

STATUS OF THE WORLD TRADE ORGANIZATION NEGOTIATIONS

HEARING BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE COMMITTEE ON FINANCE UNITED STATES SENATE ONE HUNDRED NINTH CONGRESS FIRST SESSION

OCTOBER 27, 2005



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STATUS OF THE WORLD TRADE ORGANIZATION NEGOTIATIONS

THURSDAY, OCTOBER 27, 2005

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:05 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Craig Thomas (chairman of the subcommittee) presiding.

Also present: Senators Crapo and Bingaman.

OPENING STATEMENT OF HON. CRAIG THOMAS, A U.S. SENATOR FROM WYOMING, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE, COMMITTEE ON FINANCE

Senator THOMAS. The hearing will come to order.

Thank you all for being here. I think it is very important for us to continue to talk about international trade. Certainly, as we come closer to the WTO meeting and the meetings that are before us, we need to discuss the issues.

I appreciate very much, Mr. Ambassador, your being here with us. We've talked some about you having more conversation with Congress bringing up bills for an up or down vote.

In some ways, it seems hard to believe it has only been 2 years since Cancun. Having been there, I hope the next time around it is a little more productive.

I do appreciate the efforts of USTR to keep moving forward, especially the efforts of Mr. Portman and his predecessor, Mr. Zoellick. Without their leadership and involvement, I seriously doubt we would be where we are today.

I believe there is much to be achieved in Hong Kong. Many negotiating groups are still lacking their member proposals, and I guess that is one of the real problems, one of the issues, of course, with WTO, that there are so many countries.

Even though they certainly have differing amounts of involvement in trade, they all have a voice in the decisions, and that makes it difficult sometimes. It is critical that countries lay out their positions if success is going to be made there. It is difficult to imagine how we can accomplish a lot of that in the next several weeks.

In any event, it is important we continue to aggressively promote several fundamental concepts I believe that we have talked about before: to eliminate the trade distortion barriers, to expand access for U.S. goods and services around the world, to ensure that effec-

tive, transparent enforcement laws are established to prevent circumvention of existing laws, to hold member nations responsible for failing to honor their trade commitments and, finally, to encourage innovation through strong intellectual property rights protection and enforcement mechanisms.

The United States is the strongest economy in the world. I know that there are limits to how much muscle we can flex, but, as we head to Hong Kong, I think we are in a strong position, and I hope we do not hesitate to use the strength that we have.

We are going to have trade. If we look into the future as to where we are going, there is going to be trade. Our challenge and our responsibility, I believe, is to ensure that we have trade, to ensure that it is fair. That is the challenge before us, and it is certainly a tough one.

Senator Bingaman?

**OPENING STATEMENT OF HON. JEFF BINGAMAN,
A U.S. SENATOR FROM NEW MEXICO**

Senator BINGAMAN. Thank you very much, Mr. Chairman.

I am looking forward to hearing the testimony. Obviously there are a lot of trade-related issues that are on the agenda, and I think we clearly need to be better informed—I certainly do—about the status of those, so I look forward to the testimony, and I will have some questions once we have heard that.

Senator THOMAS. Thank you very much, Senator.

For each of you that will be testifying, your full statements will be made a part of the record. If we can hold our statements to a certain amount of time, it will help us to get through.

So, welcome, Ambassador Allgeier. We are certainly glad to have you here, sir. If you are ready, why do you not go right ahead?

**STATEMENT OF HON. PETER ALLGEIER, DEPUTY U.S. TRADE
REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENT-
ATIVE, WASHINGTON, DC**

Mr. ALLGEIER. Thank you very much, Chairman Thomas and Senator Bingaman, for providing this opportunity to testify today. I am pleased to be here to discuss the Doha Development Agenda negotiations and the preparations for the ministerial in Hong Kong in December.

As you know, this Doha Development Agenda is the central element in President Bush's strategy to open markets, to reduce poverty, and to expand freedom through increased trade among all countries.

I would like to describe for the committee today the current situation in the negotiations and hear your views on how best to achieve our U.S. objectives under the current circumstances.

Unfortunately, I must report that the negotiations are not as advanced as they should be for the ministerial in Hong Kong. If you will allow me to just briefly focus on the main negotiating areas, I will expand upon that.

First is agriculture. Without being overly dramatic, I think it is fair to say that the fate of these negotiations hangs in the balance because of the lack of progress to date in agriculture, where much

of the responsibility for this situation lies with the European Union.

The Doha mandate, as you will recall, concentrates on three main areas in agriculture: export competition, domestic support, and market access. It is our view, and the view I think of nearly all the delegations in Geneva, that the shape of an agreement in the first two pillars, in export competition and domestic support, can be achieved by Hong Kong.

I am not talking about a final agreement; I am talking about a shape of negotiations going forward. However, that is not the case for the third pillar, for market access in agriculture.

Just to provide a little bit of background. Earlier this month, the 10th of October, 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, including with respect to reform of domestic support. We presented a comprehensive package, including market access, to move the WTO agriculture negotiations forward.

I want to stress, however, that our proposal on reducing domestic subsidies was contingent, is contingent, on the EU and others coming forward with much greater market access, and also with greater reductions in their own trade-distorting subsidies.

Let me discuss these a little bit more in detail. In market access, in agricultural market access, we are calling for WTO members to aggressively reduce tariffs. Specifically, we are saying that developed countries should reduce agricultural tariffs between 55 percent and 90 percent, with the 90 percent cuts being applied to the highest existing tariffs.

We also have proposed that there be a tariff cap of 75 percent, so that at the end of the implementation period there would be no agricultural tariff above 75 percent. This is for developed countries. We have similar benchmarks, if you will, for developing countries.

It is already agreed that there will be some flexibility here for countries in the form of sensitive products that would be designated. They would not have to cut the tariffs as deeply as the formula would require, but they would have to compensate by having fairly large tariff rate quotas. We have said that no more than 1 percent of a country's dutiable tariff lines should be in this category of sensitive products.

In export competition, we have called for the elimination of export subsidies by the year 2010, disciplines on export credit programs, and, of course, on State Trading Enterprises, and food aid disciplines that would avoid commercial displacement but would allow food aid for emergencies and for chronically food-short countries to continue without obstacles.

On domestic support, we call for substantial reductions in trade-distorting domestic support, with deeper cuts by those countries that have the highest subsidies. Obviously, Europe and Japan would have to cut more deeply than we would.

This proposal that we put forward on October 10 changed the dynamic of the negotiations dramatically and positively. It is generally recognized throughout the WTO that our proposal put the second pillar, that of domestic support, into "negotiating shape." Those are the words of Director General Pascal Lamy.

So the attention of the negotiations has moved unmistakably to the third pillar, agricultural market access. We, and the other members of the WTO, are waiting for the European Union to come forward with its proposal on how to move the negotiations forward on market access.

This proposal that they come forward with must not be incremental. It cannot be simply tinkering at the margins. It must be a proposal that conveys a high level of ambition, a level of ambition that is comparable to what is already out there for consideration on export competition and domestic support.

