

**UNITED STATES-BAHRAIN  
FREE TRADE AGREEMENT**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
ONE HUNDRED NINTH CONGRESS  
FIRST SESSION  
\_\_\_\_\_  
OCTOBER 6, 2005  
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# **UNITED STATES-BAHRAIN FREE TRADE AGREEMENT**

**THURSDAY, OCTOBER 6, 2005**

U.S. SENATE,  
SUBCOMMITTEE ON INTERNATIONAL TRADE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 2:30 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Craig Thomas (chairman of the subcommittee) presiding.

Present: Senator Bingaman.

## **OPENING STATEMENT OF HON. CRAIG THOMAS, A U.S. SENATOR FROM WYOMING, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE**

Senator THOMAS. Welcome. I believe we will go ahead and get started. We have a vote at 3 o'clock, so this voting messes up our lives around here, as you know.

At any rate, welcome, all of you, and particularly the members of the panel. This, of course, is dealing with trade with Bahrain. Trade, of course, is a very important part of our long-term economy and building strong relationships.

I think everybody understands that we are going to have trade in this world, and indeed we need to have trade. Of course, we need to expand as much as we can, lowering global barriers and working at all the areas. Ninety-six percent of the people in this world live outside of the United States, so it plays an important role for us.

Of course, agreements in WTO are very important and remain a significant challenge. However, negotiations go on in the bilaterals, and that is where we are today.

Bahrain, of course, is a very important place. We are not the largest trading partners in the world, but it is an important one, both strategically and economically.

The FTA includes market access to U.S. consumers, industrial and agricultural products, its broad commitment to service areas, and intellectual property protection, and the things that all of us preserve.

We would like to make this as strong as we can for both countries, and tough enforcement mechanisms are necessary, of course, to do that. So, I will not take long because we are anxious to hear from the panel, so let me call on Senator Bingaman.

[The prepared statement of Senator Thomas appears in the appendix.]

**OPENING STATEMENT OF HON. JEFF BINGAMAN,  
A U.S. SENATOR FROM NEW MEXICO**

Senator BINGAMAN. Thank you very much, Mr. Chairman.

I also have a statement that I will put in the record. I do think, from what I understand, and I am looking forward to learning more here, that there are some significant advantages to our products going into Bahrain as a result of this agreement.

I am concerned that some of these labor issues remain inadequately addressed. I gather Congressman Cardin raised that in a hearing in Ways and Means last week. In accord with what I believe he indicated at that hearing, I would like to see that resolved. But I do look forward to the testimony, and then for further action by the committee. Thank you.

[The prepared statement of Senator Bingaman appears in the appendix.]

Senator THOMAS. Thank you very much, Senator.

Thank all of you. For all of you who will be testifying, your full statements will be put into the record. If you could summarize your statements, why, we would appreciate that very much.

Ambassador Shaun Donnelly, Assistant U.S. Trade Representative for Europe and the Mediterranean, Office of the U.S. Trade Representative.

Mr. Ambassador, welcome.

**STATEMENT OF HON. SHAUN DONNELLY, ASSISTANT U.S.  
TRADE REPRESENTATIVE FOR EUROPE AND THE MEDITERRANEAN,  
OFFICE OF THE U.S. TRADE REPRESENTATIVE,  
WASHINGTON, DC**

Mr. DONNELLY. Thank you very much, Mr. Chairman.

I would like to thank you and Senator Bingaman, as well as Chairman Grassley, Senator Baucus, and the other members of the committee who have worked with us in partnership on our whole free trade agenda.

I appreciate the opportunity to discuss the U.S.-Bahrain Free Trade Agreement 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 foreign direct investment in Bahrain and in creating an economic environment that is 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 U.S.-Middle East Free Trade Area by 2013.

This trade agenda is one element of a broad, comprehensive approach to address the economic, social, and political challenges that face the region and U.S. interest in that 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 as you said, Mr. Chairman, important partner in this strategically important region.

Our strategy toward the countries in the region to engage each of 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 longstanding Free Trade Area with Israel. We have 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 the 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 the 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 the Congress has been crucial to our success to date.

The Trade Act of 2002 put in place procedures that make it possible to negotiate this type of agreement that not only addresses the pressing need for engagement in regions such as the Middle East, but also brings real benefits to American companies and workers, and to the U.S. economy.

This FTA will benefit U.S. workers, manufacturers, consumers, farmers, ranchers, and service providers. On the day the agreement goes into effect, 100 percent of consumer and industrial goods, and 81 percent of U.S. agricultural exports, will enter Bahrain duty-free.

Under the FTA, Bahrain will open its services market wider than any previous FTA partner, creating a wide array of opportunities for U.S. service providers.

The agreement provides for a high level of protection for 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 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, down the line, facilitate connecting our bilateral agreements as we move toward building the more integrated region-wide free trade agreement. It would also encourage trade among countries in the region, an important, yet currently missing, ingredient in 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 forward 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, and these agreements are included in the core text of the agreement.

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.

The agreement enjoys widespread support from our trade advisory committees. The Advisory Committee for Trade Policy and Negotiations found the agreement "is strongly in the interests of the United States," and noted, "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 support. We recognize, Mr. Chairman, that the Labor Advisory Committee still has concerns about all U.S. FTAs that we have concluded to date, and that such concerns relate to the committee's assessment of this agreement.

However, the FTA fully meets the guidance that Congress gave us in the Trade Act of 2002. The International Confederation of Free Trade Unions has praised Bahrain's progress on labor rights.

In fact, the Secretary General of the ICFTU has publicly hailed Bahrain as showing the way for the region, and 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 mechanisms in the FTA will play a major role in further improving the labor situation in Bahrain."

In conclusion, Mr. Chairman, the U.S.-Bahrain Free Trade Agreement is a comprehensive, high-quality agreement that will not only remove trade barriers, but will expand regional opportunities for people in 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, thereby creating prosperity, opportunity, and hope.

The agreement is an essential building block for the administration's goal of assisting the countries of the Middle East to build more market-oriented, liberalized economic regimes, as well as fulfilling the 9/11 Commission's unanimous recommendation to expand trade links 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 very pleased to respond to the questions and comments from the committee.

[The prepared statement of Mr. Donnelly appears in the appendix.]

Senator THOMAS. Thank you very much.

You mentioned the Middle East a number of times, and I think four countries. What, generally, has been the balance of trade with the U.S. and those four countries since we entered agreements?

Mr. DONNELLY. Mr. Chairman, we have seen growth in both directions in the trade. Generally, I think the balance has stayed about the same as we had experienced before the free trade agreements.

In the case of Jordan, we have seen, frankly, more exports. The U.S. exports to Jordan have increased, but not as much as Jordan's exports to us. Morocco, we are still at the early stage. Israel, I think we have seen what we would call proportionate growth in both directions.

Part of the situation that I think the statistics may not yet totally capture, is the importance of services in this. I think the statistical challenge of capturing the services exports that we are having in this, it is not just a regional question, but a general one. We think it creates the potential for increased trade in both directions, and it is certainly our objective to try to see that be a mutually beneficial process.

Senator THOMAS. The balance of trade has been what, negative or positive?

Mr. DONNELLY. Mr. Chairman, could I get back to you with official data on that point? I believe it has probably been negative, but I want to get you the accurate number.

Senator THOMAS. You mentioned, a number of times, agriculture, which of course is of personal interest. But are we going to be able to do what is necessary in the Doha arrangement before Hong Kong in order to get agriculture working?

Mr. DONNELLY. We certainly hope so, and we expect so, Mr. Chairman. I am not a negotiator in the Doha Round. Obviously, in the bilateral agreements like the Bahrain agreement, we are addressing some of those same challenges.

But Ambassador Portman, as you know, is committed to this. He has been consulting widely. He is going off to a key week in Europe next week with some of his Trade Minister partners, and agriculture is absolutely at the center of the Doha agenda. So, I think you can rest assured, Mr. Chairman, that it is at the very top of our agenda.

We do see the global opening we are trying to get in Doha that goes in parallel with the opening we are trying to get in the bilateral agreements as it relates to agriculture or any other thing.

One important aspect that relates to agriculture in this particular agreement, for many years American companies have been challenged by some of what we call sanitary and phytosanitary reg-

ulations, shelf-life regulations, and so on that have been in place in some of the countries in the Gulf.

In this agreement, Bahrain has agreed to put in place a science-based regulatory system that I think is very important. So we are not just addressing the tariff levels and so on, like that, but we are trying to get high standards, as we do in the WTO. But I think that is one of the important breakthroughs that we find in this Bahrain agreement that we think sets an example for other countries in this particular region.

Senator THOMAS. All right. Good.

Sometimes it appears, for example in CAFTA, that developing the relationship is more important actually than the trade aspect of it.

Mr. DONNELLY. Yes.

Senator THOMAS. How would you react to that with respect to this agreement?

Mr. DONNELLY. Well, Mr. Chairman, as I said in my statement, as Ambassador Portman, like Ambassador Zoellick before him, and the President have said, we think that these free trade agreements promote both our commercial trade and investment interests, as well as our more general political and security interests with important partners.

But as you may know, Mr. Chairman, I come from the State Department. I have spent a long time on that side of the house. But we are not, as an administration, using FTAs to ignore the economic benefits and just do them as political prizes to give to important foreign policy friends.

If you look down the list of countries we have done free trade agreements with in this region or others, they are all with countries that we consider friends. But the basis is, which countries are prepared to step up and accept the kind of high-standards agreements that we want to do?

So, yes. Does it help that a country that might be interested in an FTA is a good friend or a foreign policy ally of ours? Sure it does. But that does not mean we do an agreement that does not meet the standards or that the country is not prepared to do the kind of free trade agreement we insist on.

Senator THOMAS. Is Egypt in the forefront with regard to the Middle East?

Mr. DONNELLY. Absolutely. As you know, Mr. Chairman, Egypt is really the geographic, cultural, and many other ways the center of the Middle East. It is the largest population in that area. It is also an area, frankly, where we have a strong economic relationship, but many American companies have had problems, many in the agricultural area, but others.

I think Ambassador Portman has said to members of Congress, publicly, in addition to the agenda that we have of free trade agreements that we have been working on, we have identified four important, friendly countries that have come to us, requesting that we do an FTA with them. Those are Egypt, Switzerland, Malaysia, and Korea. We have not made any decisions on any of those countries. They are all under serious review.

In the case of both the Egypt and Switzerland agreements that I am in charge of at USTR, we are engaged in a very serious proc-

ess that we have set up under, in the case of Egypt, our trade and investment framework agreement.

We have 14 or 15 bilateral working groups that basically parallel the chapters you would have in a free trade area agreement, whether it is agriculture, investment, intellectual property rights, services, Customs, all these kinds of issues.

And our experts are getting together with their Egyptian counterparts and really going through what would be involved so that we can make a smart decision on what would be involved, so I can recommend to Ambassador Portman, and he can recommend to the President, whether there is a basis for doing that kind of free trade agreement. So, yes. Sorry. Egypt is very much at the center of our agenda.

Senator THOMAS. Thank you.

Senator Bingaman?

Senator BINGAMAN. Thank you very much.

Ambassador, have we done a forecast as to what effect entering this agreement will have on our trade balance with Bahrain? Will it improve our balance of trade with Bahrain or cause it to deteriorate further?

Mr. DONNELLY. Senator Bingaman, we would like to see our trade balance with Bahrain improve. We think that this agreement can provide that. There are no guarantees.

I, frankly, am not sure of the validity of econometric analysis in terms of what kind of assumptions one makes, but we are confident that this agreement will open opportunities in industrial, in services, and in agricultural goods. We are basically open to Bahrain's exports to us now, so this is, again, a model where we think there are opportunities.

There are no guarantees, but we believe that it presents an opportunity, particularly factoring the very high level of services commitments: financial services, insurance, package delivery, all of those areas we think open up an opportunity to try to improve our trade balance with Bahrain.

Senator BINGAMAN. But you do not have a forecast that says, here is our trade circumstance with Bahrain today, and here is what it is going to be 5 years from now, or 10 years from now under this agreement.

The reason I ask, is that the witness who is on the second panel, Mr. Robert Baugh, executive director of the AFL-CIO Industrial Union Council, says in his testimony, "the agreement will likely only exacerbate our trade imbalance. It is likely the agreement will result in a deteriorating trade balance in some sectors." That is contrary to what you folks forecast, or you do not have a forecast?

Mr. DONNELLY. Senator, I would not claim we have a forecast on which I would be able to commit on that. I mean, the International Trade Commission did do an analysis, as they do of these potential things.

Frankly, they came back and said they anticipated minimal effect on the overall balance, just given the geographical distances that we are dealing with. But, I mean, our trade balance with Bahrain has gone up and down. We ran a surplus in 2003. We ran a deficit in 2004.

I mean, the total level of trade has run from as much as \$500 million in exports in 2003 down to \$300 million in 2002. Part of that, I think, is affected by deliveries of large commercial aircraft, and so on.

So I am not sure we can give you a scientifically valid projection, but we will certainly look at Mr. Baugh's analysis.

Senator BINGAMAN. Let me ask about the labor provisions. Again, referring to his testimony, he says the agreement is a step backwards from existing labor rights provisions in the U.S.-Jordan FTA and in our Generalized System of Preferences program. Is that consistent with your view of things?

Mr. DONNELLY. No, sir, it is not. We believe that not only are the labor provisions fully consistent with the guidance in TPA, we think they are at least as strong, or stronger, than the Jordan provisions.

I am not going to try to tell you, nor would I try to tell Mr. Baugh, that the labor situation in Bahrain is perfect. We think the Bahrainis have made considerable efforts in their 2002 law. That has basically been validated by observers like the ICFTU and the ILO.

But we certainly see that there is work to be done. My colleague, the new Assistant USTR for Labor, when he made his first trip internationally after joining USTR about 6 weeks ago, went out to Bahrain.

We certainly see the commitments that Bahrain would be making here, the other commitments you have referred to that the Bahraini government is currently reviewing, possible proposals to further strengthen provisions of their law, and the dialogue process that is set for labor.

Senator BINGAMAN. Let me ask one other question, because I am about out of time here. This testimony goes on to say, "in the Bahrain agreement, only one labor rights obligation—that is, the obligation for a government to enforce its own labor rights—is actually enforceable through dispute settlement.

"All of the other obligations contained in the labor chapter, many of which are drawn from congressional negotiating objectives, are explicitly not covered by the dispute settlement system and are thus completely unenforceable."

What is your reaction to that?

Mr. DONNELLY. As I have said, Senator Bingaman, the labor provisions are based on the clear guidance we have gotten from the Congress in the trade promotion authority legislation. I think the statement is correct.

Sometimes there is a comparison made to Jordan, but many of the provisions that some allege are so strong in the Jordan agreement, they are only a requirement to seek to do something, which a lot of lawyers feel is not a strong legal basis to move for actual dispute settlement. We feel, as we have done in the CAFTA—and I realize there is a controversy and different views on this—we have an agreement that works. We have a system that can, in dispute settlements, focus on real labor problems.

If there are fines imposed or resources, they can be directed to try to solve the problem. We have work to do with Bahrain, but the Bahraini authorities have clearly impressed us that they are seri-

ous on the labor agreement, and we feel that there is a strong basis for moving forward.

Senator BINGAMAN. Thank you, Mr. Chairman.

Senator THOMAS. Thank you, Mr. Ambassador. We appreciate your being here.

Mr. DONNELLY. Thank you very much, Mr. Chairman.

Senator THOMAS. I would invite the second panel, please. It includes Ms. Megan Aslaksen, Global Trade Specialist, Hewlett-Packard Company; Mr. Lionel Johnson, vice president and director of International Government Affairs, Citigroup, and co-chair of the U.S.-Bahrain Free Trade Agreement Coalition; Ms. Barbara Spangler, executive director of the Wheat Export Trade Education Committee; Mr. Bob Baugh, director, AFL-CIO Industrial Union Council; and Mr. David Hamod, president and CEO, National U.S.-Arab Chamber of Commerce.

So, we thank you, ladies and gentlemen, for being here. Again, your full statements will be put into the record. If you could summarize them, why, we would be very pleased about that.

Ms. Aslaksen, welcome. Would you like to begin, please?

**STATEMENT OF MEGAN ASLAKSEN, GLOBAL TRADE  
SPECIALIST, HEWLETT-PACKARD COMPANY, PALO ALTO, CA**

Ms. ASLAKSEN. Thank you. Chairman Thomas, Ranking Member Bingaman, and members of the subcommittee, my name is Megan Aslaksen. I work for Hewlett-Packard Company in the Global Trade-Trade Facilitation Department. I am based at HP headquarters in Palo Alto, CA. Thank you for providing me the opportunity to testify before you today in support of the U.S.-Bahrain Free Trade Agreement.

Hewlett-Packard is a Fortune 11 company with revenues of nearly \$80 billion. We are the world's largest IT company and the largest IT provider in the Middle East. Our technologies range from consumer hand-held devices to some of the world's largest and most powerful super-computer installations. We have an estimated 150,000 employees and conduct business in more than 170 countries. As a result, we are dedicated to free trade and the reduction of trade barriers across borders.

Bahrain, as part of the 18 countries composing the Middle East/North Africa region, represents an area of great potential in both consumer demand and human capital. For HP and other American companies, this FTA represents an opportunity to share our innovative, life-enhancing products and services.

The Bahrain FTA forms part of a larger U.S. initiative to improve ties with, and promote stability in, the Middle East region through the establishment of the Middle East Free Trade Area by 2013. The U.S. has already achieved bilateral agreements with Jordan, Israel and Morocco, and now stands ready to implement its third FTA in the region, the U.S.-Bahrain FTA. We support U.S. efforts to expand trading opportunities in the region. The U.S.-Bahrain FTA is a milestone in this process, as it represents the United States' first FTA with a Gulf State. We also applaud USTR and Ambassador Portman for the recent conclusion of the U.S.-Oman agreement.

As we know, the Kingdom of Bahrain is a prosperous country with an economy primarily based on petroleum production and refining.

However, it is facing the same problems plaguing other Middle East countries. In an attempt to diversify its economy, Bahrain has established itself as a center for banking, information technology, telecommunications, and health care. HP looks forward to winning congressional support for this FTA so as to allow expanded market access in the region. Building upon the established U.S.-Bahrain bilateral investment treaty and trade and investment framework agreement, this FTA will provide Bahrain greater access to the U.S. market, which will generate direct investment into the Kingdom. The Agreement will benefit both countries by helping to spur economic growth and improve employment opportunities.

Comprehensive FTAs provide a wide array of benefits and help to open doors for HP and other U.S. companies. The Bahrain FTA secures binding commitments in a number of areas important to the high-tech sector. For example, under the Agreement, Bahrain will immediately eliminate import taxes on technology products, which will increase U.S. high-tech competitiveness in the region. U.S. exporters like HP will also benefit from commitments by Bahrain to modernize Customs procedures. Benefits include the availability of advanced rulings, publication of laws and regulations on the Internet, the promotion of the use of automated systems, and the use of risk assessment systems.

As the leading provider of IT solutions in the region, the Agreement represents an important business opportunity for HP both abroad and at home. With the diversification of Bahrain's economy, HP looks forward to being part of the Kingdom's future growth. HP and our customers will stand to benefit from this agreement in the areas of market access, modernization and transparency of Customs procedures, IPR, and government procurement.

The Agreement also provides U.S. exporters with the broadest service access of any FTA to date.

IPR, e-commerce, and government procurement provisions will also benefit U.S. firms. Improved commitments in these areas include governmental use of legitimate software and the requirement of parties to ratify a number of international IP agreements.

HP strongly supports the establishment of free trade. Working in partnership with our colleagues in the high-tech sector, trade coalitions, and associations, we advocate the negotiation and implementation of bilateral and regional agreements. We hope that the recent U.S. success to conclude comprehensive FTAs with various trading partners will foster efforts to reduce tariff and non-tariff barriers to trade at the regional and multilateral levels.

On behalf of Hewlett-Packard Company, I would like to express our company's support for the U.S.-Bahrain FTA and urge prompt congressional action and approval to strengthen the economies of the United States and Bahrain. In closing, we believe that this Agreement will serve as a model for other FTAs in the region, facilitate 2-way trade, and promote regional stability and economic development.

Again, I appreciate the opportunity to put forth HP support for the U.S.-Bahrain FTA, and encourage timely congressional action.

I would welcome any questions or comments at this time. Thank you.

Senator THOMAS. Thank you very much.

[The prepared statement of Ms. Aslaksen appears in the appendix.]

Senator THOMAS. Mr. Johnson?

**STATEMENT OF LIONEL C. JOHNSON, VICE PRESIDENT AND DIRECTOR, INTERNATIONAL GOVERNMENT AFFAIRS, CITIGROUP AND CO-CHAIR, U.S.-BAHRAIN FREE TRADE AGREEMENT COALITION, WASHINGTON, DC**

Mr. JOHNSON. Thank you, Mr. Chairman. My name is Lionel Johnson. I am the vice president and director of International Government Affairs of Citigroup, and I also have the pleasure today of representing the 75 companies and associations that comprise the U.S.-Bahrain Free Trade Agreement Coalition.

Even with its vast supplies of natural resources, the Middle East remains one of the poorest regions of the world, with a youthful population that sees little prospect of a brighter economic future. These twin factors lead to destabilizing conditions that may pose a direct security threat to the United States.

It is our view that liberalized trade with the region offers the Middle East an alternative path, the path of improved economic conditions, true integration into the multilateral trading system, and an enhanced respect for the rule of law.

As these economies grow, it is crucial that American businesses, workers, and farmers have a seat at the table. If we choose not to engage economically with the Middle East, our international competitors would be more than happy to do so and to expand trade relations with this region at our economic expense. Engagement with the Middle East promises long-term and tangible economic, as well as security, gains for the United States.

We operate as Citibank in Bahrain and have been present in the Kingdom since 1969. We were among the first foreign banks to establish business operations in the Kingdom, and we remain firmly committed to our presence in Bahrain, and believe that the FTA offers an excellent opportunity to grow our business in this important region of the world and to enable us to provide a wider range of world-class financial services to our Bahraini, as well as our Persian Gulf, customers.

Bahrain's leaders, including the Minister of Finance, are reformers in a region in search of expanded opportunities for their people through greater participation in the global economy.

Bahrain's government officials have often consulted with us and our private sector partners when considering new laws and regulations that impact our sector. The FTA will help the banking sector as market access becomes more liberalized.

