



May 14, 2004

Ms. Marilyn R. Abbott
Secretary
United States International Trade Commission
500 E Street, SW
Washington, DC 20436

**RE: Inv. Nos: TA-131-29 and TA-2104-12: US-Thailand Free Trade Agreement:
Advice Concerning the Probable Economic Effect of Duty-Free Treatment for
Imports**

Written Testimony

On behalf of the members of the US-Thailand Free Trade Agreement (FTA) Business Coalition and the Coalition leadership, comprised of six corporate Co-Chairs, and twenty Steering Committee members, we would like to thank the members of the United States International Trade Commission for giving the Coalition the opportunity to provide its input on upcoming negotiations for the FTA between the United States and the Kingdom of Thailand.

Background on the Coalition

The US-Thailand FTA Business Coalition is comprised of a group of business organizations and companies strongly committed to promoting the negotiation, passage, and implementation of a meaningful, comprehensive, and WTO consistent bilateral FTA between the United States and Thailand. Made up of over 100 US companies and business organizations from a broad range of industries, the Coalition is the premier voice representing US business interests in the US-Thailand FTA process.

President George Bush and Prime Minister Thaksin Shinawatra announced their intention to negotiate a US-Thailand FTA on October 19, 2003, during President Bush's state visit to Thailand on the eve of the APEC Leaders Meeting in Bangkok. In response, the US business community formed the US-Thailand FTA Business Coalition. The Coalition was officially launched on March 23, 2004, after the US Administration formally introduced its letter of notification to Congress, expressing its intent to begin negotiations for a Free Trade Agreement with Thailand.

The role of the Coalition is to lobby for a comprehensive and meaningful Agreement, and to ensure US business interests are well represented. It will work to ensure that both negotiating parties stay focused on completing a world class Agreement in good time, and then on passage of the Agreement through required government processes. The Coalition is also a leading source of educational information about the Agreement, the importance of the US-Thai relationship, and the benefits of an agreement for US industrial, service and agriculture sectors.

Specifically with regards to the Coalition's role during FTA negotiations, the Coalition will be a key facilitator of dialogue between interested US businesses and US government negotiators of the FTA. The Coalition will plan regular meetings before and after rounds of negotiation with the lead US negotiator, as well as the negotiators of the specific FTA sectors (i.e. agriculture, IPR, financial services and others). The Coalition will also host Thai government officials visiting the United States to further the negotiation process, and conduct educational activities in Thailand.

This testimony will address the question posed by the ITC in its request for testimony and touch upon the specific benefits of a comprehensive US-Thai FTA, particularly with regards to providing duty-free treatment of imports. It will also review the broader importance of the US-Thailand FTA negotiations, covering industries not directly affected by tariff barriers as well as the US political and economic role in Southeast Asia.

Strategic importance of Thailand to the US

The Kingdom Thailand, with a gross-domestic product (GDP) growth rate of 6.7% in 2003 and an estimated growth rate of 7-8% in 2004, is one of the fastest growing economies in Southeast Asia and the world. Its dynamic domestic economy, coupled with the country's strategic geographical location between China and India makes it an ideal economic trade partner for US companies looking to establish a presence in Asia.

Australia, Japan, and China, amongst other countries, are currently engaged in or have completed FTA negotiations with Thailand. At the same time, Thailand is a member of the ASEAN Free Trade Area (AFTA) which is comprised of the ten member countries of ASEAN where tariff rates on 99.5% of goods have been lowered to between 0-5% among the original six member countries. In order for US companies to remain competitive in Thailand's attractive market, and in lieu of a multilateral, comprehensive WTO Agreement, the US must aggressively pursue a liberalizing, comprehensive, WTO consistent bilateral trade agreement with Thailand.

The US business community represented in the Coalition has identified a large number of benefits that would be derived from the liberalization of trade by both the US and the Thai governments. It is important to note here that Thailand is a large and significant market for the United States. With trade between Thailand and the United States growing by 21% between 2002 and 2003, and growing by 55% over the past decade (1993-2003), Thailand continues to be an attractive market for both US importers and exporters. In 2003, bilateral trade amounted to over \$21 billion, with US exports of \$5.8

billion accounting for approximately 100,000 high paying US based export related jobs. Below are highlights from specific industries.

The Effects of the Reduction of United States tariffs on Imports from Thailand:

The members of the Coalition believe that the negative impact on US companies of the reduction of US tariffs on Thai imports would be negligible. Existing US tariffs on most imported goods are already low, with tariffs on non-agricultural goods averaging 2-3% and tariffs on agricultural goods averaging 7%.

