

**Remarks by Wendy Cutler
Assistant US Trade Representative
For Japan, Korea, and APEC Affairs
Chief US Negotiator for the
Korea – U.S. Free Trade Agreement
Conference Call
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Wendy Cutler: We just came out of our plenary session so we've officially kicked off the first round of the negotiations. The individual negotiating groups are now meeting. We're all very excited here to get this negotiation started. It's been a few months since the February 2nd launch and we're looking forward to getting to work.

Prior to this round we exchanged texts and negotiation proposals for the FTA. Our initial review of the Korean text and comparing them to US text indicates there are areas of similarities and areas of differences. Our challenge over the coming months will be to focus on the differences and try and bridge our gaps.

We still have a lot of work ahead of us, particularly with respect to coming to terms with and resolving a number of longstanding issues in sectors that will certainly present challenges, and as the Chief Negotiator I'm going to work very closely with my counterpart, Ambassador Kim, to figure out a way to overcome these challenges so we can complete a successful agreement.

I think this week we will focus on trying to reach consensus on as many issues as possible and what we call kind of clearing out the low hanging fruit, the easier issues, and also identify the major areas that will require attention in future rounds.

We've set up a negotiating structure with 17 negotiating groups and two working groups. Fifteen of these groups and the two working groups are meeting this week here in Washington. Two other groups have both already met, government procurement and technical barriers to trade, and that's mainly due to the schedule of those individual negotiators.

As a customary practice, we're not focusing on text and we're not exchanging tariff offers at this round. That goes the same for services, financial services and investment. We'll be focusing on text and rules and then we'll be exchanging information on what we call these list of non-conforming measures in the future.

Our second round of negotiations is scheduled about five weeks from now, July 10th in Seoul, and then we basically plan to meet about every six to eight weeks after that throughout the end of the year.

As we move into the negotiations we'll have a better sense of where things stand, but I remain optimistic about our ability to conclude a high quality comprehensive agreement. This is for a number of reasons.

First, we had an extensive preparatory process with Korea in 2005 so both sides are entering into the negotiations with their eyes wide open. Two, we've been able to resolve a number of

outstanding issues in the lead-up to the talks. We've also in the past few months quickly agreed on a lot of the organizational issues as well to put us in a position to focus on substance this week.

The political will is clearly there on both sides and there's bipartisan support in both countries for the FTA. I think based on just seeing the teams and looking at their backgrounds, I think it's safe to say both sides have very, very strong negotiating teams and are putting a lot of resources into this negotiation.

In sum, we hope that substantive progress is made at this first round of negotiations which starts today and will conclude on Friday, and we hope this first round will set the stage and direction for future rounds and for our ultimate success.

Thanks.

Question: You exchanged text already. Can you give us some idea at this early stage of the number of issues, the actual number of issues that may be problematical?

Wendy Cutler: It's hard to say at this point given that we're starting negotiations today, but I think it's safe to say, for example, agriculture is going to be a difficult issue in these negotiations, and I also think at least based from our perspective, I think the automotive issue, and achieving increased access for US car companies in Korea is going to present challenges as well. There are other areas as well that will become more apparent I think during this week and the weeks ahead.

Question: What about regulatory transparency and regulatory reform? Does that present the issue today that it did maybe a decade ago?

Wendy Cutler: That's an extremely important issue, and in fact we had a whole process whereby we had a public hearing, we invited comments from the private sector in response to a Federal Register notice, and I think one of the key issues that so many submissions flagged was the need for increased regulatory transparency in Korea. So we have put forward our ideas in this area to really strengthen transparency in the Korean system. We know this is something that the Koreans on their own have been working on, so we're hoping that there will be some synergy here and this is an area that we'll have very strong provisions on in the FTA.

Question: South Korea requests that the United States allow exports from Kaesong Industrial Complex to be considered as made in Korea. What is your position on this issue? What kind of conditions should be met for the United States to accept the South Korean request with regard to this issue?

Wendy Cutler: I don't have a lot to say on the Kaesong issue, I'll just refer you to what Ambassador Portman said at the launch of the FTA, February 2nd. That is in our view the FTA covers the Republic of Korea and the United States.

