Statement of
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before the
International Trade Subcommittee
of the
Senate Finance Committee
Washington, D.C.
October 27, 2005

Introduction

Thank you, Mr. Chairman and Members of the Committee, for the opportunity to testify today. I am pleased to be here to discuss the Doha Development Agenda (DDA) and the upcoming WTO Ministerial Meeting later this year in Hong Kong, China. Unfortunately, I must report to the Committee that the negotiations are not as advanced as they should be for the ministerial. My testimony outlines the progress and problems in the negotiations to date, starting with agriculture.

Members of the Committee certainly recall the history of the DDA. Two months after the events of September 11th, 2001, U.S. leadership played a critical role in the launch of a new round of multilateral trade negotiations, the first to be conducted under the WTO. The negotiations under the Doha Development Agenda reflect the dynamic complexities of today's economic world, and present new opportunities to make historic advancements toward open markets and respect for the rule of law.

The WTO's Doha Development Agenda is part of President Bush's strategy to open markets, reduce poverty, and expand freedom through increased trade among all countries in the global trading system, developed and developing. The U.S. role in the WTO is at the core of this strategy.

Dismantling trade barriers multilaterally holds immense potential. From 1994 to 2003, the world economy expanded at an average annual rate of about 2.6 percent, but exports have grown at more than double that pace – about 5.5 percent, a harbinger of accelerating globalization.

The main focus of the negotiations is in the following areas: agriculture; industrial market access; services; trade facilitation; WTO rules (i.e., trade remedies, regional agreements and fish subsidies); and development. In addition, we have taken the lead in pursuing several win-win-win outcomes in the DDA – those that benefit global trade, the environment and development – including increased market access for environmental goods and services and elimination of subsidies that promote overfishing. The mandate also gives further direction to the WTO's existing work program and implementation of the Agreement. The goal of the DDA is to reduce trade barriers so as to expand global economic growth, development and opportunity.

The market access related negotiations of the DDA offer the greatest potential to create high-quality jobs, advance economic reform and development, and reduce poverty worldwide. We recognize that the national economic strategies of our developing country partners include many important issues, but at the same time we believe that the focus of the WTO's role in promoting development should be concentrated on reducing trade barriers and providing a stable, predictable, rules-based environment for world trade.

The DDA provides us with historic opportunities to achieve agriculture reform and greatly diminish current market distortions that present barriers to American farmers and ranchers. We are also aiming to achieve significant new market access for our manufactured goods through broad tariff cuts while working to reduce non-tariff barriers to exports of these goods. We are also pressing for ambitious global market opening for our services industries. The WTO negotiations on trade facilitation will result in less red tape and more efficiency and predictability for moving goods across borders. And less corruption in customs activities.

Obstacles to the free flow of commerce undermine our ability to maximize trade's potential and its benefits. We need to move toward a system that provides incentives for innovation and growth in the most competitive aspects of our productive sectors. The best way to do this is successfully to complete the WTO Doha Development Agenda negotiations.

Looking Ahead Towards Hong Kong, China – December 13 - 18

We have been pursuing a strategy of moving negotiations forward by building upon the July 2004 Framework Agreement. This has involved putting in place the negotiating platforms to enable final negotiations to begin during the first quarter of 2006. Our aim for the Hong Kong meeting has been to have: an agreement on the "modalities" (i.e., detailed negotiating parameters) for negotiations in agriculture and non-agricultural market access; an effective negotiating framework for a significant result in services; directions to ensure that WTO rules remain effective and in some cases are strengthened (e.g., by adding new disciplines to subsidies to deal with overfishing); and the outlines of an agreement on Trade Facilitation.

WTO Director General Lamy suggested that we need to be two-thirds of the way to finishing the DDA negotiations by the time Members meet in Hong Kong. We are not likely to meet that objective for Hong Kong if the situation persists as it is today. I would like to describe for the Committee the current situation in the negotiations and hear your views on how best to achieve U.S. objectives in the current circumstances.

With that as background, allow me to briefly focus on the main negotiating areas:

Agriculture

Without being overly dramatic, I think it is fair to say that the fate of the DDA hangs in the balance because of the lack of progress in agriculture, where much of the responsibility for this lies with the European Union. The Doha mandate concentrates the negotiations in agriculture in three main areas: export competition, domestic support, and market access. Our view and that of the other delegations in Geneva is that the shape of an agreement in the first two pillars can be achieved by Hong Kong. This is not true for market access.

Earlier this month, the United States did what many WTO Members had asked: we identified in clear and precise terms – with numbers -- our level of ambition for the agriculture negotiations, particularly with respect to real reform in the domestic support pillar. Many of our partners suggested that without a "signal" from the United States they would not be able to move forward on the market access pillar.