As the geographical and financial center of the Middle East and West Asian region, Bahrain is perfectly positioned to serve as the economic gateway to the Gulf. Through Bahrain, the doors to the GCC economies are opened, while just across the Gulf region lay the increasingly important economies of southwest Asia with which Bahrain has a long a thriving relationship.

As Bahrain diversifies its economy away from petroleum, the financial services sector has become the second-largest contributor to Bahrain's GDP.

There are great opportunities for American financial services and insurance companies to invest and to expand in Bahrain, as demonstrated by the strong presence of 65 American financial firms already located within its borders.

Again, I want to thank the committee for the opportunity to testify on behalf of Citigroup and on behalf of the U.S.-Bahrain FTA Coalition in support of this very important agreement.

We believe that it will lead, over time, to increased job creation, trade expansion, improved technology, deepening of people-to-people ties, and enhancement of long-term economic development in this region of vital importance to the United States. Thank you, Mr. Chairman.

Senator THOMAS. All right. Thank you, Mr. Johnson.

[The prepared statement of Mr. Johnson appears in the appendix.]

Senator THOMAS. Ms. Spangler, please?

**STATEMENT OF BARBARA SPANGLER, EXECUTIVE DIRECTOR,  
WHEAT EXPORT TRADE EDUCATION COMMITTEE, WASHINGTON, DC**

Ms. SPANGLER. Thank you. This afternoon I represent the Wheat Export Trade Education Committee, the U.S. Wheat Associates, and the National Association of Wheat Growers, the entire wheat industry of the United States.

I want to thank you, Mr. Chairman, and you, Mr. Bingaman, for the opportunity to speak today on the importance of this step in opening the market and expanding opportunities with the State of Bahrain, and throughout this strategic region.

I wish to begin my remarks, however, by offering my sincere congratulations to Dr. Belooshi on being named Ambassador to the United States for the State of Bahrain. Ambassador Belooshi has held his hand out in friendship and cooperation throughout his tenure as Economic Representative to the United States.

I personally look forward to continuing this friendship and the opportunity to expand trade with the people of Bahrain that I know he will foster.

Let me begin the other points with two issues that the U.S. wheat industry takes into account when looking at the market around the world, and opportunities that are very important to us.

First, as you have said, Mr. Chairman, 96 percent of the world's consumers live beyond our borders. The 4 percent within the United States have no way to begin to consume the amount of wheat that would keep our industry healthy.

Second, we consistently export nearly 50 percent of our total production. As you can imagine, our success or failure hinges on the ability of U.S. wheat to be exported around the world.

Trade is a vital component for ensuring the financial viability of our producers. Fair and open trade agreements are key to reaching our customers outside of the United States.



American wheat producers look to this region of the world as one of opportunity, and we support the Bahrain free trade agreement. With a population nearly that of Washington, DC, Bahrain is not going to be a major agricultural importer of commodities. With some exceptions, this has been a duty-free market for most grains.

This FTA will lock in duty-free access for all U.S. wheat, and most other grains. Upon implementation, 81 percent, as you heard earlier, of all agricultural exports will be allowed to enter duty-free. This is a good agreement for American producers. All the others will be phased in over a 10-year period to zero duty.

Sometimes a trade agreement is more important for forward movement in developing relationships in the country and throughout the region. The wheat industry views every open door for trade as an opportunity to establish relations and explore future opportunities. This is one of those doors.

The U.S. wheat industry supports moving forward aggressively with bilateral agreements such as this one. However, the World Trade Organization Doha negotiations are the critical link toward balance in the world trade situation. They are the major key to expanding U.S. wheat trade.

If the U.S. is successful in achieving its longstanding goals in the WTO, the U.S. wheat industry will be better able to take advantage of the opportunity offered by this free trade agreement.

It is only in the Doha negotiations that export state trading monopolies can be disciplined, and hopefully eliminated. The trade-distorting monopolistic practices of major competitors trading in Bahrain and throughout the region are a critical impediment to our ability to secure a fair market share with Bahrain. The issue can only be resolved through the WTO negotiations.

Additionally, an important element, as you heard earlier, in this FTA is the fostering of alliances in the region in a way that they will carry over to opening trade and to, we believe, WTO negotiations, the only venue where many trade distortions can be resolved.

FTA negotiations have the potential to extend beyond the level of liberalization we hope to achieve in the WTO. FTAs are WTO, plus. We go to zero a whole lot faster in FTAs.

This FTA, if approved and implemented, will hopefully serve as an important link for the more extensive multilateral trade agreements between the U.S. and other countries in the region.

The U.S. must take advantage of opening markets through agreements such as this one. The wheat industry urges you to move this agreement through Congress quickly so it can become active.

Thank you. I look forward to your questions.

Senator THOMAS. Thank you very much.

[The prepared statement of Ms. Spangler appears in the appendix.]

Senator THOMAS. Mr. Baugh?

**STATEMENT OF BOB BAUGH, DIRECTOR, AFL-CIO INDUSTRIAL UNION COUNCIL, WASHINGTON, DC**

Mr. BAUGH. Mr. Chairman, Senator Bingaman, I would like to thank you and the members of the committee for having us here

to testify on behalf of the working people of the United States and the members of the AFL-CIO.

As you know, we have a great interest in all trade agreements and our trade policy generally, and we are here today to talk about Bahrain and its effect upon American workers, and Bahraini workers.

I have submitted my written testimony, and I know the Senator has already drawn some questions based upon issues we have raised. I would like to speak a little bit more about those.

We do have serious, ongoing concerns with the basic template we have in our trade agreements around fundamental labor rights. The arguments that we are hearing here, and you saw in the testimony, are similar to other things that came up around the CAFTA agreement, and we are being very consistent in how we think and talk about these things.

The workers' rights provisions, we find to be inadequate, ineffective, and weaker than they are under the fundamental human rights that are respected, and dispute settlement mechanisms for worker rights and environmental protections are weaker than those available in the commercial provisions.

At the same time, flawed provisions in services, government procurement, and intellectual property rights will undermine the ability of both governments to protect public health, strong communities, and the environment.

Specifically, I would like to highlight a couple of the issues that we have with the labor provisions of this agreement. It is true that the government of Bahrain instituted labor law reform in 2002, and we applaud the step forward, just as the International Confederation of Free Trade Unions did.

But let us be clear here. Neither they, nor we, are saying the job has been done. There are serious problems with what has been done, and what is not being done, under those labor provisions. They are a step back from the Jordan agreement, and they are a step back from what we enjoy under our Generalized Services and Preferences Agreements.

The scope of the right to organize is limited. Public employees do not have the right to organize under the current labor law. There is a difference between the king, the crown prince, and the cabinet on this. There are limits on the right to bargain collectively.

There are limits on the right to strike that go beyond what the ILO provisions call for in very limited categories of essential services. It is a broad list in Bahrain that there is no right to strike.

The provisions around the right to strike are limited. In fact, if you end up in arbitration and it does not work, you still do not necessarily have the right to strike, which is a fundamental of labor law and labor protections throughout the world under the ILO standards.

There is no enforcement, there is no minimum wage, and there are guidelines in the government but there is no enforcement of it. In a country in which two-thirds of the workers are foreign workers, they are extremely vulnerable to nonpayment of wages.

The issue of forced labor has been documented by our own State Department studies, and others. Again, nonpayment of wages. People that have to pay wages to somebody who got the job, they go

there. If they change jobs, they must continue to pay for the work that they have. They have to pay somebody to have those jobs. Again, they have failed to offer those protections.

There is no political activity allowed under the law for labor organizations, again, a fundamental of the ILO standards that are rights of labor movements throughout the world.

Finally, in the process of consultation, which has been required around this, it is most disturbing that the workers and unions of Bahrain were not adequately consulted by the government on the provisions in the agreement. In fact, they never received an Arabic translation.

It is pretty hard to have a consultation and discussion when you cannot even have a consultation based upon an agreement written in your own language. We understand from the USTR that an Arabic translation did not even exist at the time that the Bahrain FTA was considered and approved by the Bahrainian parliament.

The failure to provide the consultation certainly calls into question the government's willingness to engage substantially with its own civil society organizations.

On behalf of our unions and colleagues in the General Federation of Bahrain Trade Unions, we ask our government to insist on adequate and meaningful consultation with unions and other civil society organizations in this, and all future trade agreements.

Finally, any vote on the FTA must take into account our current situation. You asked the question earlier about the decline, or what is the balance of trade. Our record has been pretty bad. We are facing a \$700 billion trade deficit next year. We have lost three million manufacturing jobs in the United States. We have increasing poverty in this country.

The issue of jobs and employment does figure into this, although we recognize Bahrain is not going to have a major economic impact in our overall trade balance. The point is, we believe we have to approach our trade issues consistently.

We believe labor rights are a fundamental—absolute fundamental—in good economic development policy for this Nation, and for the workers in those countries. We do know that workers who engage in collective bargaining, who do organize, will raise the per capita income of the workers of that country, and that is an important step forward.

It is likely, we think, as we said, this will result in deteriorating trade balances with this country, but I put that in the context of the much larger trade balance issues we have confronting us across the board in this country.

The AFL-CIO is not opposed, in principle, to expanding trade with Bahrain if a trade agreement could be crafted that would promote the interests of working people and benefit the economies of both countries.

Unfortunately, the U.S. Trade Representative, in our opinion, has failed to reach such an agreement with Bahrain. Instead, the labor provisions of the Bahrain FTA make little progress beyond the ineffective NAFTA labor side agreements we saw before, and actually move us backward from the labor provisions in our unilateral trade preference programs in the Jordan FTA.

Meanwhile, the commercial provisions of the agreement do more to protect the interests of our multinational corporations than they do to promote balanced trade and equitable development.

Mr. Chairman, we ask that you reject the Bahrain FTA and urge the administration to negotiate. We really believe that these issues we have outlined should be addressed beforehand, before this is put before the Congress, that we really should have an agreement that provides the rights and protections that workers deserve in every country. Thank you.

Senator THOMAS. Thank you.

[The prepared statement of Mr. Baugh appears in the appendix.]

Senator THOMAS. Mr. Hamod?

**STATEMENT OF DAVID HAMOD, PRESIDENT AND CEO, NATIONAL U.S.-ARAB CHAMBER OF COMMERCE, WASHINGTON, DC**

Mr. HAMOD. Mr. Chairman, Mr. Ranking Member, and distinguished members of the Senate Finance Committee, thank you for the opportunity to testify this afternoon.

My name is David Hamod. I serve as president and CEO of the National U.S.-Arab Chamber of Commerce, a member of the MEFTA Coalition.

I have had the privilege of visiting Bahrain at least once a year for the better part of 2 decades, and I can tell you that it is a very comfortable place to live and do business.

Since its inception nearly 40 years ago, our chamber has been America's preeminent organization for promoting trade and investment between the United States and the Arab world. Most of our members are small- and medium-sized companies exporting to the Middle East.

This FTA sets the pace for the rest of the Arabian Gulf and is a strong model for the Arab world as a whole. From the U.S. perspective, there are good things in this agreement for everyone, whether you are a farmer in Iowa or Montana, a software developer in Utah, a tool manufacturer in West Virginia, or a freight forwarder in Mississippi. I dare say that there are comparable opportunities in Wyoming and New Mexico.

President George W. Bush has stated, "I will not be satisfied until every American looking for work can find a job." This FTA will help to generate new jobs and sustain existing employment here and in Bahrain. This is important for our fellow Americans at a time when many in our country are facing economic uncertainty.

It is equally important in Bahrain, because some in the region, a very tiny minority, would play upon unemployment and hopelessness to fuel extremism and breed terrorism. With this FTA, Bahrain is reaching out to the United States, and we would do well to extend the hand of friendship in return.

According to Monday's *Wall Street Journal*, one of America's biggest trade competitors, China, is preparing to sign free trade agreements with 25 different nations. With fierce competition like this, America cannot afford to take our friends, like Bahrain, for granted.

Admiral William Crowe, former chairman of the Joint Chiefs of Staff, once said that, "Pound for pound, Bahrain has been about

the best ally the U.S. has had in recent times.” To the best of my knowledge, Bahrain has stood with the United States in every major international conflict our Nation has faced in the past century. This is a remarkable track record and one that we should not take lightly.

Our chamber recently released a special report on the 2006 outlook for U.S. exports to the Arab world, including Bahrain. With your permission, Mr. Chairman, I would like to include that report in today’s hearing record.

[The report appears in the appendix on page 58.]

Mr. HAMOD. In Bahrain, the report states, “One hundred percent ownership by foreign firms is encouraged,” which helps to explain why more than 150 U.S. companies have set up operations there.

Bahrain is not America’s biggest market in the region, but with the FTA in place, that kingdom will be better situated than ever to serve as a gateway to the Arabian Gulf. Frankly, I would be surprised if our trade balance deteriorated with Bahrain.

In some respects, Bahrain has much in common with Singapore. Both are island nations that serve as portals to larger markets on the mainland. Both boast a high quality of life and ultra-modern infrastructures, and both pride themselves on a well-educated and easily trainable labor force. Like Singapore, Bahrain ranks high on the list of free economies, and like Singapore, Bahrain holds great respect for the rule of law.

Bahrain is undertaking significant economic reform, and the FTA is the centerpiece of this effort. The agreement raises the bar for trade and investment rules that enhance market access and bolsters Bahrain’s role as an engine of economic reform in the Arab world.

With its resourcefulness, determination, and visionary leadership, Bahrain takes on tough jobs and succeeds at them in ways that bigger nations can only dream about.

In conclusion, the National U.S.-Arab Chamber of Commerce believes that this FTA is good for America and good for Bahrain. Timely congressional approval of this FTA will send an important signal about America’s resolve to support economic reform in Bahrain and throughout the Arab world.

Thank you, Mr. Chairman and members of the committee.

[The prepared statement of Mr. Hamod appears in the appendix.]

Senator THOMAS. All right. Thank you all very much. We appreciate your participation.

Ms. Aslaksen, what will this change for HP? You say you are trading there now. What difference will this trade agreement make?

Ms. ASLAKSEN. Well, Mr. Chairman, to begin with, FTAs are intended to be a win-win situation. They raise the bar and open the door. They open the door for increased market access and create a greater flow of goods and services. They raise the bar by requiring improved workplace conditions and stronger environmental protections.

So for us, one example of this, and something that affects the high-tech sector, is that this FTA, upon implementation, will eliminate duties on technology products. For example, digital cameras, servers and printers that meet the agreement’s specific rules of ori-

gin will enter the country duty-free, upon implementation. Currently, there is a 5-percent duty that is applied to these goods in Bahrain. Although they are a World Trade Organization Information Technology Agreement (ITA) member, they have not gone to zero status. So, this advances ITA duty concessions, and also includes zero duty treatment for other items.

Senator THOMAS. So it does make some impact.

Apparently this is a fairly advanced country, technologically. How does it compare with other Middle Eastern countries?

Ms. ASLAKSEN. With other Middle Eastern countries, sir?

Senator THOMAS. Relatively. Is it more technologically advanced than Egypt or others?

Ms. ASLAKSEN. Well, my impression, Mr. Chairman, is that this country has positioned itself as a center for information technology and telecommunications, so they are more advanced, in my opinion, than some of the other countries.

Senator THOMAS. I see. All right.

Mr. Johnson, you mentioned that the agreement allows you to offer a wider range of financial services. What services will you be able to offer that you cannot offer now?

Mr. JOHNSON. Mr. Chairman, the agreement provides for a broader liberalization in financial services. For our particular company, having been there since 1969, we have a very well-established presence there, given that time.

But what it does provide is the opportunity for a strengthening of the services sector, the financial services, in particular, within that country. I think, more importantly, it positions Bahrain to play a larger role as a regional financial center for the Middle East and Gulf region.

As the largest provider of financial services in that region for ourselves, larger opportunities will go with that. So as we continue to negotiate FTAs with other countries in the Gulf, we broaden the network of financial services, in banking, insurance, asset management, and providing services for our international, as well as our American, customers.

Senator THOMAS. Do you see your company as a Singapore-like situation, there to serve other surrounding countries?

Mr. JOHNSON. Yes. We are doing that already. Bahrain, for Citigroup, is a regional hub for a lot of our activity. It is also a booking hub for our Central, Eastern Europe, as well as our Middle East and Africa, business. I think there is certainly the potential for Bahrain to play the same role that Singapore plays in Southeast Asia.

Senator THOMAS. I see.

Ms. Spangler, you indicated, and I am sure properly, that there is not a great deal of market for wheat. Do you see this then as an entre into the area? Is that one of your major hopes?

Ms. SPANGLER. Yes. Wheat is well-represented in that region now. We have a different problem with Bahrain that this actually is not going to solve. Just, we see it as a major opportunity for growth in the region.

As you have heard, they are a gateway. We have an infrastructure problem. They do not have mills that can handle our ship-

sized loads that go in, so we are going to have to get our shippers to repackage our product.

But it is so strategically located, and the milling industry they have to use our quality products when we can get past this—as I said, we are also being disadvantaged in this market by the monopoly traders of Australia and Canada.

Senator THOMAS. I see.

Ms. SPANGLER. We see it as an opportunity to expand in the region when we remove some other nontariff barriers.

Senator THOMAS. Is there any debate or discussion about agricultural payments? That seems to be one of the broader issues, like in the European Union, and so on. Is that an issue here?

Ms. SPANGLER. Not to my knowledge, it is not. We have not heard it raised in that region.

Senator THOMAS. Do you think it is an issue in trade, generally?

Ms. SPANGLER. It is a huge issue in trade, generally.

Senator THOMAS. Yes.

Ms. SPANGLER. Bahrain is not an agricultural-based country, so they do have some production, but it is not the type of production that we would be competing with.

Senator THOMAS. I see. All right.

Mr. Baugh, I understand your concerns. Do you see the trade agreements as being a way to cause other countries to behave as we do? Do you think that it is our responsibility to change countries to function as we do?

Mr. BAUGH. Mr. Chairman, we see trade agreements as an opportunity to talk about standards by which we will do trade with other countries, the rules under which we all play with each other, what is the level playing field, how does that work.

Labor standards and conditions are part of that. They are a fundamental part of that. The idea is that, when you look at how we trade, we talk about intellectual property rights, we believe labor rights bear the same scrutiny and the same weight in our trade negotiations, and the same priority in our trade negotiations, because that speaks to the interests of working people, here and abroad.

Senator THOMAS. All right. Interesting. It is kind of what we are faced with in terms of Iraq. It is a different situation, but people say, well, you just want them to behave the same way we do, and it is really their country and they have a right to do as they choose. But I understand what you are saying.

Mr. Hamod, it sounds as if this is a place that is attracting a lot of U.S. investment, the 150 businesses that you mentioned that we have there. Is this what we want to do, provide a place for our businesses to go to operate as opposed to trading from here?

Mr. HAMOD. Mr. Chairman, I believe that the FTA will increase both trade and investment. Most of my experience over the years has been on the trade side.

What we have found is that when we open the door for Americans to serve overseas, they get into positions of responsibility where they buy American, sell American, specify “American,” and create jobs for other Americans—not exporting U.S. jobs overseas; to the contrary, generating more exports from the United States.

I would see that happening in Bahrain, not only for Bahrain’s sake, but among its neighbors there is a boom going on in the re-

gion. Saudi Arabia recently announced they expect \$600 billion worth of growth over the next decade, and I think Bahrain will be one of the primary beneficiaries of that boom. We, as the United States, could also stand to be one of the big beneficiaries if we implemented an agreement along these lines.

Senator THOMAS. I see. Thank you.

Senator?

Senator BINGAMAN. Thank you very much, Mr. Chairman.

Let me try to understand what the impact of this agreement is on this Arab boycott of Israel. As I understand what currently exists, since Bahrain is a member of the Arab League, there is a boycott on Bahrain trading with Israel, or boycotts on Israeli products. That is my understanding.

But there has been a commitment by Bahrain to essentially withdraw from that boycott or begin to trade with Israel, if and when this free trade agreement goes into effect. Is that your understanding of things, Mr. Hamod? Or if I have misstated it, could you elaborate or explain what the effect of this is?

Mr. HAMOD. Mr. Bingaman, I do not profess to be an expert on the boycott, but to the best of my knowledge, Bahrain eliminated the tertiary and secondary boycott with Israel more than a decade ago. As far as the primary boycott is concerned, I do not think that is really an issue in Bahrain.

As far as I know, they have closed the office there that was dedicated to doing that. In my discussions with Bahraini business people, they have told me that, under the right circumstances, they do not mind doing business with Israel. This FTA may help open the door for that, in fact.

Senator BINGAMAN. But as far as you know, they are currently ready and willing to do business with Israel, whether this agreement is ratified or entered into or not.

Mr. HAMOD. Well, I cannot speak for the government of Bahrain and I cannot speak for the Bahraini business community. But to the best of my knowledge, I think there is a great deal of interest in building up business, not only with Israel, but throughout the world.

Senator BINGAMAN. I have never been to Bahrain, which I regret, especially after reading your description of it here, Mr. Hamod. But the description seems to be of a very prosperous economy, a need for workers to come in, two-thirds of the workforce imported, or immigrants into the country to take the jobs that they do not have enough local population to fill.

Why would it not be perfectly acceptable to the government of Bahrain to go ahead and embrace some of these labor rights provisions that Mr. Baugh is talking about in his testimony?

It seems like, it is one thing where you have got a very poor country, with employers who are not paying decent wages and are going to have to change their procedures and raise the wage level, and do a variety of things to recognize workers' rights.

But here, it seems like the wages are reasonably good and the workers are reasonably well-treated, the way you describe it. So why would they not be willing to enter into agreements with us that would commit them more substantively to labor rights?



Mr. HAMOD. Again, Mr. Bingaman, I cannot speak for the government of Bahrain. But it has been my observation over the years that more and more Bahrainis are entering the workforce, which I think is a very positive thing.

I am sensitive to the concerns that Mr. Baugh has raised, but as I see jobs developing in Bahrain, I see many Bahrainis taking those jobs in hotels, in the service sector, in industry, and a large percentage of those jobs are going to women. So, I think that is a step in the right direction. It is my hope that the FTA will build on that trend.

Senator BINGAMAN. All right.

So you think that there are improvements in working conditions, that the improvements are occurring even though the obligation to make those improvements is not contained in this agreement. Is that what you are saying?

