



EMERGENCY COMMITTEE FOR AMERICAN TRADE

Presentation of Calman Cohen, President, Emergency Committee for American Trade on Trade-Preference Reform

before the Washington International Trade Association

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I appreciate the opportunity to be here today on behalf of the Emergency Committee for American Trade – ECAT – an association of the chief executives of leading U.S. business enterprises with global operations. ECAT was founded over four decades ago to promote economic growth through expansionary trade and investment policies. Today, ECAT’s members represent all the principal sectors of the U.S. economy – agriculture, finance, high technology, manufacturing, merchandising, processing, publishing and services. The combined exports of ECAT companies run into the tens of billions of dollars. The jobs they provide for American men and women – including the jobs accounted for by suppliers, dealers, and subcontractors – are located in every state and cover skills of all levels. Today, the annual sales of ECAT companies exceed \$2.7 trillion, and the companies employ more than 6.4 million people.

ECAT and ECAT companies are strong supporters of trade and investment liberalization to support economic growth both here at home and throughout the world. Since its inception in 1967, ECAT has been a strong supporter of the U.S. trade-preference programs. We support these programs for many reasons:

- Trade preferences spur economic growth and opportunity in the developing world to alleviate poverty and diversify developing-country economies. These countries increasingly become better partners and customers.
- Trade preferences also support the competitiveness of U.S. industry, by providing duty-free access to key inputs through global supply chains.
- Trade preferences, through their eligibility criteria, foster the rule of law, and important economic reforms that foster economic development.
- Trade preferences reduce prices for U.S. consumers and working families.
- Trade preferences also advance broader U.S. interests in promoting stability and alliances throughout the developing world.

Since the first major U.S. preference program – the Generalized System of Preferences (GSP) – was established in 1974, we’ve seen a number of changes. Some are directly related to the trade-preference programs and some are much broader:

- First, there has been a plethora of new programs, including preference programs for the Caribbean, the Andean region, sub-Saharan Africa and most recently Haiti.
- Second, the rules of these programs have gotten more complex. While the product categories receiving duty-free treatment have grown, so too has the complexity of the rules of origin, transshipment monitoring and other eligibility criteria. And the different programs have different rules.

- Third, the programs no longer have the long duration that first characterized GSP, which was originally authorized for 10 years. Short extensions are the rule, not the exception.
- Fourth, several beneficiaries of these programs have now graduated to reciprocal free-trade agreement partners, where they continue to receive duty-free access to the U.S. market but also provide substantial access to their own markets for U.S. farm and manufactured goods and services. The product coverage and rules of origin for those countries were negotiated as part of the agreement and would not benefit from expanded preference-product coverage, unless it were provided legislatively.
- Fifth, the Doha Development Agenda negotiations have languished in no small part as a result of the lack of ambitious undertakings by major advanced developing countries.
- Sixth, China has emerged as the world's third-largest economy and the world's second-largest goods exporter.
- Seventh, some trade-preference beneficiary countries are moving backwards, not forward, with regard to basic respect for the rule of law.

Against this backdrop, we have important calls to spur great economic opportunity in the developing world that is particularly hard-hit by the current economic crisis. In December 2007, the HELP Commission issued its report, *Beyond Assistance*, proposing reforms to the foreign-assistance programs to spur greater growth and development throughout the world. Noting that many of the most reform-oriented countries pay more in tariffs than they receive in development assistance, the HELP Commission recommended better alignment of U.S. trade and development policies. In particular, the HELP Commission recommended authorizing duty-free treatment for countries eligible for Millennium Challenge Corporation support and for countries with a GDP of less than \$2,000. *Beyond Assistance*, HELP Commission Report on Foreign Assistance Reform (December 2007).

ECAT has been participating actively in ongoing discussions on the reform of the trade preference programs both within its own membership, with others in the business, development, labor, environmental and human-rights communities and with Administration officials and Congressional offices. A lot of hard thinking has gone into these discussions from many different perspectives. From these discussions, I would make the following observations:

Observation 1: Promoting economic development, poverty reduction and meaningful economic opportunities must remain the primary focus of U.S. trade preference programs.