Building on Uruguay Round commitments and the July 2004 Framework agreement for agricultural modalities, the United States presented a comprehensive package to move the WTO agriculture negotiations forward and unleash the full potential of the Doha Development Agenda.

The U.S. proposal calls for reform in two stages:

- **Stage 1**: Substantial reductions of trade-distorting support measures and tariffs, along with the elimination of export subsidies, to be phased-in over a five year period.

- **Stage 2**: After a pause in implementation to adjust to the first stage of reform, an additional five year phase-in period that delivers the elimination of the remaining trade-distorting policies in agriculture.

I should underline again for the Committee that the U.S. proposal on reducing domestic subsidies is contingent on the EU and others coming forward with greater market access and greater reductions in their trade distorting subsidies.

<u>Market Access</u>

The United States calls for WTO Members to aggressively reduce tariffs. Using the "tiered formula" identified in the July 2004 framework and building on the elements proposed by the G-20, the U.S. calls for the following to be phased-in over five years:

- <u>Progressive tariff reduction</u>: Developed countries cut their tariffs by 55-90%. Lowest tariffs are cut by 55%, with cuts ranging to 90% for highest tariffs.
- <u>Tariff rate caps</u>: Establish a "tariff cap" ensuring no tariff is higher than 75%.

- Sensitive products: Limit tariff lines subject to "sensitive product" treatment to 1% of total dutiable tariff lines. For these lines, lesser tariff cuts must be balanced by large expansion of TRQs where they exist, and find other means to address sensitive products where TRQs are not in place.
- Special provisions for developing countries: Create special and differential treatment provisions for developing countries to provide real improvements in access, while ensuring import-sensitive sectors in those countries are afforded appropriate protection.

This proposal is consistent with the July 2004 Framework which calls for progressive tariff reductions delivering deeper cuts to higher tariffs. The Framework committed Members to substantial improvements in market access for all products, including sensitive ones, to be granted through a combination of tariff quota expansion and tariff reductions. Further, the Framework identified negotiations over a tariff cap to be part of further discussions, and it notes that developing countries will not be expected to cut tariffs as aggressively as developed economies.

Export Competition

The United States calls for rapid elimination of export subsidies. The following rules would be phased-in by the year 2010:

- Export subsidies: Eliminate all agriculture export subsidies.
- Export credit programs: Establish specific disciplines on export credit programs to bring them in line with commercial practice, including a maximum repayment period of 180 days.
- STEs: Install new disciplines on export State Trading Enterprises that end monopoly export privileges, prohibit export subsidies, and expand transparency obligations.
- Food aid: Establish disciplines on food aid shipments that guard against commercial displacement, while avoiding obstacles to emergency shipments and deliveries to countries with chronic food aid needs. Establish an objective test to identify commercial displacement in other circumstances.

The July Framework commits all Members to ensuring parallel elimination of all forms of agricultural export subsidies by a credible end date. Specifically, Members agreed to eliminate all agricultural export subsidies, eliminate export credits of more than 180 days, discipline credits of less than 180 days, and eliminate the trade-distorting practices of State Trading Enterprises (STEs). It was also agreed that additional disciplines on food aid will be negotiated. The Framework states that the future use of monopoly powers by STEs will be subject to further negotiation.

Domestic Support

The United States calls for substantial reductions in trade-distorting domestic support, with deeper cuts by countries with larger subsidies. The United States proposes the specific elements to be enacted within five years:

- Overall goals: Reduce overall levels of trade-distorting support by 53% for the United States and 75% for the European Union, thereby reducing the greater than 3:1 differential in current subsidy spending between the EU and the U.S.
- Amber box: Cut Aggregate Measurement of Support (AMS) by 60% for the United States and 83% by the European Union, with product-specific AMS caps based on 1999 – 2001 period.
- Blue box: Cap partially decoupled direct payments at 2.5% of the value of agricultural production.
- De minimis: Cut "*de minimis*" allowances for trade-distorting domestic support by 50% (from 5% of the value of production to 2.5%).

In the July Framework, Members agreed to substantially reduce trade-distorting domestic support, with caps on support levels for specific commodities. Members agreed to harmonization in the reductions so that countries with higher levels of subsidy will be subject to deeper cuts. Under the Framework, in the first year of implementation, the overall level of trade-distorting support will also be reduced, with an initial cut of 20%. The Framework also requires that blue box support will be capped at five percent of a Member's total value of agricultural production, with further negotiation over criteria to ensure blue box programs are less trade-distorting than amber box programs

The U.S. proposal changed the dynamic of the negotiations dramatically and positively. It is generally recognized throughout the WTO that our proposal put the second pillar – domestic support – in "negotiating shape," to use the phrase of Director General Pascal Lamy. The attention of the negotiations has moved unmistakeably to the third pillar – agricultural market access.