Now, while agriculture may be the engine for the negotiations, success requires us to secure strong results across the broad range of issues in the round, primarily in manufacturing and in services.

These two areas are also behind in the negotiations, in large part because many of the countries that have very high ambitions in agriculture have not been willing to engage seriously enough in the manufacturing negotiations, known as NAMA, and in services.

Now, in non-agricultural market access, manufacturing goods trade, the key standard of success there is increased market access for manufactured goods. Manufactured goods, after all, account for approximately 75 percent of all goods traded globally.

If we are going to get new trade flows in manufactured goods, the result of this round has to be that tariffs at the end of the round are lower than the applied rates that are in existence right now. So, that is a key standard that we are looking at for the NAMA negotiations.

The mandate from Doha lays the groundwork for cuts like this, where there are deeper cuts in the higher tariffs, and also the possibility for sectoral agreements that could bring tariffs in certain sectors to zero.

In services, services are on a par with agriculture and non-agricultural market access, important for this round and for the United States. We have been conducting those negotiations under what is called a request/offer process. It is a bilateral negotiation where a country makes a request of opening from another country, and the other country responds with offers. At the end of the day, all of these offers are multilateralized.

That process has not led, thus far, to the kinds of commitments that we are seeking, so we are working with other countries who are interested in services to find complementary negotiating approaches to the request/offer process that would enable us to get more offers, higher quality offers, especially by key countries—large countries and developing countries—where services remain restricted, and also particularly in key sectors of importance to us and to developing countries, sectors like financial services, telecommunications, energy, express delivery, computer-related services, and so forth.

The other elements of the Doha Round include rules. Here, we are very clear. We are not going to make changes that would reduce the effectiveness of the trade remedy laws that we have in the United States.

It is very interesting. Since Doha was launched, even, there has been more of a trend of other countries, particularly advanced developing countries, using antidumping.

What we are finding is, their procedures have far less transparency than we have, and their notion of due process is quite different from our notion of, in fact, what we think is required under the WTO.

So we do have some, if I can use the term, offensive interests in rules to get countries to have the same degree of transparency as we do. Even developed countries such as the European Union do not have the same degree of transparency that we do.

The other part of the rules negotiation is to strengthen the disciplines on subsidies. There are a number of subsidy practices that countries use to bolster uncompetitive industries. This is something that we want to apply stronger disciplines to.

One area in particular that we are promoting is disciplines against subsidies that contribute to over-fishing, so fish subsidies is something that has a trade impact that is positive and would also have an important environmental benefit.

Trade facilitation, which has to do with the Customs procedures, is something that you mentioned, Senator, from Cancun. Well, there is not a lot of happiness from Cancun, but one of the things that resulted was an agreement that we would have a negotiation on trade facilitation.

This is a very important complement to the traditional tariff reduction formulas. You can reduce the tariffs, but, if you cannot get your goods through the Customs procedures or it is unpredictable, then you are also stymied in your trade. So, these trade facilitation negotiations are an important complement to what we are doing in the rest of market access.

Now, this is the Doha Development Agenda. Let me just say a word about development. The core, the key to development in this negotiation, lies in the three areas that I have mentioned in the first place: agricultural market access, non-agricultural market access, and services market access and rules.

These are where the real benefits for development will come. There are a lot of other development issues that are being discussed, but this is what really matters.

Just looking at agriculture, for an example. The World Bank has estimated that something like 92, 93 percent of the benefits for developing countries from a potential agriculture deal would come from improved market access as opposed to disciplines on domestic subsidies and elimination of export subsidies.

Parallel with the negotiations on the development front is the technical assistance capacity building that is always so important in helping countries not only to negotiate and implement the agreements, but then to benefit from it.

Of course, Senator Bingaman, this was something that was an important issue that you highlighted with respect to CAFTA, and it applies broadly.

Well, in each year since Doha, the United States has contributed a million dollars to the DDA Capacity Building Trust Fund in the WTO, but, more significantly, through our bilateral efforts and other programs that we contribute to, we currently are providing \$1.3 billion in trade capacity building activities worldwide.

So, in conclusion, the DDA does provide us with an opportunity here that we cannot afford to waste. We can set a vision for the

global economy for the next decades and make a very major contribution to development, but we will be able to conclude such an agreement in 2006 only if we achieve a balanced outcome with results that will benefit all members.

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. This means that other countries, both developed and developing countries, have to contribute to a final agreement.

The core of our trade agenda is promoting open markets and the rule of law. We continue to pursue those interests in the DDA, and we appreciate greatly the support and the guidance of this committee in our efforts.

Thank you.

Senator THOMAS. Thank you very much, sir.

[The prepared statement of Mr. Allgeier appears in the appendix.]

Senator THOMAS. We will just go into a little session of questions now.

I, of course, am prejudiced towards agriculture, coming from my State, being on the Agriculture Committee, and so on. But when 75 percent of our trade is other than agriculture, and, as we hear reports from Doha and other negotiations that success in Hong Kong is going to depend on agriculture, how can we let that happen?

Mr. ALLGEIER. Well, agriculture is a bit of a gateway for us to go through. But we have been very, very clear that, at Hong Kong, to set the stage for negotiations in 2006, we have to have a comparable level of direction for the non-agricultural market access negotiations, the manufactured goods negotiations, and services.

Actually, there has been quite a bit of work. I do not want to send the message inadvertently that there is no work being done on those issues. There is a lot of work and, frankly, on both of them the United States has shown great leadership.

But we need to have more engagement by more of the countries. We have been very clear that we have to have robust results in services, in non-agricultural market access, along with agriculture, to have a successful Hong Kong ministerial.

Senator THOMAS. Well, I hope that is the case. I am telling you, we constantly hear that unless we get an agricultural agreement with the EU, that nothing is going to happen. Can that be the case?

Mr. ALLGEIER. That is a necessary, but not sufficient, condition for a satisfactory ministerial and a satisfactory round. You have to have these other elements.

Senator THOMAS. I guess I am still not making myself clear. The point that we hear, whether it is right or wrong, is that nothing else is going to happen until there is an agreement on agriculture. Is that an overstatement?

Mr. ALLGEIER. No, it is not an overstatement, to date.

Senator THOMAS. You see, that is the point.

It is kind of interesting because, as far as the EU is concerned, currently on agricultural tariffs we are at 12 percent and they are at 112 percent. Their proposal keeps them still at 80. I guess I have trouble figuring it out.

In general terms, is the difficulty largely with the large trading countries in which we have a big market or is it these smaller countries, maybe you call them developing, and whatever little they have to export is agriculture? Is that kind of the situation?

Mr. ALLGEIER. Well, there are a couple of things, I think, behind this. First of all, of course, if you look at the history of the GATT and then the WTO, agriculture was always left behind.

It was really only in the Uruguay Round that agriculture was brought more into the set of disciplines and tariff cutting, and so forth, that had been applied in previous rounds to manufacturing.