Footwear Industry: Reduction of existing footwear tariffs will not harm the US shoe manufacturing industry but will greatly benefit US consumers. Because domestic manufactured footwear cannot compete on price with imports, even after application of current MFN tariffs, there is no connection between maintaining shoe duties and the continuance of domestic shoe manufacturing jobs. Current duty rates on footwear are amongst the highest in the US tariff schedule, with non-rubber footwear duty rates ranging from 6-10% and rubber footwear duty rates, ad valorem, ranging up to 67%. With US import penetration for all footwear at 98% in 2002, consumers in America are adversely affected by the higher price of shoes as a result of existing tariffs. The footwear industry would greatly benefit from the elimination of duties on all footwear immediately upon the implementation of the FTA.

Sugar: Multiple members have identified the importance of the elimination of the existing tariff rate quotas on Thai sugar exports. Currently, Thai sugar exports to the United States are severely limited to a 14,743 ton quota, with the standard "over tariff duty" levied at \$.16/lbs. resulting in an ad valorem tariff of over 200%. Domestic sugar prices in the United States are currently over three times the world price of sugar, severely disadvantaging US companies that use sugar as a product input and harming American consumers. The Coalition fully endorses the elimination of quotas on sugar and sugar containing products.

In order to remain competitive, it is critical for US sugar-using industries to have increased access to sugar, and the US-Thailand FTA provides such an opportunity. In the December 2003 report by Promar International entitled, "Food and Beverage Jobs Disappearing due to Sugar Program", the US federal sugar program's high support price is costing US jobs in the food sector. US jobs in sugar-using industries depend heavily on the ability of US producers to have access to low-cost, high quality sugar. Promar reports that nine of the twelve sugar-using industries experienced employment declines over a five-year period. Increased access to sugar from Thailand, the world's 3rd largest sugar-producing country, will help the US sugar-using industries compete globally.

The recent exclusion of sugar imports in the US-Australia FTA and the bundling of quotas for sugar and sugar containing products is worrisome. The Coalition would like to emphasize the importance of including all sectors in the US-Thailand and all future trade agreements.

Tuna: Thailand is a major exporter of pouch tuna to the United States through U.S. based importers. Eliminating tariffs on pouch tuna would generate further economic growth in Thailand and provide important cost savings and other benefits for U.S. consumers. One member of our coalition imports pouch tuna for the commercial food service market and it believes that pouch tuna imports comprise about 25% of overall Thai tuna imports in 2003 or about \$53 million in customs value. It believes that most of this is imported by U.S. based companies or multinational companies with operations in the United States. Most pouch tuna entering the U.S. from Thailand is subject to a 12.5% tariff and elimination of this tariff would allow U.S. importers to lower prices to commercial and retail customers."

The Effects of the Reduction of Thai tariffs on Imports from the United States:

On trade in goods, a comprehensive, liberalizing FTA with Thailand will increase two-way trade in goods between the two countries. Currently, Thailand's average applied tariff rates on non-agricultural imports are 13% while US tariffs on Thai non-agricultural exports are about 3%. The current average applied Thai tariff rate on agricultural imports into Thailand is 24% while US average tariffs on agricultural imports from Thailand are about 7% . An FTA can also improve market access of US goods by eliminating non-tariff barriers.

Agriculture: In the Administration's notification letter to Congress on its intent to begin FTA negotiations with Thailand, Ambassador Robert Zoellick cites US agricultural producers as one of the groups that have encouraged the Administration to move forward in expanding the US economic relationship with Thailand through an FTA. Currently, the United States is Thailand's largest agricultural export market while Thailand is the sixteenth largest market for US farm exports. With a wide disparity between the tariff rates on agriculture that the US imposes on imports from Thailand (average 7%) and the tariff rates that Thailand imposes on the US (average 24%), a liberalizing agreement which eliminates tariff and non-tariff barriers will greatly increase the competitiveness of US farm products in Thailand. Farm groups estimate that US agricultural exports to Thailand could increase by \$300 million annually with a substantially liberalizing agreement .

The total value of bilateral farm trade in 2002 was approximately \$1.2 billion with major US exports to Thailand consisting of oil seeds, cotton, cereals, soybean oil, and cake. US exports such as meat and dairy products, alcoholic beverages, and tobacco could significantly benefit from a liberalizing agreement.

Below are some specific examples of how significantly reducing high tariff barriers currently in place would create opportunities for growth for US agricultural producers.

Dairy: The dairy industry has identified Thailand as a growth market. In 2003, Thailand imported \$11 million worth of dairy products from the United States. A comprehensive FTA, which reduces Thailand's current high tariff duty rates on dairy products (which currently range from 5% to 60%), eliminates tariff rate quotas and out of quota rates

(currently exceeding 200%), and eliminates the extra 7% value added tax levied on dairy products (amongst other liberalizing provisions) will make US dairy products more competitive in the Thai market. With heavy competition in Thailand from Australia and New Zealand (Australia supplied 28% while the US supplied 6% of Thai dairy imports in 2002), the US dairy industry cannot afford to be further disadvantaged in the Thai market with high tariff and non-tariff barriers. The current Australia-Thailand FTA, which was completed in October of 2003 and which will go into force once the Agreement is approved by the governments of both countries, will further the competitive disadvantage of US companies in the Thai market.

