Local Economies on the Table

TTIP Procurement Update

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Institute for Agriculture and Trade Policy
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The Institute for Agriculture and Trade Policy works locally and globally at the intersection of policy and practice to ensure fair and sustainable food, farm and trade systems.

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Communities across the United States and Europe are working to transform local economic systems so that they are more sustainable and equitable. Programs that support the production of nutritious and culturally appropriate food by local farmers and locally sourced renewable energy, construction and even office supplies benefit local producers, businesses, workers and consumers. Many states and communities are utilizing public procurement programs to support those efforts, especially bidding preferences for healthy, locally grown foods, energy or transportation programs that create local jobs, and fair markets. Especially in the aftermath of the Great Recession, Buy American programs have helped ensure that taxpayer-funded programs create local jobs and serve social goals. Farm to School programs that incentivize purchases from local farmers have grown in all 50 U.S. states and many European countries. Innovative efforts are also underway to expand this approach to other institutions such as hospitals, universities and early childcare programs like Head Start.

In a move that could undermine those important initiatives, the European Union has made the opening of U.S. procurement programs to bids by European firms one of its priority goals for the Transatlantic Trade and Investment Partnership (TTIP). It has been insistent on the inclusion of procurement commitments at all levels of government, for all goods, and in all sectors. At a speech in San Francisco, French trade minister Nicole Briqç declared, “Let’s dream a little with respect to public procurement. Why not replace ‘Buy American’ which penalizes our companies with ‘Buy transatlantic’ which reflects the depth of our mutual commitment?”

It’s easy to see why this appeals to EU officials. It is an enormous market. A 2002 study by the Organization for Economic Cooperation and Development (OECD) estimated U.S. state and local procurement spending that was potentially tradable (i.e., excluding salaries and defense spending) at 5.09 percent of GDP, or about $463 billion USD. Unlike the U.S., where local governments can develop their own bidding criteria for procurement contracts, EU procurement rules already apply to all levels of government. It’s a lot harder to understand why local governments in the U.S. would want to give up their authority to shape procurement contracts to serve local economies and job creation. It’s a mystery who decides whether these local governments would be bound by the rules in the trade deal.

At the start of the TTIP talks, local foods and farm to school activists raised questions about whether farm-to-institution programs could be at risk in TTIP. While the U.S. had excluded these feeding programs from commitments to open them to bids by foreign companies under past trade deals, there was no guarantee that it would continue to do so under this accord. Advocates for fair and sustainable food systems urged the negotiators to commit to keep these important programs off the table in the trade talks, raising the issue in a January 2014 letter from sustainable foods groups, a February 2014 letter from the Maine Citizen Trade Policy Commission, as well as at various presentations at official stakeholder events held at negotiating sessions. To be sure, these and many organizations on both sides of the Atlantic have also raised broader concerns about the lack of transparency in the trade talks, the dangers of investment rules that allow foreign investors to sue governments over public interest laws, and proposals to “harmonize” regulations in ways that could undermine progress towards more sustainable food systems.

The negotiations are still happening behind closed doors. Despite the examples of some past trade negotiations such as the Free Trade Area of the Americas or the ongoing World Trade Organization (WTO) talks, the U.S. and EU governments continue to refuse to publish negotiating texts. However, some meeting reports and negotiating proposals have been leaked, providing new insights into how TTIP might affect local foods and rural communities. While a new leak on procurement indicates that the EU may refrain from requesting commitments on school lunch programs, there is little question that procurement preferences to strengthen local economies continue to be a target of EU negotiators.

Public procurement in recent trade agreements

Procurement rules in trade agreements are designed to ensure that foreign firms can compete for publicly funded programs. In general, they require National Treatment (i.e., established rules that prohibit discrimination against foreign suppliers of a good or service), established rules on transparency in bidding processes, and set thresholds on the size of contracts covered by the trade commitments. They prohibit the use of measures designed to favor local content or to require a degree of local ownership by businesses competing for procurement contracts. Parties to each agreement also indicate which sectors are excluded from these commitments, and whether environmental or social criteria can be used as bidding criteria. For example, under the U.S.-Peru Trade Promotion Agreement, federal procurement contracts for goods worth more than $193,000 USD are open to bids from Peruvian firms (and vice versa), but the threshold for state and local governments is $526,000 USD for goods. In all cases, the main idea is to open those public contracts to bids from firms in the trading partner, with few restrictions to favor local businesses.
Those rules can be set in bilateral free trade agreements or at the Government Procurement Agreement (GPA) at the WTO, which was first established in 1994. The WTO sets rules on such issues as tariffs, agriculture, and intellectual property rights, among other things, but many of the 160 member governments have refused to participate in these efforts to limit their ability to target their procurement spending. The GPA is a plurilateral agreement, so it includes only the 43 countries that have agreed to sign on. It includes rules to promote international competition for procurement markets for goods and services, and for public utilities (such as energy, water and public transport) at the federal and sub-national levels of government. The GPA was revised in 2011 to include additional commitments at the federal level, with those changes implemented as of April 2014.

