National Association of Manufacturers

Testimony

of Jim Jarrett
Chairman, NAM Board of Director's Trade and Technology Policy Group
and
Vice President, Worldwide Government Affairs Intel Corporation

on behalf of **the National Association of Manufacturers**

before the **Senate Finance International Trade Subcommittee**

on **"Doha Round of WTO Negotiations"**

October 27, 2005

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MANUFACTURING MAKES AMERICA STRONG

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Good morning Chairman Thomas, Ranking Member Bingaman, and members of the Subcommittee.

I am Jim Jarrett, the Vice President of Worldwide Government Affairs at the Intel Corporation, which is headquartered in Santa Monica, California. I am pleased to testify today on behalf of the National Association of Manufacturers (NAM), as the Chairman of the NAM Board of Directors' Trade and Technology Policy Group, at this hearing to discuss the Doha Round of World Trade Organization (WTO) negotiations. Intel Corporation is also a co-chair of the American Business Coalition for Doha. I am particularly pleased at the opportunity to discuss that part of the Doha Round aimed at reducing manufactured goods trade barriers, the so-called "Non-Agricultural Market Access negotiations, also known as "NAMA."

The National Association of Manufacturers is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Headquartered in Washington, D.C., the NAM has 10 additional offices across the country. All NAM members, including Intel, are affected directly or indirectly by trade and have a keen interest in the factors influencing our trade and international economic relations. For this reason, the NAM places a special emphasis on working with the U.S. government to reduce trade barriers facing U.S. manufactured goods.

Intel Corporation was founded in 1968 with operations in California. Since then we have become the world's largest semiconductor company and have expanded our manufacturing presence in the United States and around the world. Although about 75% of the Intel Corporation's $34 billion annual sales come from outside the United States, we employ 60% of our workforce here and three quarters of our chip fabrication factories are located here. The continued liberalization of world trade is particularly important to Intel's future growth and the maintenance and enhancement of its global competitive position.

Doha Round of WTO Negotiations

The NAM believes strongly that the successful completion of the Doha Round is of great importance to the U.S. economy and the world's. The United States is the world's leading trading nation and must continue taking a leading role in the negotiations to complete the Round. At this time, however, additional political leadership is needed from other WTO members, for we are at a critical stage in the negotiations leading up to the Hong Kong Ministerial in December.

The negotiations are called the "Doha Development Agenda" (DDA) because it is time that the developing countries, particularly the least developed, become more integrated into the global trading system and obtain more of the gains from trade. The record is clear: countries that do not trade openly do not develop as rapidly as those that have more open trade regimes. Thus, many of the gains to developing countries will come from reducing their trade barriers and opening their own markets – just as we have gained from our own market openness. Seventy percent of the tariffs that developing nations pay are paid to other developing nations. Consequently, developing countries would be the prime beneficiaries of their own tariff cuts. Special consideration must be made for the least developed nations, and provisions have to be made for flexibility. However, we believe that all countries, without exception, must be actively engaged in the negotiations.

Being the U.S. association of manufacturers, the NAM's key interest in the Doha Round is achieving an ambitious outcome in the Non-Agricultural Market Access (NAMA) negotiations. We know, though, that such a result is not possible without a far-reaching agricultural agreement. Agriculture has largely been left untouched during previous rounds, and the current negotiations cannot come to a conclusion without a far-reaching agreement that sharply cuts agricultural subsidies and other market access barriers.

The NAM was extremely pleased with the bold U.S. agricultural proposal recently announced by U.S. Trade Representative Ambassador Rob Portman in Zurich, Switzerland, to break the deadlock that has stalled agricultural negotiations. In response to this proposal, some other nations have now stepped forward with more advanced positions than before, but all eyes are on the European Union, which still has not offered the ambitious cuts in agricultural market access that is an absolute must for the Round to move forward.