Distilled Spirits: Current exports of distilled spirits from the United States to Thailand are valued at \$1.3 million. Currently, duty rates on US spirits are as high as 60% in Thailand, while virtually all US tariffs on nearly all spirit products from all sources (including Thailand) have been eliminated. Significant liberalization of this market would provide an unparalleled opportunity for the growth and expansion of exports of distilled spirits to Thailand. Tariff and non-tariff barriers impede the US' ability to supply the demands of the Thai market.

Pork: Current US exports of pork to Thailand (\$41,000) can be significantly increased if high tariffs, costly livestock inspection fees, and other cumbersome and unpredictable import permit issues are eliminated. The pork industry requests that all tariffs on US pork and pork producers be immediately set to zero upon the implementation of the US-Thailand FTA. With a 33% tariff on red meat, the category under which pork is classified, imported into Thailand, a liberalizing agreement would significantly improve the competitiveness of US exports to the Thai market.

Benefits Beyond Trade in Goods

The benefits of a comprehensive, WTO consistent FTA will extend beyond the industries affected directly by tariffs and non-tariff barriers. E-commerce, intellectual property rights, government procurement, and services, amongst others, are sectors and issues that negotiators must aggressively negotiate in order to ensure that US and Thai companies and consumers can enjoy the full benefits of a liberalized trade relationship.

Electronic Commerce: It is essential that the US-Thailand FTA contain a high quality chapter on electronic commerce. The obligations in this Chapter should ensure clarity and predictability in the international trade rules applicable to electronic commerce, should prevent barriers to electronic commerce from arising, and should preserve the current liberal trading environment for digital products.

A key goal of this Chapter must be to ensure that software delivered electronically receives the same benefits and concessions that software traded on a physical medium currently enjoys under existing WTO Agreements. Software and other digital products should receive market access, MFN and national treatment no less favorable than the software would receive if it were traded as a good through physical delivery. Moreover,

the FTA should include a permanent prohibition on duties on the importation or exportation of digital products, including both the transmission and its content.

Intellectual Property Rights: The US-Thailand FTA can serve as an important tool to curb current intellectual property (patents, copyrights, and trademarks) rights (IPR) violations that are rampant in Thailand. With the cost of piracy in Thailand to US firms at over \$180 million in 2002, and with a piracy rate of 77% in Thailand, IPR violations are a serious impediment to trade for legitimate US and Thai businesses. Providing better legislative and enforcement measures to protect the intellectual property rights of US and Thai copyright and trademark holders could cut current losses from IPR piracy considerably leading to a major expansion in exports of US copyright based goods and services. The Coalition fully supports ensuring that Thai businesses are held to rigorous standards that protect the products created by US and Thai innovators, both in law and in enforcement. The Thailand FTA should fully incorporate the high standards of IP protection and enforcement achieved in the US-Singapore FTA.

Investment: The Coalition supports FTA investment provisions that expand upon the existing regulations delineated by the 1966 Treaty of Amity and Economic Relations (AER). The Treaty accords national treatment to US and Thai citizens and companies owned and operated in the Treaty partner's country. With the WTO having deemed the AER as a violation of Thailand's country obligations to the organization, the need to codify in an FTA and build upon investment provisions in the original Treaty has become more urgent. Amongst the expanded provisions, the Coalition supports the inclusion of an investor state dispute mechanism, which will ensure a formal process by which neutral and binding third party is apart of the resolution of disputes between foreign investors and the host country.

Government Procurement: It is important that all of the FTAs being negotiated by the US Government open foreign government procurement markets that are currently closed to US goods and services provider. Thailand, which is neither a member nor an observer of the WTO Agreement on Government Procurement (GPA), should be held accountable to the standards set forward by the GPA and should adhere to the following core principles: transparency, non-discrimination, merit-based procurement, award of procurement contracts based on value, neutral technical specifications, and full coverage of digital products and IT services.

Services: The Coalition fully endorses a negative list approach in negotiating the service sector, similar to that used in the US Singapore FTA. This will ensure both countries full access to each other's entire service industries.

The services industry is now the engine of growth for both the Thai and US economies. Services have overtaken manufacturing as the segment contributing the largest share of new growth in the Thai economy. In 2002, services accounted for about 55% of Thai GDP. In 2003, US companies exported over one billion USD in services to Thailand . With Thailand's increasing need for technology and knowledge transfer, it is expected that a liberalizing agreement would increase current US services exports.