Each country lists specific commitments in its annexes to the GPA. Under Notes to Annex 1 of the GPA, the U.S. listed an exemption for the Department of Agriculture, stating, “This Agreement does not cover procurement of any agricultural good made in furtherance of an agricultural support programme or a human feeding programme.” This means that federally funded Farm to School or similar farm to institution programs are not covered by GPA commitments.

All EU member states and thirty-seven U.S. states are part of the GPA. The inclusion of those U.S. states in the GPA generated considerable controversy. USTR recruited state governors to sign up for the agreement, with very little public consultation on the potential impacts. This was followed by a letter to all 50 governors asking them to agree to procurement commitments in a long list of trade agreements under negotiation at the time. That overreach led to a strong public reaction. The bipartisan National Caucus of State Legislators issued a policy brief insisting that, “USTR should only be able to bind a state to an international procurement agreement following formal consent from the state legislature.” Several states later attempted to withdraw their approval, and six states passed laws requiring approval by the state legislature. In the bilateral trade deals that followed the GPA controversy, fewer states consented to have their procurement programs bound by the trade rules, with just 19 agreeing to commitments under the U.S.-Central America Free Trade Agreement (CAFTA) and eight states plus Puerto Rico making commitments under the U.S.-Colombia FTA, the most recent agreement.

Less and less willing: U.S. states bound by recent Free Trade Agreements

There have been few trade disputes over government procurement, perhaps in part because of its limited status at the WTO. In 2011, the EU and Japan brought a WTO complaint against Canada over the Ontario government’s renewable energy program, which included procurement preferences for wind and solar energy equipment manufactured in the province. Ontario is not bound by the GPA, but in any case the EU and Japan argued that the program does not qualify for procurement exceptions because, among other things, the energy is resold to consumers on commercial terms (so, according to the complaint, is not truly public procurement and not eligible for the buy local exceptions). The WTO panel agreed with those arguments and now the Canadian government is revising the program to conform to WTO rules. Ironically, the Canadian government is now denouncing U.S. Buy American programs and pushing the U.S. to include procurement commitments in the Trans-Pacific Partnership.

The EU’s aggressive approach to local procurement in the recently completed EU-Canada Comprehensive Economic and Trade Agreement (CETA) also raises concerns about how public programs designed to encourage local job creation and economic growth would fare under TTIP. In its summary of the results of the CETA negotiations, the European Commission (EC) states:

> As regards market access, the Canadian offer [m.d. 374/11 of 19 July 2011] is the most ambitious and comprehensive Canada has made so far to a third country, including in comparison to the access granted to the United States. For the first time, Canadian provinces and municipalities will open their procurement to a foreign partner, going well beyond what Canada has offered in the GPA (the multilateral Government Procurement Agreement) or in NAFTA.

According to the Canadian Government’s summary, the government maintained the ability to include social and environmental criteria in procurement contracts, as well as federally funded agricultural programs that are part of food programs. It covers procurement contracts for “regional and local entities and bodies governed by public law, including hospitals, schools, universities and social services” over 200,000 SDRs (about $300,000 USD), a threshold that could easily affect many state and local programs in the U.S if similar measures were included in TTIP.
Table 1. Less and less willing: U.S. states bound by recent Free Trade Agreements

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According to analysis by the Canadian Centre for Policy Alternatives, the provisions in CETA are significantly different than previous trade agreements negotiated by the EU:

The real objective of EU negotiators in the CETA with respect to procurement was not to achieve non-discriminatory access at all levels of government, which exists already for EU companies in Canada. EU negotiators sought “unconditional access,” which is something quite different. In this respect, the EU won handily while Canadian firms operating in Europe picked up few new opportunities. In other words, on procurement, Canada made unilateral concessions to the EU that will mostly affect municipal governments and other provincial entities previously excluded from trade deals.11