So, there is a need to catch up, and that was recognized at the time of the Uruguay Round when it was agreed that there would be this ongoing negotiation, the built-in agenda, it was called, to continue negotiations on services and in agriculture after the Uruguay Round. So that is one reason that agriculture has been highlighted.

The other is, as you are suggesting, for many developing countries—and particularly for developing countries—agriculture is obviously a much larger part of their economy than it is of ours.

Senator THOMAS. Sure.

Mr. ALLGEIER. Now, we also have a real interest in agriculture. You know the situation with the disparity in the domestic support between us and Europe.

Senator THOMAS. Sure.

Mr. ALLGEIER. So, all of these forces, I think, are among those that have pushed agriculture to the forefront of these negotiations.

Senator THOMAS. I understand there is a proposal to provide duty-free/quota-free access to all products in the so-called “lesser development” countries. Would any of those beneficiaries have a current program for developing countries that would be hurt by this proposal?

Mr. ALLGEIER. We have some concerns there, and a number of the other countries do. I think the concern is that most of it is with respect to many of the AGOA beneficiaries. We have seen very impressive results from AGOA in the apparel area. Of course, this year these AGOA countries are having to cope with the competition from China.

Now, among the least-developed countries, you have a country like Bangladesh, which is a very competitive supplier of apparel. So, we do have some concerns that if we were to give duty-free treatment to all apparel coming from Bangladesh, or Cambodia, or Nepal, that that could have, very likely would have, a negative impact on some of these AGOA countries.

Senator THOMAS. All right. My time has expired. I do, I guess, need to share that, having been in Cancun, I just sometimes feel like what we are doing, instead of dealing with trade among the people who are trading, is dealing more with a consortium of smaller countries who are just talking about development for themselves. That is kind of frustrating. It makes you wonder sometimes if WTO is the place we ought to be. I know it is, but it makes you wonder.

Mr. ALLGEIER. Well, we share your frustration, believe me.

Senator THOMAS. Senator Bingaman?

Senator BINGAMAN. Thank you very much, Mr. Chairman.

I am having trouble reconciling what our position is in these discussions, trade discussions, and what we are doing here in the Congress. I read your testimony here, that you say "U.S. proposes the following specific elements within 5 years." This is under agriculture. "Reduce overall levels of trade-distorting support by 53 percent for the United States."

As I understand the budget reconciliation bill which is about to come to the Senate floor this next week, the one that was reported out yesterday out of the Budget Committee, it extends the farm bill's commodity subsidy programs for 4 more years, from 2007 through 2011, at current levels.

It also extends this milk subsidy, which is a billion-dollar subsidy that benefits very few States. I do not know that that is included in the reconciliation bill. I think that it may be part of the agriculture appropriation. But it is in there, as I understand it.

I guess my question to you is, does the administration support these actions here in the Congress? It seems, if I were negotiating for another country, I would say your protestations about cutting these subsidies sound a little hollow in light of what you are doing at this very moment in your own Congress.

Mr. ALLGEIER. I think it goes back to the point about our proposal being one that has conditions attached to it. I mean, we have been very clear with our trading partners that the only way that we could imagine Congress approving the sorts of changes that would be required in our agricultural products, our domestic support programs, would be if they were coupled with real, strong, hard commitments on market access by our trading partners. So that is basically the way we have presented this, even before this was put in the budget reconciliation bill.

So our preferred outcome, obviously, would be that we are able to come back with a package that has enough on market access, has enough in compressing those domestic supports by Japan and Europe, that the Congress would say this is a package that is better for American agriculture than the alternative.

Senator BINGAMAN. But until that happens, until you are able to get that negotiated agreement through this Doha Round, your position is that you support the current levels of subsidy for commodities, and you also support extending this milk program indefinitely. Is that right?

Mr. ALLGEIER. I do not think we are saying that. I think that you would have to determine what the administration position would be on these elements within the budget reconciliation package.

Senator BINGAMAN. But you cannot tell us what the position is? I mean, that was my question: what is the administration position about the extension of this milk program?

Mr. ALLGEIER. Well, we certainly would prefer to see the Congress have before it what we are able to achieve in the Doha Round before it makes irrevocable decisions.

Senator BINGAMAN. So you would not support us doing an extension of it at this point.

Mr. ALLGEIER. We would prefer not to see that.

Senator BINGAMAN. And the same with the extension of the commodity provisions in the farm bill? You would prefer that we not act on those at this time?

Mr. ALLGEIER. We would prefer to be able to come back and show the Congress what we have achieved in the negotiation before they make irrevocable decisions. There is still time within the current farm bill. The current farm bill goes through 2007.

Obviously, we are not seeing changes in that during that period, but we would hope that we would be able to come back to the Congress with a package before they have to make an irrevocable decision.

Senator BINGAMAN. So in this year's legislation, either the reconciliation bill or the appropriations bills, we should leave those issues unaddressed, in your view?

Mr. ALLGEIER. We would like to stick with the current situation.

Senator BINGAMAN. This is sort of a very general question that I probably should know the answer to. But in going into this Doha Round, do we have an idea as to where we believe this set of recommendations or proposals that we are tabling for consideration, where they lead us with regard to our trade imbalance with the rest of the world? I mean, is there an idea? If we could get these proposals agreed to, the trade imbalance would shrink or expand. Do we have an idea of that or do we not calculate that?

Mr. ALLGEIER. Well, we do not have precise calculations on it, one reason being that, frankly, even more important than the market access we get or the changes in subsidy practices, is what is happening in our economy compared to other economies.

I do not think there is any doubt that, all other things being equal, economic conditions being equal, we would have a better chance of reducing the deficit if we are able to open up other markets and we are able to reduce the disparities and subsidies that our farmers and ranchers are facing vis-à-vis their competitors.

Senator BINGAMAN. Thank you.

My time is up, Mr. Chairman.

Senator THOMAS. Senator Crapo?

Senator CRAPO. Thank you very much.

Mr. Allgeier, it is my understanding that the G-20 nations, as well as the United States, and I guess Australia, support the notion that no more than 1 percent of a country's tariff lines can be treated as sensitive products, and the EU is pushing for 8 percent. Is that correct?

Mr. ALLGEIER. That is correct.

Senator CRAPO. I would just like your estimate as to the likelihood of us being able to prevail on the 1-percent level. Does it look like other nations are starting to line up on one side or the other of that issue?

Mr. ALLGEIER. Well, I think it is significant that the G-20 has lined up on that, because there is quite a variety of developing countries in that G-20. I mean, you would expect someone like Argentina or Brazil to take that point of view, but it is interesting that other countries that are in there—India, for example—have agreed with the position of the G-20, and so I think that that is very helpful.

The thing is, the United States has a broader composition of exports in agriculture than most countries. For many countries, they are really trading in just a few products. So the more that that sensitive product category expands, the less chance they have of get-

ting the kind of market access they need for their key products. So, there is a lot of resistance to the EU's approach of having something as high as 8 percent be sensitive products.

