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House Bill Seeks to Protect Export License Data

The House moved April 7 to cut off a legal challenge seeking public release of Commerce export license application data under the Freedom of Information Act (FOIA). As part of a broader bill (H.R. 3470) approved by voice vote to support defense transfers to Taiwan, the House included provisions explicitly stating congressional intent to maintain the provisions of Section 12(c) of the long-expired Export Administration Act (EAA), which bars license data from release under FOIA. The broader bill and the export control provisions still need to be approved by the Senate.

Lawmakers have been concerned for several months about a suit pending in the Ninth Circuit Court appealing a lower court decision that said the government can't use 12(c) to invoke one of FOIA's exceptions because the EAA has lapsed in 2000 (see WTTL, March 31, page 6). Because members did not want to renew the entire EAA, which includes many obsolete references to Cold War-era policies, they adopted a standalone measure to extend 12(c) and exempt licensing information from disclosure.

EAA Section 12(c) "has been in effect from August 20, 2001, and continues in effect on and after the date of the enactment of this Act," the bill declares, citing the exemption to the FOIA. The extension of 12(c) will remain in effect for four years, it adds. The four-year limit will give Congress time to do a complete rewrite of the EAA, one source said.

The bill also revises the Arms Export Control Act to raise the dollar thresholds for congressional notifications of defense sales. Other provisions would put in law rules that the Obama administration adopted in regulations or executive orders implementing export control reforms, including authority for State to approve licenses for items in the 600 series when they are to be exported with defense articles and a requirement for Commerce to notify Congress on licenses for major defense equipment in the 600 series.

Wyden Plans Own "Smart Track" Trade Promotion Bill

New Senate Finance Committee Chairman Ron Wyden (D-Ore.) has upset hopes some in Washington still harbored for passing a fast-track trade promotion bill this year with his

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April 9 announcement that he will draft his own measure, which he calls "smart track," to reflect his goals for trade negotiations. Wyden's announcement came the same week that other key lawmakers, including Finance Ranking Member Orrin Hatch (R-Utah) and Ways and Means Ranking Member Sander Levin (D-Mich.), gave speeches setting out their views on trade promotion authority (TPA) and the Trans-Pacific Partnership (TPP).

Without giving specifics about what his bill would include, Wyden repeated concerns Democrats have expressed about the bill former Finance Chairman Max Baucus (D-Mont.) introduced with House Ways and Means Chairman Dave Camp (R-Mich.). Some trade observers expressed concern that drafting a new measure this late in the congressional calendar, with several long recess periods planned to allow members to campaign for the fall elections, will kill any hope for a TPA bill this year (see WTTL, April 7, page 2).

Former Rep. Jim Kolbe (R-Ariz.) told a program in Washington April 10 that Wyden's plans for writing his own bill is "inevitably going to cause some delay" in getting a TPA bill enacted. "It's apparent that this is a new chairman that wants to put his stamp on this whole process," Kolbe said. Regardless of whether TPA is passed, there is little chance that Congress would approve a TPP deal this year, if one were reached, the former lawmaker suggested. "Just from a political standpoint, it's not likely to happen this year. The Republicans are not going to want to give the president this victory this close to the elections," he said.

Although nothing will happen with TPA before the election, some have suggested a bill might get enacted during a lame-duck session of Congress after the election. There are two sides to that speculation. According to one source, if Democrats lose the Senate in November, they might want to have a chance to put their last imprint on a measure before they give up power. But others see the opposite, with Republicans blocking TPA if they win the Senate because they will have the chance to write a bill to their own liking when they control both chambers next year.

In his speech to an apparel industry group, Wyden mentioned that he has only been Finance chairman for 22 working days but was intent to start over on congressional approval of TPA. "I believe what's needed to accomplish these things is different from a fast-track, or a 'no-track,' and this afternoon I'd like to call it a 'smart-track,'" Wyden said in his prepared text. He said his bill would hold trade negotiators more accountable to Congress and the American people and "not just to special interest groups." "It will include procedures to get high-standard agreements through Congress, and procedures that enable Congress to right the ship if trade negotiators get off course," Wyden said.