Last week, NAM President Governor John Engler reached out to the NAM's counterpart industrial associations in European Union countries, encouraging manufacturers to press their European Representatives to put forth an aggressive offer on agriculture. Time is of the essence. Without a timely and robust proposal from the European Union the negotiations in all sectors could be negatively impacted.

While recognizing that agriculture is a critical component of the talks, negotiators must not wait for a firm consensus on agricultural issues before addressing industrial market access, services and other pressing issues. All major parts of the negotiation must move together, for the final result will be a balanced outcome comprised of the whole set of negotiations. Here the NAM is concerned that too many countries, particularly the advanced developing countries with high tariffs, are not yet seriously engaged in NAMA or services negotiations..

The Doha round cannot succeed without achieving very ambitious results in non-agricultural market access and in services. A good agricultural deal, coupled with a poor outcome in industrial trade and other areas would undoubtedly weaken support for the round. Manufactured goods account for over 70% of world merchandise trade – and for the United States the figure is even higher. American manufacturers do not face a level playing field abroad and must obtain significant commitments from other countries to eliminate industrial trade barriers.

The NAM could not consider any negotiation successful if it merely brought the level of the "bound tariffs" (the rates countries agree not to exceed) down to the level of the tariffs that are actually applied to manufactured goods today. Such a result would leave the actual tariff rates our member companies face unchanged, and would be unacceptable. We must see substantial cuts in the tariffs that are actually applied.

Manufacturers in other leading producing nations agree. Twice this year, the NAM led delegations of global manufacturers to the WTO headquarters in Geneva, Switzerland, to stress that industrial trade barriers must be cut sharply in the Doha Round. Manufacturing organizations from around the world joined the NAM to promote this message, including from Australia, Brazil, Canada, Europe, Japan and Korea. The principal objective of these efforts was to underscore the fact that the Round cannot be a success without achieving ambitious outcomes for NAMA.

Peter Mandelson, the EU's Trade Commissioner, underscored this last week, when he said that if a high level of ambition does not result from NAMA, "let me be crystal clear – there will be no outcome on agriculture or other parts of our negotiation."

Importance of Manufactured goods exports

Manufactured goods are by far the largest part of America's international trade. Last year America's farmers exported $63 billion of agricultural goods. But America's manufacturers export almost that much every month! U.S. exports of manufactured goods last year were $710 billion – over ten times the amount of our agricultural exports. Manufactured goods, in fact, account for 87 percent of America's total merchandise exports. Even when services are factored in, manufactured goods are nearly two-thirds of total exports of goods and services.

These exports are important to America's manufacturers and our workers. Commerce Department data show that one-fifth of all U.S. manufacturing output is exported. Fully 63 thousand U.S. manufacturers export, and they count on export growth for a substantial amount of their sales increases – and this is not just large companies. In fact, 95 percent of all exporting manufacturers are small and medium sized firms – 60 thousand of them. While large firms account for the bulk of our exports, small and medium-sized firms account for about one-third of the dollar value of U.S. manufactured goods exports, and these exports are very important to them.

Trade is particularly important to Intel and other U.S. producers of high technology goods. Growth through trade is critical to our industry's ability to compete. U.S. exports of advanced technology products reached $201 billion in 2004, one in every four dollars of U.S. merchandise exports. Semiconductor industry exports specifically are the leading U.S. high-tech industry export, reaching $48 billion in 2004, a 29% increase over the same statistic for 1998.

The NAM's Objectives in Non-Agricultural Market Access (NAMA)

Three years ago, in our initial Doha Round policy recommendations to the Administration and the Congress, the NAM stated our goal as being to obtain deep cuts in existing tariff and other trade barriers inhibiting our manufactured goods exports, and to have these lead to the eventual elimination of all tariffs on industrial goods. The WTO non-agricultural market access negotiations should aim at achieving the broadest and deepest possible reductions in tariffs and non-tariff measures, with the particular objective of *totally eliminating as many tariffs as possible.* Achieving this ambitious result would speed global economic growth and living standards worldwide.