Senator CRAPO. All right. Thank you.

I want to go also to the question of trade remedies and enforcement. In your prepared testimony, you indicate that the United States is taking an active role in dispute settlement negotiations with the idea of trying to get more effective dispute settlement procedures in place.

There is a lot of concern out there that the United States may, in fact, be preparing to agree to something that may weaken our ability to have effective enforcement measures.

In your testimony, one of the things you noted was that we are looking at ways to more effectively address errant or unhelpful panel reasoning. My experience with these panels suggests that there certainly is a lot of errant and unhelpful panel reasoning.

I just wanted to ask you, where are we headed on this? What is the U.S. position? How can we be assured that we are going to have an effective dispute resolution process that does not leave us at the mercy, frankly, of what I consider to be basically political panels?

Mr. ALLGEIER. Of course, we have had a lot of victories in panels, so it is not all one way. But we have some real concerns where, in our view, panels have not stuck to the proper standards in making these decisions.

So, we are looking for ways of reinforcing or clarifying what the standards of review are, providing guidance that panels will have to stick to and not be filling in gaps that they perceive, where they would like to, in effect, make new obligations.

Senator CRAPO. If we establish those firm, I guess you would call them rules of law or standards that the panels are expected to comply with, and then you do have an errant panel decision or errant reasoning on a panel, what are some of the ideas that are out there to solve that problem? I mean, what I am getting at is, when a panel just, frankly, blatantly ignores the standards.

Mr. ALLGEIER. Well, of course, that is the reason that we have supported the whole appellate procedure within the WTO, so that you do hope to get a greater degree of consistency and adherence to the standards if you have an appellate body that is a standing body, and therefore can deal with individual panels. Senator, it is not an easy thing to fix.

Senator CRAPO. You face the same problem at the appellate level.

Mr. ALLGEIER. Yes. I mean, the advantage there is that you have a standard pool of members of the appellate body so you can have a greater degree of consistency in different circumstances than individual panels would provide.

But as I said, it is not an easy thing to do. We think, by highlighting this issue also and bringing it out into the open, it also can help make panelists more sensitive to it.

Senator CRAPO. Well, I certainly do appreciate the attention that you have given to it and the effort there. I am hopeful that a strengthening can be achieved. Certainly if we can all operate under the same rules and expect to have objective and unbiased application of those rules, it will tremendously help us.

Mr. ALLGEIER. I agree.

Senator CRAPO. Thank you very much.

Senator THOMAS. Thank you, sir.

I have one more sort of parochial question I would like to ask you. It has to do with global soda ash. The United States has about a third of the global production. Most of it—80 percent, by the way—is exports from Wyoming.

It has long been a sector that was specifically targeted for a zero-to-zero global tariff elimination by the government in a number of different meetings: with the executive branch, the WTO Doha Round, and the Finance Committee. So, the industry has long supported that.

Considering the high level of tariffs and the movement of tariffs in China and artificial soda ash in Brazil and so on, does the administration have a plan to address the longstanding issue of zero-to-zero on soda ash?

Mr. ALLGEIER. Yes, Senator. It is true that soda ash has long been, and continues to be, a priority area for us. I think that is visible in the various bilateral free trade agreements we have negotiated. For Morocco, Australia, Singapore, Chile, CAFTA, Bahrain, Oman, we were able to negotiate immediate duty-free for soda ash in all of those agreements.

Multilaterally, we have been consistently seeking a sectoral agreement in chemicals, which of course would include soda ash. What we are looking for there would be to eliminate tariffs in chemicals, including soda ash.

I think the more that we have countries that are signing on duty-free through our FTAs, that that should help us in building a coalition that sees it is in its interest to do that elsewhere.

In fact, we have had strong support from the International Coalition of Chemical Associations, and that includes not only developed countries that you would expect, Canada, U.S., Europe, Japan, but also Mexico and the Mercasur countries. We will continue to push that.

Senator THOMAS. Well, thank you, Mr. Ambassador.

We are going to move on to the rest of the panel. We certainly look forward to working with you. A number of us plan to be in Hong Kong, and I hope that we can be helpful there, and are looking forward to it.

Mr. ALLGEIER. We look forward to your support there, and leading up to it, too.

Senator THOMAS. Good. All right. Thank you, sir.

Mr. ALLGEIER. Thank you very much.

Senator THOMAS. All right.

Let us move to our number two panel. Mr. Jim Jarrett, vice president, Intel Corporation; Mr. Craig Lang, president, Iowa Farm Bureau Federation; Mr. Jeffrey Shafer, vice chairman, Global Banking, Citigroup; and Mr. Ed Gresser, director of Trade and Global Markets, Progressive Policy Institute.

Gentlemen, thank you. As I mentioned, your full statements will be made part of the record. We will try to see if we can hold to about 5 minutes apiece and get the story out in that way.

Mr. Jarrett, would you like to begin, sir?

**STATEMENT OF JIM JARRETT, VICE PRESIDENT, WORLDWIDE
GOVERNMENT AFFAIRS, INTEL CORPORATION, SANTA
CLARA, CA**

Mr. JARRETT. Mr. Chairman, thank you for the opportunity to appear before you today at this important hearing.

My name is Jim Jarrett. I am vice president of Worldwide Government Affairs at Intel Corporation. I am pleased to testify today on behalf of Intel and the National Association of Manufacturers.

All NAM members, including Intel, are affected directly or indirectly by trade and have a keen interest in the factors influencing our trade and international economic relations.

Our ability to sell products in foreign markets is a critical part of what makes us successful. However, while our industry has grown strongly overseas, we remain committed very much to the United States.

In the case of Intel, for example, 75 percent of our annual sales come from outside of the U.S., but 60 percent of our employees—about 50,000 people—are right here in the U.S. We strongly believe that a successful completion of the Doha Round represents a remarkable opportunity for continued growth and success of the world's economy.

The opportunities for U.S. manufacturers are clear. U.S. exports of manufactured goods last year were \$710 billion. Further trade liberalization should continue to stimulate demand for U.S. products abroad, as we have seen in our sector, information technology.

Our priority in the Doha Round is the liberalization of trade in industrial goods, which is dealt with through the non-agricultural market access negotiations, also known as NAMA.

Manufactured goods account for over 70 percent of world merchandise trade, and 87 percent of America's total merchandise exports. Semiconductor industry exports specifically are the leading U.S. high-tech industry export, reaching \$48 billion in 2004.

WTO NAMA negotiations should aim at achieving the broadest and deepest possible reductions in tariffs and non-tariff barriers to trade. We believe there are three critical components to achieving these objectives.

First, governments must agree on an aggressive tariff-cutting formula that would significantly cut applied tariffs. We have submitted for the record detailed suggestions on the formula and priority markets for tariff cuts. The NAM could not support an agreement that does not reduce bound tariff rates significantly lower than the tariffs actually applied to our manufactured products today.

Second, sectoral negotiations should proceed on a parallel track. This would significantly complement the broad formula discussions by allowing countries to agree to completely eliminate tariffs in specific sectors.