Mr. HAMOD. It is my sense that the situation is getting better over time. I think *every* country could stand to improve a bit, Bahrain included. But my sense is that, as the economy expands, it is creating more opportunities, and the wages are going up.

Senator BINGAMAN. All right. I think that is all I have got, Mr. Chairman. Thank you very much.

Senator THOMAS. Thank you.

Well, we appreciate very much your participation, and we look forward to moving on this issue. I have not been to Bahrain. I have been, however, to Jordan, Kuwait, and Iraq, and that part of the world needs lots of strengthening.

We have about a half million people in Wyoming, which is similar to Bahrain, so if we can recognize Wyoming's contribution, I guess we can recognize Bahrain's importance to the region. [Laughter.]

In any event, thank you very much. The committee will include in its record any items you might have that you would like to include, without objection.

I will remind members that the record will remain open until 5 p.m. tomorrow, should there be questions for any of you.

Again, thank you so much. I appreciate your contribution.

[Whereupon, at 3:36 p.m., the hearing was concluded.]



## **A P P E N D I X**

### **ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD**

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Prepared Statement of Megan Aslaksen  
Global Trade Specialist  
Hewlett-Packard Global Trade - Trade Facilitation

Chairman Thomas, Ranking Member Bingaman, and members of the Subcommittee, my name is Megan Aslaksen. I work for Hewlett-Packard Company and am based at our headquarters in Palo Alto, California, in the Global Trade – Trade Facilitation Department. Thank you for providing me the opportunity to speak before you today in support of the U.S. – Bahrain Free Trade Agreement (FTA). Hewlett-Packard Company is a Fortune 11 company with revenues of nearly \$80 billion. HP is the largest consumer IT company in the world and the largest IT provider in the Middle East. HP technology ranges from consumer handheld devices to some of the world’s largest and most powerful supercomputer installations. HP has an estimated 150,000 employees and conducts business in more than 170 countries. As a result, HP is dedicated to free trade and the reduction of barriers across borders.

Bahrain, as part of the 18 countries composing the Middle East/North Africa region, represents an area of great potential both in terms of consumer demand and human capital. For HP and other American companies, this is a great opportunity for us to share our innovative, life-enhancing products and services with people yearning for cutting-edge technologies on the other side of the globe.

The Bahrain FTA forms part of a larger U.S. objective to improve ties with and promote stability in the Middle East region through the establishment of a Middle East Free Trade Area by 2013. Other milestones in this effort include promotion of World Trade Organization (WTO) accession, establishment of Bilateral Trade and Investment Treaties and the creation of Trade and Investment Framework Agreements. The U.S. has already achieved bilateral agreements with Jordan, Israel, and Morocco and now stands ready to implement its third FTA in the region, the U.S. - Bahrain FTA. We support U.S. efforts to expand trading opportunities in the region. The U.S. – Bahrain FTA is a landmark step in this process, as it is the United States’ first FTA with a Gulf state. We also applaud USTR and Ambassador Portman for the recent conclusion of the U.S. – Oman Agreement.

As we know, the Kingdom of Bahrain is a prosperous country with an economy that is primarily based on petroleum production and refining. However, it is facing the same problems plaguing other Middle East countries, with high unemployment and declining oil reserves amounting to major long-term problems. In an attempt to diversify its economy, Bahrain has established itself as a center for banking, information technology, telecommunications and health care. HP looks forward to winning support for this FTA in Congress so we can then be able to expand our market access to this region with such a need for our innovative solutions. Building upon the U.S. – Bahrain Bilateral Trade and Investment Treaty and Trade Investment Framework Agreement, this FTA will enable Bahrain to have greater access to the U.S. market, which in turn will generate direct investment into the Kingdom. The Agreement will benefit both countries by helping to spur economic growth and improve employment opportunities for the people of the United States and Bahrain.

Comprehensive free trade agreements provide a wide array of benefits and help open doors for HP and other U.S. companies around the globe. The Bahrain FTA secures binding commitments in a number of areas important to the high-tech sector: elimination of duties, greater transparency in Customs procedures and government procurement, as well as increased intellectual property rights (IPR). For example, under the Agreement Bahrain will immediately eliminate import taxes on most technology products, which will increase U.S. competitiveness in the region. For example, qualifying goods like PCs, printers, digital cameras and handheld devices will enter the Kingdom at zero duty. U.S. exporters, like HP, will also benefit from commitments by Bahrain to modernize Customs procedures. Benefits include the availability of advance rulings, publication of laws and regulations on the Internet, quick release for express shipments, promotion of the use of automated system and use of risk assessment management systems.

As an industry leader and the top provider in the Middle East/North Africa region of innovative technological solutions, this Agreement represents an important business opportunity for HP abroad and at home. With Bahrain diversifying its economy by creating a high-tech infrastructure and serving as a high-tech center, HP looks forward to being part of the Kingdom's growth. And as the number one IT provider in the region, HP and our customers stand to benefit from the Agreement, in the areas of market access, IPR, and transparency in Customs procedures and government procurement.

The Agreement also provides U.S. exporters with the broadest services access of any Agreement established to date. Commitments in the areas of telecommunications, and computer and related services will enable greater market access for high-tech companies. Intellectual property rights, e-commerce and government procurement provisions are equally important to U.S. companies. The Agreement provides for improved commitments which include governmental use of legitimate software, and requires parties to ratify a number of IPR agreements, including the World Intellectual Property Organization (WIPO) Copyright Treaty.

HP strongly supports the establishment of free trade. Working in partnership with our colleagues in the high-tech industry, trade coalitions and associations (e.g. Information Technology Industry Council and AeA) we advocate the negotiation and implementation of bilateral and regional agreements. We hope that the recent success of the U.S. to conclude comprehensive FTAs with

various trading partners will foster efforts to further reduce tariff and non-tariff barriers to trade at the regional and multilateral levels.

On behalf of Hewlett-Packard Company, I would like to express our company's support of the U.S.-Bahrain Free Trade Agreement and urge prompt Congressional action and approval to strengthen the economies of the United States and Bahrain. In closing, we believe that this Agreement will serve as a model for other Agreements in the region, facilitate two-way trade and promote regional stability and economic development. Free trade – along with other market-based economic incentives – is fundamental to achieving stability and prosperity in the Middle East and economic growth here at home. Again, I appreciate the opportunity to put forth HP support for the U.S. – Bahrain FTA and encourage timely Congressional action and would welcome any questions or comments at this time.

**Statement of Senator Max Baucus  
Hearing on the Bahrain Free Trade Agreement  
October 6, 2005**

Mr. Chairman, thank you for holding today's hearing. Thanks also to the witnesses for coming here this afternoon to testify. I look forward to hearing your perspectives on the U.S.-Bahrain Free Trade Agreement.

Too often the world's smallest nations fall mercy to more powerful fates and forces. Small nations are annexed or occupied or traded. They are claimed for economic importance or strategic significance.

Today, we are concerned with one of the smallest nations in the Middle East – indeed, in the world – the Kingdom of Bahrain. But we are here not because it has been swept up by larger forces, but because Bahrain has looked to its future and risen to the challenge. Recognizing the benefits and hardships that globalization may bring for its economy, Bahrain is reforming its workforce, its industries, and its economy.

To that end, I think that we should view Bahrain not just as a small island nation, but as the freest economy in the Middle East. We should view Bahrain as an economy that is striving to become competitive and form a partnership with the United States. If fully and completely implemented, the U.S.-Bahrain Free Trade Agreement can help form the bedrock of that partnership.

This FTA is a strong agreement, and I congratulate the hard-working staff at the Office of the United States Trade Representative for their work. On the first day of enactment, one hundred percent of trade in manufactured goods will be duty free, securing markets for U.S. exports in motor vehicles and parts, medical equipment and refrigeration equipment. Exports of wheat, fruit and nuts – and I hope Montana beef – are also expected to rise.

Bahrainis deserve our praise. Bahrain has committed to open, transparent, and liberalized markets for goods and services. The agreement's services commitments are the most robust of any agreement that the United States has ever negotiated, solidifying U.S. access to an already open services market.

Bahrain has also promised that companies doing business there will face streamlined regulation and state of the art intellectual property laws. It has also pledged to dismantle the primary boycott against Israel, as well as secondary and tertiary boycotts. I applaud the vision and political courage of this decision.

Bahrain has shown a willingness to reform its labor laws to better serve its workers. Unions in Bahrain are growing, giving the economy a pillar of respect and productivity, and its workers a voice. Like all comprehensive reforms, changes to Bahraini labor laws require continued support and improvement.

I do also have concerns about this agreement. We all know that every agreement is only as strong as its commitments. And the commitments are only as good as their enforcement.

This Administration must share its vigilance, resolve, and energy with Bahrain to ensure the primary boycott on Israel is dismantled quickly and completely. The same cooperative and sustained vigor is required to see through Bahrain's continued labor reforms and assure Bahraini labor laws are as comprehensive and vigorous as its economy.

I am pleased that before us is such a promising agreement. If successfully implemented, we may hold it up as an example to others.

I hope that, with this agreement, we may begin to re-establish a bipartisan consensus on trade. This is particularly important in the run-up to this December's WTO Ministerial in Hong Kong and as the United States negotiates FTAs with Thailand and possibly with Korea and Malaysia. Future agreements will be far more difficult and controversial than this agreement with Bahrain, affecting more sensitive sectors, greater volumes of trade, and broader categories of workers.

I believe that to ensure a successful trade policy in the future, there is only one way forward – widespread cooperation, extensive dialogue, and thorough consultation. These characteristics have not been hallmarks of recent trade debates. The upcoming agreements will be a test as to whether the administration is prepared to listen to and incorporate the many concerns that have been expressed in Congress about the recent direction of U.S. trade policy.

I look forward to working with Ambassador Portman, Chairman Grassley, and my colleagues on this committee to resume a real trade dialogue that leads to open markets, better enforcement of our trade laws, and concrete initiatives to help the workers and industries negatively affected by trade.

Thank you.

**Testimony of Robert C. Baugh  
Executive Director  
American Federation of Labor and Congress of Industrial Organizations  
Industrial Union Council  
(AFL-CIO IUC)**

**before the  
Subcommittee on International Trade  
Senate Committee on Finance**

**October 6, 2005**

**Hearing on the  
Implementation of the United States-Bahrain Free Trade Agreement**

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify today on behalf of the workingmen and women of the AFL-CIO. U.S. trade policy in general, and the U.S.-Bahrain Free Trade Agreement (FTA) in particular, are of great interest and importance to our members, to America's workers, and to workers in Bahrain as well.

In our view, the Bahrain FTA provides precisely the wrong answers to the challenges faced in Bahrain and the United States. The agreement is based on a failed model that will neither address the problems confronted by workers in Bahrain, nor contribute to the creation of good jobs and wages at home. The workers' rights provisions are inadequate to ensure that workers' fundamental human rights are respected, and the dispute settlement mechanism for workers' rights and environmental protections is far weaker than that available for commercial provisions. At the same time, flawed provisions on services, government procurement, and intellectual property rights will undermine the ability of both governments to protect public health, strong communities, and the environment.

Perhaps most disturbing, workers and unions in Bahrain have not been adequately consulted by their government on the provisions contained in the agreement. In fact, the unions have never even received an Arabic translation of the agreement, despite having asked their government repeatedly to provide one. We understand from USTR that an Arabic translation did not even exist at the time that the Bahrain FTA was considered and approved by the Bahrain Parliament. This failure to provide even rudimentary consultation certainly calls into question the government's willingness to engage substantively with its own civil society organizations. On behalf of our union colleagues in the General Federation of Bahrain Trade Unions, we ask our government to insist on adequate and meaningful consultations with unions and other civil society organizations in this and future trade negotiations.

Any vote on the Bahrain FTA must take into account the broader economic reality that we are facing today. Our trade deficit hit a record-shattering \$617 billion last year; we have lost more than three million manufacturing jobs since 1998; and average wages have not kept pace with inflation this year – despite healthy productivity growth. The number of people in poverty



continues to grow, and median family income continues to fall. Offshore outsourcing of white-collar jobs is increasingly impacting highly educated, highly skilled workers – leading to rising unemployment rates for engineers and college graduates. Together, record trade and budget deficits, unsustainable levels of consumer debt, and stagnant wages paint a picture of an economy living beyond its means, dangerously unstable in a volatile global environment.

While the Bahrain FTA is not likely to have a significant economic impact on the United States because of the small size of two-way trade and the Bahraini economy, the agreement will likely only exacerbate our trade imbalance, as most previous bilateral FTAs have done. It is likely that the agreement will result in a deteriorating trade balance in some sectors, including sensitive sectors such as apparel. Even where the market access provisions of the agreement themselves may not have much of a negative impact on our trade relationship, these provisions when combined with rules on procurement and services and with the existing Bilateral Investment Treaty between the U.S. and Bahrain, could further facilitate the shift of U.S. investment and production overseas, harming American workers.

The AFL-CIO is not opposed in principle to expanding trade with Bahrain, if a trade agreement could be crafted that would promote the interests of working people in, and benefit the economies of, both countries. Unfortunately, the U.S. Trade Representative has failed to reach such an agreement with Bahrain. Instead, the labor provisions of the Bahrain FTA make little progress beyond the ineffective NAFTA labor side agreement and actually move backwards from the labor provisions of our unilateral trade preference programs and the Jordan FTA. Meanwhile the commercial provisions of the agreement do more to protect the interests of U.S. multinational corporations than they do to promote balanced trade and equitable development.

Mr. Chairman, members of the Subcommittee, we ask you to reject the Bahrain FTA and urge the administration to renegotiate this flawed deal.

#### **Labor Provisions of the Bahrain FTA**

The Bahrain FTA's combination of unregulated trade and increased capital mobility not only puts jobs at risk, it places workers in both countries in more direct competition over the terms and conditions of their employment. High-road competition based on skills and productivity can benefit workers, but low-road competition based on weak protections for workers' rights drags all workers down into a race to the bottom. Congress recognized this danger in the Trade Promotion Authority bill (TPA or "fast track"), and directed USTR to ensure that workers' rights would be protected in new trade agreements. One of the overall negotiating objectives in TPA is "to promote respect for worker rights ... consistent with core labor standards of the ILO" in new trade agreements. TPA also includes negotiating objectives on the worst forms of child labor, non-derogation from labor laws, and effective enforcement of labor laws.

Unfortunately, the labor provisions of the Bahrain FTA fall far short of meeting these objectives. Instead, the agreement actually steps backwards from existing labor rights provisions in the U.S. – Jordan FTA and in our Generalized System of Preferences (GSP) program. In the Bahrain agreement, only one labor rights obligation – the obligation for a government to enforce its own

labor laws – is actually enforceable through dispute settlement. All of the other obligations contained in the labor chapter, many of which are drawn from Congressional negotiating objectives, are explicitly not covered by the dispute settlement system and are thus completely unenforceable.

This agreement will allow deficiencies in Bahrain's labor laws to persist. In 2002, the King of Bahrain promulgated important labor law reforms to legalize trade unions. While this is an essential step forward towards full recognition of workers' rights in Bahrain, serious restrictions on workers' rights continue to exist, according to reports from the U.S. State Department, the ILO, and the International Confederation of Free Trade Unions (ICFTU).

Despite the clear enshrinement of freedom of association and the right to organize in the 2002 Trade Union Law, the Bahraini Government has not yet granted the labor movement the right to organize in the public sector. The King of Bahrain issued a 2003 public statement in support of the right of workers to organize in the public sector, but the cabinet, led by the Crown Prince, has taken the opposite view. This issue is due to be addressed by the Bahrain Supreme Court in February 2006.

Trade unions in Bahrain are prohibited from engaging in political activities, violating Article 3 of ILO Convention No. 87, which grants trade unions the right to formulate their own programs. The ILO has explained that the ability to engage in political activities is a key component of this right. Political parties are also illegal in Bahrain, where the king exerts most political power and is not subject to general elections.

Bahraini law does not specifically provide for collective bargaining and it places restrictions on the right to strike. The law requires three-quarters of a union's members to approve a strike, presenting an obstacle to the right to strike that is inconsistent with ILO standards, which stipulate that requirements for majority approval must be set at a reasonable level. Strikes are prohibited in security services, civil defense, airports, ports, hospitals, transportation, telecommunications, electricity and water services, in violation of international standards that only allow denial of the right to strike in "essential services." In addition, the employer and Ministry of Labor must be notified of the strike no less than two weeks in advance, and the law requires workers and employers to seek amicable settlement of a labor dispute through conciliation and then arbitration before a strike vote can be cast. The law does not give workers a clear right to call a strike if they disagree with the outcome of this mandatory arbitration, in violation of ILO norms on mandatory arbitration.

In the area of forced labor, some abuses are found, particularly in the cases of domestic servants and foreign workers. Foreign workers make up approximately two-thirds of the workforce, and are vulnerable to employer abuse. The U.S. State Department reports that foreign workers can become indentured servants in Bahrain, and that employers reportedly withhold salaries from foreign workers for months or years. Workers must get permission from their employers to leave the country, and a foreign worker's sponsor has the power to cancel the worker's residence permit. Employers use this power to intimidate their foreign employees, who are thus hesitant to report abuses and stand up for their rights. The State Department also reports that domestic

servants are subject to serious abuse in Bahrain, where they are excluded from the protections of national labor laws.

Though there is no official minimum wage in Bahrain, government guidelines stipulate a monthly minimum wage of close to \$400. The State Department reports that the government fails to monitor compliance with these minimum wage guidelines, and that foreign workers are especially vulnerable to under-payment or non-payment of wages.

The proposed FTA would allow Bahrain to maintain these restrictions on workers' rights in its law, and even to further limit workers' fundamental rights in the future. Even for the one labor obligation in the FTA that is subject to dispute resolution – the requirement to effectively enforce domestic laws – the procedures and remedies for addressing violations are significantly weaker than those available for commercial disputes in the agreement. This directly violates TPA, which instructs our negotiators to seek provisions in trade agreements that treat all negotiating objectives equally and provide equivalent dispute settlement procedures and equivalent remedies for all disputes.

The labor enforcement procedures cap the maximum amount of fines and sanctions available at an unacceptably low level, and allow violators to pay fines that end up back in their own territory with inadequate oversight. These provisions not only make the labor provisions of the agreement virtually unenforceable, they also differ dramatically from the enforcement procedures and remedies available for commercial disputes:

- Under the rules governing commercial disputes, trade sanctions are supposed to have “an effect equivalent to that of the disputed measure [i.e., the measure that violates the agreement].” Yet under the rules governing labor disputes, the amount of a monetary assessment is not just based on the harm caused by the disputed measure. Instead, the panel also takes into consideration numerous other factors, many of which could be used to justify a lower, and thus less effective, sanction. Factors to be considered include the reason a party failed to enforce its labor law, the level of enforcement that could be reasonably expected, and “any other relevant factors.” The agreement does not state whether these issues should be considered only as mitigating or aggravating factors, presenting the possibility that a panel could cite these additional factors to reduce the amount of a monetary assessment for a labor violation below the level necessary to remedy the violation – an outcome not permitted for commercial violations.
- In commercial disputes, the violating party can choose to pay a monetary assessment instead of facing trade sanctions, and in such cases the assessment will be capped at half the value of the sanctions. In labor disputes, however, the assessment is capped at an absolute level, no matter what the level of harm caused by the offending measure. Not only are the fines for labor disputes capped, but the level of the cap is so low that the fines will have little deterrence effect. The cap in the Bahrain agreement is \$15 million – less than 1.8 percent of our total two-way trade in goods with Bahrain last year.
- Not only are the caps on fines much lower for labor disputes, but any possibility of trade sanctions is much lower as well. In commercial disputes, a party can suspend the full

original amount of trade benefits (equal to the harm caused by the offending measure) if a monetary assessment (capped at half that value) is not paid. In a labor dispute, the level of trade benefits a party can revoke if a monetary assessment is not paid is limited to the value of the assessment itself – capped at \$15 million.

- Finally, the fines are robbed of much of their punitive or deterrent effect by the manner of their payment. While the AFL-CIO supports providing financial and technical assistance to help countries improve labor rights (and we were appalled to see the funds for such activities in the administration's budget for 2005 slashed from \$99.5 million to just \$18 million), such assistance is not a substitute for the availability of sanctions in cases where governments refuse to respect workers' rights in order to gain economic or political advantage. In commercial disputes under the Bahrain FTA, the deterrent effect of punitive remedies is clearly recognized – it is presumed that any monetary assessment will be paid out by the violating party to the complaining party, unless a panel decides otherwise. Yet for labor disputes, the violating country pays the fine to a joint commission to improve labor rights enforcement, and the fine ends up back in its own territory. No rules prevent a government from simply transferring an equal amount of money out of its labor budget at the same time it pays the fine. And there is no guarantee that the fine will actually be used to ensure effective labor law enforcement, since trade benefits can only be withdrawn if a fine is not paid. If the commission pays the fine back to the offending government, but the government uses the money on unrelated or ineffective programs so that enforcement problems continue un-addressed, no trade action can be taken.

The labor provisions in the Bahrain FTA are woefully inadequate, and clearly fall short of the TPA negotiating objectives. They will be extremely difficult to enforce with any efficacy, and monetary assessments that are imposed are likely to be inadequate to actually remedy violations. The Bahrain FTA will do very little to ensure that core workers' rights are respected and improved in the U.S. and Bahrain.

#### **Other Issues in the Bahrain FTA**

In addition to the problems with the labor provisions of the Bahrain agreement outlined above, commercial provisions of the agreement also raise serious concerns.

***Intellectual Property Rights:*** In TPA, Congress instructed our trade negotiators to ensure that future trade agreements respect the declaration on the Trade Related Aspects on Intellectual Property Rights (TRIPs) agreement and public health, adopted by the WTO at its Fourth Ministerial Conference at Doha, Qatar. The Bahrain FTA contains a number of "TRIPs-plus" provisions on pharmaceutical patents, including on test data and marketing approval, which could be used to constrain the ability of a government to issue compulsory licenses as permitted under TRIPs and the Doha Declaration. In addition, the proposed FTA goes beyond TRIPs by, in effect, recognizing the "work for hire" doctrine in Article 14.4(6) of the agreement. This provision is unfair to artists and performers, and is strongly opposed by the LAC.

**Government Procurement:** The FTA's rules on procurement restrict the public policy aims that may be met through procurement policies at the federal level. These rules could be used to challenge a variety of important procurement provisions including domestic sourcing preferences, prevailing wage laws, project-labor agreements, and responsible contractor requirements. The LAC believes that governments must retain their ability to invest tax dollars in domestic job creation and to pursue other legitimate social objectives, and that procurement rules which restrict this authority are inappropriate.