The NAM laid out a three-pronged approach to achieving our ambitious goals. We proposed to the Administration:

(1) An aggressive tariff-cutting formula that would slash tariffs dramatically;

(2) Sectoral tariff negotiations aimed at eliminating tariffs in agreed sectors; and

(3) Reductions in non-tariff barriers.

This is basically the outline that U.S. negotiators have been following. The NAM works very closely with the U.S. Trade Representative's office, the Commerce Department, and the State Department and we are very pleased with the aggressive manner in which the Administration is pursuing ambitious goals in the NAMA negotiations. We believe that all three aspects are important, and particularly believe that the sectoral negotiations offer in many instances the best hope for bringing tariffs down to zero.

This was the approach taken in the 1994 "Information Technology Agreement," (ITA) in which countries accounting for over 90 percent of world trade in computers, semiconductors, and other information technology products agreed to eliminate their tariffs in this sector. The ITA has been very important to Intel's ability to compete in world markets while maintain a strong employment base in the United States.

In the NAM's view, the outline for the NAMA negotiations that was agreed by the Asia-Pacific Economic Cooperation (APEC) Trade Ministers this summer provides the best hope for rapid movement in these negotiations. We support the "Swiss formula" approach[1] coupled with voluntary sectoral agreements with critical masses of countries as key elements of a successful outcome in the Doha Round. The NAMA negotiations must take place without *a priori* exclusions and should be as comprehensive as possible. We also want to underscore the importance of pursuing ambitious negotiations on non-tariff barriers (NTBs) on a horizontal and vertical basis.

Country Priorities

Mr. Chairman, many people are startled to learn that nearly half of all U.S. manufactured goods exports now go to countries with which the United States already has free trade agreements (FTAs). That's how successful America's trade agreement program has been. There are no further tariff-cutting gains to be had from these countries, and the NAM's Doha Round priorities are understandably focused on the other part of our exports.

After decades of multilateral negotiating rounds, tariffs in industrial nations have fallen significantly, but tariffs in developing nations remain high. Developing nations were not expected to make proportional cuts in their tariffs, and in many cases were not asked to make reductions at all. The resulting imbalance in tariff rates is enormous: U.S. and other industrial countries' bound tariff rates on imports of manufactured goods are down to an average of about 3 percent, whereas the unweighted average bound industrial tariffs in the developing countries is about 30 percent – roughly 10 times as high.

The situation is further complicated by the fact that while most developing nations maintained their WTO bound tariff rates (the rates countries agree not to exceed) at high levels, many actually charge lower tariff rates in practice – so-called "applied rates." These applied rates are the rates that U.S. exporters actually face.

While bound and applied rates in industrial nations are the same in almost all cases, developing nation applied rates average about half the level of their WTO bound rates. This means that if developing nations were to agree to a 50 percent cut in their bound rates, on average their bound rates would only come down to the level of their actual applied rates – and U.S. exporters would see no reductions in the actual tariff rates they face today.

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[1] The "Swiss formula" is a mathematical formula for a parabola, and cuts high tariffs proportionately more than low ones – see the attachment to my statement for illustrations of how this works.

Such an outcome would be unacceptable for U.S. manufacturers. The United States cannot lower or eliminate its few remaining tariffs if others aren't committed to significantly furthering their own commitments. It would be difficult for U.S. industry to support such an outcome. If we are to obtain substantial reductions in tariff barriers around the world, the developing countries must be willing to enter into meaningful negotiations in which they cut their tariff and non-tariff trade barriers more than industrial nations. Without such strong commitment from all parties, it is difficult to see how genuine industrial trade liberalization can occur in the Doha Round.

The NAM believes the task of obtaining substantial cuts in foreign tariffs on U.S. manufactured goods is achievable by focusing on 23 trading partners – three industrial partners and 20 developing partners. Together, we estimate these 23 countries or regions account for 96 percent of the global duties assessed on U.S. exports of manufactured goods.