Industries that will benefit from a comprehensive, WTO consistent FTA include a large number of services sectors such as information technology, telecommunications, express delivery, and legal and financial services. The Agreement should include language that provides full national treatment and market access to all services industries. Specifically with regards to express delivery, the US-Thailand FTA should include language that appropriately defines express delivery services, narrowly tailored reservations on services related to express delivery and on postal services, a prohibition on cross-subsidies of revenues and other resources derived from a postal service's monopoly operations into competitive express delivery operations, trade facilitation provisions that expedite the customs clearance of express delivery shipments and that require transparency of customs procedures, and the provision of full national treatment and market access in the express delivery services sector, including the removal of Thai limitations on foreign ownership of surface transportation service providers and modification of Postal Act B.E.2477.

Conclusion:

In conclusion, the US-Thailand Free Trade Agreement Business Coalition fully endorses the negotiations for a comprehensive trade agreement between the United States and Thailand. Our organization represents a large cross section of industries, including agriculture, manufacturing, services and technology. All of our member companies look forward to the business opportunities that a US-Thailand Free Trade Agreement will offer to working with the ITC and the administration to support the negotiation of an agreement that will benefit both US consumers and businesses.

The Coalition also looks forward to working with members of the United States International Trade Commission and other government agencies to negotiate and approve a free trade agreement which will benefit both the US and Thailand.

Delivered on May 14, 2004
US-Thailand Free Trade Agreement Business Coalition

US-Thailand FTA Business Coalition
List of Member Companies (as of 05-12-04)

Co-Chairs in Bold, Steering Committee and Secretariat in italics

3M Company	<i>Grocery Mfn. of America</i>
ACE Insurance Limited	Hewlett-Packard Company
Aerospace Industries Association	IBM Corporation
Alticor Inc.	Information Technology Assn. of Am
Altria Corporate Services, Inc.	Info. Technology Industry Council
AmCham Singapore	Interlink Management Corp.
<i>AmCham Thailand</i>	International Dairy Foods Association
American International Automobile Dealers	International Trade Services
American Standard	Issara Technology Co., Ltd.
<i>AIG, Inc.</i>	Jana Brands
<i>Am. Chemistry Council</i>	Johnson & Johnson
APL Limited	Kellwood Company
Asian Investment Strategies	Kenan Institute of Private Enterprise
Assn. of Equipment Manufacturers	Korea Instit. for Intl. Economics
Assn. of Intl. Auto. Manufacturers	Marriott International Inc.
AT&T	Mekong Trading Company USA
Bechtel Corporation	<i>Microsoft</i>
The Boeing Company	Monsanto Company
Brink's Thailand	Motor & Equipment Mfns. Assn.
<i>The Business Roundtable</i>	Nat'l Electrical Manufacturers Assn.
C & M International	National Foreign Trade Council
C.M. COMMERCIAL CO.,LTD.	National Oilseed Processors Assn.
CACH International Ltd Co	National Cattlemen's Beef Assn.
California Chamber of Commerce	<i>National Assn. of Mfn. (Secretariat)</i>
California Council for Intl. Trade	<i>Nat'l Pork Producers Council</i>
<i>Cargill, Inc.</i>	New York Life Intl., Inc.
<i>Caterpillar, Inc.</i>	NIKE, Inc.
Chicken of the Sea International	Nortel Networks
<i>The Chubb Corporation</i>	OilPure Technologies, Inc.
<i>Citigroup</i>	Pacific Rim Consulting
The Clorox Company	Philip Morris
<i>Coalition of Services Industries</i>	<i>PhRMA</i>
Comlogix, Inc.	PricewaterhouseCoopers
<i>Corn Refiners Association</i>	QUALCOMM, Inc.
Covington & Burling	Rail Transfer Corp. (Buffalo Fuel)
CSIS	Reebok International Ltd.
Danngo International Trading Co.	Robert Branand International
Deloitte	<i>Securities Industry Assn</i>
Diageo	StorageTek
<i>Discovery Communications</i>	The Trade Partnership
Distilled Spirits Council of the US	TimeWarner Inc.
Dow Chemical Company	Travel Goods Association
Elanco Animal Health	U.S. Assn. of Imp. of Textiles & Apparel
EZ-FTZ	<i>U.S. Chamber of Commerce</i>
FedEx	U.S. Council for Intl. Business
Fleishman-Hillard	United Technologies Corporation
<i>Footwear Dist. & Ret. of Am.</i>	Unocal Corporation
<i>Ford Motor Company</i>	<i>UPS</i>
Gas Appliance Mfn. Association	<i>US - ASEAN Business Council (Secretariat)</i>
GDI & Associates Inc.	Washington Group International
General Electric Company	WBC Global
General Motors Corporation	Wheat Export Trade Edu. Comm.
Global Trade Information Services	WorldSpace Management Corp.