

DAILY BULLETIN

SEPTEMBER 23, 2004

U.S. TRADE REPRESENTATIVE LISTS DOHA ROUND AS TOP PRIORITY IN ASIA

Zoellick says agriculture, other issues blocking FTAs with South Korea, Japan 1

G7, CHINA FINANCE MINISTERS TO MEET ON CURRENCY EXCHANGE REGIME

Representatives also to discuss Iraq debt forgiveness, Treasury's Taylor says 3

U.S., SWISS AUTHORITIES TARGET ONLINE PORNOGRAPHERS

10 arrested in latest sweep of Operation Predator ... 4

POLLUTANTS REGULATED UNDER U.S. CLEAN AIR ACT LOWEST IN 30 YEARS

1990 acid rain program a major reason for progress, report says 5

"BIOTECH BUGS" BUGS COULD STOP SPREAD OF DISEASES, SCIENTISTS SAY

Urge clear regulatory system for developing genetically modified insects..... 6

U.S. TRADE REPRESENTATIVE LISTS DOHA ROUND AS TOP PRIORITY IN ASIA

Zoellick says agriculture, other issues blocking FTAs with South Korea, Japan

By Anthony Kujawa
Washington File Staff Writer

Washington -- The United States' first trade priority in Asia is to work with countries on the now "very focused framework" to advance the World Trade Organization (WTO) Doha Round negotiations, according to U.S. Trade Representative (USTR) Robert Zoellick.

Speaking at an September 21 forum examining U.S. economic and trade policy in Asia, Zoellick said success in the Doha Round is dependent on not only the United States and Europe managing to work through differences enough to move forward, but will require more help from Japan. China, South Korea and Southeast Asian countries' participation, is going to be "fundamental," he said.

The USTR stressed the immediate focus of the United States is to work with countries in Asia to make significant progress in four core areas: agriculture, goods, services and trade facilitation.

Launched in 2001, the negotiations, formally called the Doha Development Agenda, collapsed at the September 2003 WTO ministers' meeting in Cancún, Mexico, and stalled for nearly another year as USTR Zoellick and others traveled the globe trying to revive them. In July, the WTO's 147 member governments approved a framework agreement to move the Doha talks forward.

“There is a strategic economic opportunity ... if we could combine what has been some global economic recovery with over the next year or so, the possibility of closing a global round, that could give a real boost to extending the recovery, deepening the recovery, making sure it’s linked to development,” said Zoellick.

In response to a question, the trade representative called Association of Southeast Asian Nations (ASEAN) regional integration an “important development” that can help foster additional trade liberalization.

“Steps that help create additional openness among countries, integration among regions, can be a good and useful thing so long as it is not posed against others,” said Zoellick.

Noting the proliferation of active trade negotiations among Asian countries, such as China-ASEAN agreement, the Japan-South Korea free trade agreement (FTA), and discussions on an East Asia Free Trade Area (EAFTA), which would include China, Japan and Korea, C. Fred Bergsten asked Zoellick if the United States is worried about movement in East Asia toward developing a broad regional free trade agreement that would exclude the United States. Bergsten, a former Treasury Department official and current director of the Institute for International Economics (IIE), interviewed Zoellick at the forum.

“I think the appropriate response of the U.S.[toward this regional integration] is not to say ‘No,’ but to show what we have to offer,” the USTR said.

“Our response to ASEAN doing free trade with itself and others should be to offer similar opportunities going forward,” added Zoellick.

Under WTO rules, an FTA is supposed to be a comprehensive agreement, said Zoellick, adding that the China-ASEAN agreement might exclude over 400 sensitive products.

“When people talk about Free Trade Agreements, and this is true in many regions in the world, the word gets thrown around rather lightly,” he said.

Zoellick explained that some developing-country FTAs are best described as complimentary sectoral arrangements, specific to an industry or product group, rather than a comprehensive FTA.

“For North Asia we do need to have a comprehensive agreement that includes agriculture,” he said.

Observing that the U.S. trade strategy of competitive liberalization appears less active in the Asian region, particularly among larger economies, Bergsten pressed Zoellick to explain why the United States has not pursued a more active strategy of FTAs in the region, particularly with countries such as Japan or South Korea.

“You can’t do a free trade agreement with countries if they aren’t willing to open up,” said Zoellick.

