (HFCS), where the Bush Administration will need to decide whether to pick up negotiations or pursue a solution through NAFTA and the WTO.

The APEC process, which culminates in the Leaders Summit to be held in Shanghai, China this year in October, unfolds throughout the year. While much of the agenda is built in, the overarching goals, initiatives and ambitions of the gathering ultimately reflect the interests of the Leaders themselves. A group of senior officials meets three times annually and then informally prior to the Summit in "SOMs" (senior officials meeting), while Ministers including Finance/Treasury, Trade and State meet in advance of the Leaders Meeting as well. The first preparatory meeting for the October APEC Leaders Meeting, SOM I, is set for 2001 is February 10 in Beijing.

March

Early in 2001, the Bush Administration will need to articulate its vision on how trade liberalization and the launch of a new WTO round figure in its global economic policy strategy and the exercise of traditional U.S. leadership on the multilateral agenda. A series of limited and informal meetings, starting with the Davos World Economic Forum in January, will be used by our partners to assess continued U.S. interest. Japan and the European Union (EU) are setting the stage for a crisis in March, when the WTO General Council will take stock of the progress to date on the negotiations mandated as a result of the Uruguay Round on agriculture and services, and decide how to proceed. These are major negotiations for the United States in terms of our economic interests and we need to see them proceed as quickly as possible. However, the reality is that a broader negotiating agenda that can be called a round appears at this point to be the best way to guarantee progress in areas of interest to the United States.

The EU and Japan are unlikely to agree that the built-in agenda negotiations should intensify or set a deadline for their conclusion in the absence of the launch of a round. India, on behalf of developing countries, will argue that no new negotiations can be launched in the absence of giving priority to development issues and tangible concessions to redress developing country concerns about the results of the past negotiations ("implementation"). Trading partners point to the WTO's next ministerial meeting at the end of 2001 as the next logical opportunity to launch a round, and suggest that we use the intervening period to build a consensus on an agenda. EU Commissioner Lamy has argued for agreement on a round prior to China's entry into the WTO. Italy, which chairs

the G-7/8 this year, has said it will be active to ensure a launch for the Summit. The window of opportunity for a launch of any kind is limited. French and German elections further complicate the picture, with the French election now slated for the spring of 2002.

U.S.-EU trade disputes, along with successful EU/Japanese agricultural protection strategies, have hampered the U.S.-EU cooperation necessary to launch a new round of WTO negotiations. Three bilateral disputes may escalate in 2001 without effective action to resolve or temper them. A U.S.-EU summit meeting is scheduled for June 13-14, 2001 in Stockholm. [Bill, it strikes me that this section does not logically fit in March. I would either move it up to the imminent disputes section or move it down into June, given the summit. To put it in March, however, suggests that the incoming team doesn't need to deal promptly with this issue, which we know is not the case. My vote, put FSC/beef and bananas up front, leave boeing/airbus for June.]

First, the EU is committed to subsidize through risk-free, non-commercial financing the launch of the Airbus/A380 aircraft, a challenger to the Boeing 747. Boeing is undecided, due to fear of losing sales to EU airlines, over whether to initiate a WTO dispute under the 1995 Uruguay Round Agreement on Subsidies and Countervailing Measures.

Second, U.S. trade sanctions remain in place over longstanding EU inaction to modify beef and banana import policies to conform to WTO dispute settlement decisions. The sanctions block \$300 million in EU imports, consistent with WTO rules permitting retaliation for EU inaction to conform to dispute settlement decisions. Most affected U.S. exporters are anxious to increase pressure on the EU to settle by rotating the sanctions to new products, as envisaged by the "Carousel" statute enacted in 2000.

Third and finally, the EU has publicly threatened to retaliate against any Carousel action. Under WTO rules the EU may sanction approximately \$4 billion in imports from the United States in connection with a 2000 dispute settlement decision against the U.S. Fiscal Sales Corporation (FSC) tax measure. The EU currently is refraining from imposing those sanctions, under a non-binding procedural agreement reached bilaterally in September 2000. The United States enacted new FSC legislation in November 2000. A series of initial and appellate WTO reviews of the new FSC legislation will be concluded by July-August 2001. At that time the new FSC legislation may be deemed to be consistent with WTO rules or, if not, the EU may move to impose sanctions.

The 1996 U.S.-Canada Softwood Lumber Agreement, which sets a tariff rate quota on Canadian imports above a certain level, will expire on March 31, 2001. The Canadian government has proposed that each government name an "Eminent Person" to work on recommended changes to Canadian forest practices while allowing the current agreement to expire. U.S. producers, backed by key members of Congress and the environmental community, want a tougher follow-on agreement; they are on record as prepared to file an anti-dumping case if the agreement expires. A coalition of U.S. consumers wants the agreement to expire with no further action.

April

The United States is currently involved in negotiations on agricultural export credits in the Organization for Economic Cooperation and Development (OECD). The talks had been targeted for completion by December 31, 2000. The United States, Canada and Australia are expected to succeed soon in winning a ninety day extension (i.e., until sometime in April) of the deadline. During the last round of negotiations, the chairman of the negotiating group submitted a compromise proposal in an attempt to break an impasse. Although the proposal was helpful in moving the discussions forward, U.S. industry and key Members of Congress are divided on whether to accept the agreement. Canada also is reluctant to accept it, and is maneuvering to avoid blame for blocking an agreement. Failing an agreement, the credit issue may become an agenda item in current WTO agriculture negotiations or the United States' and other nations' agricultural trade programs may be subjected to WTO dispute settlement actions threatened by Brazil and others.

The Clinton Administration commenced bilateral negotiations with Ukraine and renegotiation of our bilateral steel agreement with Russia late in 2000. Both efforts are incomplete. Ukraine was an important source of surging imports of hot-rolled steel in 2000. Russia had threatened unilateral termination of the bilateral agreement negotiated during the 1998 import crisis, currently the most important non-WTO bilateral agreement in place. An (opportunistic) action by Russia to terminate its agreement early in the Bush Administration could also lead the Ukraine to abandon negotiations with the United States. U.S. industry filed anti-dumping and counter-vailing duty petitions in November 2000 against imports of hot-rolled carbon steel from eleven countries, including the Ukraine. A Commerce decision to impose substantial AD/CVD tariffs on these hot-rolled steel imports, scheduled for April 23, 2001, could cause (earlier or later) resumption of negotiations with the Ukraine and Russia. The Russians are holding off from renegotiation of the current agreement, in hopes the Commerce decision will prompt a rebound in the now-depressed U.S. market price of hot-rolled steel.

May

The OECD will devote the first six months of 2001 to preparations for the May 17-18 OECD annual ministerial, which could be an important milestone in building consensus for WTO negotiations. The theme for the meeting will be "sustainable development" where the Secretariat will present an extensive analytical report and recommendations. They will focus on issues such as developing countries' participation in the multilateral trading system and public concerns about the impact of "globalization" on the environment and the protection of core labor standards. Ensuring that our views are accurately reflected will be a challenge in light of the OECD's EU-bias on trade issues.

At the recent Conference of Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in The Hague last November (COP-6), countries were unable to reach agreement on rules to implement the emissions reduction targets in the 1997 Kyoto Protocol. At the last minute, the European Union scotched a potential deal,

largely over the issue of whether to allow countries to receive credit for carbon taken out of the air by forests (and possibly farmlands), so-called "carbon sinks". The UN climate change negotiations are expected to resume in late spring or early summer. The EU, in particular, is eager to complete work on the Kyoto rules, in order to allow ratification and entry into force of the Protocol in 2002.