Question: The Korean Health Ministry came out with new regulations on pharmaceuticals a month ago. I wonder if that's an issue that's coming up in these talks this week.

Wendy Cutler: Absolutely. I mentioned we had 17 negotiating groups and two working groups. The working groups are really unique to this negotiation. Just one of them is on the automotive issue and I think this is the first time in an FTA where we've actually had, or at least a recent set of FTAs where we've had a special group focusing on automotive issues. The same on the other working group is going to cover pharmaceutical and medical device issues. And we're viewing, let's just say that group will focus on the pharmaceutical and medical device issues. We're hoping to have a very candid discussion and negotiation in that group, particularly in light of this very unhelpful announcement made by the Ministry of Health and Welfare a few weeks ago about its plans to move to what's called a positive list of reimbursement pricing for pharmaceuticals.

Question: Do you expect textiles to be an issue this week? And have you made a proposal on rule of origin?

Wendy Cutler: On textiles, the group is meeting this week so it's too early to say what the issues might be in this group.

Question: You mentioned agriculture immediately as a challenge in these talks. Rice may be one of the sensitive products. Do you have a sense for what other areas in agriculture might be a challenge. Could you expand on that?

Wendy Cutler: In terms of specific products?

Question: Specific products or even specific issues.

Wendy Cutler: Obviously the rice issue's going to be extremely sensitive. There are other specific products that will also present a challenge. Beef comes to mind as well. There are other what I would call, a host of what we call SPS issues, Sanitary and Phyto-Sanitary issues.

So we have one negotiating group on agriculture and a separate group looking just at the SPS issues. Once again, underscoring the focus we're putting on these issues in the negotiations.

Question: If I may just follow up quickly, is there any linkage between these talks and Korea's decision to reopen the market to US beef? And if that doesn't happen will that throw a monkey wrench into the talks?

Wendy Cutler: Clearly we're expecting, hopefully shortly, a reopening of the Korean beef market to boneless beef, and we've made it very clear to the Koreans that even once the market's open to boneless we are going to be urging them without skipping a beat to further open their market to cover what's called the bone-in market as well as variety meats and offals.

Question: Is it your goal to wrap up the negotiations, what is the timeframe for the goal to wrap up negotiations? I'm thinking specifically of expiration of Trade Promotion Authority. Do you want to get it in under the wire for that?

Wendy Cutler: Yes. We are determined to conclude this negotiation under the current TPA procedures which really call for a conclusion of the talks by the end of this year.

Question: What are you looking for in terms of expanded market access for US rice exports into South Korea?

Wendy Cutler: Once again we're not putting our offers or requests with respect to specific products on the table yet. That's something we're working through internally. I could not comment on that at this point.

Question: I had a quick question about the pharmaceutical issue. Was your understanding that there would be a standstill on any changes to pharmaceutical rules prior to the FTA? And now is that kind of a backwards step in your opinion?

Wendy Cutler: We've made it clear to the Koreans that in the FTA negotiations we're not interested in getting back to the status quo. We're looking for improvements and that really holds for the pharmaceutical sector. So we're hoping through the FTA talks to get at a lot of the issues, address a lot of the issues affecting the sectors or companies who are able to have a fair shot at competing in the market, particularly against the thousands of generic companies in Korea.

Question: Have you had any assurances that they won't put this new positive list in place? I think they're in the comment period right now.

Wendy Cutler: The pharmaceutical group has not met yet.

Question: Do you know what day they're meeting?

Wendy Cutler: Not offhand. I think mid or late week.

Question: I was wondering if any efforts have been made for talks this week on intellectual property or blocking piracy?

Wendy Cutler: Yes. The IPR negotiating group is meeting as we speak. And this is an area where Korea has made significant progress over the past couple of years. In a lot of respects the progress they've made is really due to their own internal needs, particularly the piracy they're facing in other parts of Asia.

So based on the progress we've made to date or the progress we've seen in Korea to date on the IPR issue, we're hoping that this is an area of the FTA which will be a real win/win for both sides.