From this basic principle flow many concrete conclusions. First, our trade-preference programs must generally be extended for a long-enough time period to create the type of predictable environment that will support investment and productive activity for those countries that meet the basic eligibility criteria. At the same time, there is not the same rationale for long-term extensions – if there are any extensions at all – for countries, such as Ecuador and Bolivia, that are moving backwards, not forwards in basic rule-of-law areas. The Administration must have the flexibility to make the right choices so that the programs can operate effectively.

Second, focusing on economic development also means expanding the scope of covered products to include those that can actually be exported by least developed and developing countries. As GAO and others have documented, a very major percentage of many developing countries' imports into the United States remain dutiable despite the preference programs (either because products are excluded or subject to caps). While these products include the oft-discussed textile and apparel products, they also

include certain agricultural products such as sugar and cocoa, which continue to face major barriers in the U.S. market. We need to do a better job of making these programs actually work for developing countries by expanding the products receiving duty-free treatment. This is particularly the case for the least-developed countries.

Third, focusing on economic development also means we need to streamline, simplify and make the rules more consistent across these programs. This includes laying out a more uniform and appropriate structure for Customs and Border Protection (CBP) as it seeks to enforce rules of origin and transshipment. Current CBP actions go well beyond the preference-program requirements, effectively undermining the ability of U.S. companies and developing countries to be able to use these programs. As a result of different rules and overly rigid enforcement process, our companies, importers and manufacturers spend countless time and money and sometime forego using these programs at all. That doesn't help any of us achieve our ultimate goals.

Fourth, this also means tying trade capacity building to our trade-preference programs. Preference programs have not been and cannot ultimately be successful in creating the type of economic progress sought unless countries are able to take advantage of them, be it through infrastructure development, customs administration or other capacity-building activities.

Observation 2: Eligibility criteria are important and so is process.

From the inception of GSP in 1974, eligibility criteria have played an important role. While the United States benefits from its own grant of trade preferences, it rightly seeks to use these preferences to promote more systemic progress in core areas that will enable developing countries to reform and grow. There are extensive eligibility criteria in each of the programs that differ program-to-program, particularly with regard to Haiti.

For ECAT, eligibility criteria are indeed important and have been effective in promoting changes across a wide spectrum of areas, from intellectual property, to trade liberalization and democratic reform and labor rights. The flexibility of the process, while problematic in potentially allowing some issues to languish without resolution, has also been used effectively by the U.S. government to continue to push and ultimately achieve progress on core issues.

As work continues on rethinking eligibility criteria and the process used to enforce these criteria, we need to recognize two core principles:

- **These are developing countries and the eligibility criteria should be tailored to that fact.** Imposing major new criteria, which perhaps a developed country would not meet, is a non-starter. The May 10th trade deal requirements on labor and environment that some are now advocating, are in fact pretty stringent requirements. One only needs to look at the labor law changes made by Peru and being sought in Panama and Colombia to see this fact. While it *may* make sense to seek to include such provisions with new trade-*agreement* partners, is that really the right focus with our developing-country preference partners? Indeed, it is unclear whether we need new criteria given that we have in fact seen important progress made by countries on core eligibility issues, including labor. That said, there is value in moving towards a unified set of eligibility criteria for all programs.

- **Criteria should be enforced, but some flexibility in the process remains important.** The preference-review process remains pretty much of a black box. There is little transparency, and there are no clear rules or deadlines. Greater sunshine and regularization of that process makes sense. At the same time, to be used effectively to advance economic development, rather than just deny benefits, the Administration needs to retain a certain level of flexibility within the process.

Moving beyond eligibility criteria, I will now turn to:

Observation 3: A focus on developing countries cannot be restricted to just the preference-program beneficiaries.

The United States' trade focus on the developing world occurs through multiple mechanisms, not just the preference programs. There is, for example, the work of the U.S. Agency for International Development, the Millennium Challenge Corporation, and the Trade and Development Agency. Their programs need to be leveraged. And there are our trade agreements – now with many developing countries.

As we work to expand opportunity and duty-free access to our market for preference-country beneficiaries, we also need to be mindful that we do not inadvertently disadvantage those developing countries that have entered into reciprocal and comprehensive trade agreements with the United States, such as the CAFTA countries or Peru and hopefully soon Colombia. Already our FTA developing-country partners have been hurt as they graduated to the FTA model versus the preference model as a result of lost flexibility, including on cumulation. It simply makes no sense to disadvantage these FTA countries as they themselves undertake much more substantial market opening and other reforms than do our preference-country partners.