"The public needs to know that somebody at USTR is committed to shedding more light on trade negotiations and ensuring that the American people have a strong voice in trade policy – a voice that is actually heard. Going forward in the days and weeks ahead, I am going to work with my colleagues and stakeholders on a proposal that accomplishes these goals and attracts more bipartisan support. As far as I'm concerned, substance is going to drive the timeline," Wyden said.

In a separate April 8 speech, Hatch criticized the failure of the TPA bill to move through the committees, also calling the Obama administration's enthusiasm for getting the bill "tepid" and its efforts "anemic." He noted concerns that other countries participating in TPP talks won't reach a final deal until TPA is enacted and they are ensured that

Congress will approve it. "These complex negotiations are not currently authorized by Congress, and Congress has not formally articulated the standards the agreement must meet in order to be approved," he said. The proposed TPA bill "tells our trading partners that, if they are willing to meet these higher standards, the agreement will be taken up by Congress expeditiously and without amendment, giving them the confidence they need to put their best offers on the table," Hatch said.

Not to be outdone, Levin also laid out 10 "major outstanding issues" for the TPP talks, including Japan market access, labor standards and implementation, environmental obligations, access to medicines in developing countries, currency manipulation, food safety, investor-state dispute settlement, stateowned enterprises, tobacco and cross-border data flows.

"The negotiations are at a critical stage, but the outcome of a long list of fundamental issues remains uncertain and unsettled," Levin noted. He said he wants to establish a "bicameral TPP working group that is involved regularly with USTR, with the Committees of jurisdiction over trade as well as other committees with issues within their jurisdiction involved and with outside stakeholders."

Australia Goes It Alone on Trade Pacts with Japan, Korea

Australia jumped the gun on a Trans-Pacific Partnership (TPP) trade deal with the signing of bilateral free trade agreements (FTAs) with Japan April 7 and Korea April 8. According to one trade observer, the move reportedly caused consternation among U.S. trade and agriculture officials, but it has been dismissed by many in the trade community as an inadequate substitute for TPP.

"The Japan-Australia Economic Partnership Agreement (JAEPA) will deliver a significant boost to Australian farmers and other agricultural producers, resource exporters, service providers and consumers," said Australian Prime Minister Tony Abbott at the signing ceremony. "Better access for key agriculture products – including beef, cheese, horticulture and wine – will give Australia a head start over our competitors in this market," he added.

"I'm not sure what the calculation is in Australia, but our industry will not settle for a deal that amounts to the same old Japan, continued high tariffs on beef and dairy and complete carve-out of other products," Tami Overby, vice president for Asia at the Chamber of Commerce, told the Washington International Trade Association April 10. "The Australia-Japan deal falls short, well short, of where the TPP will end and both parties know this," she added. "It is not a precedent for the TPP; it is not a precedent for any agreement that U.S. business will support," Overby declared. Craig Thorn, of DTB Associates, said he has talked with Australian officials who referred to the agreement "as a floor; not a ceiling."

On entry into force, 99.7% Australia's industrial exports will enter Japan duty free, going up to 99.9% within 10 years, according to an Australian fact sheet. For farm products, however, many sectors will only see tariff reductions over a long phase-in period. The tariff on fresh beef will be cut to 23.5% over 15 years. Tariffs on Australian cheddar cheese will go to zero immediately, while other cheese will come in tariff-free under an Australia-only quota of 20,000 tonnes. Australia's agreement with

Korea has similar benefits for industrial goods with slow reductions of tariffs on farm products. Seoul will eliminate tariffs on butter over 15 years, cheese over 20 years, malt and barley over 15 years and dry milk over 15 years. The quota on oranges will grow over 10 years to 30 tonnes. The beef tariff will be eliminated over 15 years, with a safeguard mechanism in place.

Unions Want Continued Monitoring of Colombian Labor Practices

Amid general agreement that Colombia has not yet fixed its long-standing anti-labor problems, U.S. and Colombian unions called April 7 for the U.S. to continue monitoring for four more years a Labor Action Plan (LAP) that the U.S. and Colombia reached three years ago as a condition for congressional approval of the U.S.-Colombia Free Trade Agreement. The three-year term of the LAP expired April 7. At talks last November, U.S. and Colombian officials agreed to continue monitoring the program through 2014 but made no commitments beyond this year (see WTTL, Nov. 18, page 5).