**Rules of Origin:** Any preferential trade agreement must include a rule of origin that assures that products are manufactured as well as assembled in the beneficiary country. The high degree of international investment in most manufacturing industries makes it essential to set a high rule of origin, focused on manufacturing content rather than on indirect costs or simply on tariff classification changes. The "substantial transformation" rule of origin included in the Bahrain agreement is highly problematic. It allows products to qualify for duty-free benefits even if only 35 percent of their value (including content and costs of production) comes from the FTA countries, as long as a "substantial transformation" takes place in the exporting FTA country. There is no minimum amount of value that must originate in the exporting FTA country, as long as a transformation takes place there and as long as the combined FTA country value is 35 percent. This rule is weaker than the Jordan FTA, and could deprive Bahrainis of much of the anticipated employment benefits of the agreement. This rule invites abuse by multinational corporations, who will be able to manipulate their production and purchasing to ship goods made primarily in third countries through Bahrain for a minimal transformation before entering the U.S. duty free. The rule of origin fails to promote production and employment in the U.S. and Bahrain, and it grants benefits to third countries that have provided no reciprocal benefits under the agreement and that are not subject to the agreement's minimal labor and environmental rules.

**Safeguards:** Workers have extensive experience with large international transfers of production in the wake of the negotiation of free trade agreements and thus are acutely aware of the need for effective safeguards. The safeguard provisions in the Bahrain agreement, which offer no more protection than the limited safeguard mechanism in NAFTA, are not acceptable. A surge of imports from large multinational corporations can overwhelm domestic producers very quickly, causing job losses and economic dislocation that can be devastating to workers and their communities. For many American workers losing their jobs to imports, it may be their own employer that is responsible for the surge of imports. In such a case, and similar situations in which an international sourcing decision has been made on the basis of a free trade agreement, the usual remedy of restoration of the previous tariff on the imports will not be enough to reverse the company's decision to move production abroad. U.S. negotiators should have recognized that much faster, stronger safeguard remedies are needed. The Bahrain FTA has failed to provide the necessary import surge protections for American workers.

**Services:** NAFTA and WTO rules restrict the ability of governments to regulate services – even public services. Increased pressure to deregulate and privatize could raise the cost and reduce the quality of basic services. Yet the Bahrain agreement does not contain a broad, explicit carve-out for important public services. Public services provided on a commercial basis or in competition with private providers are generally subject to the rules on trade in services in the Bahrain FTA, unless specifically exempted. The specific exemptions for services in the Bahrain

agreement fall short of what is needed to protect important sectors. There are, for example, no U.S. exceptions for energy services, water services, sanitation services, or public transportation services. Even for those services the U.S. did make exceptions for, such as public education and health care, the exemption only applies to some of the core rules of the FTA, not all. These partial exceptions are particularly worrisome given the tendency of trade dispute panels to interpret liberalization commitments expansively, and to interpret exceptions to those commitments narrowly. One manifestation of this problem is the recent WTO decision against the U.S. on gambling services – the U.S. argued unsuccessfully that gambling was not covered by the WTO's General Agreement on Trade in Services, and now faces the prospect of choosing between changing our laws to allow internet gambling or enduring trade sanctions.

#### **Conclusion**

Congress should reject the Bahrain FTA, and send a strong message to USTR that future agreements must make a radical departure from the failed NAFTA model in order to succeed.

American workers are willing to support increased trade if the rules that govern it stimulate growth, create jobs, and protect fundamental rights. The AFL-CIO is committed to fighting for better trade policies that benefit U.S. workers and the U.S. economy as a whole. We will oppose trade agreements that do not meet these basic standards.

The U.S. economy continues to break records, but not in ways that help working people. The all-time high U.S. trade deficit is not an abstract issue; it shows up every day as working men and women see their plants close, are asked to train their own overseas replacements or are asked to swallow wage and benefit cutbacks that affect their families' lives in hundreds of ways. Entire communities suffer the consequences of failed trade agreements. We urge the Congress to reject the U.S.-Bahrain FTA and begin work on just economic and social relationships with Bahrain.

Opening Statement  
US-Bahrain Free Trade Agreement Hearing  
October 6, 2005  
Senator Jeff Bingaman

I think it is clear to most everyone here today that this agreement is critical not because of the opportunities it provides U.S. companies but rather because it represents another step toward the possibility of economic growth and political stability in the region. No one was under the illusion when we began this process that Bahrain would be an export magnet for U.S. goods. Instead, the purpose was to take another incremental step toward a greater Middle East Free Trade Agreement and, in the process, provide concrete employment opportunities for a region where violence has been one of the only viable options. We all understand that this agreement is about what we hope to accomplish through engagement.

That said, I don't want to underestimate what this agreement accomplishes on trade. USTR has negotiated a level of market access – 100% tariff reductions in most cases, and when they are less than 100% they are phased out quickly – that is unique for FTA's across a range of sectors: consumer and industrial products, agriculture, textiles and apparel, telecommunications, and services. It has guaranteed protections in intellectual property rights, obtained commitments on sanitary and phytosanitary measures, procurement, and financial transparency, and has streamlined customs procedures to limit the impact of non-tariff barriers on U.S. business. It is a strong agreement, in many respects a cutting-edge agreement, in this regard.

But let me make a couple of quick observations.

First, it was pointed out by Congressman Cardin during the Ways and Means hearing last week that Bahrain still must offer some re-assurance to USTR on several labor issues before this FTA will be marked up before the full Finance Committee. I want to state for the record that I share that view.

Second, although this FTA does satisfy the minimum level of labor rights commitment under Trade Promotion Authority, I agree with many of my colleagues when they state that we need to be thinking of TPA as a floor and not a ceiling. I think it is important that the Administration take seriously the comments that will be made today by the AFL-CIO witness concerning the inadequacy of "enforce your own labor laws" provisions. This standard will not fly when it comes to future trade agreements. I understand it is difficult, but we must find a way to bridge the divide that currently exists on labor if we are going to move forward with a bi-partisan trade agenda.

Third, although I understand the rationale for this agreement, I think it is time that USTR begin to use its limited resources to negotiate FTA's, or at the very least market access, with countries that offer significant and tangible export opportunities for U.S. companies. Contrary to some of my colleagues, I think the trade deficit is indicative of more than just consumer spending patterns, and it is essential that we make a serious effort to open markets where we can sell our goods and services in an unhindered manner. Our national economic security is at stake.

Fourth, I want to extend my appreciation to USTR and the Administration for requiring that Bahrain completely disassociate itself from the Arab League boycott of Israel and obtaining commitments on terrorist financing before this agreement was completed. I also would like to express my appreciation to the Kingdom of Bahrain for pursuing what is, unfortunately, a very controversial policy in the region. It is my hope that Bahrain government makes every effort to ensure that these commitments be adhered to over time.

Thank you, Mr. Chairman.



**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.

QUESTIONS FOR THE RECORD  
United States Senate  
Committee on Finance  
Subcommittee on International Trade

Hearing on  
“U.S.-Bahrain Free Trade Agreement”  
October 6, 2005

**Questions from Senator Bingaman for Ambassador Donnelly**

1. I understand that the U.S.-Bahrain FTA represents an incremental step in the strategy to create a broader US-Middle East Free Trade Area. I wonder if you would comment on the current status of this strategy--in particular:

Question: How do you believe this agreement enhances the possibility for a regional FTA?

Answer:

The Bahrain Agreement is a comprehensive agreement requiring implementation of high standards. As such, the U.S.-Bahrain FTA is a model for other agreements in the region. To meet our goal of creating the MEFTA, it is essential that we continue to negotiate such agreements, and Bahrain has helped set the tone for subsequent negotiations with Oman, the UAE, and others in the region. Having like-minded countries who have subscribed to agreements with high standards as allies in multilateral negotiations is also critical as we work to make progress in those negotiations as well.

Question: What would you consider to be the foremost obstacle as we move forward?

Answer:

As with all of our agreements, the successful implementation of the obligations of the FTA with our partner countries is very important. We have already begun work with the Bahrainis so they are prepared, once the agreement is ratified, to rapidly meet these obligations.

Question: Do you see any progress toward economic integration in the region as the result of the agreements we have obtained?

Answer:

Since the President announced the MEFTA initiative in May 2003, we have seen significant progress on economic reform within the region, in part stimulated by increased economic engagement with the United States. The FTA with Bahrain has followed on the steps of the FTA with Morocco, and we are now negotiating FTAs with Oman and the UAE. Our Trade and Investment Framework Agreements (TIFAs) have been invigorated and we have seen significant progress on WTO accessions – Saudi Arabia and good progress with Algeria.

Question: What further action on the part of the U.S. government is required to allow this integration to occur?

Answer:

While achieving a region-wide MEFTA by 2013 is our goal, we plan to work with our FTA partners in the interim to form sub-regional relationships that will stimulate intra-regional trade, an important goal of the MEFTA. For example, we are looking at cumulation provisions that would allow our FTA partners in the region to cumulate the necessary value-added to qualify for treatment under each Agreement. We hope that successful negotiations with Oman and the UAE will provide this opportunity in the near-term in the Gulf. Continued, sustained, measured engagement with the region is essential. Timely passage of the Bahrain agreement will be an important signal of the commitment by the U.S. to this reform effort.

Question: What further action on the part of the U.S. government is required to created stronger economic linkages between Israel and the Arab states in the region?

Answer:

The successful conclusion of the MEFTA initiative will be tremendously helpful to putting in place the trade and investment policies, and the infrastructure that will promote increased economic linkages between Israel and the Arab States in the region.

Question: What should the U.S. Congress be doing at this time to achieve economic integration in the region?

Answer:

The MEFTA initiative has been critical to the significant progress on economic reform within the region and is an important signal from the United States of our support for economic reform in the region and the desire to engage, not just government to government, but also with our private sectors. It is essential that we build on this momentum and send a strong signal to the region that the Congress supports this process. The MEFTA initiative has demonstrated a capacity to successfully engage with the region and to stimulate domestic-based economic reform while at the same time, providing commercial opportunities for U.S. producers and exporters.

2. As a member of the Arab League, Bahrain's trade with Israel is technically subject to the Arab boycott, Bahrain has stated that it will make every effort to ensure that it will not pursue this boycott once the agreement has been implemented.

Question: From your perspective, what prompted the Bahraini government to take this position [make every effort to ensure that it will not pursue the boycott once the agreement has been implemented]?

Answer:

Bahrain did not invoke the non-application provisions of the WTO Agreement toward any other Member. Thus, Bahrain has all WTO rights and obligations with respect to all other Members, including Israel.

Question: What are the tensions in the Arab League that have surfaced as a result of Bahrain taking this position?

Answer:

We are not aware of any tensions in the Arab League as a result of Bahrain's actions regarding the boycott. Other members of the Arab League also do not apply the boycott.

Question: What progress has been made in terms of removal of primary, secondary, and tertiary boycott activities?

Answer:

Bahrain recognizes the need to dismantle the primary boycott and is beginning efforts to achieve that goal. In 1994, Bahrain and the other GCC countries eliminated the secondary and tertiary aspects of the boycott. Bahrain's Ministry of Finance recently circulated a memorandum to all Bahrain Ministries reminding them that the secondary and tertiary boycotts are no longer in place and to remove any boycott language from contracts.

Question: Has USTR worked with the Bahraini government to establish a plan and timetable for the removal of sanctions?

Answer:

Bahrain recognizes the need to dismantle the primary boycott and is beginning efforts to achieve that goal and has said so publicly.

Question: Will Bahrain stop attending annual Arab League boycott meetings?

Answer:

As the Government of Bahrain has closed its boycott office and ended its enforcement of the boycott, we have no expectation that Bahrain would attend future Arab League boycott meetings.

Question: Are there mechanisms to sanction Bahrain if the boycott continues?

Answer:

Bahrain did not invoke the non-application provisions of the WTO Agreement toward any other Member. Thus, Bahrain has all WTO rights and obligations, with respect to all Members, including Israel. WTO Members, including Bahrain and Israel, have recourse, if they choose, to the WTO dispute settlement procedures to address issues under the WTO agreement.

3. Bahrain is emerging as one of the major financial centers in the Persian Gulf. How do the investment components of the proposed FTA address concerns regarding terrorist financing?



Answer:

The FTA does not include an investment chapter as the United States and Bahrain have already negotiated a Bilateral Investment Treaty (BIT), which entered into force in May 2001. However, Bahrain is an important and appreciated ally in the fight against terrorism and has demonstrated a strong commitment to cooperate with the U.S. on terrorist finance issues. Bahrain's anti-money laundering law, passed in 2001, makes money-laundering an extraditable offense. Bahrain also hosts the newly-created Middle East and North Africa Financial Action Task Force (MENA-FATF).

Question: What safeguards are included in the agreement that ensure that financial institutions are transparent and accountable for their financial transactions?

Answer:

The FTA does not include specific provisions regarding transparency of financial transactions. However, Bahrain does allow foreign ownership of real estate and commercial assets. In a vigorous effort to block exploitation via money-laundering, Bahrain has implemented strong "know your customer" regulations. Ministerial Order No. 23 of 2002 requires financial institutions to establish the identities of their customers, representatives and transaction beneficiaries. All financial institution employees are required to take an anti-money laundering course on an annual basis. The course is of sufficiently high-quality that neighboring countries often send their financial professionals to attend.

4. I know you are aware of the comments made by Congressman Cardin at the Ways and Means Committee hearing last week. I wonder if you would you comment on some of the issues he raised concerning the inadequacies in labor standards in Bahrain, and whether you feel progress will soon be made?

Answer:

The Government of Bahrain has indicated a willingness to address most of the concerns Congressman Cardin has identified through legislative changes, including mandatory reinstatement for a worker dismissed for trade union activity, abolishing the requirement of one union per enterprise, and statutory damages for failure to pay wages due. Regarding the strike provisions, Bahrain indicated that it will begin consultations with the relevant stakeholders to address those concerns. The Bahrainis have consulted with the ILO and have expressed their willingness to

amend their procedures and requirements for a strike. The government needs time to gather information, consult with the relevant stakeholders, and make the right choices. Bahrain has made some sweeping labor reforms in the last few years, bringing its labor laws more in line with international standards and setting a positive example for the region. They have committed to additional changes.

5. The testimony by the AFL-CIO today suggests that this agreement actually moves backwards from the labor provisions of our unilateral trade preference programs—for example, the Generalized System of Preferences (GSP)—and the U.S.-Jordan FTA. Would you comment on whether you believe this agreement is a step backwards? If not, why not?

Answer:

The Administration has vigorously negotiated labor provisions that fully achieve the labor-related negotiating objectives contained in the Bipartisan Trade Promotion Authority Act of 2002. The U.S.-Bahrain FTA is no exception.

The effective labor law enforcement clause of the Bahrain FTA labor text is exactly the same as the effective labor law enforcement clause of the Jordan FTA. All other commitments in the labor article of the Jordan FTA are formulated as “strive to” commitments. As President Clinton wrote when submitting the Jordan FTA to Congress in 2001: “It is important to note that the [Jordan] FTA does not require either country to adopt any new laws in these areas, but rather includes commitments that each country enforce its own labor and environmental laws.” In a line by line comparison, it is evident that there are more commitments in our recent trade agreements than in the Jordan FTA. For example, the Bahrain labor chapter contains commitments by all Parties to provide workers with fair, equitable and transparent processes for the enforcement of their labor rights. The Jordan FTA contains no such commitments. Additionally, the Bahrain FTA requires specific labor consultations to attempt to resolve differences, provides specific remedies for violations of the effective enforcement provision that can be directed toward labor initiatives, establishes institutional mechanisms for implementation and cooperation, and includes provisions for greater transparency and public awareness of labor laws.

Bahrain is not, nor has it ever been, a beneficiary of any U.S. trade preference program. Regardless, the labor provisions in our recent trade agreements significantly improve our ability to ensure that our trading partners do not fail to protect fundamental worker rights, as compared with the remedies available under the Generalized System of Preferences (GSP) and other trade preference programs. The labor laws that a country

is *obligated to effectively enforce* under an FTA cover the same set of internationally recognized worker rights included in the eligibility criteria for the GSP and other trade preference programs. Using the GSP provisions to withdraw some or all of the trade benefits offered through these programs is a blunt policy instrument that could seriously harm the very workers whose rights we were trying to protect. However, under the FTA, if Bahrain breaches its obligation to effectively enforce its labor laws, it would pay a recurring fine until the situation is remedied – a carefully targeted policy tool to ensure the enforcement of workers’ rights.

6. What role has the ILO played in assisting USTR and Bahrain to attain the minimal labor standards considered essential under Trade Promotion Authority legislation? Do you feel they have played a constructive role as this process has moved forward?

Answer:

The ILO has been very involved in Bahrain’s labor law reforms. Bahrain worked with the ILO in developing the 2002 Workers Trade Union law. In 2001/2002, the Government of Bahrain invited the ILO to help train the nascent trade unions and employers about worker rights, labor standards, the regulations and procedures to set up trade unions, and other relevant topics. The Government did this through a series of programs, which were linked closely to the redrafting of the new Bahrain labor law. The ILO has chosen Bahrain as one of eight countries around the world to pilot a new initiative, called the Decent Work Program, aimed at increasing the level of working conditions. The Ministry of Labor is currently working closely with the ILO toward developing and implementing an unemployment insurance system in Bahrain. We have also been working with the ILO regarding future projects related to worker rights education and training and labor law reform, to be funded by the Department of Labor and the Middle East Partnership Initiative (MEPI).

The FTA itself supports the Bahrain Government’s efforts to reform its political and labor system. Under the FTA, the Parties establish a labor cooperation mechanism to promote respect for core labor standards embodied in the ILO Declaration and compliance with ILO Convention 182 on Elimination of the Worst Forms of Child Labor. The Parties agreed that their labor ministries, with other appropriate agencies, would establish priorities and develop specific cooperative activities, which may concern among other matters legislation and practice related to core elements of the ILO “Declaration on Fundamental Principles and Rights at Work”; social safety net programs; treatment of non-national workers; working conditions and labor-management relations. Several discussions have already taken place between U.S. agencies and the Bahrain Ministry

of Labor to consider technical cooperation programs. Details remain to be worked out, but areas for potential assistance or cooperation in the near future include improving industrial relations practices, collective bargaining procedures, and mediation and conciliation services.

7. Significant concerns remain on labor rights issues in Bahrain, including but not limited to collective bargaining and involuntary servitude. What is the extent of this problem, how is it being addressed, and given that this agreement has no dispute settlement provisions that cover labor rights infractions, what is the lever we will use to ensure compliance?

Answer:

Labor provisions in the FTA reaffirm each government's commitment under the ILO "Declaration on Fundamental Principles and Rights at Work" and obligate Bahrain to strive to ensure that such principles and the internationally recognized labor rights identified in the FTA, including a prohibition on forced labor and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health, are recognized and protected in domestic law. Failure on the part of Bahrain to effectively enforce its laws concerning these internationally recognized rights would subject Bahrain to the FTA's dispute settlement provisions. The FTA also includes a labor cooperation mechanism, which includes among its enumerated topics appropriate for cooperation the protection of non-national workers, many of whom are domestic workers.

Bahrain's law prohibits forced labor and contains provisions establishing acceptable conditions of work. Bahrain has ratified ILO Convention No. 29 on Forced Labor, ILO Convention No. 105 on the Abolition of Forced Labor, and ILO Convention 182 on the Prohibition of the Worst Forms of Child Labor. The Labor Law for the Private Sector establishes 14 years as the minimum age for employment, although the law does not cover domestic servants.

In the case of foreign workers, the Bahraini Ministry of Labor grants and reviews work permits for foreign nationals, and such permits may only be granted to persons 18 years of age and older. The Labor Inspectorate of Ministry of Labor investigates complaints of foreign workers who are fully covered under the Labor Law for the Private Sector, while the Labor Relations Directorate handles the labor disputes concerning domestic service workers. USTR officials, along with those from the Department of Labor and the Department of State's Bureau of Democracy, Human Rights and Labor, consulted with the Government of Bahrain on areas where we encouraged further labor improvements. We were particularly aware of

problems regarding the mistreatment of foreign maids, and asked for improved protections for this vulnerable group.

The Workers Trade Union Law does not contain specific procedures governing the collective bargaining process. The Government of Bahrain has recognized that the current labor law could be improved by inclusion of specific collective bargaining procedures and has indicated that it is considering legislation that would set out collective bargaining procedures. In practice, trade union officials indicate that most of the private sector unions have discussed working conditions with employers. The Ministry of Labor's unofficial estimate is that more than 100 collective bargaining agreements have been reached.

Bahrain government officials recognize the need to further address core labor rights, and the Government is currently considering additional labor law amendments that would explain more specifically procedures governing the collective bargaining process, introduce mandatory reinstatement for a worker dismissed for trade union activity, abolish the requirement of one union per enterprise, and increase statutory damages for failure to pay wages due. Other potential labor law amendments also include consideration of raising minimum age requirements, gender issues, and the establishment of an unemployment insurance system. Bahrain has made some sweeping labor reforms in the last few years, bringing its labor laws more in line with international standards and setting a positive example for the region.

8. Given the scarce resources at USTR, do you feel that the primary emphasis in negotiating FTAs should be economic or geopolitical concerns? Are FTAs with small countries like Bahrain – FTAs that provide so little bang for the buck for U.S. companies – worthwhile?

Answer:

The U.S.-Bahrain FTA is part of a more general effort to promote economic and political reform in the region. Bahrain has been an important regional U.S. ally and leader in economic and political liberalization. While the direct economic impact on U.S. trade and investment may not be extremely large, it offers a proportionally significant “bang for the buck” for Bahrain’s relatively small economy (Bahrain’s 2004 GDP was less than \$10 billion). We believe there is a direct linkage between successfully concluding the FTA with Bahrain and the more general progress we have seen by its neighbors in the region on liberalizing their markets and reforming their economies. The FTA has been – and will continue to be – a catalyst to promote economic reform in the region. Ultimately, it is part of the President’s vision to create a free trade area for the Middle East and North Africa by the year 2013.

