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READINESS CRITERIA:
ECONOMIC, LABOR AND ENVIRONMENTAL

Factors to be considered in choosing FTA partners would include economic, labor and environment criteria. Multiple criteria mean no one factor is dispositive. Criteria would be framed as the "extent to which" a country met the criteria, not as an absolute threshold. Criteria could also be used to encourage improvements in pre-negotiation period.

The Administration will evaluate FTA partners taking into consideration the extent to which countries meet or approach the following criteria:

I. Economic "Readiness" Criteria for Future FTAs

Microeconomic

- where appropriate, programs are in place to privatize state enterprises and to shift economic activity to the private sector;
- measures are in place that reduce subsidies and other direct and indirect government interventions that distort investment decisions, pricing signals in the private sector, and the sectoral composition of national production;
- there are appropriate regulatory policies, anti-trust practices, and other efforts to promote competition among private enterprises and to protect private property (e.g. intellectual property rights protection);
- there are transparent legislative and administrative processes;
- there is non-discriminatory access to the legal system for foreign residents seeking to defend private economic rights under national law; and
- a trade agreement would further the above objectives.

Macroeconomic

- the national currency is convertible and the country avoids exchange-rate manipulation and long-term "temporary" import restrictions for balance-of-payments purposes;
- the country sustains low and stable rates of inflation, and supporting monetary policy;
- there is a credible and sustainable fiscal policy, consistent with sustainable private sector growth;

- there is an absence of conditions suggesting chronic current account difficulties (e.g. low internal saving and investment rates combined with large net foreign capital inflows);

- a trade agreement would further the above objectives.

<u>Commercial Significance</u>

- the country offers significant potential to expand U.S. exports, "either directly or through establishment of a beneficial precedent;"

- expanded trade with the country would enhance larger regional market opening efforts of the United States; and

- a trade agreement would further the above objectives.

<u>Trade and Investment</u>

- the country is taking steps to provide a transparent rules-based system of settling disputes;

- the country has ratified the Uruguay Round , has joined, or is in the process of joining, the WTO and is implementing all its multilateral trade and investment commitments;

- the country is participating constructively in post-Uruguay Round WTO negotiations (e.g., ITA, basic telecom services, financial services);

- the country has accepted the need for notification and examination of regional agreements under appropriate WTO provisions, including Article XXIV of GATT 1994 and its Uruguay Round Understanding and Article V of GAS;

- the country has established sound policies with regard to foreign investment (conclusion of BITS or participation with the United States in a multilateral or regional investment treaty);

- the country has established adequate and effective protection of intellectual property rights (accelerated implementation of TRIPS or a bilateral IPR agreement as a demonstration of this commitment);

- the country avoids suspension from GSP, CBI or ATPA for violation of relevant criteria of those programs; and

- a trade agreement would further the above objectives.

OPTIONS

Scope

1) • **Current bill** (see "plus up" section below)

2) • **Current bill, minus all FTA's (including Chile and FTAA).**

3) • **Current bill, but instead of excluding all FTAs, specify FTAs to which procedures extend including some or all of the following:** Chile, New Zealand, Singapore, Australia, EU, and South Africa **plus tariff proclamation authority**.

- Alternatives include:
    - Limits on Chile, e.g., bilateral only.
    - No NAFTA accession.
    - Approval vote before each negotiation.
    - Approval vote for any negotiation other than those enumerated.

  (Senate bill includes disapproval for each negotiation notified)

- FTAA
    - Prior approval required.
    - No NAFTA accession.
    - As treaty (not self-executing)
    - Bill not applicable to FTAA; establish in bill a bipartisan Commission to build consensus on best approach to hemispheric integration; submit legislation for authority to conclude FTAA consistent with results of Commission study.

4) • **List specified sectors (including in WTO built-in agenda)**: ITA; environmental goods and services; energy-related equipment; fish and fish products; gems and jewelry; medical equipment and instruments; chemicals (elimination of duties, e.g., fertilizers); food sector; government procurement (WTO built-in agenda); rules of origin (WTO built-in agenda); intellectual property rights (WTO built-in agenda); agriculture (WTO built-in agenda); services (WTO built-in agenda), **plus tariff proclamation authority**.