Question: I wanted to ask a quick question about beef if we could go back to that briefly. The Agriculture Minister in Seoul said this morning that South Korea is going to push back its plan to receive exports saying that US beef processing facilities didn't meet standards suggested by the South Korean government. I wanted to ask you first of all what your reaction to that is and whether that's going to cause problems as the talks start today.

Wendy Cutler: I'd prefer if you would just direct that question to USDA.

Question: That was going to be my second question. How much of this is going to be dealt with by them and how much of it by you?

Wendy Cutler: We're all working together, but with respect to the issues surrounding the whole BSE and aftermath, USDA has had the lead on that, but we're working very closely with them.

Question: Do you mind quickly going over the 15 negotiating groups that are meeting this week? We're getting little glimpses, but a comprehensive list would be helpful.

Wendy Cutler: The 15 negotiating groups that are meeting this week?

Question: Yes.

Wendy Cutler: Hang on. I'm just counting to make sure I have all 15.

It's kind of confusing to get the -- Is there a specific group that you're interested in or do you want the whole list?

Question: You've mentioned textiles. Are there any subgroups to that? You mentioned one of the subgroups was SPS issues. Are there any other subgroups?

Wendy Cutler: Yeah, hang on.

This is in no order of importance and it's not even alphabetical. I'm just kind of going through my briefing book.

Institutional issues, and that deals with issues like dispute settlement and transparency; next, market access and national treatment for goods; next, agriculture; SPS, Sanitary and Phyto-Sanitary; five, textiles; six, customs administration rules of origin; seven, services; eight, financial services; nine, investment; ten, IPR; 11, labor; 12, environment; 13, telecom/e-Commerce; 14, competition; 15, trade remedies. Then the two working groups would be once again the automotive and then pharmaceutical/medical devices. Then once again government procurement and technical barriers to trade have already met.

Question: What was the outcome of those meetings? How far did they get?

Wendy Cutler: I just have no -- First of all the technical barriers to trade, they just met today in Geneva so I don't have a read out of that meeting; the Government Procurement Group met last week in Geneva and I think there the meetings went relatively well.

Question: I'm wondering if you could talk a little bit about the Korean response. Korean officials have said the US has published an aggressive draft. That seems a little bit different from your [inaudible] in the area of difference. What are the main concessions that they want from you?

Wendy Cutler: First of all my counterpart is not using the word aggressive so I don't know where you're getting that from, but if it's from the Korean press, I've seen no Korean official that I'm negotiating with call our text aggressive.

But second -- What was the rest of your question?

Question: What are the big things the Koreans want out of this?

Wendy Cutler: I understand Ambassador Kim is going to be briefing the press every night, so you'll probably have lots of opportunities and can hear it directly from him.

Question: Can you just broadly talk about the issues, and presumably you're willing to negotiate on them, so can you just sort of lay out for us a summary of what the main US things are going to be? You've talked about them.

Wendy Cutler: I think a couple of them have been already mentioned on the phone. The Kaesong issue is something that they're going to raise. I think clearly for them the agriculture issue is going to be sensitive. I think it's safe to say they're going to be looking to us to reform our trade remedy laws.

Question: Dumping?

Wendy Cutler: Yeah.

Question: Are you going to deal with the US visa waiver program for the South Korean as an agenda of the FTA negotiations?

Wendy Cutler: The US waiver program discussions are going on in parallel with the FTA negotiations, so they're not part of the FTA negotiations, but based on a meeting between the leaders of both countries last year on the APEC meeting they did agree on a road map for the visa waiver program and I understand, led by the State Department, that these talks are progressing well.

Question: I heard you mention trade remedies. Does the US have any intention of negotiation on trade remedies in these talks?

Wendy Cutler: What we have told the Koreans is that with respect to trade remedies we're going to be focusing on safeguard provisions as we do in other FTAs, and we've also made it very clear to them that under the TPA we're in a position and we're not allowed to negotiate any weakening of our trade remedy laws.