**Questions from Senator Lincoln for Ambassador Donnelly**

I would like to take a moment to note my appreciation for the Administration's efforts to secure a meaningful commitment from Bahrain that it will dismantle its primary boycott against Israel. Ambassador Portman, our trade negotiators, and my distinguished colleagues are well aware that I was extremely disappointed with the Administration's decision to conclude a WTO accession agreement with Saudi Arabia, despite outstanding concerns expressed by me and other members of this committee on human rights and religious freedom, as well as the Kingdom's refusal to withdraw the Arab boycott. I am pleased to know that Bahrain recognizes the need to end this practice, not only to meet its WTO commitments, but also to engage in a more liberalized trade relationship with the United States.

Today, the Arab boycott against Israel works against American policy goals in the region. Everything our government can do to finally eradicate the boycott is worthy of support. The breakdown of these kind of economic barriers can lead to the development of important political relationships between Israel and the Arab world. I support these efforts because they can help lead to greater stability and peace in this region of the world which is a key objective of U.S. foreign policy.

Ambassador Donnelly, do you see the Bahrain commitment on the boycott against Israel as a model for negotiating future free trade agreements with other countries that currently participate in the Arab boycott? If other countries want to enjoy the benefits of free trade with the U.S., shouldn't they commit, as Bahrain has done, to end their participation in this counterproductive boycott?

**Answer:**

The United States has made clear its opposition to the Arab boycott. The U.S. Government continues to work for the removal of the boycott and supports the political process that will encourage the parties to resolve their differences.

Following the Oslo Accords, in 1996, Bahrain and the other Gulf Cooperation Council (GCC) countries publicly recognized the goal of dismantling the primary boycott. In 1994, Bahrain and the other GCC countries eliminated the secondary and tertiary aspects of the Arab League boycott of Israel. None of the current Arab League countries that are also Members of the World Trade Organization (WTO) invoked the non-application provisions of the WTO Agreement toward any other Member. Thus, all those countries have all WTO rights and obligations with respect to all Members, including Israel.

**Statement of Senator Chuck Grassley  
Senate Committee on Finance  
Subcommittee on International Trade  
Hearing on the U.S.-Bahrain Free Trade Agreement  
October 6, 2005**

I'm pleased that we're holding a hearing today on the U.S.-Bahrain Free Trade Agreement. This agreement will benefit farmers, workers, and businesses throughout the United States. It will strengthen the economy of Bahrain, a major ally of the United States in the Middle East. This agreement will also serve as a template for other free trade agreements in the region. In this way, the U.S.-Bahrain Free Trade Agreement will ultimately lead to further trade liberalization in the Arab world.

To start, the U.S.-Bahrain Free Trade Agreement provides benefits for the United States. Under the Agreement, 100 percent of trade between the United States and Bahrain in industrial and consumer products will be duty-free immediately. The Agreement covers all agricultural products – there are no exclusions – and Bahrain will grant duty-free access immediately for 98 percent of U.S. agricultural tariff lines. Tariffs on the remaining 2 percent of agricultural goods, which consist of alcohol and tobacco products, will be phased out over ten years. In addition, Bahrain's economy is based largely upon services, and Bahrain provides significant market access to its services regime under the Agreement.

Gains from the U.S.-Bahrain Free Trade Agreement will accrue to numerous U.S. farmers and U.S. companies, including Iowa agricultural producers and companies. For example, a small company in my state of Iowa, the Midamar Corporation, looks forward to the implementation of this trade agreement. Midamar supplies high quality halal foods and foodservice equipment to restaurants, hotels, and distributors in the United States and abroad. This company was founded in 1972 by Cedar Rapids native Bill Aosse who, upon returning to Iowa after serving in the Peace Corps and traveling throughout the Middle East, developed the idea of starting a company dedicated to exporting Iowa products. Bill now employs some 30 Iowans. Midamar's employees recognize that their company will benefit from reduced tariffs under the U.S.-Bahrain Free Trade Agreement. In addition, Midamar understands that Bahrain is a bridge to the markets of other countries in the region.

In much the same way, the Bush Administration, in initiating the U.S.-Bahrain Free Trade Agreement, recognized that this agreement could be a bridge for free trade agreements with other Middle Eastern countries. This has already proven true. Just this week, the United States and Oman concluded negotiations of a free trade agreement, an agreement based largely upon the U.S.-Bahrain Free Trade Agreement. Oman was inspired by the positive experience of its Persian Gulf neighbor, Bahrain, in negotiating a free trade agreement with the United States. I note as well that the United Arab Emirates, also aware of benefits that Bahrain will receive through its free trade agreement, is

currently negotiating an agreement with the United States. Yet more countries in the region are now expressing interests in pursuing free trade agreements with our country.

These potential free trade agreements, as well as the U.S.-Bahrain Free Trade Agreement, fall into the goal of President Bush of creating a U.S.-Middle East Free Trade Area by 2013. Progress toward a Middle East Free Trade Area is well underway, with the United States having already negotiated free trade agreements with Israel, Jordan, and Morocco as well as with Bahrain. A Middle East Free Trade Area would cover numerous countries and would thus provide significant market access opportunities for U.S. farmers, workers, and businesses. Such an agreement would also lead to the implementation of much needed economic reforms throughout the region, reforms that would benefit not only U.S. exporters, but also the citizens of Arab countries.

Bahrain recognizes the economic and political benefits that will come from the implementation of a free trade agreement with the United States. Bahrain's government understands that its recent economic reforms will be bolstered by the Free Trade Agreement. Bahrain's leaders also recognize that a free trade agreement with the United States will contribute to the strengthening of the rule of law in their country. The experience of Bahrain in making economic and political reforms could be replicated several times over through a Middle East Free Trade Area, and these reforms could lead to increased stability in the region.

Finally, I would like to point out that Bahrain is a valued ally of the United States. The U.S. Fifth Fleet is headquartered in Bahrain, and Bahrain has hosted a U.S. military presence since World War II. In October 2001, the United States designated Bahrain as a Major Non-NATO Ally. It only seems fitting for the United States to strengthen its economic ties with this significant ally.

The U.S.-Bahrain Free Trade Agreement will benefit the United States, will result in economic gains for a major Middle Eastern ally of the United States, and will lead to further trade liberalization in the Arab world. Bahrain's parliament has already passed legislation to implement the U.S.-Bahrain Free Trade Agreement, and Bahrain's legislation has been signed into law. So the ball now clearly falls in our court. I urge my colleagues to support passage of legislation implementing the U.S.-Bahrain Free Trade Agreement.





**National U.S.-Arab Chamber of Commerce**

**United States – Bahrain Free Trade Agreement**

Hearing Before the Senate Finance Committee  
215 Dirksen Senate Office Building  
October 6, 2005

Testimony Submitted by  
David Hamod  
President & CEO  
National U.S.-Arab Chamber of Commerce

Mr. Chairman and distinguished members of the Senate Finance Committee, thank you for the opportunity to testify this afternoon. My name is David Hamod, and I serve as President & CEO of the National U.S.-Arab Chamber of Commerce (NUSACC). I've had the privilege of visiting Bahrain at least once a year for the better part of two decades, and I can tell you that it is a very comfortable place to live and do business.

NUSACC serves as the U.S. point of contact for the national chambers of commerce in the 22 Arab nations, providing our Chamber with valuable insights into the opportunities and challenges facing the Arab business community. This unique position, as a nexus between East and West, enables NUSACC to closely monitor the pulse of business between the United States and the Arab world like no one else.

Since its inception nearly 40 years ago, NUSACC has been America's preeminent organization for fostering trade and investment between the United States and the Arab world. Most of our members are small and medium-sized U.S. companies that are exporting to the Middle East.

One of these small companies, Midamar Corporation from the Great State of Iowa, is submitting written testimony today about the importance of Bahrain as a market. Midamar exports upwards of 250 tons of U.S. goods to Bahrain per year, helping to sustain 30 jobs in Iowa and making Midamar one of America's top exporters of high-quality, value-added food products.

Our Chamber has a long history of cooperation with Bahrain, and we are very proud of our special relationships with the American Chamber of Commerce in Bahrain, the American Association of Bahrain, the American Mission Hospital, and the Bahrain Chamber of Commerce and Industry.

#### Bahrain: A "Paradise" for Trade & Investment?

In the ancient world, according to historians and the Epic of Gilgamesh, there was a small island paradise full of fruit trees, plants, and flowers -- a place where sickness, violence and old age did not exist.

This Garden of Eden, according to cuneiform tablets from the Sumerian civilization, straddled the trade routes between Mesopotamia and the Indus Valley, resulting in one of the greatest trading empires of the ancient world. This Eden, we are told, was called "Dilmun."

As history buffs will tell you, Dilmun was what is known today as Bahrain. Thus, Bahrain has been literally at the crossroads of civilization for some 5,000 years.

Today, Bahrain is once again poised to play a world class role in trade & investment. And for some U.S. companies interested in exporting goods and services to the region, the Bahraini market has the potential to be a modern day "paradise."

### Creating Jobs Through the FTA

The governments of Bahrain and the United States are promoting a Free Trade Agreement (FTA) that has the potential to greatly enhance business prospects between our two nations. The Office of the U.S. Trade Representative (USTR) has provided Congress with a detailed assessment of the U.S.-Bahrain FTA, so our Chamber will not devote a great deal of time to those precise details in this testimony.

Suffice it to say, however, that one of the most meaningful features of the FTA is that, on the first day it goes into effect, 100 percent of consumer and industrial products and more than three-quarters of our agricultural exports will be duty-free. In the eyes of our Chamber, this FTA represents a solid agreement. It sets the pace for the rest of the Arabian Gulf and is a strong model for the Arab world as a whole.

The two governments have led the private sector down the aisle and up to the altar, so to speak, and now it is up to us -- the U.S. and Bahraini business communities -- to tie the knot.

From a U.S. perspective, there are good things in this agreement for everyone -- whether you're a farmer in Iowa or Montana, a software developer in Utah, a tool manufacturer in West Virginia, or a freight forwarder in Mississippi.

President George W. Bush has stated, "I will not be satisfied until every American looking for work can find a job." This FTA will help to generate new jobs and sustain existing employment -- here and in Bahrain.

This is important for our fellow Americans at a time when many in our country are facing economic uncertainty. It is equally important in Bahrain because some in the region -- a very tiny minority -- would play upon unemployment and hopelessness to fuel extremism and breed terrorism.

### Bahrain: Small Country, Big Strategic Ally

Admiral William Crowe, former Chairman of the Joint Chiefs of Staff, once said, "Pound for pound, Bahrain has been about the best ally [the U.S. has] had in recent times."

Crowe's assessment reflects the deep respect that U.S. policymakers traditionally have for Bahrain, a major non-NATO ally and home to the U.S. Navy's Fifth Fleet since 1995.

In 1949, the U.S. Navy began to utilize Bahrain's ports to maintain security in the Gulf. Over the ensuing half century, military cooperation grew into a stronger and more valuable alliance, with Bahrain increasingly at the center of U.S. naval operations in the Gulf. U.S. Naval Forces Central Command has been headquartered in Bahrain since 1993, and today, 79 acres of downtown Manama serve as the command center for the Middle East Force.

During the 1990-1991 Gulf War and the more recent conflict in Iraq, Bahrain provided indispensable assistance by hosting the naval command center and providing extensive basing for U.S. aircraft. During Operation Enduring Freedom, Bahrain was the only Gulf Cooperation Council (GCC) nation to commit military forces to the effort.

More recently, on a humanitarian front, Bahrain was quick to pledge assistance -- five million dollars -- to help the victims of Hurricane Katrina in Louisiana, Mississippi, and Alabama.

### Singapore of the Middle East?

The National U.S.-Arab Chamber of Commerce recently released a special report on the 2006 outlook for U.S. exports to the Arab world -- including Bahrain. With your permission, Mr. Chairman, I would like to include that report in today's hearing record.

The report states, "Bahrain boasts a wide range of major infrastructure and engineering projects. 100 percent ownership by foreign firms is encouraged, and Bahrain's Bilateral Investment Treaty with the United States has helped to attract more than 150 U.S. companies to set up operations in this kingdom."

According to the same report, U.S. exports to Bahrain for 2005 are expected to reach \$362 million, with an increase in 2006 to \$449 million -- a jump of nearly 25 percent. Bahrain is not America's biggest market in the region, but with the FTA in place, the kingdom will be better situated than ever to serve as a gateway to the Arabian Gulf. For example, neighboring Saudi Arabia has announced more than \$600 billion in investment projects over the next decade. Bahrain, which is connected to Saudi Arabia by a causeway, is expected to be one of the biggest beneficiaries of those "megaprojects" taking place next door.

In some respects, Bahrain has much in common with Singapore. Both are island nations that serve as portals to larger markets on the mainland; both boast a high quality of life and ultramodern infrastructures; both pride themselves on a well-educated and easily trainable labor force.

Like Singapore, Bahrain ranks high on the list of free economies. According to the Fraser Institute's *2005 Economic Freedom of the World* report ([www.fraserinstitute.ca](http://www.fraserinstitute.ca)), Bahrain ranks as the 24th most free economy in the world, ahead of such nations as Japan (#30), France (#38), Israel (#50), and Italy (#54).

Like Singapore, Bahrain holds great respect for the rule of law. According to Transparency International's *2004 Corruption Perceptions Index* ([www.transparency.org](http://www.transparency.org)), Bahrain ranks 34<sup>th</sup> in the world in perceived corruption, with less corruption than such nations as Taiwan (#35), Italy (#42), South Korea (#47), Brazil (#59), and China (#71).

Bahrain will soon host the newly created Investment Policy Center for the Middle East and North Africa. This global center aims to attract more foreign direct investment to the region and enjoys the support of the Paris-based Organization for Economic Cooperation and Development (OECD).

In short, Bahrain is one of the most attractive destinations in the area for establishing a corporate regional office. This may help to explain why so many Americans who take jobs for a few years in Bahrain end up staying on for a decade or two.

#### Bahrain: The Little Engine That Can

Bahrain is undertaking significant economic reform, and the FTA is the centerpiece of this effort. The agreement “raises the bar” for trade and investment rules that enhance market access, and it bolsters Bahrain’s role as an engine of economic reform in the Arab world.

Bahrain has been a locomotive for change in the region for decades. With its resourcefulness, determination, and visionary leadership, Bahrain takes on tough jobs and succeeds at them in ways that bigger nations can only dream about. Congressional approval of the U.S.-Bahrain Free Trade Agreement will put the United States and Bahrain “over the top,” and our Chamber looks forward to working with the Senate Finance Committee to help make this dream a reality.

# US-Arab Tradeline

A Publication of the National U.S.-Arab Chamber of Commerce

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## 2006 Outlook: U.S. Merchandise Exports to the Arab World

*A Special Report from the National U.S.-Arab Chamber of Commerce*

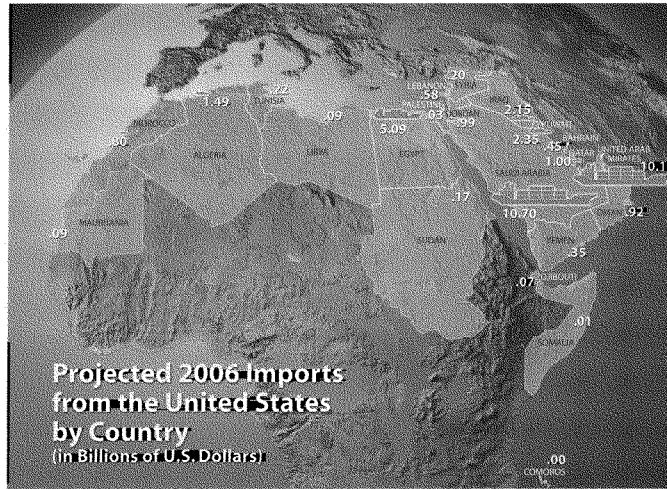
Across the board, 2005 is emerging as one of the strongest years ever for U.S.-Arab trade. U.S. merchandise exports to the Arab world are expected to reach \$26.7 billion by the end of this year, a 38 percent increase over last year's levels. The outlook for 2006 is even brighter, with estimated sales of \$37.9 billion – an increase of more than 40 percent.

According to research conducted for the National U.S.-Arab Chamber of Commerce (NUSACC) by the Institute for Research: Middle Eastern Policy (IRmep), sales of U.S. goods to the region are running ahead of the world average. Arab market imports from the world are expected to reach \$276 billion in 2005, up from \$224 billion in 2004, and it is anticipated that this number will rise to \$351 billion in 2006 – an increase of 27 percent over the projected figures for 2005.

"These data show that the Arab world continues to be one of America's best and most reliable customers," notes David Hamod, NUSACC's President and CEO. "Despite strife in the region and occasional ups and downs in U.S.-Arab political relations, the economic partnership is steadily climbing to new heights. Clearly, the 'Made in the USA' label still has tremendous cachet."

There are many reasons for the significant growth of U.S. exports to the Arab world. The most obvious reason, of course, is that petroleum exporting nations in the region are benefiting from higher oil prices, thereby boosting their import purchasing power. Several of these nations, like the United Arab Emirates, Oman, and Qatar, almost met their total 2004 import levels from the United States by mid-2005.

The higher energy prices that helped to spur imports of U.S. industrial and consumer goods to new levels in 2005 are poised to repeat in 2006. The U.S. Energy Information Administration (EIA) of the U.S. Department of Energy recently raised its forecast for petroleum price per barrel in 2006 from \$56.70 to \$63.50 as excess production and refining capacity remains tight and global demand soars. This suggests



that import purchasing power will remain strong. "The U.S. trade deficit with the OPEC countries last year amounted to nearly \$72 billion – about 12 percent of our overall trade deficit and only slightly less than our trade gap with Japan," says Andrew Schneider, Associate Editor of *The Kiplinger Letter*, a business forecasting report. "The more that oil-producing countries use their accumulated dollars to buy American goods and services, the narrower that trade deficit will become and the healthier the trading relationship will be."

A second reason for the surge of U.S. exports to the region revolves

*continued on page 2*

continued from page 1

around investments by the Arab private sector – which are at an all time high. In recent years – particularly after 9/11, when Arab business leaders began staying “closer to home” – the region experienced a substantial increase in local investments. This has been especially true for construction and engineering projects, like those involving petrochemicals, but there have also been major investments in leisure and residential development projects. These “megaprojects,” reminiscent of the 1970s focus on infrastructure, contain a substantial amount of U.S. goods and services.

Concomitant liquidity in portfolio investments has also increased demand for goods and services, including those from the United States. One typical indicator of such investment, stock market activity in the Arab world, has been appropriately robust. The non-weighted average of stock market gains by countries in the region in 2005 (year-to-date) is 90.30 percent, led by the United Arab Emirates (124.58 percent growth), Qatar (119.91 percent), Egypt (91.37 percent), Jordan (87.82 percent), and Saudi Arabia (80.80 percent). There is every reason to believe that this strong trend will continue in 2006.

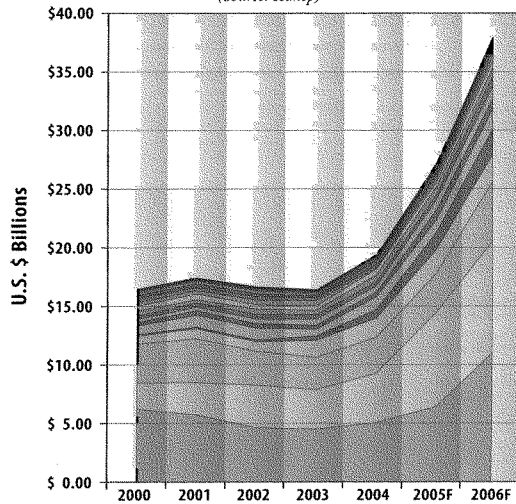
A third reason for the upward trend in U.S. exports to the Arab world is the growing size of the region’s consumer market. As a result of globalization, Arab consumers are more aware than ever about the appeal and availability of U.S. products, and they are flush with disposable income.

Young consumers (and their parents) are particularly important targets for advertising and marketing campaigns, and the Arab world boasts one of the youngest populations in the world. According to the U.S. Government, more than 36 percent of the Arab world’s population is 14 years old or younger. (The world average for this age group is less than 28 percent.) This fact, coupled with the high population growth in the Arab nations – 2.3 percent per annum, compared to a worldwide population growth rate of 1.14 percent – suggests that consumer demand in the region for U.S. products will remain strong for many years to come.

U.S.-Arab Tradeline Research, quantitative analysis and forecast support provided by The Institute for Research, Middle Eastern Policy, Inc. (IRMEP)  
 U.S.-Arab Tradeline Designed and produced by Rick Clark Illustration & Design

### Arab Market Merchandise Imports from the United States Years 2000-2006

(Source: IRMEP)



	2000	2001	2002	2003	2004	2005F	2006F
COMOROS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
SOMALIA	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
PALESTINE	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.01	\$0.03
DJIBOUTI	\$0.02	\$0.02	\$0.06	\$0.03	\$0.04	\$0.06	\$0.07
MAURITANIA	\$0.02	\$0.03	\$0.02	\$0.03	\$0.08	\$0.08	\$0.09
LIBYA	\$0.02	\$0.01	\$0.02	\$0.00	\$0.04	\$0.08	\$0.09
SUDAN	\$0.02	\$0.02	\$0.01	\$0.03	\$0.07	\$0.11	\$0.17
SYRIA	\$0.23	\$0.23	\$0.27	\$0.21	\$0.21	\$0.19	\$0.20
TUNISIA	\$0.28	\$0.28	\$0.20	\$0.17	\$0.24	\$0.19	\$0.22
YEMEN	\$0.19	\$0.19	\$0.37	\$0.20	\$0.23	\$0.27	\$0.35
BAHRAIN	\$0.43	\$0.43	\$0.42	\$0.51	\$0.30	\$0.36	\$0.45
LEBANON	\$0.35	\$0.42	\$0.32	\$0.31	\$0.46	\$0.44	\$0.58
MONACO	\$0.52	\$0.29	\$0.57	\$0.47	\$0.52	\$0.62	\$0.80
OMAN	\$0.30	\$0.31	\$0.36	\$0.32	\$0.33	\$0.55	\$0.92
JORDAN	\$0.31	\$0.34	\$0.40	\$0.49	\$0.55	\$0.63	\$0.99
QATAR	\$0.19	\$0.24	\$0.31	\$0.41	\$0.45	\$0.90	\$1.00
ALGERIA	\$0.87	\$1.05	\$0.98	\$0.49	\$0.97	\$1.15	\$1.49
IRAC	\$0.01	\$0.05	\$0.03	\$0.32	\$0.86	\$1.50	\$2.15
KUWAIT	\$0.79	\$0.91	\$1.01	\$1.51	\$1.52	\$1.94	\$2.35
EGYPT	\$3.33	\$3.78	\$2.87	\$2.66	\$3.10	\$3.12	\$5.09
UAE	\$2.29	\$2.64	\$3.60	\$3.51	\$4.06	\$8.04	\$10.19
SAUDI ARABIA	\$6.23	\$5.97	\$4.76	\$4.60	\$5.25	\$6.41	\$10.70

# US-Arab Tradeline

This Special Report, "2006 Outlook: U.S. Merchandise Exports to the Arab World," looks at all 22 nations of the Arab world (including the fledgling nation of Palestine). The report leads off with the largest market, Saudi Arabia, and works its way through to the smallest market, the Comoros Islands.