At a press conference April 7, representatives of Colombian union federations complained that the LAP has become only a "check list" of things Bogota was supposed to do but hasn't. They called for meaningful implementation of existing provisions in the LAP, creation of an independent binational committee of lawmakers, union representatives and nongovernment organizations to monitor labor conditions in Colombia and for Bogota to submit a new plan for continued implementation of the LAP

"We have made meaningful progress to date, but this is a long-term effort and there is still work to be done." USTR Michael Froman said in a statement. "The continued cooperation and responsiveness of the Government of Colombia will be critical to ensuring the continued improvement of worker rights in that country," he added.

Colombia's ambassador to the U.S., Luis Carlos Villegas, also issued a statement claiming is country has "made great strides in protecting and promoting workers' rights" and pledging continued work to implement the plan. "While much has been accomplished, work remains to be done, and we will continue to push forward," he said.

A USTR report on the LAP progress highlighted many of its achievements, such as a reduction of violence and killing of union members, but also acknowledged an increase in threats against labor organizers and new business schemes that circumvent worker protections. "Concerns exist about implementation of certain aspects of the Action Plan, including collection of assessed fines, prosecution of recent labor homicide cases, and combating newer forms of abusive contracting," it said.

"There are concerns about the growing number of threats against union members and labor activists," the report said. "Threats against labor leaders and activists have increased significantly, in the form of text messages, phone calls, letters, emails, and other forms, all of which are often difficult to trace," it added.

Although the number of illegal cooperatives, which use subcontracting schemes to avoid having to recognize formal unions, has dropped significantly, "many employers have shifted to other forms of unlawful subcontracting that similarly avoid direct employment relationships and undermine workers' rights, such as simplified stock companies, known

as SASs," the USTR report conceded. "The Colombian government is aware of the problem and presently working to develop appropriate tools to address it, including a new legal instrument explicitly targeting such illegal alternative forms of abusive third-party contractors," it said.

BIS Proposes Removing Export Documentation Requirements

Bureau of Industry and Security (BIS) has listened to industry complaints about out-of-date recordkeeping requirements and proposed removing the requirement for written import certificates (IC) and delivery verification (DV) in the April 9 Federal Register. The proposed changes to the Export Administration Regulations (EAR) address concerns raised by former BIS legal counsel Cecil Hunt, who is now an attorney with Wiltshire & Grannis, at a BIS advisory committee meeting is 2011. Hunt called the rules burdensome and unnecessary (see WTTL, Nov. 28, 2011, page 4).

BIS agreed with Hunt and three commenters to a previous rule, saying it "believes that this proposed change would significantly reduce burden and improve timeliness for shipping under an approved license." It said the need "to obtain an IC can put U.S. exporters at a competitive disadvantage since many of the other member states of the Wassenaar Arrangement do not require their own exporters to obtain an IC from other Wassenaar Arrangement member states when importing dual-use items," BIS noted.

In addition to that change, the proposed rule would require a Statement by Ultimate Consignee and Purchaser for most license applications previously requiring an International Import Certificate and increase the license application value requirement for obtaining that statement to \$50,000 from \$5,000. It also would "remove language that suggests the preclusion of electronic signatures currently in Section 748.11, and streamline the support document requirements to improve clarity," BIS said.

The proposed change would not apply to China or Argentina, the agency noted. "License applications for the PRC would continue to require a PRC End-User Statement, as is currently the case under Section 748.10. License applications for Argentina would be treated like most other countries and territories in the Americas and only require a support document for applications involving firearms and related commodities," it added.

HP Pays \$108 Million to Settle FCPA Charges

Three years after acknowledging it was under investigation for possible violations of the Foreign Corrupt Practices Act (FCPA), <u>Hewlett-Packard</u> (HP) and three of its subsidiaries agreed April 9 to pay more than \$108 million to settle charges of bribing foreign government officials to obtain business (see **WTTL**, April 19, 2010, page 3). In addition to agreements with the Securities and Exchange Commission (SEC) and Justice, HP also has agreed to undertake compliance, reporting and cooperation obligations.

From 2003 to 2010, HP's "indirect, wholly-owned subsidiaries in Russia, Mexico and Poland, by and through their employees, agents and intermediaries, made unlawful payments to various foreign government officials to obtain business," the SEC complaint noted. In total, HP earned approximately \$29 million in illicit profits from these actions,

the agency alleged. "Hewlett-Packard lacked the internal controls to stop a pattern of illegal payments to win business in Mexico and Eastern Europe. The company's books and records reflected the payments as legitimate commissions and expenses," said Kara Brockmeyer, chief of the SEC enforcement division's FCPA unit, in a statement.