The EU’s agenda on procurement in TTIP

The EU outlined its general objectives on public procurement just before the first round of negotiations for TTIP in July 2013. It states that, “This negotiation would present an important opportunity for the EU and the U.S. to develop together some useful ‘GPA plus’ elements to complement the revised GPA disciplines, with a view to improve bilaterally the regulatory disciplines.” It describes the EU’s intention to seek commitments on procurement from the 13 U.S. states not already covered by the GPA and bilateral arrangements, as well as certain large cities: New York, Los Angeles, Houston, Philadelphia, Phoenix, San Diego, San Jose, Jacksonville, Austin, San Francisco, Columbus, Fort Worth, Charlotte, El Paso, Memphis, Seattle, Denver, Baltimore, Washington, Louisville, Milwaukee, Portland and Oklahoma City.12

In a leaked Note for the Attention of the Trade Policy Committee dated February 25, 2014, the European Commission’s Directorate of Trade lists its expectations of U.S. deliverables for “approximately 20 of the (economically) most important states.” According to data on from the U.S. Bureau of Economic Affairs, the 20 largest states ranked by GDP that are not already bound by GPA rules are California, Ohio, New Jersey, North Carolina, Virginia, Georgia and Indiana.13 The EU is also seeking commitments by all state government executive agencies, including counties with a population over 700,000, state capitals and other cities with over 250,000 inhabitants, as well as public universities with enrollment 10,000 students and public hospitals with more than 500 beds. A more recent leaked text, dated July 24, 2014 (see Annex) would actually expand coverage to counties with populations over 500,000.

While the details vary a bit, the overall message is clear. The EU is seeking a massive expansion of local governments compelled to open their procurement contracts to bids from EU firms, perhaps
even the unconditional access achieved in the EU-Canada trade deal. No U.S. trade agreement to date has included such broad coverage of public procurement commitments.

Both the USTR and the EU’s Directorate of Trade have asserted that one of the major objectives in TTIP is to eliminate what they call localization barriers to trade, including local content requirements. In principle, this could include restrictions on procurement preferences for locally grown foods. It is notable, however, that the July 24 draft explains that, “commitments are not intended to cover procurement which involves, for example, school meal programs and equivalent programs.” It is not clear from that text if new programs that provide procurement preferences for locally grown foods in public hospitals, university cafeterias (since those are listed as priority institutions) or similar programs would also be exempt. Even if local foods are not be included in procurement commitments under TTIP, the EU has stated clear priorities for state-level procurement commitments in other sectors, particularly energy, transportation and construction and other Buy American programs designed to promote local employment and economic activity.

It is also not clear who would decide if a state, county or city is bound by procurement commitments under TTIP. A leaked memo on the December 2013 negotiating session notes USTR’s reluctance to press states on this issue despite pressure from EU negotiators, but informal reports indicate that EU officials are already visiting many states to build their case for inclusion in the agreement.14

Under CETA, the Canadian government agreed to open federally funded programs at the provincial level to EU procurement bids. It is possible that the EU could take a similar approach under TTIP to open up state and local procurement using federal grants. In an article on European procurement directives and TTIP, Christopher Yukins reports that, “Because of an apparent reluctance to challenge the U.S. government’s argument that it may not compel the states to join a free trade agreement, some in the European procurement community have suggested that Europeans could instead gain nondiscriminatory access to state procurement markets indirectly, through the federal government’s grant-making authority.” YUKINS notes that this approach would be consistent with existing procurement reforms conditioning state use of federal grant monies, while avoiding the political problems associated with either convincing states to sign on to new commitments under TTIP or decreeing that it has the authority to unilaterally include them in the agreement.

Public procurement programs, whether for food, roads, or renewable energy, are important tools to strengthen local economies and give preference to disadvantaged groups such as minorities and small-scale businesses. As taxpayer funded initiatives, they also offer the opportunity to include criteria such as environmental sustainability or living wages into broader economic programs.

Members of Congress have already weighed in on this debate at the federal level. An amendment to the fiscal year 2015 Commerce, Justice, Science (CJS) Appropriations bill sponsored by Rep. Alan Grayson requires that, “[n]one of the funds made available by this Act may be used to negotiate an agreement that includes a waiver of the ‘Buy American Act.’” While it is not clear if that amendment would actually prohibit USTR from negotiating procurement commitments in trade agreements (if it were to pass the Senate and conference committee), it sends a strong political signal to negotiators on both sides of the Atlantic.16

Recommendations
While it is encouraging that the July 24 leaked text would leave out commitments on school feeding programs, it’s important to remember that the trade deal is very much still a work in progress. The fact that it is mentioned in the text could be a response to the letters and other advocacy on the issue.