The three industrial partners are the European Union, Japan, and New Zealand. Tariffs applied by industrial countries are generally low, however they cover so much trade that the dollar cost to U.S. companies is high. For example, while the average U.S. duty collected on imports from the European Union is only 1.4 percent, those duties amounted to nearly $4 billion last year. As 47 percent of America's transatlantic commerce is comprised of intra-company trade, roughly half of these duties collected on imports from the EU in essence are a tax on companies' internal transactions – as are many of the European Union's duties on U.S. exports.

Of the 110 developing countries with which the United States has not negotiated free trade agreements, twenty countries account for 85 percent of U.S. manufactured goods exports and 95 percent of all duties assessed by all developing countries. The twenty developing countries, in order or importance in terms of the estimated amount of duties U.S. manufacturers now pay are: China, Brazil, Korea, India, Thailand, Taiwan, Malaysia, Colombia, Egypt, Argentina, Venezuela, the Philippines, Peru, the United Arab Emirates, Pakistan, Nigeria, South Africa, Indonesia, Ecuador, and Panama.

Seven of these countries are currently in free trade agreement (FTA) negotiations with the United States, which attests to the accuracy with which the United States has identified prospective FTA partners. We have included those seven countries in our WTO priorities because until the FTA agreements have actually been signed and approved, our manufacturers will continue to face prohibitive tariffs on their exports to these countries.

All the remaining developing countries together account for only 5 percent of the duties charged on U.S. manufactured goods exports to the entire developing world. While we do not mean to imply that tariff cuts on their part are not important, negotiations should focus on the 20 developing countries we have identified.

There is ample room for special and differential treatment and for exemptions for the least developed countries. We do not believe, however, that this is true for the top 20 countries identified on our list. Finally, the NAM believes all countries, regardless of development status, should agree to bind 100 percent of their tariffs in the Doha Round.

Negotiating Methods

The NAM endorses the U.S. negotiating position according to which tariff cuts should take place through two co-equal forms of negotiation: a tariff-cutting formula and sectoral negotiations aimed at eliminating duties or at least harmonizing them at a low level. It is critical for the sectoral negotiations to remain a top priority as the negotiations progress as we believe the sectoral approach will result in substantial trade liberalization.

Formula Approach--Since the average bound rate in developing countries is twice the average applied rate, the ultimate goal must be to significantly cut the applied rates. For example, a 75 percent linear cut in bound rates would be necessary to achieve a 50 percent cut in applied rates. Such a formula would fall unevenly on countries, and would leave the highest tariff rates still too high. Consequently, we believe that the "Swiss formula" approach is the best available alternative, and a quick look at the attachment to my statement shows how this approach would have the most substantial impact on high tariffs.

Sectoral Negotiations -- Given the deep cuts that would be required by a tariff formula, many developing countries may be resistant. The complications of special and differential treatment, and other exemptions for developing countries also pose formidable challenges to the development of a tariff formula that can result in the size of reductions we seek.

For that reason, the NAM has pressed for parallel negotiations by sector. The NAM leads the Zero Tariff Coalition – a group of industry associations seeking tariff elimination in their sectors. We are very pleased with the vigorous way in which U.S. negotiators have been moving forward on sectoral negotiations and are delighted to see that other countries are proposing their own sectoral initiatives. We believe this approach will prove to be a necessity if the United States is to achieve the sort of bold reduction in tariffs envisioned.

The key to the sectoral approach is that not all countries have to participate. If countries comprising a satisfactory "critical mass" of trade in a particular sector (for example, 85 percent of world trade – though the coverage could vary from sector to sector) would agree to eliminate or harmonize tariffs at a low level, the rest of the countries could be exempted. For some sectors, a critical mass of countries may not be able to agree on zero duties, but might be able to decide on a low harmonized rate

The high tech industry has greatly benefited from the Information Technology Agreement (ITA), which was concluded as a result of the last WTO round of negotiations. The agreement eliminated all tariffs on most IT products, lowering the costs of those products in developing countries, encouraging high-tech growth across the world. Since 1997, 34 additional nations have joined the ITA, now representing more than 90 percent of global trade in the IT sector.