Trade officials have noted South Korea and Japan’s inability to liberalize their agriculture sectors as a major impediment to a possible FTA with the United States.

In an IIE paper presented in Tokyo May 12, Bergsten warned that a comprehensive EAFTA that excluded the United States would cost an estimated \$25 billion annually in lost U.S. exports.

Discussing the benefits of a potential U.S. FTA with a major trading partner in Asia, Bergsten said that for the U.S. Congress, “an FTA with a major trading partner -- especially a large purchaser of agricultural products -- would be far more attractive than the currently planned agreements with Bahrain, the Dominican Republic, or even Thailand.”

On the prospects for a U.S.- South Korea FTA, Zoellick said that stronger leadership from South Korea’s Blue House (the office of the president) would be required to resolve outstanding issues in order to negotiate an FTA. On the issue of standards development in South Korea, the USTR said Korea accepted technology neutrality on broadband and cell phones, but in other areas such as telecommunications policy and intellectual property policy there is an ongoing debate within Korea on the path forward.

Discussing the possibility of an FTA with Japan, Zoellick cautioned that difficulties remain in the regulatory system, on transparency and competition policies. “But again, I wouldn’t preclude any of those as possibilities in the strategy going forward,” he added.

Commenting on the U.S.-China trade relationship, Zoellick said that the American Chamber of Commerce reports that other than the issue of enforcement of intellectual property rights, China’s progress in implementing WTO obligations has been “pretty good.” But he added

much work is required regarding enforcement of IPR, on textile disputes and on China's practice of pegging its currency -- the renminbi, or yuan -- to the U.S. dollar at a fixed rate.

Zoellick also said the issue of China's market economic status will be a key issue going forward. Obtaining market economy status is a high priority for the Chinese government, as under U.S. anti-dumping (AD) law, China is designated a nonmarket economy (NME) and consequently subject to more anti-dumping cases with higher duties on their imports. Under its WTO Accession Agreement, China agreed that WTO members could continue to apply NME methodology in calculating AD duties in Chinese AD cases until 2016.

"How we engage with China on that issue, of Market Economy Status issue, which is something that they are seeking, which we have criteria, would be in some ways what some of the PNTR [Permanent Normal Trade Relations] or WTO accession issues were from the past."

G7, CHINA FINANCE MINISTERS TO MEET ON CURRENCY EXCHANGE REGIME

Representatives also to discuss Iraq debt forgiveness, Treasury's Taylor says

By Andrzej Zwanecki
Washington File Staff Writer

Washington -- High-level financial officials from the seven most industrialized countries will meet for the first time as a group with their Chinese counterparts to discuss reform of China's currency exchange regime and other issues, a U.S. Treasury Department official says.

Even though finance ministers and central bank governors from the Group of Seven (G7) countries have held bilateral meetings with China's finance minister and central bank director, the G7 officials as a group and their Chinese counterparts see a meeting at this level as the best way to move forward on the issue of a flexible exchange rate in China, Under Secretary of the Treasury John Taylor told reporters September 22.

The G7 comprises Canada, Germany, France, Italy, Japan, the United Kingdom and the United States.

The first meeting between G7 and Chinese senior finance officials took place in September 2003 in Dubai.

Asked whether elevating the meeting to the ministerial level is the first step toward inviting China to the G7, Taylor said that the special October 1 session on the sidelines of the G7 regular meeting the same day is a "natural" result of China's growth and increasing influence in the world economy. He said that a next step in G7-China relations will depend on how this meeting goes.

"We have to wait and see what the evolution is of this kind of group," he said.

In September 2003, the G7 finance ministers issued a general call for more flexibility in exchange rates in major countries or economic areas to "promote smooth and widespread adjustments in the international financial system."

Since then, U.S. Treasury Secretary John Snow has repeatedly said that a pegged exchange rate is not appropriate for major economies such as China's and called on the leadership of that country to accelerate its efforts to move to a flexible exchange rate.

China has for almost a decade pegged its currency -- the renminbi, or yuan -- to the U.S. dollar at a fixed rate. Generally considered undervalued, the renminbi has helped China to boost its exports and fueled China's trade surpluses with its major trading partners. China's exchange rate policy has grown into a hot political issue and a major source of concern for U.S. policymakers as the U.S. trade deficit with that country hits record levels.