The demand to open up public procurement programs to foreign investors is not unique to TTIP; it has been a significant issue in the talks for a Trans-Pacific Partnership (TPP) as well. But since so many U.S. markets are already relatively open to EU companies, pressure by USTR and its corporate advisors to make EU food safety, energy and other standards equivalent to those in the U.S. means that the EU is being asked to give up a lot in TTIP. In exchange, the EU is seeking unfettered access for its companies to what seem to be elusive state and local procurement markets. These proposals in TTIP could very well undermine local decision making and innovative efforts to rebuild local economies in ways that are sustainable, healthy and fair. State and local legislators and civil society groups should:

- Insist that governors or other state procurement agencies report on meetings or other communications with EU or US officials on potential procurement commitments under the trade agreement, both in terms of possible risks to local foods programs and more generally to clarify the process of agreeing to those commitments at the state, county or city level.
- Demand that both the U.S. and EU governments publish negotiating text indicating which sectors and federal, state and local agencies are contemplating procurement commitments and who would make those commitments.
require that any decisions to restrict buy local preferences in public procurement programs be informed by a public analysis of the potential impacts on local economies, as well as environmental and social equity.

call on congress to reject fast track (or trade promotion) authority, which would give the administration the power to negotiate trade deals in secret and present the resulting agreement to congress for an up or down vote, no amendments allowed. this is an outdated and inadequate process to negotiate agreements with such far reaching consequences.
NOTE FOR THE ATTENTION OF THE TRADE POLICY COMMITTEE

SUBJECT: EU papers discussed with the US during the sixth round of TTIP negotiations (14-18 July 2014)

ORIGIN: Commission, DG Trade, Unit E1

Delegations will find attached the final versions of the EU papers as submitted to the US ahead of the sixth round of negotiations (14-18 July 2014):

1. Public Procurement: EU Paper - Main elements of EU Expectations for US deliverables in an initial offer concerning the sub-central level (in particular related to Annex 2)

2. Regulatory Dialogue on Pesticides

3. Paper of Possible provisions of State enterprises and enterprises granted special or exclusive rights or privileges

4. EU Concept Paper for IP border measures

5. Trade and Sustainable Development Chapter/ Labour and Environment- Addendum to the EU Paper outlining key issue and elements for provisions in the TTIP (Elements on waste and chemicals)

WITHOUT PREJUDICE

NON PAPER:

MAIN ELEMENTS OF EU EXPECTATIONS FOR US DELIBERABLES IN AN INITIAL OFFER CONCERNING THE SUB-CENTRAL LEVEL ON PUBLIC PROCUREMENT (IN PARTICULAR ON ISSUES RELATED TO ANNEX)
In line with the agreement reached in the High Level Working Group, the main aim of TTIP in the area of government procurement is “substantially improved access to government procurement opportunities at all levels of government on the basis of national treatment”. Achieving a balanced outcome across the three market access pillars of TTIP is a critical element if an agreement is to be reached.

In this context substantially improved access to procurement opportunities at sub-central level in the US guaranteed through commitments with regards to US States and relevant sub-central government entities (under Annex 2), which account for approximately 60 (sixty)% of US procurement, is a particularly critical component of the overall TTIP procurement package. While the EU understands that preparations of an offer covering the sub-central level will take some time, the preparatory process should start immediately, as agreed in the HLWG report. At the minimum, the EU expects the USTR to commit on the principle of binding commitments for US States and relevant sub-central government entities and to take without further delay concrete steps to coordinate with them in view of this objective. This implies contacting all States and other relevant sub-federal level entities at the appropriate level to explore ways and means for taking and implementing commitments as part of TTIP, including the non-application of domestic content requirements to EU goods, services, suppliers, and service providers. USTR should convey the message that without significant expansion of access to State and other sub-central level procurement for EU goods, services, suppliers, and service providers, the EU will not be able to offer significant improvements in access for US goods, services, suppliers, and service providers. In that context it should be noted that EU products are manufactured in accordance with equally high standards of environment and labour protection and that the EU is ready to commit on a reciprocal basis not to discriminate vis-à-vis US goods, services, suppliers, and service providers.

In order to facilitate the process of consultation with the States’ governments and relevant sub-central entities, this paper set out—without prejudice to other request that may be submitted at a later stage—below the main elements of EU expectations for US deliverables in an offer concerning the sub-central level on public procurement. The EU reiterates that it accepts, as suggested by the US, that the reference for State level commitments will be the recently negotiated revised GPA text.