This was the approach taken in the 1994 information technology agreement, in which countries accounting for over 90 percent of world trade in IT products agreed to eliminate their tariffs in our sector.

This round offers us the opportunity to consider a sectoral negotiation in electronics that would build on current ITA commitments and further eliminate tariffs on new electronics products.

Finally, we must consider measures to address the growing number of non-tariff barriers to trade. Non-tariff barriers such as conformity-assessment requirements have been rising in importance as trade-distorting factors. As tariffs are eliminated, non-tariff barriers have the potential to dangerously erode the benefits of trade liberalization.

NAM and Intel's key interest in the Doha Round is to achieve an ambitious outcome in the non-agricultural market access negotiations. We know, though, that such a result is not possible without a far-reaching agricultural agreement that sharply cuts agricultural subsidies and other market access barriers.

We are extremely pleased with the bold agricultural proposal recently announced by U.S. Trade Representative Portman in Zurich. As the world's top-trading nation, the U.S. must continue to take a leading role in the negotiations to complete the Doha Round.

At this time, however, additional political leadership is needed from other WTO members, for we are at a critical stage in the negotiations leading up to the Hong Kong ministerial in December.

Mr. Chairman, the NAM, Intel Corporation, and the newly-created American Business Coalition for Doha look forward to continuing to work with you to ensure that our important objectives are realized in the final outcome of the Doha Round.

Thank you, Mr. Chairman.

Senator THOMAS. Thank you.

[The prepared statement of Mr. Jarrett appears in the appendix.]

Senator THOMAS. Mr. Lang?

**STATEMENT OF CRAIG LANG, PRESIDENT, IOWA FARM
BUREAU FEDERATION, WEST DES MOINES, IA**

Mr. LANG. Yes, sir. Thank you very much for the opportunity, Mr. Chairman, to present on the part of the American farmer and rancher to this committee.

I am Craig Lang, a fifth generation farmer from Brooklyn, Iowa and president of the Iowa Farm Bureau Federation. I currently serve on the American Farm Bureau Federation board of directors, and I am a member of the American Farm Bureau Trade Advisory Committee.

The points about the importance of world trade that I will discuss with you today are Farm Bureau policy; however, I want you to know that, as a dairy farmer and as a crop farmer of both corn and soybeans in Iowa, I believe that the World Trade Organization is the best way to ultimately settle world trade differences.

The Farm Bureau believes that the WTO is important to the future of agriculture in the United States and around the world. The trade negotiations, standards setting, and dispute-settling functions of the WTO strive to provide a stable and predictable world trading environment for U.S. agriculture, and for agriculture producers in other places on the globe.

With a production of one-fourth of the U.S. cropland destined for foreign markets, U.S. agriculture is strongly export-dependent. Our farmers and ranchers know that the best place to receive the end price for the crops we raise and the livestock we nurture is at the marketplace.

A marketplace void of the ability to export our goods will lead to higher consumer prices and higher risk in our ability to provide consumers around the world with the highest quality of goods.

From a local perspective, export markets are crucial for the Iowa farmers I represent. Iowa exports more than a billion dollars of corn and soybeans each year. On top of that, Iowa's \$3.7 billion in total agriculture exports represents about one-third of our total farm production.

The \$3.7 billion is made up of about half of our soybean crop, a fifth of the 2 billion bushels of corn we raise, and a tenth of the pork and beef we grow on our farms.

If you want an example of how important trade is in establishing prices for farmers, we can look at Hurricane Katrina and how it affected the farm prices we received up the river on the Mississippi when our corn exports were stopped because of damage to the Mississippi River. We lost 50 cents per bushel on our corn price overnight, and have still not recovered. This is a concrete example of what exports mean to U.S. agriculture.

Because exports are so critical to U.S. agriculture, we must have a structure to address the many trade-related issues before the U.S.

The 148-member WTO operates to provide that structure through a rules-based environment for continued growth in markets for America's farmers and ranchers. At this time, it appears that the WTO is our best chance at resolving differences in global trade.

The recent discussion around the U.S. proposal of October 10 has given direction to the current WTO agriculture negotiations. I might add that our farmers are kind of excited about the opportunity.

The proposal, which seeks to achieve meaningful market access through major reductions in tariffs while reducing spending on trade-distorting domestic support programs, incorporates a crucial linkage between these major areas.

Real trade reform must include substantial, ambitious, and quantifiable expansion in access to market. We recognize that, to achieve a successful outcome, the U.S. must do its share in reforming trade-distorting domestic support programs, while developed and developing countries must do their share in expanding market access opportunities.

The Farm Bureau will continue to weigh the outcomes of these negotiations to determine if they provide an overall economic benefit to U.S. agriculture.

The negotiations over market access and domestic support must be directly linked for any substantive agricultural trade liberalization. While the U.S. is able to use domestic programs to assist producers, most nations use high tariffs.

World agricultural tariffs average 62 percent, but many tariff lines exceed 100 percent to provide import protection for agricultural producers. Like I mentioned earlier, ours is 12 percent.

Both mechanisms of support tariffs and domestic programs need to be addressed together to achieve successful negotiation.

In conclusion, the Farm Bureau believes completion of a successful WTO Doha agricultural negotiation is the best way to achieve

progress in a wide variety of international agricultural trade concerns.

As a farmer, I am certain the American farm and ranch community can be competitive in a global market. I am confident of this, but only if we have fair and unrestricted access to markets we have been denied in the past because of unfair trade barriers.

A final agreement must build on our July, 2004 Framework Agreement, which calls for substantial improvement in market access, trade-distorting domestic support, and export competition.

The U.S. proposal adds the specifics necessary to have a successful WTO ministerial meeting in Hong Kong in December of 2005, and we are going into that meeting optimistic. Thank you.

Senator THOMAS. Thank you.

[The prepared statement of Mr. Lang appears in the appendix.]

Senator THOMAS. Mr. Shafer?

STATEMENT OF JEFFREY SHAFER, VICE CHAIRMAN, GLOBAL BANKING, HEAD OF ECONOMIC AND POLITICAL STRATEGIES, CITIGROUP, NEW YORK, NY

Mr. SHAFER. Thank you, Mr. Chairman, for the opportunity to testify today.

I am speaking on behalf of the Coalition of Services Industries, the CSI, which is the leading business organization dedicated to the reduction of barriers to U.S. services exports.

Our overriding objective is to obtain commercially significant trade liberalization in the WTO for services trade. By services trade, I mean financial and payment services, express delivery and logistics, telecommunications, energy services, computer and related services, travel and tourism, audiovisual services, and accounting and legal services. It is a broad spectrum.

We believe such liberalization is a vital U.S. national interest, and we also believe that it will contribute to the economic modernization and growth in emerging markets.

Along with agriculture and goods, services is one of the three main pillars of negotiation in the Doha Round, so you will have heard from all three pillars here this afternoon.