The major markets include two graphics that help tell the story of U.S. business prospects in 2006.

First, the **Top Ten** pie chart focuses on those sectors responsible for most of the U.S. merchandise exports. These include such traditional high performers as vehicles, aircraft, machinery, foodstuffs, and the like.

Second, the **Sectors to Watch** chart focuses on key sectors that appear to have particular potential for the coming year. These may include such non-traditional merchandise as cosmetics, sports equipment, musical instruments, cosmetics, and others. The "Sectors to Watch" list has been created because NUSACC believes that this list may be of special interest to small and medium-sized enterprises in the United States, many of which specialize in niche export markets.

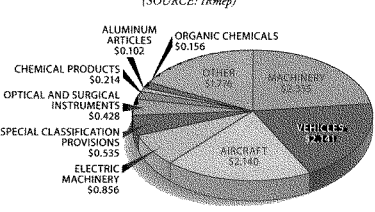
For a "bottoms up" review of Arab markets—with market sizing, import demand, and domestic production estimates—go to [www.export.gov](http://www.export.gov) to review the most current U.S. Commercial Service country reports. For additional details or for a proprietary report on Arab market forecasts, contact NUSACC at (202) 289-5920.

NOTE: Numbers on the following pie charts may not add up to total imports due to rounding.

## Saudi Arabia

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	4.1%	4.2%	IMF
Total Merchandise Imports	U.S. \$48.7 billion	U.S. \$66.9 billion	IRnep
Merchandise Imports from the U.S.	U.S. \$6.4 billion	U.S. \$10.7 billion	IRnep

### Saudi Arabia – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)



Saudi Arabia's expected accession to the World Trade Organization (WTO) at the Hong Kong summit in December of this year bodes well for exporters serving this market. Increased global demand for petroleum has spurred production capacity expansion to a declared goal of nearly 13 million barrels per day by 2009. A Saudi delegation that toured the United States recently announced more than \$600 billion in infrastructure investment opportunities in the Kingdom.

Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Food and Beverage	Cocoa Mixes and Preparations	31%	\$8.1 million
Food and Beverage	Seafood	42%	\$2.1 million

In short, the U.S. is regaining a significant share of the Saudi import market, despite the setbacks that 9/11 created for U.S.-Saudi relations.

Strong U.S. Government support for the Kingdom's WTO bid, coupled with good progress on a U.S.-Saudi Free Trade Agreement, could make a substantial difference for U.S. exporters looking to do business in Saudi Arabia.

### Forecasting Methodology

The forecast of year 2006 import potential is derived from a "top down" model of country market import demand growth that involves correlating the International Monetary Fund (IMF) real GDP growth predictions, actual 2005 year-to-date exports from the U.S. to the Arab market, and U.S. market share trends for each country's imports over time.

Granular U.S. export category growth rates are estimated from five-year slope calculations. 2005 year-to-date exports to each country market are adjusted with country-specific historical five-year seasonality to arrive at year 2005F exports.

For 2006, "top down" model predictions have been checked against updated baseline "bottoms up" models driven by import demand correlated to real year-to-date average free on board (F.O.B.) petroleum prices, Energy Information Administration (EIA) forecast prices, and production forecasts for major petroleum exporting countries. For some major categories, such as aircraft sales, the five-year slope has been adjusted against a longer purchase pattern and official country market purchase intentions.

Major services export categories, such as travel, financial services, education, consulting, and engineering, are not covered in this 2006 Outlook report. Empirical data reveal that in one major country market, services accounted for additional revenues of 30 percent or more of the total U.S. manufactured good export revenues. In others, the revenues from services are estimated to provide an additional 10-20 percent of reported manufactured goods exports as U.S. companies provide comprehensive "solutions" involving equipment and installation and maintenance services.

As with any forecast, the numbers and estimates in this report should not be a sole source of planning information. Rather, they should be compared and contrasted against other public and proprietary data sources.

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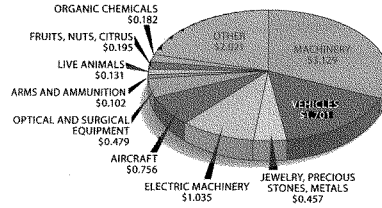


**United Arab Emirates**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	4.5%	4.0%	IMF
Total Merchandise Imports	U.S. \$53.9 billion	U.S. \$62.6 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$8.0 billion	U.S. \$10.2 billion	IRmep

The UAE has been a major re-exporter of American imported goods to other countries of the region. As a regional trading hub for Central Asia, the Middle East, and Africa, the UAE's trade role is expanding dramatically. The Emirates are a destination for billions in international investment: more than 2,400 companies operate from Dubai's Jebel Ali Free Zone alone. Tourism and real estate development has exploded in the UAE, including the construction of unique man-made islands complete with private residences and hotels.

**UAE – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**  
(SOURCE: IRmep)



Sectors to Watch	Export	5-Year Annual Growth Rate	2006 U.S. Export Opportunity
Cosmetics	Perfume, Fragrances, Cosmetics	11%	\$111.00 million
Recreation	Games, Sporting Equipment	13%	\$13.50 million
Medical	Pharmaceutical Products	17%	\$55.70 million
Food and Beverage	Prepared Cereals, Flour, Baker's Goods	40%	\$32.30 million
Iron and Steel	Angle Irons, Rebar, Other	25%	\$26.10 million
Food and Beverage	Fish & Crustaceans	7%	\$4.10 million

Housing and tourism developments are helping to drive demands for security systems and safety equipment, telecommunications and IT equipment and services, as well as architecture, construction, and engineering services. The UAE's ICT infrastructure may be the best in the region because the Emirates have made the Internet and modern telecoms a development priority.

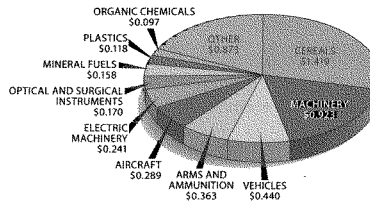
The UAE and the USA are expected to sign a Free Trade Agreement in 2006. Among the key negotiating points are reform of the legal system – particularly as it affects dealers, distributors and agents – and labor rights of foreign workers in the Emirates.

**Egypt**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	4.0%	5.0%	IMF
Total Merchandise Imports	U.S. \$26.0 billion	U.S. \$36.0 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$3.1 billion	U.S. \$4.1 billion	IRmep

Egypt seems to be gradually overcoming the legacies of a centralized economy. That nation emerged from three years of negative import growth in 2004, posting import gains of 30 percent. Post-election economic growth forecasts reach 5 percent real GDP growth in 2006 as Egypt continues to reform the tax code and eliminate barriers to trade and investment. A strong tourism sector, coupled with a new liquefied natural gas export industry and booming telecommunications opportunities, make this market attractive despite lingering "red tape" bureaucracy.

**Egypt – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**  
(SOURCE: IRmep)



Sectors to Watch	Export	5-Year Annual Growth Rate	2006 U.S. Export Opportunity
Fuels	Mineral Fuels	26%	\$156 million
Metals	Metal Parts	144%	\$12.5 million
Food and Beverage	Meat and Seafood	186%	\$4.1 million

The U.S. is Egypt's largest trading partner. Negotiations over a U.S.-Egypt Free Trade Agreement are ratcheting up, with a likely signing in 2006. In preparation for this FTA, Egypt is on track in its efforts to streamline its massive bureaucracy and lower the cost of doing business in the Arab world's most populous nation.

*"In a time of rapid transformation, a glimpse of the outlook for US-Arab mutual trade in the near term, promising as it may be, is but a timid vision of what could be. The convergence of growing populations and expanding resources with the ability to deploy technology as a beneficial force open up for greater opportunities than may be imagined. The way is open to build bridges of commerce that will bring greater understanding, harmony and prosperity."*

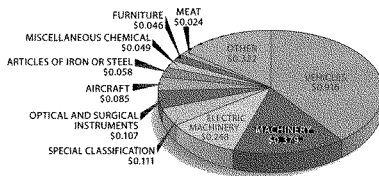
G. William Miller, Chairman and CEO of G. William Miller & Co. Inc. and formerly U.S. Secretary of the Treasury and Chairman of the Board of Governors of the Federal Reserve System

# US-Arab Tradeline

## Kuwait

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	3.2%	3.2%	IMF
Total Merchandise Imports	U.S. \$11.9 billion	U.S. \$12.7 billion	IRnep
Merchandise Imports from the U.S.	U.S. \$1.9 billion	U.S. \$2.4 billion	IRnep

**Kuwait – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**  
(SOURCE: IRnep)



Kuwait imports a variety of defense, industrial and consumer goods. That nation's push to expand daily petroleum production from 2.3 million barrels to 3.5 million barrels through "Project Kuwait" has created vast needs for oilfield equipment, trucks, medical equipment, and power generators. This strong demand is expected to hold steady in 2006, in light of Kuwait's recent decision to move forward on a major new refinery.

Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Tools	Tools and Cutlery	40%	\$21.8 million
Recreation	Sporting Goods	28%	\$16.2 million
Pharmaceuticals	Pharmaceuticals	22%	\$13.5 million
Cosmetics	Cosmetics	14%	\$5.9 million
Fabrics	Special Woven Fabrics	152%	\$5.3 million
Leather	Crafts, Handbags	92%	\$3.5 million

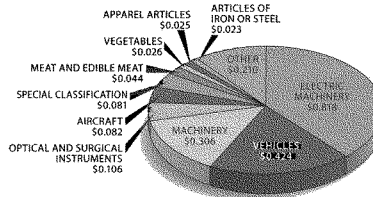
Kuwait's expansions beyond the petroleum and power sectors are not the only major initiatives underway. Construction of medical facilities, bridges, port improvement, and cargo terminals will continue to drive demand for engineering services and high quality industrial goods well into the next decade. Kuwait is making steady progress toward a U.S.-Kuwait Free Trade Agreement, and further progress is expected in 2006.

## Iraq

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	4.3%	4.5%	IMF
Total Merchandise Imports	U.S. \$13.7 billion	U.S. \$19.0 billion	IRnep
Merchandise Imports from the U.S.	U.S. \$1.5 billion	U.S. \$2.2 billion	IRnep

Iraq's imports from the United States are on track to reach \$1.5 billion in 2005 as infrastructure building and rebuilding continues. Heavy demand for generators, telecommunications equipment, computers, peripherals and air conditioning has driven electrical machinery imports from the U.S. into the number one import category. Vehicles and other types of heavy machinery, including cranes, engines, and heavy construction equipment, continue to flow into Iraq during reconstruction.

**Iraq – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**  
(SOURCE: IRnep)



Sectors to Watch	Export	1 Year Annual Growth Rate	2006 U.S. Export Opportunity
Household	Furniture	86%	\$20.9 million
Print	Books, Newspapers	255%	\$15.0 million
Tools	Tools and Cutlery	1,114%	\$7.9 million
Recreation	Toys, Games	15,220%	\$6.3 million
Clothing	Footwear	1,186%	\$3.5 million
Ceramic	Ceramic Products	72%	\$0.3 million

\*Due to almost non-existent trade between the U.S. and Iraq in the years 2000-2003, Iraq's "Sectors to Watch" are based on a single year of real export category analysis, 2003-2004. Readers are cautioned to expect dramatically lower growth rate figures as Iraq moves from a reconstruction economy to a more traditional economy.

## Algeria

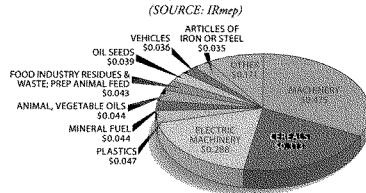
Metric	2005	2006	Source
Forecast Real GDP Growth Rate	4.6%	4.7%	IMF
Total Merchandise Imports	U.S. \$18.3 billion	U.S. \$22.0 billion	IRnep
Merchandise Imports from the U.S.	U.S. \$1.2 billion	U.S. \$1.5 billion	IRnep

2005 will mark the first year U.S. exports to Algeria break \$1 billion. Import demand in Algeria, geographically the second largest country in Africa, is dependent on petroleum and natural gas exports. Energy development is a critical driver of capital investment and infrastructure projects, with revenues providing over half of the government's revenues.

Of particular interest to U.S. exporters is the Gassi Touil gas field, which will receive a great deal of attention in 2006 and whose LNG products will be largely dedicated to the U.S. market.



**Algeria – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**



Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Iron and Steel	Angle Irons, Rebar, other	33%	\$34.5 million
Vehicles	Rail or Tramway Stock	22%	\$1.8 million

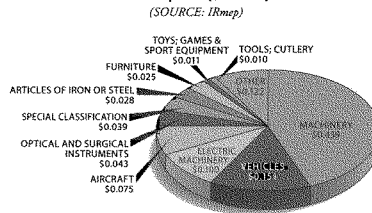
Algeria is not yet a member of the World Trade Organization (WTO), and this has hampered its appeal as an investment destination. Nevertheless, this nation is making solid progress in its transition from a state-dominated economy to a market-oriented one. The most recent manifestation of this transition was Algeria's announcement in 2005 that it is actively opening up its tourism industry to foreign investors for the first time.

**Qatar**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	5.1%	5.7%	IMF
Total Merchandise Imports	U.S. \$6.4 billion	U.S. \$6.7 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.9 billion	U.S. \$1.0 billion	IRmep

Qatar's trade and investment climate is among the best in the Arab world. Foreign firms are allowed 100 percent ownership in agriculture, industry, health, education and tourism sectors and, with government approval, the development of natural resources, including energy and mining. Qatar is also making progress in its efforts to open up such sectors as banking, insurance, and real estate development to foreign investors.

**Qatar – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**



Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Metals	Articles of Steel	76%	\$28.0 million
Leather	Goods, Handbags, etc.	30%	\$1.4 million
Food	Beverages, Water	30%	\$0.7 million
Recreation	Medical Instruments	120%	\$0.2 million

The U.N. World Human Development report released on September 7, 2005 ranked Qatar in first place among Arab states and 40th out of 177 countries in the world on metrics measuring social, economic, educational, and health conditions.

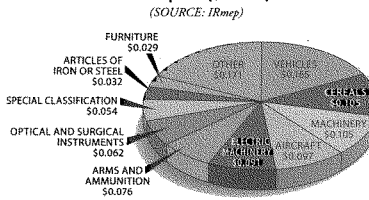
Qatar's tourism strategy includes the expansion of Qatar Airways through the purchase of Airbus A350 jets worth \$10.6 billion and a future order of at least 20 Boeing 777 planes worth approximately \$4.6 billion.

Qatar is making steady progress in its Free Trade Agreement discussions with the United States, and further progress is expected in 2006.

**Jordan**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	3.0%	5.5%	IMF
Total Merchandise Imports	U.S. \$10.6 billion	U.S. \$15.3 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$4.6 billion	U.S. \$1.0 billion	IRmep

**Jordan – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**



Jordan is transforming itself into a regional hub for international trade. With a view to attracting traders and investors, it now boasts the Zarqa Free Zone, the Sahab Industrial Estate Free Zone, Queen Alia International Airport Free Zone, and the Gateway Qualifying Industrial Zone. In addition, thanks to the success of the REACH project, Jordan has one of the most sophisticated IT backbones in the region.

Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Household	Furniture	32%	\$29.9 million
Chemicals	Organic Chemicals	66%	\$26.8 million
Food	Fruits and Nuts	22%	\$0.1 million
Wood	Wood Articles	17%	\$3.5 million
Metal	Copper Articles	80%	\$7.3 million

# US-Arab Tradeline

Jordan was the first Arab nation to sign a Free Trade Agreement with the United States – in October 2000. In part as a result of this FTA, Jordan's exports to the United States have jumped from \$73 million in 2000 to well over \$1 billion today.

The Center for Free Enterprise rated Jordan's economic freedom as 35th out of 127 market economies in a report released on September 9, 2005 – tying South Korea with a score of 7 out of 10 in the survey.

oilfield's heavy crude flows from 10,000 barrels per day (bpd) to 150,000 bpd. The Sultanate reassigned exploitation of the field from Royal Dutch/Shell to Occidental as part of an aggressive development scheme aimed to reverse declining production and increase Oman's total output to 800,000 barrels per day by 2009.

With the signing of a U.S.-Oman Free Trade Agreement expected in early 2006, the Sultanate hopes to build on its increasingly close economic ties to the United States.

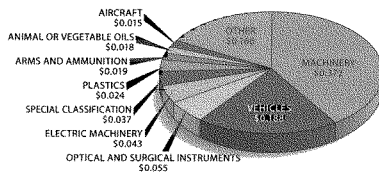
## Oman

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	2.6%	3.3%	IMF
Total Merchandise Imports	U.S. \$7.3 billion	U.S. \$10.8 billion	IRnep
Merchandise Imports from the U.S.	U.S. \$0.554 billion	U.S. \$0.923 billion	IRnep

Oman's stability, governance, and market opening strategies – begun in the 1970s – have begun to pay off. Oman still relies heavily on exports of petroleum and natural gas, but the country has spearheaded a broad diversification of the economy in the Sultanate's five-year plan, which calls for expanded tourism, value-added petroleum product manufacturing, and the participation of more companies in manufacturing projects to serve European and Asian markets.

**Oman – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**

(SOURCE: IRnep)



Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Explosives	Explosives, Pyrotechnics	38%	\$8.3 million
Paper	Paper	33%	\$6.6 million
Food and Beverage	Pet Food	177%	\$5.1 million
Food and Beverage	Fruits & Nuts	34%	\$1.1 million
Cosmetics	Cosmetics	15%	\$2.0 million
Fabrics	Woven	69.3%	\$0.1 million

The U.S. share of oilfield services and equipment is picking up as U.S. companies edge out European and Asian competitors for a larger share in exploration and development. In early May, U.S. petroleum company Occidental and the UAE's Liwa Energy announced investments of more than U.S. \$2 billion to increase the Mukhaizna

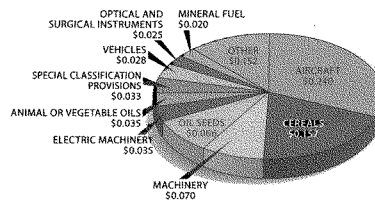
## Morocco

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	2.0%	3.8%	IMF
Total Merchandise Imports	U.S. \$18.7 billion	U.S. \$23.2 billion	IRnep
Merchandise Imports from the U.S.	U.S. \$0.6 billion	U.S. \$0.8 billion	IRnep

The U.S.-Morocco Free Trade Agreement (FTA), signed last year, is one of the most comprehensive FTAs ever concluded, eliminating tariffs on 95 percent of consumer and industrial goods. U.S. exporters will now be able to compete with Europeans on a level playing field. Along with efficient new commercial courts, U.S. businesses can now rely on sixteen Regional Investment Centers dedicated to serving commercial ventures.

**Morocco – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**

(SOURCE: IRnep)



Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Paper	Paper and Paperboard	23%	\$14.9 million
Industrial	Organic Chemicals	57%	\$10.8 million
Vehicles	Ships & Boats	64%	\$1.9 million
Clothing	Footwear	69%	\$1.0 million

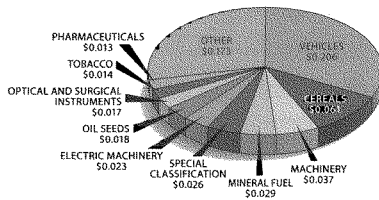
Another feature of the FTA is the implementation of more consistent accounting standards and a transparent judicial system. These developments are particularly important to U.S. businesses that rely on intellectual property protection, including trademarks and digital copyrights, as well as protection for patents and strict penalties for piracy and counterfeiting.



**Lebanon**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	4.0%	3.5%	IMF
Total Merchandise Imports	U.S. \$10.4 billion	U.S. \$12.9 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.4 billion	U.S. \$0.6 billion	IRmep

**Lebanon – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**  
(SOURCE: IRmep)



Lebanon's "Cedar Revolution" in 2005 shone a spotlight on this small country with big aspirations.

Lebanon's free market economy, limited restrictions on investors and the movement of capital and foreign exchange, its highly educated work force, and this nation's quality of life continue to make Lebanon an attractive business and leisure destination. Lebanon is making steady progress in its efforts to tackle bureaucracy and corruption, licensing shortcomings, and overly complex customs procedures.

Sectors to Watch	Export	5-Year Annual Growth Rate	2006 U.S. Export Opportunity
Food	Fruits, Nuts	21%	\$10.8 million
Paper	Paper	18%	\$10.7 million
Food	Seafood	27%	\$1.9 million
Fiber	Manmade fibers	64%	\$1.5 million
Food	Beverages, Spirits	40%	\$1.1 million

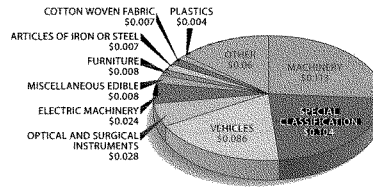
Prime Minister Fouad Siniora has declared Lebanon's intention to privatize the telecommunications sector, power production and distribution at Electricité du Liban (the national power company), Beirut and Tripoli ports management, and regional water authorities. Privatizing such state assets in 2006 would send a strong signal to international investors that Lebanon is once again "open for business."

**Bahrain**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	3.3%	3.2%	IMF
Total Merchandise Imports	U.S. \$6.7 billion	U.S. \$7.6 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.362 billion	U.S. \$0.449 billion	IRmep

As a major Non-NATO Ally and home to the U.S. Navy's fifth fleet, Bahrain boasts a wide range of major infrastructure and engineering projects. 100 percent ownership by foreign firms is encouraged, and Bahrain's Bilateral Investment Treaty with the United States has helped to attract more than 150 U.S. companies to set up operations in this kingdom.