Talks are on-going to multilateralize the set of bilateral WTO accession packages negotiated between China and WTO members making up the Working Party on China's accession, and to complete the Protocol of Accession. These take place in Geneva. The US-China bilateral agreement completed in November 1999 does not come into effect until China formally accedes to WTO. That means, inter alia, that an annual NTR/MFN vote would be required in 2001 to maintain the waiver of Jackson-Vanik restrictions for China if China has not acceded to the WTO by May 2001. The final package of Chinese commitments must be "no less favorable" than that incorporated in our November 1999 bilateral agreement. The President must certify this to Congress in order for the PNTR legislation to come into effect.

June

Infectious diseases, including HIV/AIDS, malaria, and tuberculosis, threaten advances in development, economic growth, stability and security worldwide. AIDS is now the number one killer in Africa – with one in three adults fatally infected in some countries. In the most severely impacted countries, more than half of all 15-year-olds alive today will die of AIDS, and by 2010, there will be 40 million children orphaned in Africa alone. In 2010, South Africa will have a GDP 17% lower than it would have been without AIDS – wiping \$22 billion off the country's economy. Last year, Russia had the highest infection rate increase of any country in the world, while India is on the verge of a major epidemic and China is threatened. A UN General Assembly Special Session on AIDS is scheduled for June 2001. This is an important opportunity for the U.S. to exert leadership in the fight against AIDS.

Biotechnology

Issue: How to manage in the international arena the commercial, food and environmental safety, technology policy and other U.S. interests associated with this technology, which already plays a large and growing role in the U.S. economy and in which U.S. industry has a competitive lead globally. A controversial and cross-cutting issue, handling biotechnology requires us to confront not only fears of globalization and technology, but also undercurrents of anti-Americanism and trade protectionism. The effort involves several cabinet level and regulatory agencies, U.S. agriculture and pharmaceutical industries, NGOs and academicians and organized interest in both the House and Senate. Biotechnology is a major bone of contention between the US, the EU and its member states, and has spillover effects on our relationships worldwide.

Key Agencies (note: no single lead agency):

(unless otherwise noted, all area codes are 202)

U.S. Department of State: Anthony Wayne, A/S for Economics and Business 647-7971.

U.S. Department Of Agriculture: Bernice Slutsky, Foreign Ag Service, 720-4261.

U.S. Trade Representative: Jim Murphy, Office of Agriculture, 395-6127.

Food and Drug Administration: Eric Flamm, Office of Int'l Affairs, 703 827-4714.

Environmental Protection Agency: Steve Johnson, DAA for Prevention, 260-2902.

U.S. Agency for International Development: Josette Lewis, Biotechnology Program, 712-5592.

Status:

The United States continues to face near-term actions, (as early as January 2001) particularly by the EU, to impose onerous new non-science-based requirements on modern biotechnology food and feed in the areas of testing, labeling, and traceability through the food and feed chain. The recent StarLink episode, in which a line of genetically modified corn approved only for animal feed use was found to have been commingled with corn intended for human consumption. StarLink corn was found to have entered the domestic food distribution networks. Some of the StarLink commingled corn was also found to have been exported overseas. This event raised serious concerns among our trading partners as to the reliability of US controls on genetically modified organisms (GMO's).

In a related effort, and in part because of its own mishandling of the BSE and other food safety issues, the EU seeks to impose its so-called "precautionary principle" in cross-border transactions and international agreements. This principle provides a basis for draconian risk avoidance measures, even with little or no scientific basis, on biotech food and feed and other products in a manner contrary to WTO phytosanitary rules. These efforts could encourage protectionism.

Unfortunately, the EU's rhetoric and approach are influencing other regions and countries to take similar unilateral actions, and to take unhelpful positions in international organizations and negotiations (e.g. OECD, G8, UN, WTO). We are struggling in a resource-constrained environment to gain allies and enhance international understanding on this complex issue. Canada, Argentina, and some other grain exporters share our concerns, and a number of developing countries (e.g. China, Nigeria, Thailand) are beginning to recognize the setback they may suffer if the EU succeeds.

The U.S. scientific community, farmers, and businesses lead the world in development and use of biotechnology. Many billions of dollars in exports, investment, and research leadership are at stake and the global trading rules and international development goals at risk. While medical and pharmaceutical biotech are broadly accepted, controversy surrounds agricultural biotech, especially on safety and environmental impact of "genetically modified organisms" (GMOs). Public opposition to biotech, both in the U.S. and internationally, often blends with opposition to/fear of globalization, multinational corporations, etc.

At the same time, a number of major scientific studies by independent national science groups confirm the international scientific consensus that biotech foods are as safe as their conventional counterparts. Many scientists tell us that with care, biotechnology can safely achieve food crops resistant to disease, adaptable to various climates, which require fewer herbicides and pesticides, and which can deliver greater nutritional benefits and even protection against specific diseases. The next five years will be critical to achieving these developments. U.S. industry is calling for a stronger USG international role on biotech. Biotech enjoys strong bipartisan Hill support.

Keeping foreign markets open for innovations such as food and agriculture biotechnology, and protecting the integrity of the rules-based, science-based trading system is a priority for all USG agencies. While 90% of the biotechnology industry is in medicines and pharmaceuticals, most of our political, policy, and trade problems arise in the 10% of the industry that deals with agriculture and food products. Biotechnology has the potential to increase food production and enhance food nutrition, especially to meet the needs of expanding populations in developing countries, very likely with less environmental damage. Already a significant percentage of our soy and corn crops, key to our food and feed exports, are biotech.

FDA, EPA, various parts of USDA, Commerce, US Trade Rep, White House S&T Office, Agency for International Development, OMB plus State and other agencies have major equities in one or more aspects of Ag Biotech. State's broad role on biotech (both as a policy agency and as gateway to our embassies) stretches through UN and WTO negotiations, fighting trade barriers against our biotech products, and international scientific and regulatory cooperation. We see biotech as one critical element for addressing the development, hunger, and environmental crises (and the major political and security crises they breed) in the Third World.

Along with USDA, EPA, FDA, the State Department is charged with using its traditional diplomatic and public diplomacy tools to educate international audiences and improve the understanding of the nature and science-based strength of our regulatory process. While State anchors the USG's diplomatic and international public policy efforts and helps to coordinate this complex issue internationally, agencies such as FDA, EPA, USTR, and USDA provide the substantive experience and often lead in international fora such as CODEX, WTO, and FAO where we believe food safety issues are best discussed. AID currently has a relatively small \$7 million biotech outreach/capacity building program (which also helps to train regulators and scientists and develop biotech products appropriate for developing countries in partnership with the U.S. private sector) which will likely grow under the FY 2001 Foreign Assistance budget to approximately \$25-\$30 million.

Most of our current ag/food biotech trade disputes are with the European Union (EU). We have consistently stressed to the EU the need for a science-based approach to the use of biotech products. The EU has in place a de facto moratorium on approvals of biotech products pending revision of Directive 90/220, which regulates treatment of living modified organisms (LMO's) in Europe. The EU is also considering a new proposal for rules governing the presence of biotech material in animal feed, and a similar initiative dealing with tight and perhaps infeasible threshold of 0.5 percent for approved biotech seeds in non-biotech seed lots. The EU is also considering mandatory labeling and traceability requirements for biotech products, measures that would have huge commercial implications for the U.S. industry.