But the agreement has not kept pace with technology, and both industry and governments are struggling to appropriately classify converged products for customs purposes. For example, the European Union is proposing a tariff on some large multi-function LCD monitors, arguing that it is impossible to discern between LCD computer monitors (which are duty free under the ITA) and LCD Televisions (which are not covered by ITA).

The U.S. high-tech industry is concerned that as this convergence continues, more and more customs officers will reclassify products into dutiable categories, undermining the letter and spirit of the ITA. In addition to the classification problems caused by convergence of new technologies, completely new products have emerged that weren't on the market when the agreement was finalized. In addition to these tariff concerns, increasing non-tariff barriers in the IT sector have the potential to erode the benefits of tariff elimination and create even more severe market access obstacles.

From the U.S. Tech industry's perspective, this round offers us the opportunity to address many of these issues by initiating a sectoral negotiation in electronics that would build on current ITA commitments and members to further eliminate tariffs on new and converged electronic products.

At a minimum, the United States should seek to obtain significant information technology product (IT) tariff reductions. Similar to other products in the NAMA negotiations, IT products are subject to non-declared discriminatory taxes in a number of markets. It is important to ensure that tariffs removed through the ITA are not replaced with discriminatory domestic taxes.

Non-Tariff Barriers and Other Aspects Affecting Manufactured Goods

The NAM also believes that negotiations on non-tariff barriers (NTBs) should be addressed as an important feature of the non-agricultural market access negotiations. Non-tariff barriers are a concern because they can be an even greater impediment to trade than tariffs. Moreover, non-tariff barriers tend to raise the fixed costs of trading. This is a particular disadvantage for small and medium-size enterprises (SME's), which have to spread those fixed costs over fewer dollars of sales.

NTBs have been rising in importance as trade-distorting factors, including such measures as discriminatory standards, conformity assessment requirements, pre-shipment inspections, custom valuation practices, regulatory requirements, port procedures, and security procedures.

Product requirements, including environmental and other regulations, should be nondiscriminatory and based on sound and widely accepted scientific principles and available technical information. From the U.S. tech sector's perspective, NTBs, if not addressed have the potential to dangerously erode the benefits of the ITA and hinder trade in information technology products. We strongly encourage our negotiators to consider negotiating an agreement that would aim to eliminate these barriers in our sector.

In addition, the NAM seeks robust results from the "Trade Facilitation" negotiations that are part of the Doha Round. These negotiations are aimed at simplifying, speeding, and reducing the cost of customs clearances. Some NAM members have estimated that current customs costs and delays in many countries – particularly developing countries – add from 5-8 percent of the cost of the goods being exported. Thus in some cases, the cost of clearing customs can exceed the tariff!

Finally, I want to note the NAM's position on the negotiation of trade rules. The NAM's strong view is that the effectiveness of U.S. trade laws should not be diminished in these negotiations. To build public confidence in an open trading system, the U.S. Government must maintain a level playing field ensuring that market-distorting practices can continue to be addressed effectively under internationally agreed-upon rules.

Conclusion

The final Doha agreement needs to ensure that all countries participate in and benefit from the gains of trade liberalization. According to the World Bank, developing countries alone could gain up to US$500 billion *per annum* from trade liberalization. An ambitious agreement in NAMA is essential to achieving that objective. While we understand the special needs of developing countries, many have highly competitive industries and it is vital that they agree to participate in genuine market liberalization. The NAM strongly urges all WTO member countries to work together and make the political decisions necessary to lay the groundwork for a successful Hong Kong Ministerial in December.

Mr. Chairman, the NAM looks forward to continuing to work with you to ensure that our important objectives are realized in the final outcome of the Doha Round.