In its complaint, the SEC said agents of HP's Russian subsidiary made payments "to a Russian government official to retain a multi-million dollar contract with the federal prosecutor's office." It said the payments were made through shell companies engaged by the agents to perform purported services under the contract.

In Poland, HP Poland "provided gifts and cash bribes to a Polish government official to obtain contracts with Poland's national police agency," the complaint charged. In addition, HP Mexico "made improper payments to a third party in connection with a sale of software to Mexico's state-owned petroleum agency," it said.

HP's Russian subsidiary, ZAO Hewlett-Packard, pleaded guilty to violating the FCPA. Hewlett-Packard Polska, Sp. in Poland agreed to a deferred prosecution agreement, and Hewlett-Packard México, S. de R.L. de C.V. accepted a non-prosecution agreement. Fines for the three totaled \$76,760,224 in criminal penalties and forfeiture. HP itself will pay SEC \$31,472,250 in disgorgement, prejudgment interest and civil penalties.

"The misconduct described in the settlement was limited to a small number of people who are no longer employed by the company," said John Schultz, HP's executive vice president and general counsel, in a statement. In April 2010, HP issued a statement saying it was cooperating in the investigation. At the time, it said the alleged violations "occurred almost seven years ago, largely by employees no longer with HP."

Japanese Demands Chill Outlook for Trans-Pacific Deal

While U.S. Trade Representative (USTR) Michael Froman was in Tokyo April 8-10 for reportedly fruitless talks with Japanese Economic Minister Akira Amari in an effort to get Japan to make market access concessions in the Trans-Pacific Partnership (TPP) talks, U.S. business interests continued to complain about Japanese intransigence, especially in the auto and agriculture sectors. Froman and other USTR officials have made no secret about their frustration with Japan in bilateral talks going on parallel to TPP negotiations, and there are growing calls from some in the business community to do a TPP deal without Japan if Tokyo doesn't offer more concessions. Froman and Amari will meet again in Washington April 16-17.

Froman also was in Tokyo to help set the stage for President Obama's visit to Japan April 23-24. Officials have played down any expectations that the president's talks in Japan with Prime Minister Abe would lead to a breakthrough in TPP negotiations.

A key complaint is the number of agriculture products that Tokyo wants to exclude from any deal, Craig Thorn, a partner with DTB Associations, told the Washington International Trade Association (WITA) April 10. Compared to the 17 other free trade agreements the U.S. has negotiated since 2002, where the largest number of tariff-line exclusions was 45, Tokyo is asking to exclude 586 tariff lines to the six-digit level,

Thorn noted, citing agriculture community data. That represents 5.63% of all Japanese tariff lines. The U.S. accord with Central America excluded only 20 tariff lines from elimination. Chief among the items Tokyo wants excluded are five "sacred" heavily protected and subsidized farm products in Japan: rice, wheat, meat, dairy and sugar.

These are commodities that received special treatment in the FTAs Japan signed April 7 with Australia (see related story page 3). "Rice is the first among equals," Thorn said, noting that it is the most sensitive issue in Japan and conceding that American rice growers don't expect Japan to agree to a zero tariff on the commodity.

The farm community is concerned TPP won't be as big as it had hoped in part because of Japan, Thorn noted. Canada is withholding offers to liberalize its agriculture market waiting for Japan to move first and other TPP countries such as Vietnam and Malaysia also are holding back because of Japan, he said. The European Union (EU) is watching what Japan does as a signal for what it can do to protect its agriculture interests in talks on a Transatlantic Trade and Investment Partnership (TTIP), he pointed out.

The Big Three U.S. auto industry also has concerns about Tokyo's reluctance to remove tariff and nontariff barriers to U.S. car exports, Matt Blunt, president of the American Automotive Policy Council (AAPC), told the WITA program. In addition, U.S. carmakers are insisting that any TPP deal must include provisions to address currency manipulation.