5) • Limit agreements to pure trade components, i.e., eliminate investment provisions, **plus tariff proclamation authority**.

- Deal with investment provisions by treaty, as has been done historically.

6) • Tariff proclamation authority only.

7 **Limit Duration**

- To end of term.
- 2005, but pre-approval for each negotiation.
- 2005, but affirmative vote (as opposed to disapproval) to extend authority past 2001.

8 **Plus up bill: Enhance Labor, Environment, and Other Provisions and/or Parallel Initiatives**

- Include provision on child labor
  - Require President's certification that country has on books and enforces laws against exploitative child labor. If certification cannot be made, President will not pursue an FTA with that country (or will not seek fast track authority for any such agreement).
  - Negotiating objective to seek to extend current GATT rule allowing prohibitions on imports of products made with prison labor to products made from exploitative child labor.
  - Report on status of laws and child labor conditions in country; condition fast track procedures on submitting report (not contents).
- Clarify and make more explicit language in existing objectives, e.g., "failure to enforce" and delete the "sound macroeconomic language."
- Food safety provision
- Programs for workers
  - Jobs program
  - Training programs
  - Adjustment assistance
  - Wage subsidies
  - FEMA-type dislocation assistance
  - Urban jobs
- Border program
- Drug enforcement program

- School construction

Readiness Criteria

The concept would be to develop criteria that would be evaluated in determining whether to conclude an FTA with a country or countries. These would include economic criteria (both macro and micro); the commercial significance of the country; the country's investment climate and regime; its adherence to the rule of law; and labor and environmental criteria.

Certain criteria could be absolute prerequisites to concluding an agreement, e.g., good child labor laws and enforcement regime, adherence to the rule of law, etc. These conditions would not have to exist at the outset of negotiations; rather, we would expect that countries would make changes in their regimes so that they would be "ready" to conclude an agreement. Other criteria could be among a non-exclusive list to be evaluated as part of a decision to conclude an agreement. The President would be required to present an analysis of the "extent to which" a country satisfies the criteria at the time the agreement is presented to the Congress. Alternatively, all readiness criteria (including those on e.g., child labor) could be subject to evaluation, but not also the prerequisites to concluding an agreement.

Procedural Vehicles

- Change Senate Rules
- Submit separate bills, e.g.:
    - Bill for WTO, sectors, and tariff proclamation authority
    - Bill for Chile limited to President's term
    - Separate bill for FTAA and for each individual FTA

ACHIEVABLE INITIATIVES[1]

- **Major negotiations that can be completed in 1998.**
  - **ITA II**
  - **Sectors agreed to in Vancouver for which we would need implementing authority** -- environmental goods and services; energy-related equipment; fish and fish products; gems and jewelry; medical equipment and instruments.
  - **Chile** -- could be done as a bilateral as Chile did with Canada.
  - **Government procurement** (WTO built-in agenda)
  - **Rules of Origin** (WTO built-in agenda)
- **Major negotiations that could be launched in 1998, and completed in 1999 or 2000.**
  - **Additional sectors identified in Vancouver for further development for which we would need implementing authority**-- Chemicals (elimination of duties, e.g., fertilizers); food sector.
  - **Intellectual Property Rights** (WTO built-in agenda)
  - **FTAA** -- scheduled to be launched in Santiago in April 1998, with possible agreements reached by 2000 consistent with the commitment for concrete progress by 2000. Full agreement not concluded until 2005.
  - **U.S.-EU** FTA
  - **FTA(s) with** : • New Zealand • Singapore • Australia
- **Major negotiations launched in 1999 or 2000, with completion no sooner than 2000.**
  - **Agriculture** (WTO built-in agenda)
  - **Services** (WTO built-in agenda)
  - **U.S - South Africa** FTA
  - **New Multilateral Round**

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[1]These initiatives would require fast track and/or tariff proclamation authority. For other initiatives, including other sectors agreed to in Vancouver, we have residual tariff cutting authority from the Uruguay Round Agreements Act.