Taylor said China has moved toward a flexible exchange rate by taking steps such as opening its banking sector to foreign banks and relaxing some controls on capital movement. But he said that the timing of the actual shift to a new exchange rate regime depends on how quickly the country can put all the necessary elements together.

"We are very positive about they are moving to and intend to have a flexible exchange rate," he said.

Taylor said that G7 officials during their regular meeting will discuss structural changes in their respective countries, efforts to forgive or reschedule most of Iraq's external debt and other issues. He said that international talks to forgive that debt are expected to be completed by the end of 2004.

“Everything is on track to fulfill that commitment,” he said.

Taylor said that some countries have already formally committed to eliminate the “vast majority” of Iraq’s debt, which is estimated at about \$120 billion.

President Bush during the June Group of Eight (G8) summit on Sea Island, Georgia, called for reducing Iraq’s debt by 80 to 90 percent. The International Monetary Fund (IMF) has provided Iraq’s creditors with an analysis of Iraq’s debt sustainability, including its economic growth prospects and reconstruction requirements, according to news reports citing a U.S. official.

Taylor also reviewed the agenda of the IMF and World Bank October 2-3 meetings. He said that, before the meetings, Secretary Snow will speak on the strategic review of the two institutions, participate in an October 1 meeting of G8 and Broader Middle East and North Africa finance ministers, and meet with finance ministers from the Andean and some other countries.

The G8 comprises the G7 countries plus Russia.

U.S., SWISS AUTHORITIES TARGET ONLINE PORNOGRAPHERS

10 arrested in latest sweep of Operation Predator

Swiss authorities have arrested 10 suspects in an operation targeting online child pornography, the latest law enforcement action in a multinational investigation involving agencies in at least 11 nations. Eight of the suspects are also suspected of child molestation.

Swiss authorities acted with information provided by U.S. Immigration and Customs Enforcement (ICE), according to a September 21 ICE press release. ICE links these latest arrests with a case that broke in January 2004 when a Belarus-based company was charged with money laundering in connection with the operation of child pornography Web sites.

Since then nearly 900 more arrests have been made in the operation of this child porn network through the cooperation of authorities in Denmark, Finland, France,

Hong Kong, Norway, Scotland, Spain, Sweden, Switzerland, the United Kingdom and the United States.

This investigation is part of Operation Predator, an ICE-led operation to protect children from foreign national pedophiles, human traffickers, international sex tourists and individuals who trade in child porn. ICE has arrested more than 4,000 suspects in the United States alone since the campaign began in July 2003.

Further background on Operation Predator is available at:

<http://www.ice.gov/graphics/news/factsheets/actions070903.htm>

The text of the ICE press release follows.

U.S. Immigration and Customs Enforcement
September 21, 2004

SWISS AUTHORITIES ACT ON ICE LEADS, EXECUTE 400 SEARCH WARRANTS IN MASSIVE CHILD PORNOGRAPHY PROBE

At least 10 individuals arrested; Eight suspected of child molestation

WASHINGTON, D.C. - Acting on information provided by U.S. Immigration and Customs Enforcement (ICE), Swiss authorities have in recent days executed 400 search warrants, examined more than 100,000 photo and video files and arrested at least 10 individuals in a major operation targeting child pornography. Eight of the 10 arrested in Switzerland are also suspected of child molestation.

The Swiss Federal Office of Police, in conjunction with all 26 Cantonal police agencies throughout the country and the Liechtenstein Landespolizei were acting on leads provided by ICE’s Attaché in Bern, Switzerland, as part of a massive investigation under ICE’s Operation Predator. Operation Predator draws on ICE’s unique investigative and enforcement authorities to safeguard children from foreign national pedophiles, human traffickers, international sex tourists, and individuals who trade in child pornography. ICE has arrested more than 4,000 individuals in the U.S. since the program began on July 9, 2003.

The enforcement action in Switzerland grew out of an ongoing probe into an Internet billing company in Minsk,

Belarus. In January 2004, the company was charged with money laundering as well as providing credit card billing services for 50 child pornography websites worldwide and operating child porn websites on its own. Three officers of the company have been arrested in Europe and two officers of an affiliated company in Florida have pleaded guilty.

