

**U.S.-BAHRAIN  
FREE TRADE AGREEMENT**

**Written Statement of  
Ambassador Shaun E. Donnelly  
Assistant U.S. Trade Representative for Europe and the Mediterranean  
Before the  
Committee on Finance  
Subcommittee on Trade  
United States Senate  
Washington, D.C.  
October 6, 2005**

**INTRODUCTION**

Members of the Committee:

I would like to thank Chairman Grassley, Senator Baucus, Senator Thomas, Senator Bingaman and others on the committee who work in such close partnership with us on our free trade agreements.

I appreciate the opportunity to discuss the United States-Bahrain Free Trade Agreement (FTA) with you. The FTA is an important element of U.S. policy in the Middle East. With this agreement, Bahrain has made legally binding commitments to liberalize trade with the United States. Beyond substantial trade liberalization, the FTA will help support ongoing economic, political, and social reforms in Bahrain, and signal to other reforming countries in the region the benefits of pursuing market liberalizing policies. The FTA's imprimatur will also be an important force in encouraging increased direct foreign investment in Bahrain and in creating an economic environment conducive to additional employment opportunities for the people of Bahrain.

The Administration's trade agenda is a fundamental part of the President's broader efforts to advance reform in the Middle East. In May 2003, President Bush announced our goal of creating a United States-Middle East Free Trade Area by 2013. This trade agenda is one element of a comprehensive approach to address the economic, social, and political challenges facing the region and U.S. interests in the area. In particular, our trade strategy is predicated on the idea that sustained economic growth can best be brought to the region through internally generated reforms and market-based, trade liberalizing policies. The Agreement will promote transparency and the rule of law in this small, but important, partner in this strategically important region.

Our strategy toward countries in the region – to engage them at their levels of development, to provide them access to the U.S. market based on reciprocity, and to require that they adopt high standards for trade and investment – is working. In addition to the FTA with Bahrain, we have completed FTAs with Morocco and Jordan, as well as our long-standing FTA with Israel, and signed Trade and Investment Framework Agreements with Qatar, Kuwait, Yemen and the United Arab

Emirates in 2004. The strong desire of these countries to conclude FTAs with the United States leads to more certain market access for goods and services, high standards for intellectual property, transparency, and anti-corruption that only such agreements can provide. This FTA is a model that Bahrain's neighbors can soon share.

The 9/11 Commission urged the United States to expand trade with the Middle East in order to "encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future." The Commission highlighted the FTA with Bahrain, as well as our FTA with Morocco, as specific examples of positive steps in this direction. The President and USTR take this recommendation very seriously.

Working in close partnership with Congress has been critical to our successes to date. The Trade Act of 2002 put in place procedures that make it possible to negotiate the types of agreements that not only address the pressing need for engagement with regions such as the Middle East, but also bring real benefits to American workers and the U.S. economy.

## **THE AGREEMENT**

This FTA will benefit U.S. workers, manufacturers, consumers, farmers, ranchers, and service providers. On the day the agreement takes effect, 100 percent of consumer and industrial products and 81 percent of U.S. agricultural exports will enter Bahrain duty-free. This new trade opening will expand opportunities for exports of aircraft, machinery, vehicles, pharmaceuticals, and agricultural products such as meats, fruits and vegetables, cereals, and dairy products. In addition, Bahrain's commitments to a science-based Sanitary and Phytosanitary and Technical Barriers to Trade regimes and transparency in standard-setting serve as excellent examples for the rest of the Arabian Gulf region.

Under the FTA, Bahrain will open its services market wider than has any previous FTA partner, creating a wide array of opportunities in services sectors such as banking and securities, insurance, telecommunications, audiovisual, express delivery, distribution, healthcare, architecture, and engineering. The FTA includes provisions that will help ensure that U.S. services providers compete on a level playing field with Bahraini services companies.

The agreement provides for a high level of protection of intellectual property rights, consistent with the standards set in U.S. law. The FTA calls for state-of-the-art protection for trademarks and digital copyright-protected works, expanded protection for patents and product approval information, and tough penalties for piracy and counterfeiting.

The FTA's rules for government procurement will promote transparency and efficiency. The agreement places important obligations on each country, such as prohibiting discrimination against suppliers from the other country when government purchasers make covered purchases in excess of agreed monetary thresholds.