Question: Other than safeguards you're not going to be talking about anything like the issues that got raised at NAFTA which is the last time I think in a bilateral sort of deal this was on the table.

Wendy Cutler: I suspect the Koreans will be putting forward requests in this area.

Question: But you're saying you'll follow the TPA rules of --

Wendy Cutler: Yes, we will follow the TPA rules. [Laughter]. I think that's probably a good idea, right?

Question: Always.

Question: I know you said that you feel as though there's broad support on both sides for this agreement. You're probably aware that there's a number of Korean protesters that are in town this week and they're saying that this agreement would be devastating for farmers and workers in the country. They liken it to the impact of I guess the IMF assistance package and the liberalization requirements that were put on the country. They said it hurt many people there. I just wondered if you could respond to that.

Wendy Cutler: First of all, yeah, we are aware of the protestors, in fact I can hear the drums outside -- [Laughter] -- as we're speaking, as we did during the plenary session.

I'm focusing on the substance of the talks this week. Clearly there are people in the United States and in Korea that are concerned about this agreement, concerned that this agreement may not benefit their sectors, but that's kind of the nature of trade talks. But I think none of us can lose sight that even though there are vocal opponents out there, that overall there's support in both countries for this undertaking. I think on the Korean side it's safe to say that they're fully aware that particularly in the agriculture and services sector they do have, they face challenges domestically. But I think one of their reasons for launching the FTA is to really bring their economy into the 21st century so they can compete in the region. For example in the services sector, by opening up their services sector and deregulating their services sector, that's a key way to frankly become more competitive.

Question: One sector I'm not sure you did mention was media and film. Would you be pressing for any deeper cuts to the reductions already announced by South Korea to its screen quota system to allow more screening of Hollywood movies?

Wendy Cutler: The Korean government did announce on its own that it's planning to -- They made an announcement they're cutting in half their screen quota and that will go into effect on July 1. In this negotiation we are not going to be asking for a further reduction of the screen quota.

Question: Can I just ask a quick question on automotive? How receptive is the Administration to the private sector suggestion that no concessions should be given on the US side until they see actual numerical improvements in market access on the Korean side?

Wendy Cutler: That's part of their position. The other part of their position is asking us to work with them to address the tariff and non-tariff measures that they're facing in the automotive sector in Korea. There we've been working very closely with the industry to address these types of barriers and have put forward our ideas in a draft text we've provided to the Koreans.

With respect to, I think you're referring to their other idea which is kind of called a more performance-based approach. We're looking at it.

Question: What kind of ideas have you put forward for clearing out the non-tariff and tariff areas?

Wendy Cutler: In a number of areas we've put forward proposals to eliminate the engine displacement tax. We've put forward provisions to address a number of the regulatory, the standards, regulatory issues in the sector. We've put forward a proposal in the anti-import bias issue. And we've put forward more general proposals in kind of dealing with the transparency issues.

Question: Could you give the full name of your counterpart? Also can you give us a sense of the size of the negotiating teams that are involved in this?

Wendy Cutler: My counterpart, Ambassador Kim, first name is Jong-Hoon. In terms of the size of each negotiating team, I don't know the exact numbers. You can ask the Koreans. But I think they're both in the range of about 150. That includes a lot of interagency people, representation from all the different ministries and agencies involved.

Question: Are there plans still to start the Malaysian Free Trade negotiations next week?

Wendy Cutler: Next week in KL.

Question: Are you leading those discussions?

Wendy Cutler: No. Nope.

Question: Who leads those discussions?

Wendy Cutler: That will be Barbara Weisel, my counterpart, who's the AUSTR for the Southeast Asia office.

Question: I know that as well as the duration, the period that you allow these tariffs to be eliminated over the period, what is the US position? How long can that take?

Wendy Cutler: Once again, the tariff offers, they're not on the table now so we have not put forward our proposals. So at this point I just can't answer that question.

Question: You would expect approximately a ten year phase-out, phase-in?

Wendy Cutler: Yeah. In line with other FTAs, yes.

Voice: Okay, folks. Thank you for this and we'll be in touch again.

Question: Thanks.

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