Having dismantled the leadership of the enterprise, ICE agents in domestic ICE offices and 52 Attaché offices worldwide turned their focus to those who purchased child porn subscriptions from these sites in the U.S. and abroad. Nearly 900 individuals have been arrested worldwide in the investigation. ICE has arrested 140 in the U.S. and foreign law enforcement, acting on ICE leads, have arrested 760 individuals in Denmark, Finland, France, Hong Kong, Norway, Scotland, Spain, Sweden, Switzerland and the United Kingdom.

Members of the public wishing to report suspicious activity may contact ICE at 1-866-DHS-2ICE or Operation.Predator@dhs.gov. ICE's non-governmental partners include World Vision at:

http://www.worldvision.org/worldvision/wvusufso.nsf/stable/globalissues_stp

and the National Center for Missing and Exploited Children at:

<http://www.missingkids.org/>.

POLLUTANTS REGULATED UNDER U.S. CLEAN AIR ACT LOWEST IN 30 YEARS

1990 acid rain program a major reason for progress, report says

Total emissions of the six principal pollutants identified in the U.S. Clean Air Act dropped again in 2003, signaling that America's air is cleaner than it has been in 30 years, according to a September 22 U.S. Environmental Protection Agency (EPA) press release.

Annual emissions statistics for carbon monoxide, nitrogen oxides, sulfur dioxide, particulate matter, volatile organic compounds and lead are considered major indicators of U.S. air quality because of their importance in human health and their long-standing national limits.

A major reason for this progress is a market-based acid rain program enacted in 1990. The Acid Rain Progress Report, also released September 22, shows annual sulfur dioxide and nitrogen oxide emissions have declined 32 percent and 37 percent, respectively, since 1990. The program generated double-digit cuts in levels of those pollutants at its inception and is now maturing.

"Cleaning the air gets more difficult as the maximum benefits from existing rules are achieved and the low-hanging fruit is gone," said EPA Administrator Mike Leavitt. "The sharp cuts of the early years of the Acid Rain Program are behind us now, and it's time to take the next step to protect people's health -- the next step is the Clean Air Interstate Rule."

The Bush administration's Clean Air Interstate Rule (CAIR) will create financial incentives for electricity generators to look for new and low-cost ways to reduce emissions early. The administration plans to adopt CAIR this fall.

Information about this issue is available at:
<http://www.epa.gov/interstateairquality/>

Text of the EPA press release follows:
2003 Status Report Shows U.S. Air Cleanest Ever Since 1970

(Washington, D.C.-September 22, 2004) Total emissions of the six principal pollutants identified in the Clean Air Act dropped again in 2003, signaling that America's air is the cleanest ever in three decades, the U.S. Environmental Protection Agency (EPA) reported today. Annual emissions statistics for the six pollutants are considered major indicators of the quality of the nation's air because of their importance for human health and the existence of their long-standing national standards.

Emissions have continued to decrease even as our economy has increased more than 150 percent. Since 1970, the aggregate total emissions for the six pollutants [Carbon Monoxide (CO), Nitrogen Oxides (NOx), Sulfur Dioxide (SO2), Particulate Matter (PM), Volatile Organic Compounds (VOCs) and Lead (Pb)] have been cut from 301.5 million tons per year to 147.8 million tons per year, a decrease of 51 percent. Total 2003 emissions were down 12 million tons since 2000, a 7.8 percent reduction.

See summary table at:
<http://www.epa.gov/airtrends/econ-emissions.html>

"Thanks to this progress, today's air is the cleanest most Americans have ever breathed," said Administrator Mike Leavitt. "Now, EPA is taking up the challenge to accelerate the pace of that progress into the future."

The Agency recently issued regulations that will cut diesel pollution by 90 percent, and later this year will finalize regulations cutting power plant pollution by approximately 70 percent.

A major reason for the nation's progress is the innovative, market-based acid rain cap-and-trade program enacted in 1990. The Acid Rain Progress Report, also released today, shows annual SO₂ and NO_x emissions have declined 5.1 million tons (32 percent) and 2.5 million tons (37 percent), respectively, since 1990. The program generated double-digit cuts at its inception and is now maturing, with small fluctuations up and down as emissions gradually near their respective end goal caps.

"Cleaning the air gets more difficult as the maximum benefits from existing rules are achieved and the low-hanging fruit is gone," said Leavitt. "The sharp cuts of the early years of the Acid Rain Program are behind us now, and it's time to take the next step to protect people's health -- the next step is the Clean Air Interstate Rule."