**Bahrain – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**  
(SOURCE: IRmep)



Bahrain and the United States are preparing to implement the new U.S.-Bahrain Free Trade Agreement, which will further burnish Bahrain's reputation as a regional center for high technology and services, particularly financial services.

Sectors to Watch	Export	5-Year Annual Growth Rate	2006 U.S. Export Opportunity
Household	Silver/Wares	40%	\$2.6 million
Food	Fruits & Nuts	16%	\$2.5 million
Household	Ceramics	70%	\$0.5 million

Bahrain will soon host the newly created Investment Policy Center for the Middle East and North Africa. This global center aims to attract more foreign direct investment to the region and enjoys the support of the Paris-based Organization for Economic Cooperation and Development (OECD).

**Yemen**

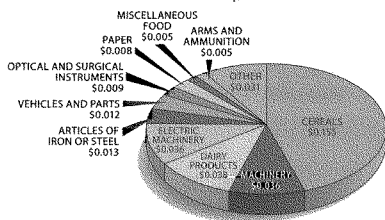
Metric	2005	2006	Source
Forecast Real GDP Growth Rate	2.9%	2.7%	IMF
Total Merchandise Imports	U.S. \$4.7 billion	U.S. \$5.7 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.266 billion	U.S. \$0.249 billion	IRmep

Rising oil prices have increased Yemen's capacity for U.S. imports financed by petroleum exports. This capacity should increase further as Yemen's substantial natural gas reserves come online. On September 6th, Yemen announced that it has selected a consortium led by Halliburton to build a new liquefied natural gas (LNG) plant valued at more than \$2 billion.

# US-Arab Tradeline

**Yemen – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**

(SOURCE: IRmep)



In June, with a view to expanding operations dramatically, Yemen turned over management of the Aden port facility to Dubai International Company for Ports. Aden's key advantage over other ports in the region is a time savings of two sailing days to the Arabian Gulf through the Straits of Hormuz. In the short term, at least, Aden is not expected to compete against the likes of Dubai, which has 23 titanic cranes working day and night in its ports.

Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Paper	Paper and Paperboard	20%	\$7.8 million
Metal	Misc. Articles of Base Metal	20%	\$3.3 million
Household	Tools and Cutlery	69%	\$2.6 million

Yemen has signed a Trade and Investment Framework Agreement (TIFA) with the United States, and progress is being made toward concluding a Free Trade Agreement with the U.S.A.

## Tunisia

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	5.0%	5.3%	IMF
Total Merchandise Imports	U.S. \$12.7 billion	U.S. \$14.2 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.194 billion	U.S. \$0.223 billion	IRmep

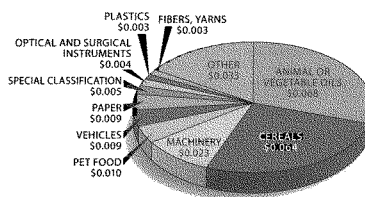
Tunisia's political stability, history, and proximity to Europe have linked its economy closely to the continent, especially through multilateral assistance programs and the implementation of a free trade agreement signed with the EU in 1995.

Despite these traditional ties to the EU, Tunisia is very keen to build closer economic relations with the United States. The two nations signed a Trade and Investment Framework Agreement (TIFA) in 2002, and steady progress is being made toward establishing a U.S.-Tunisia Free Trade Agreement.

In November of this year, Tunisia will host the United Nations World Summit on the Information Society, which is expected to draw more than 15,000 visitors – including numerous heads of state – to Tunis. This represents an excellent opportunity for Tunisians to showcase their country and its commitment to economic reform.

**Tunisia – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**

(SOURCE: IRmep)



Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Paper	Paper	47%	\$8.9 million
Cosmetics	Cosmetics	198%	\$2.5 million
Chemicals	Misc. Products	23%	\$1.9 million

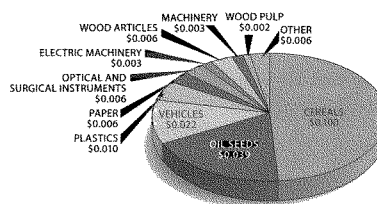
## Syria

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	3.5%	3.8%	IMF
Total Merchandise Imports	U.S. \$5.3 billion	U.S. \$5.5 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.186 billion	U.S. \$0.204 billion	IRmep

Congressional passage of the "Syrian Accountability Act of 2003" has reduced U.S. exports, which are forecast to dip below \$200 million in 2005 as the United States maintains diplomatic and economic pressure. Syria is also feeling the squeeze from the loss of its foothold in Lebanon, which had bolstered Syria's economy for much of the past two decades.

**Syria – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**

(SOURCE: IRmep)



Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Plastics	Plastics	31%	\$9.8 million
Cosmetics	Cosmetics	312%	\$2.0 million
Chemicals	Explosives/Pyrotechnics	912%	\$0.6 million

Syria has turned to Iran to boost its waning international trade, and the two countries are expected to sign a free trade agreement soon. Iran is engaged in economic projects in Syria valued at approximately \$700 million.

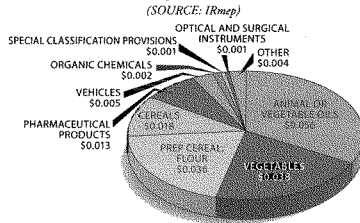
**Sudan**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	8.2%	8.6%	IMF
Total Merchandise Imports	U.S. \$5.4 billion	U.S. \$8.3 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.110 billion	U.S. \$0.173 billion	IRmep

Civil strife and corruption in Sudan have made doing business there very difficult. In fact, in "Doing Business in 2006: Creating Jobs," the World Bank placed Sudan in the world's "bottom ten" nations when it comes to ease of doing business.

The United States has put a great deal of diplomatic and economic pressure on Sudan in recent years, so U.S. exports do not exceed \$200 million per year. Despite traditional friction between the U.S. and Sudan, the relationship appears to be on the mend. Sudan has been helpful to the U.S. in the aftermath of 9/11 and in the war on terrorism, and this has helped economic relations to thaw.

**Sudan – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**



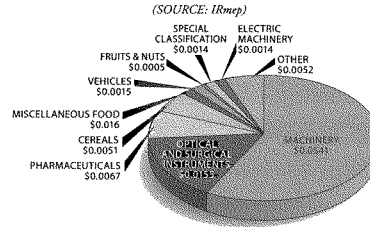
**Libya**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	4.3%	4.4%	IMF
Total Merchandise Imports	U.S. \$8.11 billion	U.S. \$9.12 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.084 billion	U.S. \$0.094 billion	IRmep

Greatly improved relations between the United States and Libya have raised trade from virtually nil prior to 2003 to nearly \$100 million forecast for 2006.

In September 2004, the U.S. lifted a trade and transport embargo placed on Libya in the 1980s for its support of terrorism. U.S. oil and gas companies were the first to establish a "beachhead" in Libya, and other sectors are now setting up operations in Tripoli as well. Major opportunities abound – in telecommunications, financial services, construction & engineering, tourism & leisure, healthcare, and education – as Libya rejoins the international community after decades of isolation.

**Libya – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**

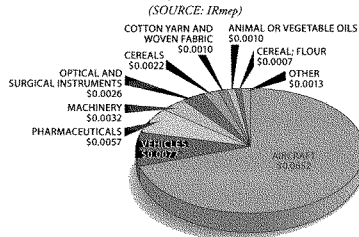


**Mauritania**

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	5.8%	4.7%	IMF
Total Merchandise Imports	U.S. \$0.56 billion	U.S. \$0.62 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.078 billion	U.S. \$0.091 billion	IRmep

Mauritania has opened itself to trade and investment over the past decade by liberalizing its fiscal and financial systems and by privatizing many state-owned industries. For example, the Nouakchott Port, formerly in operation for 60 hours a week, now operates around the clock.

**Mauritania – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)**



Mauritania's trade is strongly oriented toward Europe, which is located across the Mediterranean Sea. However, U.S. investors have begun to take an interest in such major initiatives as the Afout

# US-Arab Tradeline

Esaheli project to pipe water from the Senegal River to Nouakchott, which will require a \$250 million investment. Mauritania also hopes to begin exports from the Chinguetti oilfield by the first quarter of 2006. Development and infrastructure costs are expected to exceed \$700 million.

## Djibouti

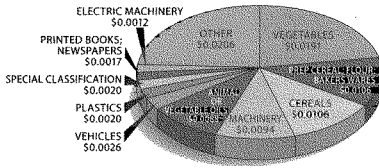
Metric	2005	2006	Source
Forecast Real GDP Growth Rate	3.9%	4.3%	IMF
Total Merchandise Imports	U.S. \$0.66 billion	U.S. \$0.65 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.6 billion	U.S. \$0.7 billion	IRmep

Djibouti is situated at the mouth of the Red Sea, a strategic trans-shipment location for commerce entering and leaving the east African highlands. It hosts the only United States military base in sub-Saharan Africa.

This Arab nation has traditionally maintained very close ties to France, which gave Djibouti its independence in 1977. Nevertheless, under the leadership of President Ismail Omar Guelleh, Djibouti has built increasingly strong relations with the United States.

### Djibouti – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)

(SOURCE: IRmep)



## Palestine

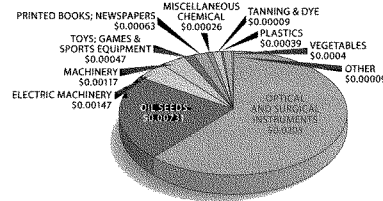
Metric	2005	2006	Source
Forecast Real GDP Growth Rate	N.A.	N.A.	IMF
Total Merchandise Imports	N.A.	N.A.	IRmep
Merchandise Imports from the U.S.	U.S. \$0.006 billion	U.S. \$0.032 billion	IRmep

U.S. exports to the West Bank and Gaza are remarkably low considering the vital role that the United States plays in the Israel / Palestine peace process. Per capita income levels and U.S. exports will both need to rise if the Palestinian territories hope to stand on their own two feet.

The recent disengagement of Israeli armed forces and settlers from Gaza has revealed a massive need for investment in Palestinian infrastructure, including airports, highway systems, and demographically appropriate urban housing.

### Palestine – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)

(SOURCE: IRmep)



A recent meeting of European Union finance ministers pledged support toward reviving the flagging economy in the Palestinian territories. U.S. organizations are currently drafting strategic development reports and aid proposals, so that adequate capital flows to Palestine.

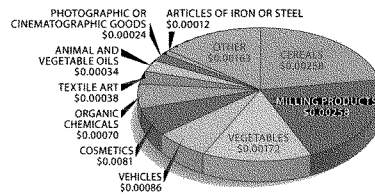
## Somalia

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	N.A.	N.A.	IMF
Total Merchandise Imports	U.S. \$0.46 billion	U.S. \$0.50 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.010 billion	U.S. \$0.011 billion	IRmep

Clan rivalries and civil strife have disrupted economic development and international aid projects in Somalia. Nevertheless, U.S. exports to Somalia concentrated in manufactures, such as vehicles and machinery, are forecast to reach just under \$11 million in 2006. Somalia's regional integration took a step forward in September with the signing of a broad bilateral trade agreement with neighboring Kenya. Agriculture continues to be Somalia's most important economic sector.

### Somalia – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)

(SOURCE: IRmep)







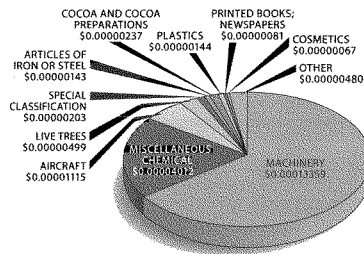
## Comoros

Metric	2005	2006	Source
Forecast Real GDP Growth Rate	3.0%	3.5%	IMF
Total Merchandise Imports	U.S. \$0.08 billion	U.S. \$0.08 billion	IRmep
Merchandise Imports from the U.S.	U.S. \$0.0002 billion	U.S. \$0.0002 billion	IRmep

U.S. trade with Comoros is minimal, with exports, principally machinery, forecast at \$200,000 in 2006. Slightly larger than Washington DC, and with a population of approximately 700,000, the Comoros Islands are strategically placed at the mouth of the Mozambique Channel in Southern Africa.

### Comoros – 2006 Forecast Top Ten Manufactured U.S. Imports (\$ Billion)

(SOURCE: IRmep)



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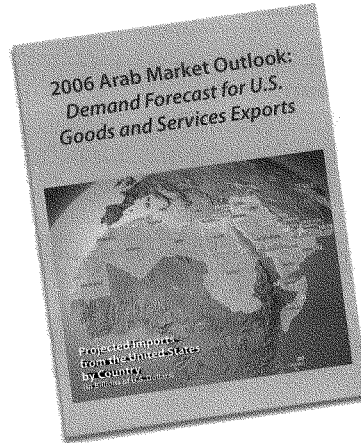
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**Statement of Lionel C. Johnson  
Vice President and Director, International Government Affairs  
Citigroup  
And  
Co-Chair, US-Bahrain Free Trade Agreement Coalition**

**Hearing on US-Bahrain Free Trade Agreement  
Subcommittee on International Trade  
Committee on Finance  
United States Senate  
Thursday, October 6, 2005**

Chairman Grassley, Ranking Member Baucus and members of the Subcommittee on International Trade, thank you for the opportunity to testify on the importance of ratifying the bilateral Free Trade Agreement (FTA) with the Kingdom of Bahrain.

My name is Lionel Johnson, Vice President and Director, International Government Affairs of Citigroup. I also serve as Co-Chair of the US-Bahrain Free Trade Agreement Coalition, which comprises 75 companies and associations that strongly support this important trade agreement. From these two roles, I hope to offer helpful perspectives regarding the FTA and the promise that it holds for our two countries and their peoples for your Committee deliberations.

**Important Milestone in Securing Broader Regional Free Trade**

Prior to discussing how the Agreement will benefit the US business community and Citigroup in particular, I would like to offer some general comments on the strategic and economic importance of the Agreement.

The Bush Administration recently announced its desire to secure a broad Middle East Free Trade Area by 2013. This ambitious goal offers long-term security and economic benefits to the United States. The US-Bahrain Free Trade Agreement – along with the FTAs presently in force with Israel, Jordan and Morocco – represents a critical first step in realizing this important goal.

**Agreement Advances US Security Objectives**

Even with its vast supplies of natural resources, the Middle East remains one of the poorest regions in the world combined with a youthful population that sees little prospect of a brighter economic future. These twin factors lead to destabilizing conditions that may pose a direct security threat to the United States. Liberalized trade with the region offers the Middle East an alternative path: the promise of improved economic conditions,

true integration into the multilateral trading system, and an enhanced respect for the rule of law.

In addition, the Free Trade Agreement recognizes Bahrain's status as a long-standing US ally in the region. Bahrain was designated as a major non-NATO ally in October 2001 and has been helpful in advancing our counterterrorism efforts.

#### *Agreement Advances US Economic Objectives*

The Middle East is home to many of the world's poorest countries: Yemen has a per capita GDP of \$286, Syria's per capita GDP is \$1,238 and Lebanon's is \$2,999. However, the region is home to millions of young people who want to participate in the global economy. By unshackling the economies of the region, significant economic growth can result throughout the Middle East.

As these economies grow, it is crucial that American businesses, workers and farmers have a seat at the table. If we choose not to engage economically with the Middle East, our international competitors would be more than happy to expand trade ties with this region at our economic expense. Engagement with Middle East countries promises long-term tangible economic gains for the United States.

#### *Importance to Citigroup*

Citigroup is a preeminent financial services company, with 200 million customer accounts in more than 100 countries. Other major brand names under Citigroup's trademark red umbrella include Citi Cards, CitiFinancial, CitiMortgage, CitiInsurance, Primerica, Diners Club, Citigroup Asset Management, The Citigroup Private Bank, and CitiCapital.

We operate as Citibank N.A., and have been present in the Kingdom of Bahrain since 1969. We were among the first foreign banks to establish business operations in the Kingdom. We remain firmly committed to our presence in Bahrain, and believe that the FTA offers an excellent opportunity to grow our business in this important region and to enable us to offer a wider range of world-class financial services to our Bahraini and Persian Gulf customers.

Bahrain's leaders, including the Minister of Finance, are reformers in a region in search of expanded opportunities through greater participation in the global economy. The Bahrain Monetary Authority (BMA) – Bahrain's Central Bank – provides the licenses for all of our Bahraini divisions, with the exception of Citicorp International Trading Corporation (CITC), whose license is approved by the Commerce Ministry. We have found the Government of Bahrain to be strongly committed to economic reform and liberalization, and Citigroup is deeply grateful for its support of our activities in the

region. Bahrain Government officials often consult and work with us in the formulation of new laws and regulations that impact our sector.

The Kingdom of Bahrain selected Citigroup as the joint lead for its maiden \$500 million Euro Bond issue. We have also recently been given the mandate for Bahrain's \$250 million Islamic Bond (Sukuk) issue. Bahrain serves as a regional hub for Citigroup in providing financial services to Saudi Arabia, Qatar, Kuwait, Oman and Yemen. In addition, Bahrain is approved as an offshore booking hub for Citigroup's Central and Eastern Europe, Middle East, and Africa business.

The FTA will help the banking sector as market access becomes more liberalized. As the geographical and financial center of the Middle Eastern–West Asian region, Bahrain is perfectly positioned to serve as the economic gateway to the Gulf. Through Bahrain, the doors open to the GCC economies, while just across the Gulf region lay the increasingly important economies of Southwest Asia, with which Bahrain has had a long, thriving relationship.

#### **Importance to Broader US Business Community**

The US business community is very supportive of the Bahrain FTA. Upon its entry into force, the agreement will provide immediate duty-free access to 100% of bilateral trade in non-textile industrial goods, and 98% of US agricultural exports (and will phase out tariffs on the remaining products within 10 years). Under this agreement, Bahrain will lift existing restrictions for US companies in a number of important sectors: for example, accounting, architecture, engineering, construction and tourist services. The Agreement also removes market access barriers for US telecommunications firms.

We see the potential for this comprehensive and high standard FTA to increase US sales by:

- eliminating tariffs;
- improving customs and other trade facilitation procedures;
- assuring that product and safety standards are based on sound science that does not create unjustifiable barriers to trade;
- locking in intellectual property protection and enforcement to deter counterfeiting and piracy;
- undertaking a comprehensive approach to increased access to services markets; that improves transparency and predictability in regulatory procedures and adequately addresses discriminatory and other barriers;
- building on the existing US – Bahrain bilateral investment treaty to increase investor protection and increase opportunities for US investment;
- taking steps that encourage e-commerce; and
- increasing transparency and predictability in and access to Bahraini government procurement.

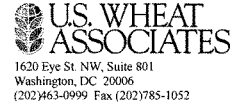
As Bahrain diversifies its economy away from oil, the financial services sector has become the second largest contributor to Bahrain's GDP. There are great opportunities for American financial services and insurance companies to invest and expand in Bahrain, as demonstrated by the strong presence of 65 American financial firms already located within its borders.

Other major projects in tourism, healthcare, education, construction, information technology, telecommunications and transportation are well suited for US business participation. High value US food and beverage products should also see increasing opportunities in Bahrain, especially as the tourism and restaurant base grows. A high quality FTA will improve the overall investment climate in Bahrain and provide another partner in increasing free trade in the region

### **Conclusion**

Again I want to thank the Committee for the opportunity to testify on behalf of Citigroup and the US-Bahrain FTA Business Coalition in support of this agreement. We believe that the FTA will over time lead to increased job creation, trade expansion, improved technology, deepening of people-to-people ties, and enhancement of long-term economic development in this region of vital importance to the United States.

I would be happy to answer any questions you might have. In addition, I look forward to working with the Committee during the coming weeks to secure the FTA's early approval by Congress.



Statement of  
Wheat Export Trade Education Committee, U.S. Wheat Associates and the National Association of  
Wheat Growers

on the  
**U.S. – Bahrain Free Trade Agreement**

Before the  
Senate Committee on Finance

Presented by  
Barbara R. Spangler  
Executive Director, Wheat Export Trade Education Committee

October 6, 2005

Mr. Chairman and honorable committee members, thank you for this opportunity to speak to you on this important step in opening the market and expanding opportunities with the State of Bahrain and throughout this strategic region.

I wish to begin my remarks by offering my sincere congratulations to Dr. Naser Al Belooshi on being named Ambassador to the United States for the State of Bahrain. Ambassador Belooshi has held his hand out in friendship and cooperation throughout his tenure as Economic Representative to the United States. I personally look forward to continuing this friendship and to the opportunity to expand trade with the people of Bahrain that I know he will foster.

Let me highlight two points that wheat producers in the United States take into account when looking at the world market and why every opportunity is important. First, 96 percent of the world's consumers live beyond our border. The four percent within the United States do not consume enough wheat to sustain a viable wheat industry as we know it now.

Second, we consistently export nearly 50 percent of our total production. As you can imagine, our success or failure hinges on the ability of U.S. wheat to be exported around the world. Trade is a vital component for ensuring the financial viability of U.S. wheat farmers. Fair and open trade agreements are key to reaching customers outside of the U.S.

American wheat producers look to this region of the world as one of opportunity and we support the Bahrain Free Trade Agreement. With a population nearly the same as Washington DC, Bahrain is not a major importer of agricultural commodities. With some exceptions, this has been a duty free market for most grains. This FTA will lock in duty free access for U.S. wheat and most all other grains. Upon implementation, eighty one percent of all agricultural exports will be allowed to enter Bahrain duty free, so this is a good agreement for American producers.

Sometimes a trade agreement is more important for forward movement in developing relationships in the country and throughout the region. The wheat industry views every open door for trade as an opportunity to establish relations and explore future opportunities. This is one of those doors.

The U.S. wheat industry supports moving forward aggressively with bilateral agreements such as this one with Bahrain. However, the World Trade Organization (WTO) Doha negotiations are critical to a balanced world trade situation and are the major key to expanding U.S. wheat trade. If the U.S. is successful in achieving its long standing goals in the WTO the U.S. wheat industry will be better able to take advantage of the opportunity offered by the U.S. - Bahrain FTA. It is only in the Doha negotiations that export state trading monopolies can be disciplined and hopefully eliminated. The trades distorting monopolistic practices of major competitors trading in Bahrain and throughout the region are a critical impediment to our ability to secure a fair market share with Bahrain. This issue can only be resolved through the WTO negotiations.

