

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

**Written Statement of
Ambassador Susan C. Schwab
Deputy U.S. Trade Representative
Before the
Committee on Finance
United States Senate
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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 U.S.-Oman Free Trade Agreement (FTA) with you. This and other recent FTAs that the Committee has considered are important elements of U.S. policy in the Middle East. With this agreement, Oman has made legally binding commitments to liberalize trade with the United States. The FTA will provide new market access opportunities for U.S. farmers, manufacturers, and service providers. It will also be an important force in encouraging increased direct foreign investment in Oman and in creating an economic environment conducive to additional employment opportunities for the people of Oman.

Beyond substantial trade liberalization, the FTA will help support ongoing economic, political and social reforms in Oman, and promote the benefits of pursuing market liberalizing policies in other countries in the region. Embracing trade will benefit the people of the Middle East as they strengthen ties with countries outside the region and with each other. The more nations trade with one another, the better the chances for ending political instability and economic stagnation.

The Administration's trade agenda is a fundamental part of the President's vision of developing economic growth and democracy in the Middle East – a region of almost 350 million people and a \$70 billion trading relationship with the United States. In May 2003, the President announced a plan of graduated steps for Middle Eastern nations to increase trade and investment with the United States and others in the world economy, and to create a U.S.-Middle East Free Trade Area (MEFTA) 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.

Our strategy toward countries in the region – to engage them at their individual levels of progress, to provide them access to the U.S. market based on mutual benefit, and to require that they adopt high standards for trade and investment – is working. Oman is the fifth Middle Eastern country to have negotiated an FTA with the United States, building on our existing agreements with Israel, Jordan, Morocco and Bahrain. We are also negotiating an FTA with the United Arab Emirates and have Trade and Investment Framework Agreements (TIFA) with most of the other countries in the region, which provide opportunities to enhance our bilateral trade and investment relationships. These are important steps on the path to implementing the President’s initiative.

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 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 and implement 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

The U.S.-Oman FTA will eliminate tariffs and non-tariff barriers and expand trade between the two countries, generating new opportunities for U.S. workers, consumers, farmers, manufacturers and service providers.

On the first day the agreement enters into force, 100 percent of bilateral trade in industrial and consumer products, with the exception of certain textile and apparel products, will flow duty-free. In addition, Oman will provide immediate duty-free access for 87 percent of U.S. exports of agricultural products. This will mean new opportunities for U.S. companies that produce machinery, automobiles, optical and medical instruments. And it will mean new opportunities for U.S. producers of vegetable oils, sugars and sweeteners for beverages.

Under the FTA, Oman will provide substantial market access across its entire services regime, providing new opportunities for U.S. companies involved in banking and securities, insurance, telecommunication, express delivery, distribution, health care, construction, architecture and engineering.

This Agreement will also help ensure a secure and predictable legal and regulatory environment in Oman that foreign investors want to see in 21st century commerce. Under the Agreement, Oman will provide effective enforcement of labor and intellectual property laws. This will help make Oman a more attractive place for investors and create new opportunities for the Omani people.

The Agreement's rules of origin provisions on regional cumulation allow FTA partners in the region to combine inputs into products and qualify for preferential tariff treatment. This feature will facilitate connecting our bilateral agreements as we move toward a more integrated, region-wide agreement. It will also encourage trade among countries in the region, an important yet currently missing ingredient for the region's development.

The Agreement also includes important transparency, public notification, and anti-bribery provisions. Application of these provisions will also help to improve the business and investment environment in Oman by providing more certainty and predictability for firms and individuals operating and investing there and promoting the rule of law.

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. The Agreement requires that each Party not fail to effectively enforce its labor and environmental laws. If they consistently fail to enforce those laws in a manner that affects our trade, then they face the prospect of monetary penalties that will be directed to solve the problem, or potentially face the loss of preferential trade benefits. Moreover, each country commits to ensure that its laws and policies provide for and encourage 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 weaken or reduce 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.

Oman passed a new labor law in 2003 that allows for the creation of worker representative committees for the first time. The law details procedures for dispute resolution and removes a 1973 prohibition on strikes. Oman recognizes the need to continue its efforts on labor rights, and is working to raise awareness and educate workers about their rights and to establish new worker representative committees. Oman is working with the ILO on these efforts.

The Agreement enjoys widespread support from our trade advisory committees. The most senior committee, the Advisory Committee for Trade Policy and Negotiations (ACTPN), "unanimously endorses the U.S.-Oman Free Trade Agreement," and found the agreement "is in the best economic interest of the United States." In addition, the ACTPN views the agreement as "an additional step toward the goal of a Middle East Free Trade Area," and noted that the agreement "will improve and strengthen overall U.S. relations with the countries in the Middle East." Committees representing sectors such as consumer goods, services, information technology, intellectual property, and agriculture also expressed broad support for the Oman FTA.

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. We are convinced that the disciplines and consultative mechanism in the FTA will play a major role in further improving the labor situation in Oman.

CONCLUSION

For decades, Oman and the United States have shared a desire for peace, stability, and economic opportunity in the Middle East. This Agreement is an important new step in our partnership that will not only remove trade barriers, but also cement our long-standing friendship and growing commercial ties and create new economic opportunities for both of our countries.

This Agreement also helps the advancement of economic and political freedom in the region and 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.

With your guidance and support, we will continue to pursue the President's MEFTA initiative. As the next step in implementing that initiative, we look forward to working with you and building bipartisan support for legislation implementing the U.S.-Oman FTA this spring.

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