Italy has banned four types of EU-approved biotech corn and recently banned biotech content in feed, and the European Commission has been unable/unwilling to act. The EU is also seeking to apply the "precautionary principle" to the introduction of biotech products into the food chain and environment. At its worst, the "precautionary principle" can be used to insist on zero risk (which is never possible to prove) or to ban products for political, rather than food safety reasons (as in the Italian corn ban). We are considering ways to address the issue at the WTO without risking re-opening the existing pertinent WTO agreements (SPS -- Sanitary and Phytosanitary Standards, TBT -- Technical Barriers to Trade, and TRIPS -- Trade-related Intellectual Property Rights). We have had a regular US-EU Senior Level Group dialogue on biotechnology, but it has born little fruit.

In the last two years numerous other countries have either banned biotech products (Saudi Arabia) or imposed mandatory labeling or other restrictive measures (Indonesia, Brazil, France). At the same time, major developing countries like China, India, and Nigeria are moving ahead aggressively to develop their own agricultural biotech capability. The USG's response to the anti-biotech initiatives focuses on enhancing confidence in biotechnology and its regulation and use through public diplomacy. This kind of response, which has targeted both significant trading partners such as the EU and Japan as well as "like-minded" developing nations, will require greater funding. The USG is also seeking to build a more formalized coalition of "like-minded" countries to work with on trade and food safety negotiations and other international efforts involving biotechnology issues.

Child Labor

Issue: Responding to growing popular concern, Governments and multi-lateral agencies such as UNICEF and the World Bank have increased their attention to the problem of child labor since the mid-1990s. The U.S. was one of the first nations to ratify ILO Convention 182 on the elimination of the worst forms of child labor, which was adopted overwhelmingly at the June 1999 International Labor Conference in Geneva. The U.S. ratified and signed this convention in December 1999, the third country to do so. As of January 10, 2001, 57 countries have ratified Convention 182. The U.S. Government is currently developing its national program of action due for presentation to the ILO in September 2001. It is actively engaged in various unilateral and multilateral efforts to curb the problem.

Lead agency and senior-level lead career official: State Department, Sandra Polaski, Office of International Labor Affairs, 202 647-4356; Labor Department, Jorge Perez Lopez, International Labor Affairs Bureau, 202 219-7519.

Other interested agencies and senior-level lead career official: Customs, Michael Holt, Office of Investigations, 202 927-1510; Treasury, James Shea, Development Finance, 202 622-7719; USAID, Michaela Meehan, Democracy & Governance 202 712-4491. (See also attached table of contacts on child labor issues.)

Status: Responding to growing popular concern, Governments and multi-lateral agencies such as UNICEF and the World Bank have increased their attention to the problem of child labor since the mid-1990s. Estimates of the number of working children under 15 years in the world range from 200 to 400 million. The International Labor Organization (ILO) recently estimated that in developing countries alone, at least 120 million children between the ages of 5 and 14 work full time; including those who work part time, the total rises to 250 million. Slightly over 60 percent of working children are in Asia and Oceania, 32 percent in Africa, and 7 percent in Latin America.

Approximately 70% of working children are employed in agriculture, while manufacturing and the service industries each account for about 8% respectively. Because U.S. labor law does not extend to children in agriculture, there is also significant child labor in the U.S. This problem has drawn increasing critical international and domestic attention with documented charges that children face health hazards in this work.

According to the ILO, abusive child labor includes both paid and unpaid labor that is mentally, physically, socially, or morally dangerous and harmful to children. It is work that deprives children of schooling, enslaves them and/or separates them from their families, and is carried out in violation of international law and national legislation. The U.S. views exploitative child labor as a human rights abuse and an impediment to long-term economic development.

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The U.S. works for the elimination of exploitative child labor through international organizations, bilateral government contacts, trade legislation and federal regulation. It is also increasingly creating partnerships in the private sector to address these concerns at home and abroad. Through the Department of Labor, the U.S. contributes to the International Labor Organization's International Program on the Elimination of Child Labor (IPEC), which began in 1992. The U.S. began funding IPEC at \$3 million in FY 1998, and subsequently increased its contribution to \$30 million in FY 1999 and \$30 million in 2000. The FY 2001 budget includes \$45 million for the ILO IPEC program.

The Frank Amendment of 1995, through the Secretary of the Treasury, directs U.S. representatives to the international financial institutions to urge those institutions to adopt policies to encourage borrowing countries to guarantee internationally recognized worker rights, including the prohibition of child labor.

The Department of Labor has received \$37 million to fund basic education programs to help remove children from the labor force. DOL also continues to expand available data on child labor, publishing its sixth volume of research on child labor in late 2000. USAID also funds extensive education programs and is among various agencies involved with addressing the issue of child soldiers.

Several pieces of trade legislation include anti-child labor criteria. Since 1984, respect for basic worker rights, including the prohibition of exploitative child labor, has been part of the qualifying criteria for Generalized System of Preferences (GSP) program for developing countries. Specific reference to the prohibition of the worst forms of child labor was added in the Trade and Development Act of 2000 with a requirement that the Secretary of Labor make a determination of country eligibility for all GSP recipients based on their compliance with ILO Convention 182. That determination is due later this year. Similarly, Overseas Private Investment Corporation (OPIC) and several regional trade initiatives, including the Andean Trade Preferences Act, the African Growth and Opportunity Act, and the Caribbean Basin Trade Partnership Act, include anti-child labor provisions among their eligibility criteria.

Originally signed in 1999, Executive Order 13126 ("Prohibition of Acquisition of Products Produced by Forced or Indentured Child Labor") is expected to go into effect in late January 2001. The order prohibits Federal procurement of goods that are produced, wholly or in part, using forced or indentured child labor. The final list of products by their country of origin affected by the E.O. includes 11 products produced in two

countries (Burma, Pakistan). The list is subject to continuing review with the possibility of adding or deleting products as information becomes available.

Current federal law (the Tariff Act) already prohibits the importation of goods made with forced or indentured child labor. To this end, the Bureau of Customs will receive \$7.5 million in FY 2001 (a 50% increase over its FY 2000 budget) to enforce this ban.

Future issues: Two child labor-related issues are gaining importance in the context of the growing impact of globalization on workers: children as migrant laborers, and children as victims of human trafficking.

Because of disparities in economic development both within and among countries, an increasing number of itinerant laborers are seeking employment in more affluent areas, usually moving from rural areas to urban centers, but often from agriculturally less developed to more developed regions.

An example of the former is in China while the latter includes migrant farm laborers from Latin America entering the U.S. Due to this loss of able-bodied workers from these rural and less developed areas there is an increasing demand for children as replacement workers in the fields and in small-scale rural manufacturing.

A second area of growing concern is the human trafficking of children for labor as well as sexual exploitation purposes. The UN and International Organization of Migration estimate roughly four million persons are smuggled or trafficked each year, many of these are children. Trafficking involves both developed and developing nations, either as source, transit, or destination countries. The U.S. Government estimates that 50,000 persons are trafficked into the U.S., and forced into farm labor, the sex industry, domestic servitude or garment sweatshops. In many developing countries, trafficking victims, including children, are trafficked to provide cheap labor, often as agricultural harvesters.