The services sector represents the largest part of U.S. employment and of economic output, and the U.S. is also the world's largest services trader.

But the attention accorded to services in the trade negotiations, at least until recently, was not equal to that of the other two pillars. WTO members' participation in the Doha Round services negotiation has been uneven and generally weak, and the talks are far behind schedule as a result.

There are several reasons for this, and I go into some detail in my prepared statement, but just let me hit the main points.

First and foremost, an agricultural breakthrough is the key to the entire Doha Round undertaking. Without this, nothing else will happen. In that regard, we strongly supported Ambassador Portman's bold proposal in Zurich earlier this month, and we were disappointed by the EU's response to date.

Second, U.S. business needs a new business travel facilitation program. A number of important trading partners have made it clear that their willingness to liberalize in our priority sectors is

dependent on the willingness of the United States to discuss business travel facilitation.

This is also an important issue for us because existing programs simply do not meet our own company's needs in our capacity to provide services.

The third point is that a group of developing countries has advocated an emergency safeguard mechanism for services. There are a number of problems with this concept, and the U.S. has, until now, taken the position that it is not feasible for services. But the demanders have taken a firm line, and they are unlikely to abandon this demand. We in the CSI believe it is possible to respond without sacrificing core U.S. interests.

The fourth point concerns the incentives to negotiate. There is a fundamental problem in the services negotiations, because there have been insufficient incentives for members to negotiate.

In some countries, there is simply no domestic constituency advocating liberalization, despite the gains that are there for those countries. Some developing and less-developed countries just simply do not understand how much they might benefit from liberalization, or they do not have the resources to identify what their own export services potential is.

Finally, a point that Ambassador Allgeier stressed, services negotiations are based on a challenging request-and-offer process, which is adapted from goods negotiation. It requires multiple intensive negotiating sessions.

Unfortunately, this process has so far not gained traction in the Doha Round. For this reason, a number of member countries have advocated complementary approaches that would supplement this process with benchmarks or guidelines for scheduling.

There are flaws in this approach, but it may help to generate some momentum, so long as the dialogue on complementary approaches does not become a distraction that keeps us from seeking liberalization, which is the ultimate objective.

As the one-time U.S. negotiator for financial services in the Uruguay Round, I can tell you that there are no magical shortcuts to the negotiation process that will bring a solution. It takes hard work.

What is needed is leadership by the United States, working with others who are committed to a successful round—and there are others who are—in order to make meaningful progress in services.

In conclusion, without a decisive push by the U.S. and other key WTO members, the Doha Round could reach a point where, even if agreement is reached on agricultural liberalization, there simply will not be sufficient time left to address services adequately before the round's scheduled conclusion. Resources and energy must be directed immediately to avoid this outcome and to achieve a successful conclusion in the services negotiations.

Mr. Chairman, the issues cited above may require some concessions by the United States. These have been offered in agriculture and they can be offered, we believe, without any sacrifice of vital U.S. interests in the areas of temporary entry and safeguards.

Continued demonstration of U.S. willingness to engage is the best way to elicit the needed offers in the sectors of greatest com-

mercial value to our service industries. We, therefore, need the support of Congress in these areas.

In addition, we need clear signals from Congress that services liberalization is a critical U.S. interest and that no agreement without this is acceptable. With these elements, we will be in a very good position to press priority countries for substantial liberalization.

An important message that must be continually emphasized is that services liberalization is, first and foremost, in the interest of the liberalizing country.

Services such as banking and insurance, telecommunications, transportation and logistics, legal and accounting, and others form the infrastructure essential to economic development and are, therefore, crucial to other areas of the economy.

Countries need to stop viewing services as something to trade off. Because services are what makes economies work, services liberalization also serves the interests of U.S. farmers and goods exporters by fostering strong markets abroad.

Failure to negotiate commercially meaningful commitments for services would mean that opportunities would be lost for both U.S. services providers and for countries that fail to modernize their services trade.

The U.S. services sector could not support a Doha Round outcome that failed in this respect. We would, however, enthusiastically support a conclusion of the round that moves significantly forward in liberalizing services.

I thank you for your time, Mr. Chairman, and would be glad to answer any questions you might have.

Senator THOMAS. Thank you.

[The prepared statement of Mr. Shafer appears in the appendix.]

Senator THOMAS. Mr. Gresser?

STATEMENT OF ED GRESSER, DIRECTOR, TRADE AND GLOBAL MARKETS, PROGRESSIVE POLICY INSTITUTE, WASHINGTON, DC

Mr. GRESSER. Thank you very much, Mr. Chairman.

Ambassador Allgeier set out the goals of the U.S. very capably, and my colleagues on the panel have dealt in a lot of depth with manufacturing, with agriculture, and with services.

Let me, as an analyst, try to complement their presentations with a bit of background, essentially on three points: one, the WTO's origins and its role in American policy; two, the work it has left undone and the new issues it needs to address; and three, the place of the Doha agenda in both.

The first point. The WTO, though a new institution, is the expression of an American policy now entering its 7th decade. President Roosevelt defined its purpose in launching the first multilateral trade negotiations in 1945, which is the direct ancestor of today's WTO system.

He believed that the closure of the world economy in the 1930s had not only prolonged the depression, but intensified the era's political tensions. He believed that reopening trade could not only spark growth, but give the great powers a greater stake in one an-

other's security and prosperity, and so create a stronger basis for what he called "the secure and peaceful world we all desire."

Sixty years later, after 12 multilateral trade agreements and expansion of the system from 23 countries to the 148 members of the modern WTO, his view still seems right. Trade has grown rapidly, from 7 to 25 percent of the U.S. economy, and 11 to 45 percent of the global economy. This has brought stress and dislocation with it, but large benefits as well.

As the world's largest importer and largest exporter, the U.S. is a leading beneficiary of the open and stable global economy that the WTO helps guarantee. The world generally is wealthier, is more able to handle economic shocks like the Asian financial crisis of 1997 to 1999, and, at least among great powers, wars and crises seem to have become rarer as the stakes in one another's security and prosperity grow.

The second point. These 12 agreements have left much undone. New issues have also emerged, from technological change and the evolution of geopolitics, from development and from the concerns of civil society. The Doha Round is a chance to address some of them, and the Hong Kong ministerial a critical juncture in it.

Some of these issues reflect American export interests, which are important at any time, but perhaps especially now. Agriculture has been dealt with in detail.

In a world of \$600-billion-plus in food and agricultural trade, the OECD estimates there are \$300 billion worth of trade-distorting subsidies, tariffs, quotas, and other policies. This makes agriculture a central concern, not only for the U.S., but for many countries. The offer that Ambassador Portman has put together really does deserve some applause.

Services, a newer issue for the trading system, is accelerating rapidly with the information technology revolution, and may be the largest long-term U.S. export opportunity. Services exports are now \$300 billion and, based on the trends of the last 15 years or so, are on a pace to match exports of manufactured goods and other merchandise by the 2020s. For manufacturing, as well, many barriers remain, especially in the large, middle-income, and developing states.

