

Information Technology and Innovation Foundation

“Boosting Exports, Jobs, and Economic Growth by Expanding the Information Technology Agreement”

Comments Made by Ambassador Miriam E. Sapiro, Deputy U.S. Trade Representative

Washington DC

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Good morning everyone, and thank you to Rob Atkinson and the Information Technology and Innovation Foundation for hosting this event. It is a pleasure to be here.

To begin, I would like to congratulate ITIF and Stephen Ezell for release of the new report, “Boosting Exports, Jobs, and Economic Growth by Expanding the Information Technology Agreement”. The report effectively articulates the success of the ITA and the potential benefits of extending duty-free treatment to a greater number of information and communications technology products. This is valuable – and timely – input as we work to advance all aspects of our 2012 trade agenda, which includes expanding the ITA.

It is truly an honor for me to join two former U.S. Trade Representatives today, one of whom was instrumental in shaping and concluding the ITA, and the other who helped ensure the integrity of the agreement.

Ambassador Charlene Barshefsky was one of the original architects of the ITA, which, in 1996, was quite possibly the first “21st century trade agreement”. The ITA was agreed to and implemented during her tenure as the U.S. Trade Representative.

Ambassador Susan Schwab worked to ensure that all participants lived up to their ITA obligations by upholding the principle that changes in technology are not an excuse to apply new duties to products covered by the ITA. As the U.S. Trade Representative, she initiated the successful WTO dispute against the EU for charging duties on certain ITA products. This was an important victory we won in 2010, which helped pave the way for today’s discussion.

If anything, I would like you to take away from my remarks today three important points. First, the ITA has been more successful than any of us could have anticipated. Second, the Obama Administration is working hard to build support for expanding both ITA product coverage and membership. And, lastly, expansion can have a significant impact on U.S. and global economic growth, including by sustaining and creating jobs.

I. Achievements

I expect that everyone in this room is aware that the ITA has been one of the most successful agreements ever undertaken in the multilateral trading system. This is underscored yet again by ITIF’s most recent report. In the 15 years since the ITA entered into force, global trade in information and communications technology products has more than tripled -- from \$1.2 billion to \$4 billion annually. This spectacular growth has been in no small part driven by the increase in the number of ITA Participants -- growing from 29 countries and territories to 73 Participants today.

In 2011, the United States exported more than \$2 trillion overall, up more than 33 percent from 2009. Our participation in the ITA contributed to that increase and is helping us meet the President’s goal

of doubling exports by the end of 2014. Right now we are ahead of schedule and on pace to exceed that goal.

II. Expansion

So I am pleased to be part of today's discussion on how we can build on the success of the ITA by expanding its duty-free product scope. As the ITA enters its 15th year in force at the end of this month, it is timely to take a fresh look at how we can expand its benefits. Last fall when the United States chaired APEC, we proposed, and others agreed, that APEC economies would work together to advance negotiations to expand ITA product coverage and membership.

In terms of expanding membership, we are already making progress. Last year we secured a commitment from Russia to join the ITA as part of its accession to the WTO. Russia, by the way, is poised to enter the WTO this summer. If Congress has not yet succeeded in terminating the Jackson-Vanik amendment that bars permanent normal trade relations (PNTR) for Russia, then U.S. exporters and workers will not be able to enjoy the rights and benefits we negotiated. We call on Congress to work with us now to avoid such an outcome.

In addition to Russia, Colombia is currently in the process of joining the ITA, as a result of its commitment to do so as part of the U.S.-Colombia Free Trade Agreement.

We are also working to build an ITA commitment into the Trans-Pacific Partnership, or "TPP". At the most recent TPP negotiating round in Melbourne, the United States tabled proposed language to enshrine ITA participation as a market access commitment for all current and future TPP partners.

As we now work to launch new negotiations to expand the ITA, we need to make sure that we get it right. Our immediate focus at USTR, and in our discussions with key ITA partners, is to lay the groundwork for success.

Given the well-known challenges in recent years of advancing trade liberalization in the WTO, we are collaborating closely with like-minded ITA Participants in numerous venues to shape a viable negotiation approach. Our challenge is to define the scope of negotiations in a way that can bring all ITA Participants to the table and at the same time deliver a commercially meaningful result in the near-term, not years from now.

Our industry stakeholders are playing a key role in the effort to frame ITA negotiations for success. They are actively engaging foreign industry counterparts, and promoting the benefits of ITA expansion directly to ITA member governments. Industry's message – conveyed from the highest levels – has been clear: governments should place a top priority on eliminating tariffs on more information and communications technology, and our negotiating efforts should be focused on an ambitious outcome that can provide immediate benefits.

The mandate from APEC Leaders places a clear priority on expanding ITA product coverage. This instruction is consistent with the ITA Ministerial Declaration, which directs ITA Participants to "review the product coverage...with a view to agreeing, by consensus, whether in the light of technological developments, experience in applying the tariff concessions, or changes to the HS nomenclature, the Attachments should be modified to incorporate additional products."