Chile FTA

Issue: On November 29, 2000 President Clinton and President Ricardo Lagos in separate statements announced their agreement to initiate immediately the negotiations for a U.S.- Chile Free Trade Agreement (FTA). Both sides agreed to pursue the negotiations on a high-priority basis, but no deadline for concluding the negotiations was set. Ambassador Barshefsky and Foreign Minister Soledad met on December 6th, following which organizational details for the negotiations were established by technical teams from both countries. It was agreed that the actual negotiations would begin at meetings to be held in Chile during the week of January 8-12. The inter-agency process has begun to develop U.S. positions for the Chile negotiations, drawing from our positions tabled in the Free Trade Area of the Americas (FTAA), the Jordan-U.S. FTA, and the NAFTA.

Lead agency and senior-level lead career official: USTR, Peter Allgeier, Associate USTR for Western Hemisphere, 202 395-6135

Other interested agencies and senior-level lead career official: Regina Vargo, Commerce Department, 202 482-5324; Bryan Samuel, State Department, 202 647-5991; and, Dan Lucich, Treasury Department, 202 622-2979.

Status: In December 1994 the United States, Canada and Mexico announced their intention to negotiate Chile's accession to NAFTA. Several negotiating rounds were held in 1995. However, the Chileans withdrew from the negotiations due to concerns at that time about the absence of fast track negotiating authority. They subsequently negotiated a bilateral FTA with Canada (they already had a bilateral agreement with Mexico). In 1998, President Clinton initiated the US Chile Joint Commission on Trade and Investment, which led to increasingly ambitious work programs in areas including services, government procurement, investment, environment, business visas, norms and standards, labor, and civil society. The annual meeting of the full Commission was held on October 23-24, 2000 in Washington.

Overall, Chile is a good candidate for a FTA agreement, as it has one of the most open trade regimes in the world. There is a great deal of commonality in U.S. and Chilean positions in the negotiation of the Free Trade Area of the Americas and at the World Trade Organization. This would indicate that the negotiations should proceed relatively smoothly. However, there certainly will be areas of difficult negotiation, including agriculture, services and trade remedy laws—on both sides. Chile included labor and environment in its proposal for the initial list of issues to be addressed in the negotiations.

The full list of initial issues to be addressed in the negotiations includes: tariffs and non-tariff barriers (industrial and agricultural goods); customs procedures; rules of origin; trade remedies; sanitary and phytosanitary measures; technical norms and standards; investment; services; temporary entry of business persons; e-commerce; intellectual property rights; competition policy; government procurement; transparency; dispute settlement; labor; and environment.

USTR has published a Federal Register notice requesting public comment from all stake holders. The public comment period concludes in late January, 2001. A USTR led delegation traveled to

Santiago the week of January 8. No proposed text was provided by the delegation; it's aim was purely to listen to presentations by the Chileans on their conception of what the agreement should look like.

Trade Statistics:

Chile was the 34th largest trading partner of the United States in 1999 (combined import and export value). U.S.-Chile trade was nearly in balance in 1999, with the U.S. registering a surplus of \$57.1 million. U.S. imports from Chile totaled \$2.823 billion, with U.S. exports to Chile valued at \$2.880 billion. January-September 2000 statistics indicate that both imports and exports have expanded by about 15 percent this year. In 1999 the leading U.S. imports from Chile were grapes and other fresh fruits (\$525 million); wood products (\$419million); copper (\$535 million); fish (\$356million); precious metals (\$129 million) and wine (\$118 million). Chile's leading imports from the U.S. market were heavy machinery and computer equipment (\$894 million); electrical equipment (audio-visual, power generation, telecommunications) (\$554 million); motor vehicles and parts (\$149 million); medical and optical products (\$169 million); and aircraft products (\$135 million).

Drafted: Sue Cronin 5-5190

UN Climate Change Negotiations

Issue: In 1991-92, the United States helped shape the UN Framework Convention on Climate Change (UNFCCC) and, in October 1992, became the first industrialized country to ratify the Convention. Subsequently, the United States led international efforts that culminated in the adoption of the Kyoto Protocol in 1997. At the recent Conference of Parties to the UNFCCC in The Hague last November (COP-6), countries were unable to reach agreement on the Kyoto rules. The negotiations are expected to resume in late spring or early summer.

Lead agency and senior-level lead career officials: State Department, Ambassador Mark Hambley, Special Representative to CSD, 202 647-3489; Daniel Bodansky, Climate Change Coordinator, 202 647-4295

Other interested agencies and senior-level lead career officials: EPA John Beale, Deputy Assistant Administrator for Air and Radiation 202 564-1176, Paul Stolpman, Director, Office of Atmospheric Programs, Office of Air and Radiation 202 564-9140; Department of Energy Margot Anderson, Deputy Director Office of Policy 202 586-2589; USDA Bill Hohenstein, Global Change Program Officer 202 720-6698

Status: Under the UNFCCC, industrialized countries pledged to return their greenhouse emissions to 1990 levels by the year 2000. By 1995, it had become clear that almost no industrialized countries would meet this pledge. At the First Conference of the Parties to the UNFCCC (COP-1), parties acknowledged that the existing UNFCCC commitments were inadequate, and agreed to negotiate legally-binding emission targets for industrialized countries for the post-2000 period (the "Berlin Mandate").

The Berlin Mandate negotiations concluded in 1997 with the adoption of the Kyoto Protocol. The Protocol would require industrialized countries to reduce their emissions of carbon dioxide and other gases that contribute to global warming by about 5% (compared to 1990 levels) during a five-year commitment period running from 2008 to 2012. Specifically, Kyoto would require emissions reductions of 7% for the U.S., 8% for EU member states, and 6% for Japan. In contrast, Russia's target is well-above its expected emissions levels during the 2008-2012 commitment period, thus creating the possibility of Russia trading its surplus units (referred to as "hot air") to other industrialized countries such as the United States. Despite strenuous efforts by the United States in both Berlin and Kyoto to persuade developing countries to accept emission limitation targets, the Kyoto Protocol targets apply only to industrialized countries. To date, most developing countries have been so hostile to the idea of binding targets that they are unwilling even to discuss it.

Although the Kyoto Protocol did not achieve all of the U.S. negotiating objectives (most importantly, regarding developing countries targets), the Protocol in many

reflects a U.S. approach to the climate change problem. In particular, the Protocol:

- adopts a market-oriented approach (for example, by allowing international emissions trading), rather than forcing countries to adopt any particular policies and measures
- allows countries to receive credit for carbon taken out of the air by forests (and possibly farmlands), so-called "carbon sinks."

Thus far, no industrialized country has ratified the Protocol. In order to enter into force, the Protocol requires ratification by 55 states, constituting 55% of industrialized country CO₂ emissions in 1990.