The G-20 has responded by elaborating on its earlier market access ideas, limiting substantially the number of "sensitive" products in the agricutlure negotiations. The G-20 recognizes that this is essential if deep tariff cuts are to have real meaning. Specifically, the G-20 offered to limit sensitive products to no more than 1% of dutiable tariff lines for developed countries and 1.5% for developing countries. This proposal is one that the United States can endorse. Australia underscored its support for this approach, and we welcomed its contribution.

On the other hand, our partners in the EU provided no offer – nothing new at all. What was more concerning was their apparent lack of urgency – this despite the fact we're facing a deadline in Hong Kong that is less than two months away.

We expect the European Union to come forward later this week with more ideas on how to move the negotiations forward on market access. Such a proposal must not be incremental, just tinkering at the margins. It must be a proposal that represents a high level of ambition.

Clearly that is important to the U.S. and its farmers and ranchers. But it is even more important to the developing world. The World Bank has shown that in removing trade barriers and trade-distorting measures in agriculture, 93 percent of the global gains will come from improved market access. Domestic support and export subsidies account for a much smaller share of 7%.

Clearly, the EU must offer substantial new market access on agriculture to live up to its statements about the importance of development in the Doha Round. The EU has been through a series of internal conversations with its Member States. I'm sure the domestic pressures are real. However, all WTO Members face internal political pressure when seeking change.

The current EU position is to provide tariff cuts for developed countries between 20-50%. This is very far from the other two principal positions on the table: the U.S. position is that developed countries should make tariff cuts of 55-90%, with the largest cuts made in the highest tariffs; the Group of 20 (which includes Brazil, China, Mexico, India, etc.) advocates cuts in developed country tariffs of 45-75%. We are urging the EU to come forward with a proposal that is at least in the negotiating zone between the U.S. and G-20 positions.

In addition, the U.S. and the G-20 have proposed that no more than 1% of a country's tariff lines be treated as "sensitive products" (i.e., permitted to make tariff cuts less deep than the agreed formula cuts), whereas the EU proposal advocates that 8% of tariff lines be treated as "sensitive".

My focus today has been on the EU and developed country market access. Members of the G20 have signaled their readiness to move ahead in the negotiations and to set the targets for reduction once the broad outlines for developed countries are established. Without question, more work needs to be done to improve the G-20's proposed market access openings by developing countries. And we must find ways to respond to developing countries' concerns about subsistence farmers. But, we will never be able to proceed if the EU doesn't come forward first and help us set a sufficiently high target for agricultural market access.

Beyond Agriculture

EU Commissioner Mandelson rightly argues that the negotiations on agriculture are only a part of the Doha negotiating agenda and the "single-undertaking" where nothing is agreed until all subject areas are agreed.

We have learned that while agriculture may be the engine for negotiations, success requires us to secure strong results across the broad range of issues in the Round. Working with Members of this Committee we believe we can secure results that provide new opportunities for America's workers, farmers, ranchers, service providers, and consumers. And, at the same time secure a result that strengthens the rules of the global trading system to meet America's trade interests.

For the manufacturing and services sectors, we are behind in the negotiations. That is not surprising, as many of our partners, particularly big agricultural exporting countries like Brazil, await further progress in agriculture before engaging on other sectors.

On non-agricultural market access, the key standard of success will be increased market access for manufactured goods, which account for nearly 75 percent of all global trade in goods. The mandate from Doha lays the groundwork for broad cuts in tariffs through a formula that would make deeper cuts in higher tariffs, and it provides the possibility of complete tariff elimination in key sectors, including environmental goods.

Negotiations now are focused on the technical details of how we get a big result. We need to find common ground on the centerpiece of the proposal – the Swiss formula – combined with appropriate forms of flexibility for developing countries in order to proceed. Other issues – work on sectoral initiatives and non-tariff barriers – must also be addressed. There are concerns and sensitivities – we all have them – and we need to understand one another. We have a major opportunity to open markets for the future – particularly for developing countries – but we need to find a way to ensure that all contribute fairly to the outcome.

We cannot afford to be anything but ambitious and ensure that we are looking to markets of the future. We did so in the Uruguay Round with great success – we accomplished a number of sectoral initiatives where growth has been substantial (e.g., chemicals, medical equipment, pharmaceuticals). We want to look at the most aggressive ways to create market opportunities. As a result of the market openings in the Uruguay Round on the sectoral initiative on medical equipment, that sector grew nearly 165% in global exports (U.S. exports grew 89.2%).

