

**STATEMENT OF
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE
SUBCOMMITTEE ON PUBLIC LANDS AND FORESTS
SENATE COMMITTEE ON
ENERGY AND NATURAL RESOURCES
CONCERNING
IMPACTS OF THE CHINESE HARDWOOD PLYWOOD TRADE**

May 30, 2007

Introduction

Chairman Wyden and distinguished members of the Energy and Natural Resources Subcommittee on Public Lands and Forests, I am pleased to participate in today's hearing.

I understand that today's hearing is focused principally on issues related to the impact of Chinese hardwood plywood trade on the National Forest System and other public lands, and our communities that depend on them. The Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S. international trade policy. The work of USTR aims at increasing exports by developing and coordinating U.S. international trade, commodity, and direct investment policy, and overseeing negotiations with other countries. In working with other U.S. Government agencies we hope to expand market access for American goods and services abroad and secure a level playing field for American workers, farmers and businesses in markets around the world, including the U.S. market. USTR accordingly oversees negotiations with other countries on a wide range of international trade matters. In addition, we seek to resolve trade problems using a wide variety of tools, including bilateral discussions, negotiations, and formal dispute settlement proceedings.

To provide more concrete perspective on our work, I will give you a brief overview of USTR's recent engagement with China, touching on the mechanisms USTR uses to address key trade concerns including concerns in the hardwood plywood sector.

Key China Trade Efforts

China's accession to the WTO marked a critical step forward toward China's integration into the international rules based system. Since acceding to the WTO five years ago, China has taken significant steps in an effort to bring its trading system into basic compliance with WTO rules. These steps have helped to deepen and strengthen economic reforms that China had begun more than two decades ago. U.S. businesses, workers, farmers, service providers and consumers have benefited significantly from these steps and continue to do so as U.S.-China trade grows. Indeed, last year, U.S. goods exports to China climbed by 32 percent (while China's exports to the United States increased by 18 percent). These data suggest that the Chinese market is becoming more accessible for American companies, and that Chinese consumers are developing an appetite for America's highly competitive goods and services. China today has become our

fourth largest export market, and the fastest growing major export market for the United States in the world. It is helping to support thousands of American jobs today and will support even more in the future.

Despite this progress, China's record in implementing its WTO obligations is mixed. While China has fully implemented many of its WTO obligations, there are a number of areas where it still has work to do, as it continues to transition from a centrally planned economy toward a free-market economy governed by rule of law.

In our engagement with China, the United States follows a dual-track approach to resolving its WTO concerns – bilateral dialogue to try to achieve practical solutions where possible, together with a full willingness to use WTO dispute settlement where appropriate to resolve problems that have evaded resolution through dialogue.

The United States remains committed to seeking cooperative and pragmatic resolutions through bilateral dialogue with China, and the United States has achieved some important successes. For example, through our bilateral dialogues in the past year, primarily conducted through the U.S. – China Joint Commission on Commerce and Trade or “JCCT”, China made several commitments related to IPR protection and enforcement. It also committed to eliminate duplicative testing and certification requirements applicable to imported medical devices, to make adjustments to its registered capital requirements for telecommunications service providers, and to finalize a protocol allowing the resumption of trade in U.S. beef and beef products. China also reaffirmed past commitments to technology neutrality for 3G telecommunications standards and to ensuring that new rules in the postal area would not negatively affect foreign express couriers. In addition, China committed to commence, by no later than December 31, 2007, formal negotiations to join the WTO's Government Procurement Agreement. The United States has been working with China to make sure that it implements all of these commitments.

However, we have been unable to resolve other important issues through bilateral discussions, despite extensive effort, and we have turned to formal WTO dispute settlement in five instances:

- In March 2004, we commenced a WTO dispute against China's discriminatory value-added tax on integrated circuits. We were able to work successfully with China to resolve this issue during the consultation phase, and China repealed the discriminatory treatment.
- In March 2006, the United States, acting in coordination with the European Communities and Canada, commenced a WTO dispute settlement case challenging Chinese discriminatory charges on imported auto parts. We are now pursuing this case in front of a WTO arbitral panel.
- In February 2007, the United States, later joined by Mexico, filed a WTO consultation request in a case challenging several subsidy programs that appear to be prohibited under WTO rules, either because they are contingent upon

exportation or contingent upon the use of domestic over imported goods. The parties held a first round of consultations in March 2006.

- In April 2007, the United States requested WTO consultations regarding certain deficiencies in China's legal regime for protecting and enforcing intellectual property rights related to copyrights and trademarks that affect a wide range of products. The problems identified include high thresholds for criminal prosecution that create a substantial "safe harbor" for wholesalers and retailers who distribute or sell pirated and counterfeit products in China. Under WTO rules, formal consultations will take place in this case before mid-June.
- In April 2007, on the same day as the filing of the IPR case, the United States requested WTO consultations regarding certain barriers to market access for U.S. copyright-intensive industries, including books, music, home videos and movies. Consultations in this case also are due before mid-June.