For the past two years Kyoto, countries have been engaged in negotiations on the detailed rules for how the Protocol will work, pursuant to the Buenos Aires Plan of Action. This has been an enormously complex task, in part because of the novelty of market mechanisms such as emissions trading and in part because of fundamental differences in perspectives between the United States and both the European Union and developing countries. The European Union has tended to support rules that would require countries to make the bulk of their emission reductions at home, rather than be able to rely on the market mechanisms. They have also proposed a variety of rules that would limit the ways countries could meet their targets, for example, by drastically limiting credits from carbon sinks and by not permitting credits for emission reductions in developing countries resulting from nuclear power or forest protection. Although developing countries have articulated a wide variety of views, many of the most influential (including China and India) advocate positions that would significantly encumber the market mechanisms and make them potentially unworkable. In pushing for our positions on a wide variety of issues, we have worked closely with our "Umbrella Group" partners, including Japan, Australia, Canada and Russia.

At the recent Conference of Parties to the UNFCCC in The Hague last November (COP-6), countries were unable to reach agreement on the Kyoto rules. At the last minute, the European Union scotched a potential deal with the Umbrella Group, largely over the issue of carbon sinks. The negotiations are expected to resume in late spring or early summer. The EU, in particular, is eager to complete work on the Kyoto rules, in order to allow ratification and entry into force of the Protocol in 2002.

Domestic Views

In 1998, the Clinton Administration signed the Protocol, although it has not submitted the Protocol to the Senate for advice and consent to ratification. In 1997, just before the Kyoto conference, the Senate unanimously adopted the Byrd-Hagel resolution, which expressed opposition to any climate change treaty that does not include emissions reduction commitments by developing countries or that would

cause serious harm to the U.S. economy. Some Senators have strongly criticized the Protocol on the grounds that it does not satisfy the Byrd-Hagel requirements. Reactions by the business community have been mixed, although recently there has been a shift away from pure opposition towards efforts to make the Kyoto rules market-friendly. Environmental groups strongly support the Protocol. However, many advocate positions on the market-mechanisms and carbon sinks that are closer to the EU than to the United States.

The Heavily Indebted Poor Countries Initiative

Issue: The Heavily Indebted Poor Countries (HIPC) initiative was launched in 1996 to provide more comprehensive debt relief for poor countries undertaking economic reforms. While near-term financing is taken care of, there is a medium-to-long term financial gap that will need to be closed as developed countries reach their decision points on how and how much to fund the initiative.

Lead agency and senior-level lead career officials: Treasury Department, William Schuerch, Deputy Assistant Secretary, 202 622-0154, Clay Lowery, 202 622-3864

Other interested agencies and senior-level lead career officials: State Department, Anthony Wayne, Assistant Secretary for Economics and Business, 202 647-7971, Janice Bay, Deputy Assistant Secretary 202 647-9496 and Paul Reid, Office Director 202 647-5935.

Status: The Heavily Indebted Poor Countries (HIPC) initiative was launched in 1996 to provide more comprehensive debt relief for poor countries undertaking economic reforms. This initiative, for the first time, provided debt relief on obligations to the international financial institutions (IMF, World Bank, and regional development banks). In 1999, under U.S. leadership, the international community agreed to a major enhancement of the HIPC debt initiative to provide faster, broader, and deeper debt relief. The enhanced HIPC initiative designed a stronger link between debt relief and poverty reduction: benefiting countries are expected to develop Poverty Reduction Strategies with broad participation by civil society so that freed-up resources are invested in areas that promote broad-based growth and poverty reduction. Debt relief begins on a flow basis ("interim relief") at the Decision Point and the stock is forgiven at the Completion Point, which occurs after a period of performance. Out of an expected 32 countries, 22 countries reached a Decision Point and started receiving debt relief.

The U.S. financial share of the initiative is \$920 million (3% of the total) over four years. To date, Congress has appropriated \$545 million for HIPC. The U.S. forgives its bilateral debt in the Paris Club. The HIPC initiative increased the amount of Paris Club debt reduction from 67% to 90% or more, if needed. The U.S. is forgiving 100% of the debt owed by the HIPC's.

There are two major issues currently presented by the HIPC initiative, implementation and financing. The U.S. has emphasized that a desire to provide debt relief quickly should not trump the need to ensure that debt relief is provided in a sound framework where the beneficiary has demonstrated a strong commitment to economic reform and poverty reduction. The US has sometimes been at odds with other members of the G7, in particular the UK, that want to see debt relief as rapidly as possible, even if it is at the expense of making sure the debt relief is used effectively. Financing for the HIPC initiative is quite complicated. The bottom line is that near-term financing is taken care of but there remains a medium-to-long term financial gap that will need to be closed as countries reach their decision points.

HIPC is a key issue in the G7 context and the implementation and financing of the initiative will be topics for the G7 meetings in February, the April World Bank/IMF meetings, and most likely, the G7 Summit in Genoa. As per legislation, the U.S. will need to work out agreements to

allocate its \$360 million share for the HIPC Trust Fund (a World Bank fund that helps regional development banks cover the costs of debt relief) to Latin America (\$200 million) for the Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI) and Africa (\$160 million) to the African Development Bank (AFDB/F).

There are a variety of notification/reporting requirements associated with the HIPC legislation that the Administration is required to fulfill. Defending the program and explaining how countries are using the debt relief will be vital in the budget process since the current plan is to seek \$240 million in FY2002 to fulfill our overall pledge of \$600 million to the HIPC Trust Fund. In the next six months, Treasury will be drafting a report on debt reduction in FY2000. Treasury will also be informing the Hill about the allocation of the money within the HIPC Trust Fund. Distribution of these funds is not permitted until the recipient country has verified various issues, including how the HIPC debt savings will be used.

U.S.-Jordan Free Trade Agreement

Issue: The U.S.-Jordan Free Trade Agreement (FTA) provides critical political and economic support for a pivotal regional supporter of U.S. efforts in the Middle East Peace Process (MEPP). On January 6, 2001, President Clinton submitted to the Congress draft implementing legislation for the agreement, which Congress must pass in order to bring the FTA into force.

Lead agency and senior-level lead career official: USTR, Cathy Novelli, Assistant U.S. Trade Representative for Europe and the Mediterranean 202395-4620

Other interested agencies and senior-level lead career official: State Department, Ambassador Ned Walker, Assistant Secretary for Near East Asia, 202-647-7209, Alan Larson, Under Secretary for Economic and Business Affairs, 202-647-7575; Commerce Department, Molly Williamson, Deputy Assistant Secretary for the Middle East and North Africa 202-482-5104; Treasury Department, Maureen Grewe, Director, Office of the Middle East and South Asian Nations 202-622-5504

Status: Signed on October 24, 2000, the U.S.-Jordan FTA provides critical political and economic support for a pivotal regional supporter of U.S. efforts in the MEPP. On January 6, 2001, President Clinton submitted to the Congress draft implementing legislation for the agreement which Congress must pass in order to bring the FTA into force. The legislation addresses three main areas: (1) allowing the President to implement the tariff reductions of the agreement, (2) allowing the U.S. to take measures to raise tariffs if there is injury to U.S. producers due to increased Jordanian exports, and (3) extending to Jordanian citizens the opportunity to gain temporary entry to the U.S. for business purposes under the "Treaty Trader" and "Treaty Investor" provisions of U.S. law.

King Abdullah will continue to weigh-in personally with the Administration and key members of Congress and the business community in support of Congressional approval for the FTA and enactment of the implementing legislation. The King views the FTA as a matter of the highest Jordanian national interest. He sees it as an essential instrument for developing Jordan's economy and demonstrating to the Jordanian people the practical benefits of the Middle East Peace Process, two key points in terms of the popular legitimacy of his government. Other countries in the Middle East are closely watching progress in passing and implementing the FTA as a measure of the U.S.' ability to support its regional allies. Israel supports the FTA.