Thank you, Mr. Chairman

Doha Round Non-Agricultural Market Access Negotiations:
Final Tariff Rates using Swiss Formula, %

Initial Tariff Rates, %	Coefficients														
	4	5	6	8	10	12	15	18	20	22	25	30	35	40	50
1	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
2	1.3	1.4	1.5	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9
3	1.7	1.9	2.0	2.2	2.3	2.4	2.5	2.6	2.6	2.6	2.7	2.7	2.8	2.8	2.8
4	2.0	2.2	2.4	2.7	2.9	3.0	3.2	3.3	3.3	3.4	3.4	3.5	3.6	3.6	3.7
5	2.2	2.5	2.7	3.1	3.3	3.5	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.4	4.5
10	2.9	3.3	3.8	4.4	5.0	5.5	6.0	6.4	6.7	6.9	7.1	7.5	7.8	8.0	8.3
12	3.0	3.5	4.0	4.8	5.5	6.0	6.7	7.2	7.5	7.8	8.1	8.6	8.9	9.2	9.7
15	3.2	3.8	4.3	5.2	6.0	6.7	7.5	8.2	8.6	8.9	9.4	10.0	10.5	10.9	11.5
18	3.3	3.9	4.5	5.5	6.4	7.2	8.2	9.0	9.5	9.9	10.5	11.3	11.9	12.4	13.2
20	3.3	4.0	4.6	5.7	6.7	7.5	8.6	9.5	10.0	10.5	11.1	12.0	12.7	13.3	14.3
25	3.4	4.2	4.8	6.1	7.1	8.1	9.4	10.5	11.1	11.7	12.5	13.6	14.6	15.4	16.7
30	3.5	4.3	5.0	6.3	7.5	8.6	10.0	11.3	12.0	12.7	13.6	15.0	16.2	17.1	18.8
35	3.6	4.4	5.1	6.5	7.8	8.9	10.5	11.9	12.7	13.5	14.6	16.2	17.5	18.7	20.6
40	3.6	4.4	5.2	6.7	8.0	9.2	10.9	12.4	13.3	14.2	15.4	17.1	18.7	20.0	22.2
45	3.7	4.5	5.3	6.8	8.2	9.5	11.3	12.9	13.8	14.8	16.1	18.0	19.7	21.2	23.7
50	3.7	4.5	5.4	6.9	8.3	9.7	11.5	13.2	14.3	15.3	16.7	18.8	20.6	22.2	25.0
55	3.7	4.6	5.4	7.0	8.5	9.9	11.8	13.6	14.7	15.7	17.2	19.4	21.4	23.2	26.2
60	3.8	4.6	5.5	7.1	8.6	10.0	12.0	13.8	15.0	16.1	17.6	20.0	22.1	24.0	27.3
65	3.8	4.6	5.5	7.1	8.7	10.1	12.2	14.1	15.3	16.4	18.1	20.5	22.8	24.8	28.3
70	3.8	4.7	5.5	7.2	8.8	10.2	12.4	14.3	15.6	16.7	18.4	21.0	23.3	25.5	29.2
80	3.8	4.7	5.6	7.3	8.9	10.4	12.6	14.7	16.0	17.3	19.0	21.8	24.3	26.7	30.8
90	3.8	4.7	5.6	7.3	9.0	10.6	12.9	15.0	16.4	17.7	19.6	22.5	25.2	27.7	32.1
100	3.8	4.8	5.7	7.4	9.1	10.7	13.0	15.3	16.7	18.0	20.0	23.1	25.9	28.6	33.3
120	3.9	4.8	5.7	7.5	9.2	10.9	13.3	15.7	17.1	18.6	20.7	24.0	27.1	30.0	35.3
125	3.9	4.8	5.7	7.5	9.3	10.9	13.4	15.7	17.2	18.7	20.8	24.2	27.3	30.3	35.7
250	3.9	4.9	5.9	7.8	9.6	11.5	14.2	16.8	18.5	20.2	22.7	26.8	30.7	34.5	41.7

Formula: final tariff rate = (initial tariff * coefficient)/(initial tariff + coefficient)

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