AAPC has developed a three-part test it wants to include in the agreement to determine whether a country is manipulating its currency to gain a trade advantage, Blunt noted. The test would ask: (1) Did the country have a current account surplus in the previous six months? (2) Did the country maintain sufficient foreign exchange reserves to cover three months of imports? (3) If the country had a current account surplus, did it add to its foreign exchange reserves during that period? If the answers are yes, then the country would lose its tariff benefits under trade pact and revert to most-favored-nation rates.

Stanceu Sends Ruling on Steel Nails Back to Commerce

Rather than just following the Court of Appeals for the Federal Circuit's (CAFC) ruling to change his opinion, Court of International Trade (CIT) Judge Timothy Stanceu April 8 remanded to Commerce the department's changed circumstances decision on imports of steel nails from China. In August 2013, CAFC reversed Stanceu's ruling that <u>Itochu</u>

<u>Building Products</u> had not exhausted its administrative remedies and could not seek relief from the court even though it was clear Commerce was not going to change its mind (see **WTTL**, Sept. 2, page 2).

Instead of revising his earlier ruling, Stanceu remanded the case to Commerce for further consideration. "In the changed circumstances review, Commerce cloaked its decision in a 'practice' without explaining the reasons why it established such a practice in the first place. The Final Results offer no explanation as to why a revocation date should not precede the date of a completed administrative review of an order," Stanceu wrote. "The Department's mere citation to a practice is insufficient to save the reviewed decision from arbitrariness. Lacking is a discussion of the competing factors that must inform any rational selection of an effective date for a partial revocation of an antidumping duty

order following a changed circumstances review," he said. "Commerce failed to demonstrate that the practice it identified pertains, or should pertain, to situations in which all parties to the proceeding favored an effective date occurring before the date of completion of the most recent administrative review and in which the choice of effective date was not in dispute among those parties," he stated.

"On remand, Commerce should address whether an administrative practice such as plaintiff describes exists and, if so, the reasons why it chooses to follow it or not follow it in the circumstances posed by the changed circumstances review," he wrote. "The statutory provision, as discussed above, provides Commerce with discretion in the selection of the effective date for a partial revocation following a changed circumstances review, but that discretion may not be exercised arbitrarily so as to decide the question presented without considering the relevant and competing considerations," he ruled.

* Briefs * * *

UKRAINE: BIS April 11 added Chernomorneftegaz, oil and gas company in Crimea and subsidiary of Ukrainian company Naftogaz, to its Entity List under two entries, one in Crimea (Occupied) and cross reference in Ukraine. "Its assets are now being overseen by Russian government interests following their seizure by the Crimean parliament," BIS noted. In parallel action, Treasury added company to SDN list, along with seven Ukrainian individuals.

WASHING MACHINES: CIT Senior Judge Nicholas Tsoucalas remanded back to Commerce April 11 part of its countervailing duty final order on large residential washers from Korea (slip op. 14-39). "Commerce's determination was unreasonable because it did not adequately address how Samsung's Art. 10(1)(3) tax credit was disproportionately large based on the facts in the case," he ruled. "On remand, Commerce is not barred from comparing Samsung's share of the total benefit to the share an average beneficiary received, but it must explain, with specific reference to the facts of this case, why such a comparison is indicative of disproportionality," he wrote.

EX-IM BANK: Senate April 9 confirmed Wanda Felton in 75-21 roll call vote for second term as Ex-Im Bank vice chair and first vice president. Her first term expired July 20, 2013 (see WTTL, July 29, 2013, page 10)...Separately, bank April 11 named Annette Maresh vice president for trade finance, role she has been acting in. She joined asset management division in 2003. On March 31, it named Bob Morin to be senior vice president for business and product development. In parallel move, bank promoted Robert F.X. Roy to vice president for transportation division. Roy came to Ex-Im in 1990.

ENVIRONMENTAL GOODS: USTR April 4 asked ITC to conduct Section 332 investigation on "probable economic effect of providing duty-free treatment for imports of environmental goods from all U.S. trading partners on: (i) industries in the United States producing like or directly competitive products; and (ii) consumers." USTR notified Congress March 21 it is pursuing trade deal on environmental goods with 13 partners (see WTTL, March 24, page 10).

RARE EARTHS: Despite winning major portion of its complaint against Chinese restrictions on rare earth exports, U.S. April 8 appealed to WTO Appellate Body part of WTO panel ruling that sided with China (see WTTL, March 31, page 3).