The Jordan FTA achieves significant and extensive liberalization across a wide spectrum of trade issues. It will eliminate all tariffs on industrial goods and farm products within 10 years. (An exception was made for tobacco and tobacco products where U.S. law precludes USTR from negotiating duty reductions. Duties do not go to zero on distilled spirits in deference to Jordan's Islamic culture.) The agreement will also eliminate commercial barriers to bilateral trade in services originating in the United States and Jordan. The FTA's IPR provisions build on the strong intellectual property rights commitments Jordan made in acceding to the WTO and include Jordanian adherence to new WIPO treaties on copyright protection in the internet. The International Intellectual Property Alliance and Pharmaceutical Manufacturers Association strongly support the agreement's intellectual property rights (IPR) provisions. The Rules of

Origin commitments are the same as those used in the Israel FTA. Other provisions include balance of payments provisions, as well as safeguards and procedural matters such as consultations and dispute settlement. Because the United States already has a Bilateral Investment Treaty with Jordan, the FTA does not include an investment chapter.

The FTA also includes, for the first time ever in the text of a trade agreement, a set of substantive provisions on electronic commerce. Both countries agreed to seek to avoid imposing customs duties on electronic transmissions, imposing unnecessary barriers to market access for digitized products, and impeding the ability to deliver services through electronic means. These provisions also tie in with commitments in the services area that taken together, aim at encouraging investment in new technologies and stimulating the innovative uses of networks to deliver products and services.

The agreement also contains provisions that address the narrow intersection between trade and labor and trade and the environment. In these areas, each country stated in principle that it is inappropriate to lower standards to encourage trade and committed to enforcing its own laws. The agreement explicitly recognizes the right of each party to establish its own standards in the areas of labor and environment. On a parallel track with the agreement is a separate package of technical assistance aimed at assisting Jordan in better implementing its own environmental objectives.

OECD Bribery Convention and Multilateral Efforts Against Corruption

Issue: Corrupt business practices and governance issues are no longer only American concerns. The international battle against bribery and corruption has entered an operational phase, with a proliferation of formal and declaratory anti-corruption instruments. However, despite some recent enforcement actions against high-level political corruption in a number of countries, enforcement efforts by signatories of such anti-corruption instruments are rare.

Lead agency and senior-level lead career official: State Department Thomas L. Delare, Deputy Director Office of Investment Affairs, 202 736-4365.

Other interested agencies and senior-level lead career official: Justice Peter Clark, Deputy Chief Fraud Section 202 514-0248; Commerce Eleanor Lewis, Chief Counsel for International Commerce, 202 482-0937; Treasury Gay Sills, Director, International Investment Affairs 202 622-9066; SEC Stanley Macel 202 942-7046; CIA Wes Wykoff, Senior Analyst, 703 874-7296.

Status: At present, the OECD Bribery Convention is the most advanced instrument in the international anti-corruption arsenal. It entered into force in February 1999 and covers all G-7 states and most other industrial states representing well over two-thirds of global trade turnover. Unlike a number of regional agreements, it has a global reach, with parties on five continents. It is in an advanced state of implementation, with 25 of 34 signatory states having passed implementing legislation. Implementation and enforcement are subject to a rigorous peer review, with 21 states already examined as to adequacy of implementation. The major limitation of the Convention is its narrow substantive reach, as it covers only the "supply" of bribes for the purpose of obtaining or retaining business.

The USG was the principal country behind negotiation of the convention and now takes a leading role in regular activities of the OECD Bribery Working Group (meeting in Paris every 8-12 weeks). The U.S. head of delegation also serves as chairman of the OECD Bribery Working Group's Committee on Accession and Outreach. He also chairs a USG review committee, with a membership that substantially overlaps that of the delegation to the Bribery Working Group, which evaluates multi-source information on current bribery activities by foreign firms and refers suitable cases for diplomatic or legal action.

The work of the OECD Bribery Working Group is presently focused on completion of country examinations of implementing states. It is expected that the total number of reviewed states will reach 25 by April 2001. To date, nine states have been found deficient. Japan and the U.K. have the most serious flaws, flaws that cause USG and US industry to worry that they provide little or no deterrence against improper conduct.

The U.S. continues to strongly encourage all nine to take remedial action as soon as possible. Unfortunately, in contrast to other deficient states, Japan and the U.K. have indicated an unwillingness or inability to proceed with corrective action at the present time. The Working Group in December completed procedures and a questionnaire for

enforcement reviews of parties to the Convention. A cycle of enforcement examinations will commence this Spring with a review of a Scandinavian state, probably Finland, to be followed by the U.S.

Early in 2001, the Working Group will return to efforts to expand the scope of the convention, particularly to seek means to cover the bribery of political candidates and parties -- a long-standing concern of the U.S. Finally, the February session of the Working Group will debate the possible accession of a new state -- Slovenia -- to the Convention. Slovenia would be the first new signatory since the convention came into force. Slovenia is by far the best prepared of approximately 15 states that have indicated interest in accession and it has generated attention as a possible exemplar for other FRY and Balkan states. However, it is unclear whether Slovenia will be admitted, as its minor economic weight has been cited as a detriment by some member states.

Other major and relevant anti-corruption efforts include the Inter-American Convention against Corruption, the Criminal Law Convention of the Council of Europe and the prospective UN Convention against Corruption. The OAS instrument entered into force in March 1997. The U.S. recently became a party to this convention, a broad agreement covering the demand and supply of bribes, as well as other forms of corruption. Monitoring is currently being discussed by the signatories. The Department of State, through its Bureaus for Western Hemisphere Affairs and International Narcotics and Law Enforcement Affairs, has the USG lead on this instrument.

The Criminal Law Convention of the COE was opened for signature in January 1999, but has not yet entered into force. In August 2000, the U.S. agreed to begin procedures culminating in accession to the Convention in the very near future. The Convention covers both the supply and demand of any kind of bribe to any person, public or private, for any purpose.

The UN Convention against Corruption was authorized by the UN Vienna Declaration of April 2000. Although some preparatory work has begun, it is unclear whether the Secretary General will be able to submit a work project by the scheduled due date of April 2001. The USG has expressed general support for the concept, but there is no interagency consensus to date as to details of such a Convention. Recent contacts with private sector representatives evidenced concerns, inter alia, about resource diversion from other anti-corruption efforts, the possibility of a low standard product, and doubtful implementation.

INTERNATIONAL ECONOMIC POLICY

I. Overview of Area

A. Opening Global Markets

Efforts to open foreign markets to U.S exports and expand prosperity through free trade have contributed to the longest economic expansion in our history. Our economy grew from \$7 trillion to \$9.2 trillion in real terms between 1993 and 1999, while domestic employment rose from 119 million in 1993 to 135 million in January of 2000 and unemployment fell to 4.0 percent. The Administration negotiated more than 300 trade agreements that continue to create opportunity for Americans, including NAFTA, which cemented our strategic trading relationship with our immediate neighbors; the China PNTR agreement, which will allow unprecedented access for American businesses to Chinese markets; the Uruguay Round, which created the World Trade Organization with a binding dispute settlement mechanism and extended its rules to new areas such as agriculture, services and intellectual property; and the three multilateral agreements of 1997 on information technology, financial services, and basic telecommunications.