USTR provides a detailed discussion of the efforts the United States has made to address these and other areas of concern, using bilateral dialogue and WTO dispute settlement, in the "2006 USTR Report to Congress on China's WTO Compliance," issued on December 11, 2006. The report is available on the USTR website (www.ustr.gov).

Subsidies

An area of priority concern for USTR is the Chinese Government's role in directing the Chinese economy, including through the use of subsidies. We are confronting this serious challenge using both enforcement levers as well as dialogue.

As you know, and as I described earlier in my testimony, in February 2007 we announced that the United States has requested consultations at the WTO over what we contend is China's persistent use of prohibited subsidies. Basically, the United States believes that China uses its tax laws and other tools to encourage exports and to discriminate against imports of a variety of manufactured goods. The subsidies at issue in this case are offered across a broad array of industry sectors in China -- including wood products, steel, information technology, and others.

It is an important case -- important because it challenges policies that are tilting the playing field against our workers and companies, important because it makes clear that we will use WTO dispute settlement procedures to hold China to its commitments where dialogue does not resolve our concerns, and -- perhaps most of all -- important because it will help impel China to maintain a process of reform and to redirect its economy towards a model of consumption-led, rather than export-led, growth. A victory for the United States in this WTO dispute should have a positive impact on the hardwood plywood sector. The case targets a number of very harmful subsidies, including export-related tax breaks offered to foreign-invested firms in China's plywood sector and other industry sectors.

While we have filed this WTO case, we continue to engage in dialogue with the Chinese on their use of subsidies. These discussions are happening both at the sector-specific level – for example, our recently created “Steel Dialogue” under the JCCT is enabling a conversation among governments and industries of both sides – as well as in connection with our broader economic dialogues, including the Strategic Economic Dialogue. Industrial policies that limit market access for non-Chinese origin goods and that provide substantial government resources to support Chinese industries also remain a concern.

The hardwood plywood industry and other industries have expressed concerns to us about the problems that many Chinese government incentives create for them. Supporting industry’s efforts to obtain comprehensive information about the various types of financial support that China provides to its domestic industries and taking effective action on that information is a priority for USTR.

Finally, although it does not fall within USTR’s statutory purview, I should note that the Department of Commerce continues to apply U.S. trade remedy laws to ensure that unfair trade practices, whether undertaken by the Chinese or others, do not distort the playing field against U.S. companies.

China Hardwood Plywood Issues

The Administration has aggressively worked to ensure a level playing field for U.S. hardwood plywood manufacturers as well as the entire forest and paper industry sector. China’s hardwood plywood industry has emerged as a chief competitor to our industry.

In the forest products sector, the growth in China's wood processing industries and strong Chinese demand for imported wood have provided opportunities for U.S. exporters. Our exports of hardwood lumber have shown strong growth in recent years, meeting some of China's demand for forest products and raw material. At the same time, in some sectors of our forest industry, like wood panel products and hardwood plywood, we are aware that Chinese exports of these products to the United States are climbing.

In late January, Ambassador Susan Schwab wrote the Commerce Minister of China specifically on the issue of hardwood plywood, asking Minister Bo Xilai to begin talks to address this at a high-level. In response, Minister Bo agreed to our request, and a first meeting on the issue of hardwood plywood was held in February in Beijing between the Assistant US Trade Representative for China Affairs and Commerce Ministry officials.

Additionally, in the past few months we have been pressing China to help work with us to stem the problem of illegal logging of timber that may be a source of raw material for Chinese producers. In the context of both the President’s Initiative to Address Illegal Logging and the Strategic Economic Dialogue (SED), we asked China to agree to engage in dialogue and consultation on illegal logging in order to increase mutual understanding and communication, and explore ways of cooperation, including through a bilateral agreement.. We are pleased that at last week’s SED, Chinese Vice Premier Wu Yi agreed to our request. In coming weeks and months, we will open this dialogue with China.

This effort builds on other initiatives we are taking. The United States recently concluded a first-of-its-kind Memorandum of Understanding with Indonesia on combating illegal logging. We are also working to address the problem regionally, for example by getting Singapore and Malaysia more involved in efforts to stem illegal logging and associated trade.

We are also working to address other issues related to hardwood plywood. For example, we have raised with China the issue of their border trade policies, where wood and other products imported from Russia may be coming in without paying value-added taxes, disadvantaging our hardwood plywood industry. We remain committed to working with our industry to address these problems.

Additionally, we continue to press the Chinese government on the issue of "reference pricing," where Chinese Customs authorities in some cases inappropriately use "reference pricing," and not the actual price of imports, when calculating product valuation for the purpose of imposing Customs duties – a practice that can in some cases can lead to a higher tariff than appropriate. We have indicated to the U.S. hardwood plywood industry our desire to work together on this issue, and have sought specific examples, including specific ports, and specific shipments where reference pricing is being used by Chinese Customs.

In summary, USTR is committed to ensuring that we are using the most effective tools at our disposal to pursue an open and fair trade relationship with China. This effort ties into broader Administration engagement on international economic issues, including work by Treasury and Commerce, and work with Members of Congress to achieve our common goals: a level playing field for American businesses, workers, and farmers.

Thank you for the opportunity to testify. I will be happy to take your questions.