Additionally, an important element of this FTA is the fostering of alliances in the region in such a way that they will carry over to the WTO negotiations, the only venue where many trade distortions can be resolved.

FTA negotiations have the potential to extend beyond the level of liberalization we hope to achieve in the WTO. This FTA, if approved and implemented, will hopefully serve as an important link for more extensive multilateral trade agreements between the U.S. and the Middle East.

The U.S. must take advantage of opening markets through trade agreements such as the one we are discussing today. The wheat industry urges you to help move this agreement through Congress as quickly as possible.

Thank you and I look forward to any questions you may have.

**Statement of Senator Craig Thomas**

**Subcommittee on International Trade  
Bahrain – U.S. Free Trade Agreement Hearing  
October 6, 2005**

A key to long-term U.S. economic growth is trade. Strong relationships create opportunities for business and entrepreneurs worldwide. It is estimated that 25% of U.S. economic growth in the 1990's was directly related to exports. Despite substantial growth in U.S. exports, Americans continue to import more than we send abroad.

It is critical that the United States continue to push to reduce global barriers to trade so U.S. companies can fairly compete. Entrepreneurs and businesses in the United States excel in innovation and creativity, and lack of access to markets prevents people from achieving their full potential. It also limits our ability to grow the economy and raise our standard of living. With nearly 96% of the world's consumers living outside the United States, we must find ways to open markets to U.S. goods and services.

In the long run, trade will only succeed if it is fair. Though Doha negotiations continue to move forward, reaching a comprehensive and fair agreement in the World Trade Organization remains a significant challenge and is taking much longer than planned.

We can't set trade negotiations aside while we wait for the world to come together in the WTO. The United States must continue to pursue bilateral agreements that will create long-term opportunities for America.

The United States must look to all regions where opportunities exist. The Middle East is an important area of the world and we need to continue to build relationships in the region, including establishing trading partnerships.

Bahrain and the United States isn't the largest trading partnership, but it is an important one, both strategically and economically. The proposed Free Trade Agreement builds on our relationship, expands access for U.S. goods, provides protections for intellectual property rights, and immediately eliminates tariffs on a wide-range of American agriculture products. It reinforces America's commitment to the Middle East, and provides a solid framework as more nations in the region seek to establish a trade relationship with the United States.



COMMUNICATIONS



AMERICAN MARITIME CONGRESS  
Franklin Square, 1300 I Street, NW, Suite 250 West, Washington, DC 20005-3314

October 19, 2005

The Honorable Charles E. Grassley  
Chairman, Committee on Finance  
United States Senate  
Washington, D.C. 20510

Dear Mr. Chairman:

Thank you for the opportunity to submit comments presenting the views of the American Maritime Congress (AMC) as regards implementation of the Free Trade Agreement (FTA) between the United States and Bahrain. AMC is a research and educational group comprised of U.S.-flag ship operators whose vessels serve in both the international and domestic trades. This statement is being submitted on behalf of AMC, the Marine Engineers Beneficial Association, which is the oldest U.S. maritime union representing licensed merchant marine officers, as well as a broad-based coalition of U.S.-flag shipowners and operators, maritime associations, and unions (see attached).

All of these companies and organizations are strongly in favor of the U.S.-Bahrain FTA because it removes the punitive *ad valorem* duty imposed on U.S.-registered vessels for repairs performed in a foreign shipyard; in this instance, for ship repairs and drydocking done in Bahrain.

Section 466 of the Tariff Act of 1930, 19 U.S.C. 1466 ("the Vessel Repair Statute"), imposes a 50 percent *ad valorem* duty on the cost of equipment and non-emergency repairs obtained outside of the United States. The duty was put in place as a disincentive to having work done overseas at a time when shipowners and shipyards received federal subsidies to create parity with foreign yards. Those subsidies were phased out over 25 years ago; yet, U.S.-flag shipping is still subject to the duty with no corresponding benefit to U.S. shipyards for which it was designed to help in the first place.

The 50 percent duty imposes a significant competitive burden on U.S.-flag vessels that is unique in world shipping, and it comes on top of the fact that many competitors of U.S.-flag shipping pay little or no taxes and duties, and adhere to minimal labor, health, environmental standards, and regulations. No other U.S. transportation mode that competes against foreign interests is subject to such a duty. A similar duty for repairs and equipment performed on U.S. civil aircraft in all foreign countries was eliminated in 1979 as part of the Tokyo Round of GATT. Furthermore, this repair duty on U.S.-documented vessels has already been eliminated with respect to Free Trade Agreements between the United States and Israel, Jordan, Canada, Mexico, and most recently, under President Bush, Singapore and Chile.

The *ad valorem* duty has placed owners and operators of U.S.-registered vessels at a serious competitive disadvantage by forcing them to pay significantly more for vessel repairs than their foreign competition. At a time when U.S.-flag operators are aggressively seeking to become more cost-efficient, it is essential that the oppressive burden of this duty be removed wherever possible. The implementation of the U.S.-Bahrain FTA will secure another port of safety for American vessels.

The ability to have vessels repaired at shipyards in Singapore, at internationally competitive prices, has been a positive outcome. Shipping companies with U.S.-flag vessels are able to remain competitive and, at the same time, remain ready to serve America in time of need, such as vessels flying the Stars and Stripes are doing now as our Nation fights the War on Terror. Adding another internationally recognized shipyard, such as in Bahrain, will help significantly to level the economic playing field for American ships transporting both commercial and Department of Defense cargoes in the Middle East.

Finally, I wish to note that the removal of this duty has no adverse effects on American jobs and is thus supported by both American shipowners and maritime labor. Again, thank you for the opportunity to comment on the implementation of the U.S.-Bahrain Free Trade Agreement. We look forward to working with Members of the Committee and the Senate as a vote for favorable passage is considered.

Sincerely,



Gloria Cataneo Tosi  
President

Attachment

cc: The Honorable Max S. Baucus  
The Honorable Craig Thomas  
The Honorable Jeff Bingaman

American Maritime Congress Signatories

American Cargo Transport  
American Maritime Congress  
American Maritime Officers  
American Maritime Officers Service  
American Ocean Enterprises  
American Roll-On Roll-Off  
American Ship Management  
American Shipping Group  
APL Ltd.  
Central Gulf Lines  
CP Ships USA, LLC  
Crowley Maritime Corp.  
E-Ships, Inc.  
Horizon Lines, LLC  
Intermarine, LLC  
International Organization of Masters, Mates & Pilots  
Keystone Shipping Co.  
Liberty Maritime Corporation  
Maersk Line Limited  
Marine Engineers' Beneficial Association  
Maritime Institute for Research and Industrial Development  
Marine Resources Group  
Matson Navigation Co.  
OSG Ship Management, Inc.  
P&O/Nedlloyd/Farrell Lines  
Red River Shipping Corp.  
Sailors' Union of the Pacific  
Seafarers International Union  
Scalift, Inc.  
Transportation Institute  
Waterman Steamship Corporation

Written Comments in Support of Quick Passage of the  
United States – Bahrain Free Trade Agreement  
Before the Senate Finance Committee  
Hearing held October 6, 2005

Submitted by  
Bahrain Chamber of Commerce and Industry – Apparel Group  
October 20, 2005

Members of the Ways and Means subcommittee on Trade, on behalf of the Bahrain Chamber of Commerce and Industry – Apparel Group, we wish to urge your support for and the quick passage of the United States – Bahrain Free Trade Agreement (BFTA).

As you know, the US and Bahrain initiated FTA talks on January 26, 2004. These negotiations were quick and efficient with a conclusion reached by May 27, 2004. The finished agreement was signed by our government representatives on September 14, 2004. Our hopes at that time were that by January 1, 2005, the agreement would be in place. To date, we still have no agreement in effect. Our industry has declined from 19 textile or apparel companies at the beginning of negotiations (down from 29 companies in 2002) to only 7 companies today. Every day there is a delay in implementing the free trade agreement with the United States, our industry suffers, workers are laid off, the unemployment of women rises significantly and we risk complete loss of a small industry. We urge you and your colleagues to do everything possible to pass the implementing legislation for the free trade agreement with Bahrain to target an effective date of January 1, 2006.

As you also know, our industry, the apparel industry, faced a significant change in global sourcing strategies on January 1, 2005, when the Multifiber Arrangement which allowed

the imposition of quotas on apparel exports of goods was lifted. On that date, apparel importers and retailers saw the opportunity to shift their sourcing from more countries to fewer countries. The old system had dictated that in order to import the quantity of goods needed by certain retailers that several countries had to be identified as suppliers. In the absence of a quota system, that number could be significantly reduced.

Identifying those countries that could still offer the source of the apparel included those countries with significant capacity and which are vertically integrated. Bahrain has neither of these features.

Every day that the FTA is not implemented, we risk losing more jobs. At the beginning of these negotiations, the Kingdom of Bahrain had 18 apparel manufacturing companies and one textile manufacturing company. Over 80% of these companies had only been in Bahrain for five years. Apparel exports to the United States accounted for 62% of the total exports from Bahrain to the US in 2004.

During the negotiations, we made it clear to the United States that 98% of our workforce was female. While this industry employs expatriate workers, at least 32% of the total workforce was Bahraini natives. Bahrain is a Muslim country, so you are familiar with the sensitivities involved in women working outside of the home. Apparel manufacturing became the first industry to employ Bahraini women. Through their initial exposure to the work environment, we were able to educate these women and transition many of them into the greater work force of Bahrain such as the tourism industry. Without the opportunity to first work in the garment industry, these ladies would not be able to find job opportunities.

The expatriate workforce is also critical to the Bahrain economy. These individuals make an average of \$2.00 per hour<sup>1</sup>. In addition, Bahrain required that the companies supply housing, food, uniforms and healthcare, thus minimizing expenses in Bahrain. Further,

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<sup>1</sup> Compare this to \$0.17/hour in Bangladesh, \$0.25/hour in India, \$0.47 per hour in Pakistan, \$0.40 in Sri Lanka, \$0.56 in Jordan and \$0.37/hour in China. *KSA Cost comparison Study, 2003, Kurt Salmon Associates.*

the Kingdom of Bahrain is losing income as costs related to payments for rent, water, electricity used for this industry are reduced when factories close. Unemployment in our country is about 20%. With the closure of the one industry in Bahrain that employs women, the majority of new unemployed is women.

Our industry pushed for liberal rules of origin that conformed with those rules in the agreements for Israel and Jordan. Unfortunately, at the end of the day, the agreement contains very restrictive yarn forward rules of origin. Obviously, a small tiny island kingdom such as Bahrain, with only 19 total textile or apparel factories in existence did not pose any threat to the United States textile industry. Further, the sole fabric maker serves only the home furnishing industry and any yarns produced are consumed by the fabric for the home furnishings. We have no yarn spinning/extruding for the apparel sector. We have no fabric making for the apparel sector. These rules of origin would require US inputs to be shipped to Bahrain for cut, make and trim, and then re-exported to the United States. Commercially this is not a viable option.

The FTA has one provision that will allow our remaining 7 apparel companies to benefit. That provision is a tariff preference level. This provision will allow us to use yarns and fabrics that are not US origin and still be able to export to the United States duty free under the FTA. However, the longer we wait for implementation, the more we see these factories leaving for lower cost neighboring countries, particularly India, Pakistan and Sri Lanka.

We strongly urge you and your colleagues to pass the necessary implementing legislation as quickly as possible and to encourage the US agencies to quickly effectuate the agreement. Every day that we do not have free trade access to the United States means another step closer to the complete collapse of our apparel industry. We need your commitment now to work towards passage, and implementation of this agreement by January 2006 if possible.

Thank you for the opportunity to speak on this critical issue.

**Statement of Bill Aosse, President of Midamar Corporation – Cedar Rapids, Iowa**  
**Testimony on “U.S. – Bahrain Free Trade Agreement”**  
**Before the Full Senate House Ways and Means Committee**  
**Thursday, October 6, 2005**

Mr. Chairman and distinguished members and guests of this committee meeting, personally and on behalf of our Midamar management and staff, we thank you for the opportunity to be present today, to testify on behalf of the “U.S. – Bahrain Free Trade Agreement.”

My name is Bill Aosse, President of Midamar Corporation of Iowa. Midamar was a founding member and continues to be a historic supporter of the National US Arab Chamber of Commerce, which has always strived to uphold and support trade between the USA and the Member States of the Arab League, of which Bahrain is a member. Midamar is a member of the USA – Bahraini Friendship Society, a Member of the International Trade Bureau, the US Meat Export Federation, and the USA Poultry & Egg Export Council.

I served in the Peace Corps. from 1963 -1965, went to Vietnam in 1966, and worked in Saudi Arabia in 1967 until 1970. Through my years of International experiences, I recognized the common denominator across the equator, and throughout the world for a lack of agricultural productivity, malnutrition, and protein deficiency. Unfortunately, to some degree, this plight has continued during the past 40 years. Midamar was incorporated in Iowa in 1974, specifically for International Development and Trade.

I had no business plan, or economic background, but envisioned the ability to take Iowa’s Agricultural resources and history to implement it in some of the areas and countries where I had served. Thankfully, Midamar has developed a staff of 30 highly dedicated and skilled people with several backgrounds. Midamar exports to nearly 35 countries in Asia, the Middle East, North and West Africa, the Caribbean, and serves all 50 US

Midamar was the Pioneer and first USA Company to focus on the development of USDA verified Quality Halal meat and poultry products for full compliance to Islamic Markets and Muslim consumers, both domestically and internationally. Midamar serves markets as diverse as Malaysia, Indonesia, to Bahrain, and the Gulf states. Midamar products have gained acceptance in the Global markets and Bahrain, based on Midamar's Quality and Integrity. Midamar has a full service division for equipment and Industrial equipment and supplies. Midamar has built and supplied total concept turnkey Restaurants, Ice Cream manufacturing plants from Baku, Azerbaijan, to Malaysia, Singapore the Gulf and the Middle East, including Bahrain.

Bahrain can be viewed as a Bridge Economy. We at Midamar have viewed Bahrain in much the same aspect as Singapore. Both Singapore and Bahrain are island nations with an upscale economy, suitable and in demand of value added Quality Midamar Halal products. Both Singapore and Bahrain are island nations and have limited agricultural productivity. This makes both of these markets ideal for Quality USA products, as their land limitation will always be a direct bearing on food productivity. Just as Singapore and Malaysia have very cooperative and compatible trade across their bridge, Bahrain is also an excellent doorway to the Kingdom of Saudi Arabia. The next Bridge of Trade is the proposed causeway between Bahrain and Qatar, another very valued Nation, and friend of the USA. This will put Bahrain in a strategic bridge triangle of trade.

Bahrain's request for acceptance of the Free Trade Agreement, is a request for the rights of open International Trade, and is not a request for International assistance or aid. Bahrain does not request International aid. Bahrain requests and has a right for open International trade, which will be beneficial to all parties. It is my firm belief and the reality within Midamar, that countries with open trading relations will not and do not depend on International aid. Midamar's product line is the most diverse and comprehensive line of Quality USA products, produced under USDA and under the supervision of Islamic Services of America Halal certification.



It is very important for the American Industry and Trade Groups to recognize and respect other countries' regulations and the concerns and values of the consumers of imported products including, Quality American products. We have seen the countries of Africa, Asia, and the Middle East gradually and continually refine and redefine import regulations. Many of the importing countries' regulations must not be looked upon as barriers, but must be respected in terms of their consumer rights and demands, just as our USDA / FDA and FAS takes the responsibility for our American consumers.

Midamar products are supplied to Bahrain through two of the largest and most reputable Bahrain companies, Abdullah Ahmed Nass Group, and the Jawad Business Group. Midamar has always respected and appreciated the Bahrain laws and regulations and appreciated the market. Midamar first attended the MEFEX International Food Fair in Bahrain in 1984. We can proudly say virtually most Bahraini's and probably almost every ex-patriot in Bahrain and visitors to Bahrain, have been served Quality USA products supplied by Midamar. The Midamar product line is available in Supermarkets, "5-Star" Hotels, International Theme Restaurants, Catering Services, and to the local people's market. Midamar has made the focus to be a provider not only to the affluent developing consumers, but has worked with our American producers to supply product to the full range of consumers in countries Midamar exports to. Bahrain is a valued market for Midamar and an open market to American business representatives with a welcoming efficient airport, visas on arrival, excellent hotel facilities, honest and polite taxi drivers, a functioning infrastructure, and a safe society where Americans and visitors feel absolutely no threat or insecurity. Women are respected, and participate in all levels of Bahrain's society. I have always said an airport is a window to a country and an indication as to how a country is managed, and what one can expect once one leaves the airport. Visit Bahrain, and you will see Professional men and women working side by side, without ever being hassled or intimidated. One will find the same Professional spirit in the hotels, the modern shopping malls and in business meetings.

With the increase in crude oil prices, shipping costs will continue to increase, and this will have a direct bearing on the cost and competitiveness of delivered goods to the Gulf, a strategic area. A Free Trade Agreement will reduce tariffs, and keep a market share for our Quality Midamar and USA products benefiting from lower tariffs. The USA's major meat protein competition is from Australia, New Zealand, and South America, and with lesser competition and dependence from Europe. The Global supply for protein products is being aggressively pursued by Exporters from PRC to Thailand and from Brazil. Even Europe has lost market share and we in the USA must progressively work for expanded trade with mutual respect and fair trade.

Again, in closing, I wish to thank you for the opportunity to present our position. As President of Midamar, and many other companies, we urge the approval of this trade agreement. I would be pleased to try to answer any questions or address any comments.

THANK YOU.

Respectfully submitted,

Bill Aossey



**Statement for the Record by the  
National Electrical Manufacturers Association (NEMA)  
For the Senate Finance Committee, International Trade Subcommittee  
Hearing on the U.S.-Bahrain Free Trade Agreement  
October 6, 2005**

Chairman Thomas, Ranking Member Bingaman, Distinguished Members of the Subcommittee,

Thank you very much for the opportunity to express our support for this FTA. NEMA very much welcomes the expansion of free trade in electrical products through Agreements such as this one, which features foreign tariff elimination, most of it immediate, for items in our Association's product scope. While we understand that the domestic market there is not a comparatively large one, our industry not only sees Bahrain as an important gateway to the Gulf region, but also believes that implementation of this Agreement will mark an important step in the advancement of the U.S.'s overall Middle East Free Trade initiative.

NEMA therefore encourages the Finance Committee to favorably report implementing legislation for the Agreement to the full Senate, and strongly urges the full Senate to approve the legislation as soon as possible.

NEMA is the largest trade association representing the interests of U.S. electrical industry manufacturers, whose worldwide annual sales of electrical products exceed \$120 billion. Its mission is to improve the competitiveness of member companies by providing high quality services that impact positively on standards, government regulation and market economics. Our more than 400 member companies manufacture products used in the generation, transmission, distribution, control, and use of electricity. These products, by and large unregulated, are used in utility, industrial, commercial, institutional and residential installations. The Association's Medical Products Division represents manufacturers of medical diagnostic imaging equipment including MRI, CT, x-ray, ultrasound and nuclear products.

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Statement to the Senate Finance Committee on the U.S.-Bahrain FTA  
Submitted by Kneeland Youngblood, Managing Partner, Pharos Capital Group, LLC  
October 13, 2005

My name is Kneeland Youngblood. I speak to you as co-founder and managing partner of Pharos Capital Group, LLC a private equity firm with approximately \$500 million dollars under management focused on providing growth and expansion capital to U.S. small businesses in health care, business services, and applied technology. Further, I serve on the board of directors of U.S. multi-national companies such as Starwood Hotels and Burger King Corporation that have operations in Bahrain and are looking to expand their presence.

I encourage the U.S. congress to pass the U.S.-Bahrain Free Trade Agreement. This agreement represents a unique opportunity for the U.S. in two important ways. First, this agreement will advance the U.S.' trade, investment and commercial relationships with a trusted and long-time ally: Bahrain. Second, this agreement will create the first bi-lateral trade agreement in the Persian Gulf; a region of great strategic import not only to the U.S. business community, but, to U.S. foreign policy as a whole.

Throughout the course of the Trade and Investment Framework Agreement discussions and the FTA negotiations, the Kingdom of Bahrain has made significant reforms to its banking and financial sectors. It has undertaken reforms which have created increased access to a more liberalized market. These reforms offer the potential for increased foreign direct investment which in turn will create increased employment opportunities in the kingdom.

This agreement, along with the Bilateral Investment Treaty with the U.S., represents unprecedented opportunities for U.S. firms in the region. Provisions in these agreements, which protect U.S. firms from intellectual property theft, bribery, corruption and increased transparency, create a safe operating environment for U.S. companies. As Bahrain continues to establish itself as a regional hub for financial activity, the agreement will serve to create a gateway for U.S. companies, such as Pharos, to the region as a whole.

Pharos has the opportunity to access capital from Bahrain and invest those dollars in U.S. small businesses which will be important for small business development and economic expansion, creating jobs and significant investment returns. One of the biggest challenges to the small business entrepreneur is access to capital. Pharos provides that capital and passing the U.S. Bahrain Free Trade Agreement will further allow us to provide additional sources of capital to U.S. small businesses.

From a broader perspective, congressional ratification of this agreement will reinforce the U.S. commitment to create a Middle East Free Trade Area (MEFTA) by 2013. Countries such as Oman, which has signed an FTA with the U.S., and the United Arab Emirates

which is currently negotiating an FTA, will be encouraged to complete the necessary reforms required to meet FTA criteria.

The concept of a MEFTA is an important tool in U.S. foreign, trade and economic policy to expand relationships in a region which holds vital strategic interests for the U.S. Liberalizing economic policies and trading practices will serve as a foundation for reform in other areas and will directly and positively impact security in the region. With liberalized policies will come increased access to opportunity not just for U.S. and Arab companies, but for their respective workforces. In addition, these agreements create increased participation for business men and women -- important stakeholders -- in regional dialogue.

In conjunction with FTAs currently entered into force with Israel and Jordan, an expected implemented FTA with Morocco next year, and anticipated completion and ratification of FTAs with Oman and the UAE, congressional approval of an agreement with Bahrain will provide increased momentum and promise for a Middle East Free Trade Area.

In conclusion, I strongly support congressional ratification of the U.S.-Bahrain Free Trade Agreement. This agreement will secure increased opportunity for the U.S. business community, create additional opportunity for employment, encourage regional reform and advance the broader interests of the U.S. in a critical region.