Other notable accomplishments in this vein include the African Growth and Opportunity Act (AGOA) and the U.S. Caribbean Basin Trade Partnership Act (CBTPA), which were signed into law by President Clinton on May 18, 2000. AGOA supports increased trade and investment between the United States and Africa to strengthen African economies and democratic governments. It does so by expanding duty-free treatment under the Generalized System of Preferences (GSP) program to virtually all products exported to the United States from sub-Saharan Africa. The Act also builds partnerships to counter terrorism, crime, environmental degradation, and disease. Similarly, the CBTPA expands the Caribbean Basin Initiative trade preferences enacted in the 1980s. It will encourage additional U.S. exports and investment in the region, while helping to stimulate investment, economic growth, and employment in Central America and the Caribbean.

The Administration has raised the profile of the Asia-Pacific Economic Cooperation Forum (APEC) through its commitment to yearly Leaders' Summits and helped to advance APEC's ambitious commitment to achieve free trade and investment throughout the region by 2020. These and related efforts have facilitated the flow of goods and services within the Asia Pacific region (upwards of \$1.13 trillion in 1999 -- roughly two-thirds of U.S.

CLINTON LIBRARY PHOTOCOPY

trade with the world). Similarly, the G-7/8 has substantially changed over the last eight years. Not only has Russia joined the leading group of industrialized democracies, but the G-8 itself now reflects 21st Century opportunities and risks, with a more robust agenda and expanded scope. It is tackling issues such as global poverty reduction, the digital, health, and education divides, and environmental, crime, narcotics, nuclear proliferation, and terrorism concerns.

B. Strengthening Global Financial Architecture

The Administration strengthened the global financial system to prevent future capital account crises on the scale of the Asian financial crisis. Working with Congress and the G-7, it promoted reform in the International Monetary Fund (IMF) in order to improve transparency and accountability regarding loans to struggling economies. It substantially modernized IMF lending policies to reflect the growing role of private capital markets, focused IMF lending on short-term balance of payments needs, and led the G-7 to adopt initiatives to strengthen the international financial architecture by creating stronger institutions. The Administration also worked to include emerging economies in a global dialogue on financial market issues within the newly created G-20 as well as equip them with tools to better manage risk and share responsibility for crisis resolution. In the process, it acted to contain and head off the currency crises in Asia, Mexico, Brazil, and elsewhere.

In June 1999, the Administration promoted an expansion of the Heavily Indebted Poor Countries (HIPC) Initiative at the G-7 summit in Cologne. The Cologne Debt Initiative is designed to provide deeper and faster multilateral debt reduction for an expanded group of poor countries that develop sound economic policies and commit to use the resulting additional resources to fund additional key social investments. It is estimated that the Initiative will reduce the debts of eligible countries by as much as 70 percent, a tripling of previous debt relief projections. In FY 2000 and 2001, Congress appropriated \$545 million of the \$920 million the President requested over four years for the U.S. share of the bilateral and multilateral costs of the program as well as the authority necessary for the IMF to utilize the investment proceeds from limited off-market gold sales to finance its debt reduction under the Initiative. These efforts complement and reinforce our trade policy goals of opening markets to foreign investment and reducing trade barriers.

II. Challenges and Opportunities

A. New WTO Round

1. Near Term

At their meeting in Seattle last year, WTO ministers failed to reach an agreement to launch a new trade Round amid deep divisions over such contentious issues as agriculture, textiles, and antidumping, and the perception among developing countries that they did not benefit substantially from the Uruguay Round and that richer countries were not lowering their trade barriers in sensitive sectors. Since Seattle, we have taken a practical approach to rebuilding support for the WTO and new Round launch. We have led with ambitious proposals on agriculture and services, the so-called "built-in agenda" of mandated negotiations. Many WTO members improved market access for the least developed countries and we did so through our Africa/CBI legislation that covers most, but not all, LDCs. Some initial steps have improved WTO transparency and we are optimistic of others such as release of panel findings. Further attention has been paid to improving coordination of WTO work with other international economic institutions and addressing developing country technical assistance needs. There has also been progress on issues related to implementing existing WTO obligations. The near-term challenge is to ensure that progress, however moderate, continues until a consensus can be put together for a launch.

2. Long Term

The next WTO Ministerial must be held before the end of 2001. In light of the protests in Seattle and at other international meetings, WTO members have discussed whether a launch need necessarily be connected to the Ministerial. While consensus would be required, there are several different methods of calling for consensus that might be explored. Launch tactics aside, the key issue is how best to build consensus on the substantive agenda for negotiations. Most agree that the best way to advance negotiations already underway on services and agriculture is to broaden the agenda. To do so, we will need to build pro-liberalization constituencies domestically, address the different interests of our partners to the South, and work with the complex political timetables we face in the coming year (e.g., German and French elections). In Geneva, progress has been difficult, with Pakistan and India pressing other countries to use the "implementation" debate to slow down a launch. Some are suggesting that we pursue an incremental approach by which

we obtain consensus to add items such as non-agricultural market access to the built in agenda negotiations while leaving the more contentious issues to be added as momentum picks up. This approach has the benefit of not ruling out issues, while providing members the space they may need to build support for a more robust negotiating agenda over time in part through confidence building measures aimed at reluctant developing countries.

B. Negotiating New Trade Agreements and Expanding the Scope of Existing Ones

1. Near Term

The United States recently concluded an agreement to create a Free Trade Area with Jordan and began negotiations on two other Free Trade Areas with Singapore and Chile. Approval from the Congress will be necessary to implement the Jordan agreement, which is intended to be the model for the Singapore and Chile negotiations with respect to the treatment of labor and environmental issues. The Singapore and Chile deals are anticipated to be more far reaching than the Jordan agreement in other areas (e.g., dispute settlement, investment, rule of origin) in light of the more extensive nature of the economic relationship involved. Services will be an important priority in the Singapore negotiation, given the importance of this sector in our bilateral economic relationship, and agriculture (fruits, vegetables, wine) and perhaps anti-dumping may be sensitive issues in the negotiation with Chile. Both negotiations will likely require significant effort over the next six months. The challenge will be to negotiate agreements that have bipartisan appeal in Congress while moving the Free Trade Area of the Americas (FTAA) and APEC market opening initiatives forward.

2. Long Term

Since December 1994, the Clinton Administration has played an essential role in the development of the FTAA. The thirty-four democratically elected hemispheric leaders who attended the first Summit of the Americas meeting in Miami in December 1994 agreed to pursue negotiations for the Free Trade Area of the Americas initiative. They agreed to conclude negotiations encompassing nearly 800 million people in our hemisphere no later than 2005. We are well on our way to making the vision a reality. By the time of the next Summit of the Americas meeting, scheduled for April 2001, we expect to have a bracketed text for the chapters currently being developed by the nine negotiating groups. Our expectation for the April meeting is

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that Leaders will instruct negotiators to begin removing brackets. In addition, we join many in the hemisphere -- with the notable exception of Brazil -- in the hope that Leaders can also agree to accelerate the FTAA timetable, establishing a goal to conclude by 2003. Bringing this effort to a successful conclusion will be a critical longer-term goal for the next Administration.