EXPORT ENFORCEMENT: Indictment of Sihai Cheng, aka Chun Hai Cheng and Alex Cheng, and Seyed Abolfazl Shahab Jamili, along with two Iranian companies, Nicaro Eng. Co., Ltd. and Eyvaz Technic Manufacturing Company, was unsealed in Boston U.S. District Court April 4. They were charged with conspiring to export American-made MKS pressure transducers to Iran between November 2005 and 2012. Cheng allegedly sold Jamili, Iranian national who

worked for Eyvaz, thousands of parts with nuclear applications knowing parts were destined for Iran. Cheng, Chinese citizen, was arrested in UK Feb. 7 and remains there in custody awaitng extradition hearing June 5. Others are at large, probably in Iran.

MORE EXPORT ENFORCEMENT: Federal grand jury indictment unsealed March 31 in Harrisburg, Pa., U.S. District Court charged Shafqat Rana, formerly of Lancaster, Pa., and Abdul Qadeer Rana and Shahzad Rana, both of Lahore, Pakistan, of using two corporations, Optima Plus International, in Lancaster, Pa., and Afro Asian International, in Pakistan, to export dualuse goods to Pakistan without licenses. Goods were resold to Pakistan Atomic Energy Commission, indictment charges. All three defendants are at large.

MORE EXPORT ENFORCEMENT: Oil Services & Trading Inc. (OSAT) of Humble, Texas, agreed April 10 to pay BIS \$250,000 to settle one charge of acting with knowledge of violation, for exporting oil and gas equipment parts to Iran via UAE without authorization between January 2006 and February 2008. Of penalty, \$175,000 will be suspended for two years and then waived if OSAT commits no further violations. Firm neither admitted nor denied charge.

<u>RUSSIA</u>: Dispute over Moscow's seizure of Crimea didn't stop European Union from filing complaint at WTO April 8 against Russia's ban on imports of live pigs and pork products. "Russia's blanket ban on European pork is clearly disproportionate and goes against WTO rules," EU Trade Commissioner Karel De Gucht said in statement. "This was a very minor case of a few infected wild boars at the borders with Belarus which was immediately contained by the relevant European authorities. After weeks of talks with our Russian counterparts to try to resolve this issue, we see absolutely no progress," he said.

TRADE FACILITATION: WTO began work April 7-9 on technical and legal editing of trade facilitation agreement reached at Bali ministerial in December (see WTTL, Dec. 9, page 5). While some typographical corrections are being made, most of text as approved by ministers will be accepted, sources say. Some countries are seeking changes that might be considered substantive, but any modification will require consensus of all members. Separately, USTR Michael Froman met with USAID Administrator Rajiv Shah April 11 to discuss donor efforts to help developing countries implement agreement and ensure coordination among donor entities.

<u>IRAN</u>: In Federal Register April 7, OFAC issued final rule amending Iran sanctions regulations to expand existing general license that "authorizes the exportation or reexportation of food to individuals and entities in Iran to include the broader category of agricultural commodities." Rule also clarifies and adds certain definitions, including "covered person." It adds new general license that authorizes exportation or reexportation of certain replacement parts designated as EAR99 for certain medical devices on one-for-one basis.

<u>TELECOM</u>: USTR April 4 issued annual 1377 report on telecommunications trade barriers. Report highlighted "troubling new and potential barriers to trade," including Europe-only cloud computing network in EU, Turkey blocking numerous Internet-enabled service, such as Twitter, and efforts in Pakistan to create cartel for provision of international calls. USTR also noted ongoing restrictions in India and China on voice-over Internet (VOIP) services and conformity assessment procedures in Brazil and Indonesia.

EXPORT CONTROL REFORM: Coalition for Security and Competitiveness (CSC) sent letter April 11 to President Obama applauding progress to date on reform effort and laying out priorities for next phase. "We urge you to give priority to building upon the foundation laid by rationalization of the controlled technology lists and that you turn your attention to important and long-needed licensing management reforms – in particular reforms that can reduce the export licensing caseload (the '95%')," CSC noted. These additional reforms include comprehensive licensing framework covering technology sharing with friends and allies, intra-company transfer license, simplified and recalibrated encryption controls and completion of Defense effort to consolidate technology review boards.