1. Recalling the conclusions of the High Level Working Group and its emphasis on National Treatment at all levels of government as a core principle, commitment by US to refrain from imposing domestic content restrictions (e.g. “Buy America”) vis-à-vis EU suppliers, goods, and services in procurement by sub-federal entities (states, localities, and other non-federal entities) funded in part or fully by federal grant funds, notably in procurement for infrastructure and transportation projects funded by Department of Transportation (e.g. Federal Transit Administration Funds, Federal Highway Administration Funds, Federal Aviation Administration Funds).¹

2. Commitment by all States to refrain from applying domestic content restrictions (including stricter domestic content restrictions) on EU goods, services, suppliers, and service providers in procurement by sub-federal entities where the procurement is funded in whole or in part through Federal grants (see point 1 above).

3. Respectively, the elimination of current domestic content restrictions with regard to procurement carried out with federal funding (see points 1 and 2 above) would be comprehensively covered by a specific text provision on top of the current GPA.

¹ The EU recalls that the issue of “flow-down” was raised in the EU benchmark paper for central level and that its appearance here is done “without prejudice” as to where to schedule this commitment in the end. Inter alia, the reservations which are currently in place to exempt restrictions attached to federal funds under US GPA commitments (within notes to Annex 2 for mass and highway projects and within notes to Annex 3 for airport projects) would be lifted.
4. US would provide market access commitments, without major restrictions, with regard to procuring entities of State government and other sub-central entities within States as defined below. These market access commitments would apply to all US States as well as the District of Columbia. (For the States which are already covered by the GPA, the present commitments would imply an expansion of entity coverage and upgrading of commitments. Expansion of entity coverage would result in particular from extending the commitments to main entities of local government).

   i. Procurement by all executive agencies and other executive entities of the State government, including in particular Central Purchasing Agents and Designated Purchasing Agents, as well as their subordinated entities.

   ii. Main executive entities of local government (including for instance mass transit authorities) for those Counties and Cities which are defined below:

   1. Counties with a population > 500,000, plus counties that form part of a larger metropolitan area;
   2. State capitals plus cities with a population > 250,000, plus cities that form part of a larger metropolitan area.

   iii. Main state colleges and universities which would include:

   1. All public universities which are executive state agencies;
   2. Remaining public universities and colleges with an enrollment of >e.g. 10,000.

   iv. Main public hospitals defined as hospitals with >500 beds.

   v. Comprehensive coverage of procurement of goods and services without major restrictions. It should be noted that commitments are not intended to cover procurement which involves, for example, school meal programs and equivalent programs. With respect to serves, coverage should be extended to, for instance, transportation and telecommunications services. Also construction services (including procurement of dredging services) should be covered. For States which are covered by the GPA, the expansion of coverage would necessitate the elimination of major restrictions concerning the procurement of goods and services currently scheduled within US GPA commitments, in particular under the relevant Annexes 2, 4, 5, and 6 and their associated notes.

5. There market access commitments would also cover in particular non-application of domestic content restrictions. Furthermore, the commitment would apply to the main preference programmes applied by State and other sub-central entities, such as set-asides for small businesses, but not for limited and clearly circumscribed programmes in favour of particularly disadvantaged businesses (e.g. minority owned, disabled veterans owned, and woman owned businesses). All these commitments should ensure the non-application of such policies vis-à-vis EU goods, services, suppliers, and service providers.

6. Threshold values applicable to the procuring entities identified above would be set as follows: Good (supplies) and Services: SDR 200,000, Construction services (works): SDR 5,000,000.
7. The executive entities of the State government covered by the market access commitments as identified above would be expected to apply the disciplines of the recently revised GPA to the full extent. For the remaining sub-central entities identified above limited exception from GPA disciplines could possibly be accepted but disciplines should at a minimum include core provisions on transparency, non-discrimination as well as access to remedies for the sub-central entities covered by the market access commitments.

8. The EU also reserves the right to request commitments with regard to other entities which would qualify under Annex 3.
Endnotes


4. The text of the agreement and annexes is posted at www.ustr.gov.

5. WTO, The plurilateral Agreement on Government Procurement (GPA), http://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm

6. The states bound by the GPA are: Arizona; Arkansas; California; Colorado; Connecticut; Delaware; Florida; Hawaii; Idaho; Illinois; Iowa; Kansas; Kentucky; Louisiana; Maine; Maryland; Massachusetts; Michigan; Minnesota; Mississippi; Missouri; Montana; New York; Nebraska; New Hampshire; Oklahoma; Oregon; Pennsylvania; Rhode Island; South Dakota; Tennessee; Texas; Utah; Vermont; Washington; Wisconsin; and Wyoming.