C. Strengthening Global Financial Architecture

1. Near Term

Although the global financial architecture is much improved, further efforts are required to avoid future crises. Over the next six months, the new Administration will likely be confronted with countries that face serious challenges. Both Turkey and Argentina are in the midst of serious financial difficulties requiring the assistance of International Financial Institutions. These and other countries will demand the immediate attention of the next Administration. In addition, appropriations will be necessary to complete U.S. participation in the financing of the Cologne Debt Initiative, an estimated \$375 million over the next two fiscal years. Moreover, there is great international interest in qualifying as many countries as possible for expanded debt relief; however, this imperative will need to be reconciled with the need to ensure that the countries have sufficiently sound economic reform and poverty reduction strategies in place to maximize the effectiveness of the reduction in debt service.

2. Long Term

The International Financial Institutions will need to be monitored to make sure they continue to move toward greater reliance on market mechanisms, and continue to push such critical reforms as an even greater emphasis on transparency and accountability. It will also make sense to continue to encourage countries with pegged or fixed exchange rates to move toward floating exchange rates so that financial pressures can be vented naturally and without painful dislocations. With more and more countries choosing to adopt the U.S. dollar as their own currency, it will be necessary to rethink the U.S. stance toward such requests. Such actions have implications for American foreign policy, monetary policy, banking supervision, etc. Our traditional "no accommodation policy" may need to be revised.

D. Managing Bilateral Trade Disputes

A number of important trade disputes with the EU are pending. The primary disputes include pending or threatened WTO proceedings on bananas, beef, U.S. tax provisions relating to foreign sales corporations, and U.S. legislation mandating "carousel" retaliation. We are making progress on bananas, but are currently stalled on beef. The status of either or both could change in the near future. If we fail to make substantial progress on beef and bananas in the near term, and are forced to invoke carousel retaliation, the EU has threatened to move for immediate retaliation on over \$4 billion in allegedly improper FSC subsidies. Assuming that these disputes are not resolved at the December 18 U.S.-EU summit, they will demand immediate high-level attention from the next Administration in light of their potential to erupt into retaliation and counter-retaliation. Similarly, trade in agricultural biotechnology products with the EU remains a serious issue. Our corn growers are losing up to \$200 million per year in exports because the EU has refused to approve seven U.S.-approved corn varieties that are co-mingled with the sole EU-approved variety. The EU's regulatory process is paralyzed; not a single biotech product has been approved since 1998.

European governments have provided massive support for the Airbus aircraft to the detriment of the U.S. industry that have enabled Airbus to capture over 50 percent of the world market for large civil aircraft in 1999. Additionally, Airbus was a major factor in McDonnell Douglas exiting the civil aircraft industry. Airbus' parent governments have announced their intent to offer "repayable loans" for the development of the A3XX, superjumbo aircraft to be launched in 2001. Although the terms have not been made public, we believe they constitute subsidies under the WTO subsidies agreement. The EU has not been willing to accommodate our request to make loans at commercial terms. Boeing has explored the possibility of initiating a subsidies dispute in the WTO but has not reached a decision. The Boeing engineers' union is considering filing an antidumping complaint. The EU has continued its support for the A3XX and keeps open the possibility of including U.S. aircraft on its potential FSC retaliation list. It also has discussed responding with its own case against alleged U.S. indirect subsidies allegedly through Defense Department procurement and NASA research.

Another near-term trade dispute involves the U.S.-Japan trade in autos and auto parts. In 1995, the United States and Japan signed an agreement "to achieve significantly expanded sales opportunities to result in significant purchases of foreign parts by Japanese firms in Japan and through their transplants" and resolve market access problems. The agreement expires on

December 31, 2000. The U.S. parts industry, backed by labor, wants the United States Government to negotiate a tough new agreement; the Japanese have said that no new agreement is necessary.

Also on the immediate horizon is the long-standing U.S.-Canadian dispute over Canadian lumber exports to the United States. Current Canadian imports represent over one third of U.S. softwood lumber consumption. In 1996, the United States and Canada negotiated a 5-year agreement that set a tariff-rate quota on imports above 14.7 billion board feet annually. The agreement expires on March 31, 2001. United States lumber producers and some environmentalists argue that Canada subsidizes its exports, and they want to see a follow-on agreement that continues to limit Canadian imports. United States consumer groups want the agreement to expire. United States producers have indicated that if the agreement expires, they will submit a countervailing duty petition. Over the next six months, the new Administration will need to decide a course of action, keeping in mind the agreement's expiry comes just weeks before the April "Summit of the Americas" meeting in Quebec, which the next President would likely attend.

E. Multilateral Economic Fora

APEC. Skepticism about APEC is pervasive, hence the key task is to ensure continuity of the forum and top level U.S. participation by the next Administration including continuation of the yearly Leaders' Meetings. The best way to achieve this is for APEC to take concrete policy steps toward the Bogor regional free trade targets of regional free trade for developed economies by 2010, and by 2020 for developing economies. We should take advantage of China's desire for its Chairmanship to generate a substantial outcome and use that as leverage to have it deliver meaningful commitments from its neighbors. Our goal is to preserve APEC as the primary regional economic forum and to prevent its eclipse by an ASEAN +3 forum. Over the next six months, substantial groundwork for the next APEC leaders summit (scheduled for October 20-21 in Shanghai) must be laid through Senior Officials Meetings (SOMs) held in February and May. The long-term challenge will be to restore confidence that concrete progress will be made toward the ambitious Bogor targets.

G-7/8. The Clinton Administration presided over a transformation of the G-7/8. Once narrowly focused on macroeconomic coordination, the G-7/8 now addresses a broader set of challenges including development, transnational threats, and efforts to provide leadership for new multilateral arrangements such as the Kyoto Protocol. Russia is now

established as a member of the group of industrialized democracies, an event that would have been unimaginable eight years ago. Finally, the European half of the G-7/8 has taken historic steps toward the establishment of a common currency and a common defense policy. In the near term, the G-7/8, with U.S. leadership, must continue to focus on a dizzying array of issues that if mismanaged would be detrimental to a large segment of the world's population (e.g., universal education, infectious diseases such as AIDS, Chernobyl nuclear reactor shutdown, the enhanced HIPC debt reduction initiative, biotechnology, the global digital divide, oil prices, and many others). In the long term, an important challenge will be how to deal with Russia's desire to dispense with G-7 meetings, that even now are held on the margins of the G-8 in relative secrecy. Other challenges include the completion of financing arrangements as well as safe construction of Ukraine's R4/K2 nuclear reactors, Russian plutonium disposition and nuclear safety issues, control over conflict diamonds in African conflict countries, reform of the international financial architecture and debt reduction for least developed countries with appropriate plans to use freed up funds for education, disease reduction, and other social goods.

The Internet provides another critical opportunity to expand the global economy. At the Okinawa Summit, G-7/8 leaders agreed to launch the Digital Opportunity Task Force or "dot force." The dot force is charged with developing a strategy for helping to close the global digital divide between developed and developing countries, and issuing a report in time for consideration by the G-7/8 leaders in Genoa. The expectation is that the G-7/8 leaders will respond substantively to the report, which could have some budgetary implications for the FY2002 USAID budget. The issues that are being considered include (a) creating the right policy and regulatory framework that will allow IT to flourish in developing countries; (b) expanding the IT workforce in developing countries; (c) supporting applications of IT that will foster development, such as e-commerce for small businesses, telemedicine, and distance learning.