The Bush Administration's Clean Air Interstate Rule (CAIR) stands to be the acid rain program of this decade, enabling the country to once again enjoy sharp cuts in harmful pollutant levels. It will use the same proven cap-and-trade approach as the Acid Rain program, creating financial incentives for electricity generators to look for new and low-cost ways to reduce emissions early.

CAIR will use cap-and-trade to address power plant emissions in 29 eastern states plus the District of Columbia. The program would cut SO₂ by more than 40 percent from today's levels by 2010, and 70 percent when fully implemented. NO_x emissions would be cut by 50 percent from today's levels by 2010, and 60 percent when fully implemented. The Administration plans to finalize CAIR this fall.

"The Acid Rain Program is a national success story because we achieved early reductions, cost-effectively and with near-perfect compliance," said Leavitt. "CAIR will provide similar benefits, ensuring that our nation's air continues to get cleaner well into the next decade."

For more information: CAIR see:
<http://www.epa.gov/interstateairquality/>

For 2003 Emissions Report see:
<http://www.epa.gov/airtrends/econ-emissions.html>

For Acid Rain Report see:
<http://www.epa.gov/acidrainreport>

"BIOTECH BUGS" BUGS COULD STOP SPREAD OF DISEASES, SCIENTISTS SAY

Urge clear regulatory system for developing genetically modified insects

By Kathryn McConnell
Washington File Staff Writer

Washington -- Scientists are researching ways that genetically modified (GM) insects could be used to stop the spread of diseases that affect livestock and crops, reduce pesticide use and create pharmaceutical proteins, said speakers at a "Biotech Bugs" conference held September 20-21 in Washington.

However, speakers said, more regulations need to be developed, and must be clear and coordinated among government agencies to ensure that the development of improved insects includes adequate risk assessments.

"U.S. regulatory policies will be an important building block in the development of international policies regarding GM insects," according to a report called "Bugs in the System?" from the Pew Initiative on Food and Biotechnology, which sponsored the meeting.

Currently, the United States has no single law governing biotechnology. The industry is regulated under a number of different statutes, and subject to oversight by a variety of U.S. agencies, including the Environmental Protection Agency, the Food and Drug Administration, the Department of Agriculture, and the National Institutes of Health.

The conference brought together scientists and regulators to share information about the emerging field of study of the use of genetic-engineering technologies to alter insects to reduce or eliminate certain agricultural diseases. But both groups need to take care to assess potential adverse outcomes of such genetic changes, said a conference speaker.

Researchers are particularly looking into ways that genetically modified insects could be used to control pests, saving millions of dollars in pest control costs and crop losses, and dramatically reducing the amount of pesticides applied to fields, according to a Pew report. Scientists are hoping to improve insects by increasing their ability to feed on weeds and pest insects through longer life spans, better toleration of climatic differences and greater resistance to disease and pesticides, according to the report.

The report summarizes other science-based insect modification efforts. For instance, scientists want to improve a genetic program currently being used in California to control pink bollworms, a threat to cotton fields. They want to engineer the pest able to carry a gene that would prevent pest's offspring from maturing.

Honeybees are another insect of interest to researchers. Bees, which provide pollination services in addition to producing honey, suffer from several diseases and parasites. Scientists are working to make them resistant to these threats and to certain insecticides to which they may be exposed when foraging in field crops.

Researchers are also studying ways silkworms could be made to produce a fiber known as spider silk, which, because of its strength, could be used to make improved bulletproof vests, parachutes and artificial ligaments. Scientists also want to develop silkworms that can produce more pharmaceutical proteins, which are increasingly being used in new medications.

Insect research includes efforts to genetically alter mosquitoes so they do not transmit malaria, which kills between 1 and 3 million people each year. It also includes attempts to alter what are known as kissing bugs, which spread Chagas disease, a parasitic disease endemic in Central and South America, and tsetse flies, which cause African sleeping sickness in humans and a similar disease in cattle.

The report is available online at:
<http://pewagbiotech.org/research/bugs/>

Please Note: Most texts and transcripts mentioned in the U.S. Mission Daily Bulletin are available via our homepage **www.usmission.ch**. Select "Washington File" from the drop-down menu under "News."