The answer is not, I believe, stopping trade-preference reform, but working together on expanding benefits for developing countries –whether they are trade-agreement partners or eligible preference partners. As to how this can be best accomplished, I do not have the magic bullet. Maybe our trade-preferences reform needs to provide additional benefits to our developing-country FTA partners as part of the final package. Maybe there are other ways to address these issues. We can't just avoid this issue or stop preference reform; we need to work together to help promote poverty reduction and development in all of these countries.

Observation 4: We cannot ignore the interrelationship of trade preferences and trade-preference reform with the Doha Development Agenda negotiations.

As a broad-based organization, one of ECAT's top priorities remains the successful conclusion of an ambitious Doha Development Agenda deal that opens goods and services markets worldwide. There are two preference-related issues that have arisen in the context of these negotiations. One issue relates to concerns that several more advanced developing countries have only a limited incentive to pursue the Doha negotiations aggressively as long as they retain duty-free access to the U.S. and EU markets through trade preference programs. The second issue relates to concerns of some developing countries that a robust Doha package that eliminates tariffs will erode preferences to current preference-country beneficiaries. We are cognizant that there are many issues that have stalled these negotiations, some much deeper and more intractable than these trade-preferences issues. But these are issues which we and our negotiators need to face.

From ECAT's perspective, we recognize and support the graduation provisions for higher-income countries. At the same time, the United States must take care not to prematurely graduate developing countries that are showing some improvement in per-capita income or overall levels of development and are able to make continued effective use of the programs.

This issue applies equally to the issue of whether competitive need waivers should be granted or revoked for products in which the beneficiary developing country has become competitive. While some advocate the revocation of such waivers, it is not really clear that revoking duty-free treatment is the right answer in cases where there is no benefit to another lesser-developing country. Rather revocation hurts developing countries in the areas where they are starting to show important economic growth. The case with jewelry from India, where U.S. imports now come from China, not a lesser-developed country, is a worrisome example of how revocation has been misused.

But we also need to create concrete incentives for strong participation of all developing countries in the Doha process, particularly those advanced developing countries, starting with Brazil and India that are playing such pivotal roles, as well as other beneficiary countries that fear preference erosion. While opening new market opportunities in the United States, EU and other developed countries is important, developing countries continue to pay most tariffs *to each other*. The only way to unlock this problem, and spur greater economic opportunity within the developing world is through multilateral negotiations. Much more work needs to be done on this issue. Cutting countries out of GSP, threatening to do so or revoking competitive need waivers has simply not proven to be effective. Rather, I believe that the answer more likely lies in creating incentives for stronger participation in the Doha Round and market opening by the preference country beneficiaries.

What's Next

From ECAT's perspective, it is important to work seriously and constructively in support of trade-preference renewal in the short-term, as well as trade-preference reform. I would conclude by offering ECAT's views on a few core issues:

First, we strongly support a multi-year renewal of the GSP program to enable it to operate effectively by creating needed predictability, while efforts on trade-preference reform move forward. We do not see the need for automatic graduation of countries such as Brazil and India, but would be interested to consider options to create greater incentives for those countries to participate more aggressively in support of an ambitious Doha round.

Second, we support a one or two-year renewal of the Andean preference program for Colombia and Peru, as we work to see the Colombia trade agreement approved and implemented as soon as possible. Until that happens, both Colombia and Peru should continue to receive preferences. With regard to Ecuador and Bolivia, we have very serious misgivings about any extension whatsoever of the Andean program for these countries. Bolivia's benefits are currently suspended and the Ecuadorian and Bolivian governments' backward steps in providing even the basic rule of law indicate that they no longer meet the basic eligibility criteria.

On preferences reform more broadly, we need to move forward to create a simplified, longer-term program that provides product benefits that are actually usable and relevant to the beneficiary countries, particularly least-developed countries. But we need to keep our focus on economic

development and tailor our trade preferences in a way that works for as many reforming countries as possible. At the same time, we need to ensure that we continue to promote development and not disadvantage our trade-agreement developing-country partners. Finally, we need to create incentives, not barriers, to moving forward on the Doha negotiations that have the potential to promote much greater economic growth for developed and developing countries alike.