Perhaps a bit more controversially, the Doha agenda is a chance to reform parts of our own trade regime. An example I would like to highlight is the oldest element of our trade policy, which is the tariff system.

Over the years, without much attention, this has quietly evolved into the most regressive element of our tax system, and to a trade policy that is toughest on the poorest.

A major fact that emerges from even a cursory look at tariff collection is that over half of tariff revenue comes from life necessities: shoes, clothes, food and basic household goods.

Fully \$9 billion of last year's \$22 billion in tariff revenue came from shoes and clothes alone. For context, cars, steel, semiconductor chips, and airplanes, together, raised only \$2 billion, barely a quarter of what shoes and clothes raised.

This is because most of the post-war trade agreements exempted these products, along with other cheap and simple household goods, from tariff cuts, or touched them only lightly, so they retained tar-

iffs 10, 20, and sometimes 30 times those in other goods, even as employment in these industries has waned.

Furthermore, the cheap goods bought by poor people are systematically taxed at higher rates than the luxury goods bought by wealthy people.

The case of cheap sneakers is an extreme, but an illustrative case. These goods carry our highest non-agricultural tariff rate, 48 percent, which is not only passed on to consumers, but is magnified by retail markets and sales taxes. None are made in the U.S. at all, and none have been made in the U.S. since the 1970s. While this is an extreme case, it is not an exceptional one.

An acrylic sweater, for example, carries a 32 percent tariff; a cashmere sweater, 4 percent. A silver-plated fork has no tariff, and a very cheap stainless steel fork, 20 percent. A polyester shirt has a 32 percent tariff, and a silk shirt, 0.9 percent. You can track all the way through—luggage, clothes, shoes, many of these basic household goods that families buy—and you will find a very similar pattern.

This makes the tariff system exceptionally tough on poor families with children in the United States, above all on single mothers, whose bills for clothes, food, and shoes are highest compared to salary.

Overseas, it has a similar effect. One finds that Cambodia is hit harder than any other country in the world by American tariffs, with an average tariff rate on the goods they sell us of about 16 percent, while the average rate for the world is 1.6 percent.

Pakistan, Nepal, Mongolia, Sri Lanka, and Bangladesh are very close behind. To give an actual set of numbers, we routinely collect more money on \$2 billion worth of hats, tee shirts, sweaters, and pajamas from Bangladesh than on \$30 billion in French planes, medicines, computers, wines, and so forth.

Thus, I think the proposal that the administration made in 2002 for worldwide elimination of industrial tariffs is not only good for American exporters, but will also serve as an effective reform of American tax policy in the interest of the poor and help some of the poorest countries in the world, in Asia and the Muslim world in particular, to grow, develop, and create a better life of their people.

The last point. The Doha Round is, of course, not the only vehicle for trade policy. Some issues, like Airbus subsidies or Chinese intellectual property rights, are questions of implementation rather than negotiation of new commitments.

Other issues are basically regional, while, at least in the short run, reducing the trade deficits and imbalances requires more domestic and international finance than trade negotiations.

But the Doha Round is rightly placed at the center of trade policy. It is the only negotiation involving all of our major trading partners—Europe, Japan, China, the Indians and Brazils of the world, Mexico and Canada—and covers 96 percent of U.S. trade, whereas the FTA program, implemented since 2000, covers about 9 percent of U.S. trade.

The Doha Round is also the main hope for systemic reform of issues like agriculture and services. It is thus the major opportunity we have, both to secure specific trade objectives like those

my colleagues have mentioned, and to serve the large goals highlighted by Roosevelt and each president since the 1940s: broadly shared global growth, rules that provide stability in crisis, and an integrated world economy that eases political relations among the great powers; in effect, its ability to serve as a foundation of the secure and peaceful world we hope to see in this century at least.

Thank you very much.

[The prepared statement of Mr. Gresser appears in the appendix.]

Senator THOMAS. Thank you very much. I have a couple of questions for you to answer.

I understand what you are saying, but if you wanted to take off the tariffs we have on tee shirts coming in, could we expect other people to take them off on the things we export?

Mr. GRESSER. I would hope we would be able to do that.

Senator THOMAS. So you are looking for a balance between the two partners.

Mr. GRESSER. I think the best way to fix this problem is through a multilateral agreement that commits all countries.

Senator THOMAS. All right.

Mr. Shafer, you mentioned in your statement about having qualified foreigners come into the country. Do you distinguish this from our current debate on changing immigration laws to allow more entrants or temporary workers from Mexico?

Mr. SHAFER. It certainly is different from the temporary workers. We are talking about business people. We are talking about staff at Citigroup to come to New York for training and go back to where they came from.

Senator THOMAS. Legally, I presume.

Mr. SHAFER. It would be legal. It would be sponsored by the firms that have the employees.

Senator THOMAS. I see. Got you.

Mr. Lang, in order to fit into what is being talked about, there would be a substantial reduction in agriculture subsidies and export subsidies.

Mr. LANG. Correct.

Senator THOMAS. You are saying, if it is balanced, that agriculture folks would be acceptable to that.

Mr. LANG. Yes. As I said, we believe the American farmer and rancher can be competitive if they have access to a world market, and we can reduce those barriers to trade our products today.

I think, as we look at the realities ahead of us with the next farm bill discussion, the deficit, the war, the hurricanes, farmers are preparing themselves for less direct support from the Federal Government.

Senator THOMAS. Yes.

Mr. LANG. To go along with that, we need market access, because it does not make sense to cut our competitive nature.

Senator THOMAS. I see.

I wonder—and I know this is not easy because it is a broad topic—if you could take 10 seconds to say what would be your highest priority in this market negotiation that we are going into, either just generally or from your industry. What do you think is the most important single issue?

Mr. Jarrett?

Mr. JARRETT. I think it would be improvements in the formula, the tariff-cutting formula, getting the bound rates down very substantially.

Senator THOMAS. So them giving some, us giving some, trying to get more commonality. All right.

Mr. Lang?

Mr. LANG. Market harmonization through liberalization of trade issues.

Senator THOMAS. All right.

Mr. Shafer?

Mr. SHAFER. Market access and transparency, principally in the very fast-growing, emerging markets.

Senator THOMAS. All right. Very good.

Mr. Gresser?

Mr. GRESSER. I do not think I have that much to add, but I think a general commitment by the major economies of the world, including the relatively advanced middle-income and developing countries.

Senator THOMAS. Give me a 1 to 10 idea of our opportunities in this meeting. Are we going to be a 10, which is good, or a 1?

Mr. JARRETT. Well, depending on how well we do in the agriculture area, I think we could have somewhere between a 5 and 10 on the NAMA negotiation.

Senator THOMAS. All right.

Mr. LANG. I am going to say it has to be an 8. It cannot be any worse than Cancun. [Laughter.]

Senator THOMAS. No. That was a 2. It was a 2. All right. Good. That is positive.

Yes, sir?