III. Benefits of Expansion

The benefits of tariff elimination under the ITA have been widespread, extending well beyond the information and communications technology sector itself. And expanding the scope of ITA product

coverage would multiply these benefits by further driving innovation and enhancing productivity across industries, and thereby continuing to raise living standards around the world.

U.S. companies are the world's largest producers of information and communications technology products. As such, it is hard to overstate the importance of the information and communications technology industry to the U.S. economy. For instance, U.S. semiconductor producers maintain over two-thirds of their manufacturing capacity in the United States, supporting millions of high-paying U.S. technology jobs. And in each of the last five years, the United States exported more semiconductors than any other product, including automobiles. As ITIF's report makes very clear, the benefits of a successful ITA expansion would be significant for the United States. Annual information and communications technology exports would increase by almost \$3 billion dollars, supporting approximately 60,000 jobs.

The benefits of ITA expansion are also clear for developing countries. Over the last 15 years, developing countries moved up the value chain in electronics manufacturing and emerged as major players in information and communications technology production and exports. Between 1996 and 2008, developing country ITA exports expanded at an annual growth rate of nearly 34 percent, compared to just over 7 percent for developed countries – that's more than four times faster.

What I found particularly interesting in the ITIF report is the fact that as much as 80 percent of the economic benefits from technology derive from information and communications technology usage – while only 20 percent is attributable to information and communications technology production. Simply increasing the number of Internet users has been shown to improve export performance in developing countries.

However, charging tariffs on information and communications technology products imposes unnecessary costs on consumers, and industrial producers. This, in turn, can discourage information and communications technology usage and forestall the benefits of ICT diffusion throughout the economy. Restricting trade and limiting access to new technologies, in our view, only stifles innovation, limits improvements in productivity, and ultimately slows economic development.

We know it can be tempting for some to use high tariff policies to promote domestic manufacturing. But what they may not realize is that they are actually creating a negative ripple effect throughout regional and global production chains. Duties charged on inputs at each step of the production chain drive up prices on the final product. Charging tariffs on semiconductors, for instance, disadvantages manufacturers who integrate these vital components into a wide variety of products, including automobiles and refrigerators, to name just a few. In this way, high tariffs actually can discourage companies from investing in the countries that charge them, and ultimately make these economies less competitive in the global marketplace.

As such, we should not discount or underestimate the significant commercial benefits of eliminating tariffs on more information and communications technology goods by expanding ITA product coverage. As successful as the ITA has been over the last 15 years, the information and communications technology sector has evolved significantly. There are many new technologies and innovations that have entered the market since 1996 that are not covered by the ITA. These products include Blue Tooth devices, GPS systems, certain business machines, smart meters, and even some specialized semiconductors, among others.

In addition, current ITA product scope does not even include many consumer electronics products that were in existence at the time the ITA was implemented, including televisions, video players and video game consoles. And, of course, today's consumer has increasing flexibility to access digital content from these and numerous other devices and platforms. New generation audio-visual products are much more sophisticated than their predecessors, incorporating new features and technologies

and able to connect directly to networks, interact with computers, and access and create digital content. Yet televisions and video players still face 14 percent duties in Europe, and rates as high as 20 to 30 percent in certain Asian markets.

The original ITA negotiators also recognized that changes to the Harmonized System, or HS, tariff nomenclature would be another important reason to expand ITA product coverage. ITA product coverage was originally negotiated on the basis of 1996 HS tariff nomenclature, which reflected the technology of the day. However, the pace of technological innovation in the information and communications technology industry, coupled with changes in tariff nomenclature in 2002, 2007, and again in 2012, has contributed to uncertainty with respect to customs classification for numerous electronics products. A comprehensive expansion of ITA product coverage could effectively eliminate the costs to business and consumers and eliminate the administrative burden for customs officials associated with this uncertainty.

IV. Conclusion

All these reasons – advances in the information and communications technology industry, new products on the market, increasing connectivity of consumer electronics devices, and changes to the tariff classification nomenclature – lead me to conclude that the time for ITA Participants to negotiate an expansion to the Agreement is right, but we have to frame the negotiations for success.

The United States will continue working collaboratively with like-minded trading partners bilaterally, at upcoming APEC meetings, and at the WTO to build strong support for this initiative and multilateral cooperation.

Again, I would like to thank ITIF for issuing their report and organizing this discussion. I am also deeply appreciative of the active engagement of the private sector in promoting the benefits of ITA expansion. I am confident that if we frame this initiative in the right way, and place top priority on expanding product coverage, we can achieve the consensus we need to deliver an ambitious and commercially meaningful outcome for our companies, our workers and our consumers. This is good for the United States and for our trading partners around the world.

Thank you.