In services, in July 2004, WTO Members agreed to intensify the negotiations on opening markets and made clear that services are definitely on par with agriculture and manufacturing as a "core" market access area.   Services are playing an increasing role in both developed and developing economies. Indeed, the World Bank recently reported on the force multiplier effect of open services markets: developing countries with open telecommunication and financial services markets grew 1.5 percentage points faster than countries where those two markets remained closed. Services, investment and trade go hand-in-hand, and liberalization in services will be a powerful engine for growth and job creation – especially in higher value added and, therefore, higher paying jobs.

The request/offer negotiating process has not yielded the progress in deepening market access commitments that we and other Members seek. The process is slower than we would like, but we are encouraged that more governments are beginning to see the important role that services plays in development. For developing countries, for example, over 55% of GDP comes from services trade – and much of this trade is done with other developing countries.

We are in the process of fleshing out the elements of a “Work Plan” for Services that can guide the negotiations to a successful conclusion after the Hong Kong Ministerial. The plan includes setting an overall level of ambition for services market access and an ambitious negotiating strategy. Working with industry, we are looking at ways to build out the negotiations and supplement the current process to ensure we achieve a high level of ambition for global services liberalization, particularly in key sectors such as financial services, telecommunications, computer and related services, express delivery, distribution, and energy services.

On rules, negotiations are underway on subsidies and antidumping. We have found convergence with our trading partners on a number of issues, notably the importance of creating greater transparency, certainty and predictability in the ways in which the rules are administered-- and we have vigorously questioned any proposal that would undermine the effectiveness of our trade laws. We have also seen that there is significant interest in developing the subsidy disciplines further to address new and emerging issues, including those that challenge the environment. The Chairman of the negotiating group, Ambassador Valles of Uruguay, has an intensive consultative process underway. I recognize that this is an area of great interest to Members and we appreciate the continued close cooperation we have with you and your staff as we develop proposals and respond to issues raised by others.

WTO Members are currently negotiating clarifications and improvements to the WTO Dispute Settlement Understanding. The United States recognizes that an effective dispute settlement system advantages the United States not only through the ability to secure the benefits negotiated under the agreements, but also by encouraging the rule of law among nations. The DSU negotiations offer Members the opportunity to assess the strengths and weaknesses of the WTO dispute settlement system and to work together to improve the system.

The United States has consistently taken an active role in the dispute settlement negotiations. The United States has tabled proposals that would provide greater flexibility and Member control in the dispute settlement process, including the ability to more effectively address errant or unhelpful panel reasoning. Moreover, the United States has tabled proposals to open up the dispute settlement process to the public – there is no reason the public should not be able to see the briefs filed or the panel and Appellate Body hearings. In fact, I am pleased to report that the panel in the *Beef Hormones* dispute recently opened its first meeting with the parties to the public via a closed circuit broadcast at the WTO.

After substantial delay, I am pleased to advise the Committee that we managed to have an agreement to launch negotiations on trade facilitation, and there is substantial progress to report. These negotiations are aimed at promoting further transparency and fairness in border procedures, including the rapid release of goods. The goal will be to ensure global implementation of customs practices that meet the needs of today's economy. This work on trade facilitation will round out the market access elements of the overall Doha negotiating agenda and present the opportunity for true win-win results for every WTO member—developed and developing country alike.

Finally, this leads me to the question of development. It is clear that the biggest gains to development will be in the core areas of goods, services and agriculture. I am pleased to report to the Committee that many of our trading partners see the issue in the same way. Liberalizing trade among developing countries is an essential part of this effort. Some 70 percent of the duties collected on developing country trade are due to tariffs imposed by developing countries. This is significant.

In addition to the negotiations, the United States will continue to contribute in various ways to development. With respect to technical assistance and capacity building, since the DDA was launched, the United States has contributed $1 million to the WTO's DDA Trust Fund annually. Our total trade capacity building activities in FY 2005 were $1.3 billion.

Conclusion

Ambassador Portman has been an activist when it comes to the DDA. Since taking up his post in late April, his message has been one of continued U.S. commitment and determination to be a problem solver in the negotiations. The DDA provides us an opportunity we cannot afford to waste. We can set a vision for the global economy for the next decades and make a major contribution to development.

We will conclude in 2006 only if we achieve a balanced outcome with results that will benefit all members. That's why agriculture, non-agricultural market access (NAMA), services, rules, and development are the major issues for the negotiations.
The Doha negotiations hold the potential to make an important contribution to global growth and development. The Uruguay Round was launched in 1986, finalized in 1994, and we are just now seeing the final implementation of results. With care and attention, we can use the WTO to make a further substantial contribution to global growth and development. The United States is prepared to lead by example, but we need to ensure that we secure real gains and market opportunities in the decades ahead.

We know that the global trading system is not perfect, and remains– and perhaps always will remain– a work in progress. But through American leadership within the WTO, the core U.S. trade agenda of promoting open markets and the rule of law remains the core agenda of the global trading system.   We will continue to pursue our interests in the DDA with this in mind.