The agreement's rules of origin allow for the possibility of counting the value of inputs from FTA partners in the region in determining whether goods receive preferential tariff treatment. This feature would facilitate connecting our bilateral agreements as we move build toward a more integrated, region-wide agreement. It would also encourage trade among countries in the region, an important yet currently missing ingredient for the region's development.

With the passage of its 2002 Workers Trade Union Law, Bahrain now has labor laws that give effect to the principles and rights set forth in the ILO Declaration on Fundamental Principles and Rights at Work. The 2002 law now allows workers, including foreign workers, to form and join trade unions. The FTA's labor and environment provisions fully meet the negotiating objectives set out in the Trade Act of 2002. These provisions are included in the core text of the agreement. Under the agreement, each Party commits to effectively enforce its labor and environmental laws. This obligation is enforceable through the agreement's dispute settlement procedures. Moreover, each country commits to promote high levels of environmental protection, to strive to ensure that its labor laws provide for labor standards consistent with internationally recognized labor principles, and to strive not to waive or derogate from labor and environmental laws to attract trade and investment. Also notable are provisions calling for panel expertise in the event of labor or environmental disputes, as well as a mechanism that would allow for monetary assessments to be used to assist a country in addressing a labor or environmental violation. The agreement also establishes processes for further cooperation on labor and environmental issues. For example, under the Memorandum of Understanding on Environmental Cooperation, the countries are establishing a Joint Forum on Environmental Cooperation that will develop a plan of action and set priorities for future environment-related projects.

The FTA also includes important transparency, public notification, and anti-bribery provisions. These provisions will help to improve the business and investment environment in Bahrain by providing more certainty and predictability for firms and individuals operating and investing there and promoting the rule of law. In turn, such provisions will allow Bahrain's economy to realize the full potential for growth and development that the FTA offers.

The agreement enjoys widespread support from our trade advisory committees. The most senior committee, the Advisory Committee for Trade Policy and Negotiations, found the agreement "is strongly in the interest of the United States," and noted that "it is an excellent agreement that will improve market access for American goods, services and agricultural products in Bahrain."

Committees representing sectors such as services, consumer goods, and intellectual property have also expressed broad support for this FTA. The Committee on Services and Finance reported that "taken together with the U.S.-Bahrain Bilateral Investment Treaty, the Bahrain FTA establishes a strong precedent for other trade agreements." Members of the consumer goods committee endorsed "the comprehensive nature of the U.S.-Bahrain FTA and believes its terms represent an advance in many aspect." Our agricultural advisory committees have also provided favorable assessments. The senior-level Agricultural Policy Advisory Committee said the FTA "will improve opportunities for U.S. agricultural exports."

A majority of the Trade and Environment Policy Advisory Committee found that “this agreement has been negotiated with a friendly Arab government initiating steps toward democracy and situated near the heart of an extremely complex geopolitical region . . . [T]his agreement, as well as the Administration’s larger Middle East Trade Initiative, might help contribute to economic growth and stability and to positive national security outcomes in the region.”

We recognize that the Labor Advisory Committee has concerns about all FTAs that the United States has concluded to date, and that such concerns relate as well to the Committee’s assessment of this agreement. However, the FTA fully meets the guidance that the Congress gave us in the Trade Act of 2002. And, the International Confederation of Free Trade Unions (ICFTU) has praised Bahrain’s progress on labor rights. In fact, the General Secretary of the ICFTU has publicly hailed Bahrain as showing the way for the region and has said, “We will be encouraging other Gulf states to follow the example of Bahrain in working towards a truly independent labor movement in the region.” We are convinced that the disciplines and consultative mechanism in the FTA will play a major role in further improving the labor situation in Bahrain.

## **CONCLUSION**

The United States-Bahrain FTA is a comprehensive, high-quality agreement that will not only remove trade barriers, but expand regional opportunities for the peoples of both countries. The agreement will enhance commercial relations with an economic leader in the Gulf, as well as set the stage for improving trade relations and expanding openness with other countries in the region, and thereby creating prosperity, opportunity, and hope. The agreement is an essential building block for the Administration’s goal of assisting the countries in the Middle East to build more market-oriented, liberalized economic regimes, as well as in fulfilling the 9/11 Commission’s unanimous recommendation to expand trade with the region.

With your guidance and support, we will continue to pursue the Middle East Free Trade Area initiative. Working together, we feel confident that we can build an open trading and investment community with the Middle East that will create opportunity, generate prosperity, and promote liberty.

I would be pleased to respond to questions or comments from Members of the Committee.