Mr. SHAFER. I think forecasting the outcome is not fruitful, but saying that there is still the possibility of having a very good outcome, an 8, 9 or 10, and that we have to work and hold other people's feet to the fire to get there.

Senator THOMAS. Great.

Yes, sir?

Mr. GRESSER. I would say, 7 to 8. I do not think countries will give up everything when they know the round will go on another year or so, but I think the chances are there for a very good outcome.

Senator THOMAS. Well, we certainly appreciate it. I think it is going to be very important that all of us, in our various roles, participate and bring to our negotiators as much support as we can, as much information as we can, so that this does work out. It is a difficult task, there is no question about that.

On the other hand, as I indicated to the Ambassador, it seems to me we are in a pretty strong position, and we ought to flex our muscles a little bit and try to make it work.

A vote is about to begin. We really appreciate you coming. Please stay engaged with us and work through this situation to accomplish success in Hong Kong.

Thank you very much. The committee is adjourned.

[Whereupon, at 3:10 p.m., the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. PETER ALLGEIER

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.

Market Access

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:

- Progressive tariff reduction: Developed countries cut their tariffs by 55-90%. Lowest tariffs are cut by 55%, with cuts ranging to 90% for highest tariffs.
- Tariff rate caps: 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 unmistakably 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 agriculture 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-understanding" 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.

QUESTIONS FOR THE RECORD

**United States Senate
Committee on Finance
Subcommittee on International Trade
Hearing on "The Status of WTO Negotiations"
October 27, 2005**

Questions from Senator Baucus for Ambassador Allgeier

Question 1:

Ambassador Allgeier, services industries account for 8 in 10 American jobs and 80 percent of our economy. At the same time, the services negotiations don't appear to have made much progress.

How can we make real progress in services negotiations?

What is your honest assessment? Can we make progress in the services talks without being able to make concessions on temporary entry, the so-called Mode 4 provisions?

Answer 1:

The fact that there has been little progress in the services negotiations does not necessarily reflect a problem with services. The greatest challenge in the services negotiations to date has been the refusal of a large number of other countries to come to the table until they see a meaningful sign of progress in the agriculture negotiations. Once this impediment is overcome, we believe we can make real progress by establishing an ambitious work agenda for next year that includes new approaches designed to accelerate progress.

The new approaches we have in mind include setting overall quantitative targets to encourage Members to come forward and negotiate over a broader range of services; and then launching sector-specific negotiations to focus on achieving progress from a critical mass of countries in key sectors of interest, including telecommunications, computer, financial, energy, express delivery and distribution services. These approaches would complement the ongoing bilateral process, through which we will continue to meet individually with our trading partners to emphasize our individual priorities.

Regarding U.S. concessions on temporary entry or Mode 4, this is indeed a very important issue in these negotiations. Our negotiating team has received requests from virtually every other delegation for new and/or improved commitments in this area, indicating that this is a very high priority for our trading partners. The focus of these requests principally concerns improvements in U.S. commitments on high-skilled contractual service suppliers and independent professionals, as well as an increase in the current low cap for the H1-B program.

We have repeatedly pointed out to our trading partners that existing U.S. commitments on temporary entry are already relatively robust. Nevertheless, if we decline to honor the most

important requests of others, this undoubtedly will affect how others respond to our requests, particularly those in areas of unique interest to the United States.

Question 2:

Ambassador Allgeier, as you know, the Trade Act of 2002 requires the administration to preserve the integrity [of the] trade remedy laws.

From my perspective, it seems to me that the so-called “friends of antidumping negotiations” – Japan, Korea and others – are more passionate in their attack of our trade rules [than] the United States is in defending them.

Am I wrong?

Can you assure us that you will abide the Trade Act of 2002 in negotiating trade remedy rules, and will not weaken those key laws that serve as a last defense for American industry?

Answer 2:

I am strongly committed to fulfilling the mandate of the Trade Act of 2002 to preserve the ability of the United States to rigorously enforce its trade laws. I share your belief that strong and effective remedies against unfair trade practices are essential to ensure that the benefits gained from trade liberalization are not undermined. We must continue to enforce vigorously the trade laws on the books so that American businesses and workers are competing on a level playing field.

The United States is pursuing an aggressive affirmative agenda seeking to ensure that our trade laws remain strong and effective, to address the unfair trade practices of others, and to promote greater transparency and due process in foreign trade remedy proceedings so that U.S. exporters are treated fairly. We have been very active in the WTO Rules negotiations, tabling a number of ambitious proposals to further our objectives. For example, we have submitted proposals to strengthen disciplines on subsidies, as well as to address concerns with circumvention of trade remedies and abuse of “new shipper” reviews. We have also tabled proposals to address issues arising from WTO dispute settlement reports, such as zeroing, distribution of collected antidumping/countervailing duties, and injury determinations, among others. Our papers have also raised specific Trade Promotion Authority objectives such as the need to address the unique issues associated with perishable/seasonal agricultural products, and the differing treatment of direct and indirect taxes.

As part of our aggressive strategy, we have tabled detailed new proposals at the most recent WTO Rules meetings. At the September 2005 meeting, we tabled a proposal on the critical issue of the causation standard in injury determinations, as well as a paper highlighting our objections to certain proposals tabled by other Members, including the “friends of antidumping negotiations.” At the October 2005 meeting, we tabled a proposal designed to strengthen our ability to address the problem of circumvention of trade remedy orders. We are working on tabling additional proposals at upcoming meetings to further our strategy. I look forward to working with you to determine how best to advance these proposals, and to ensure that our trade laws remain strong and effective.

Question from Senator Santorum for Ambassador Allgeier

Question 1:

Ambassador Allgeier, I recently wrote the Office of the United States Trade Representative (USTR) to urge that our trade negotiators make reduction of coffee tariffs a priority - both in the WTO negotiations and in negotiations for bilateral free trade agreements. Please give me an update of your strategy for reducing coffee tariffs as a part of the WTO negotiations.

In addition, I am hearing reports that both Colombia and Panama are seeking to exclude coffee from their trade agreements with the United States by using restrictive rules of origin. I know that USTR opposes exclusions. Can you ensure this Committee that coffee will not be carved out of upcoming free trade agreements?

Answer 1:

In the WTO negotiations, we continue to press for a very ambitious general tariff reduction formula to be applied to all products, including coffee. A strong formula will be a critical component to reducing coffee tariffs globally, and it may be supplemented by subsequent and more specific discussions on issues such as tariff escalation, tariff simplification, and tropical product liberalization.

Regarding the rules of origin for coffee in the ongoing Panama and Colombia FTAs, we agree that coffee should not be excluded from the agreement through the use of restrictive rules of origin. With respect to both of these ongoing negotiations, U.S. negotiators are advocating rules of origin that have been developed in close consultation and coordination with the National Coffee Association ("NCA") and its member-companies.

I would note that in the recently concluded U.S. – Peru Trade Promotion Agreement, as a result of thorough consultations with all U.S. stakeholders (primarily NCA and its member-companies), the United States and Peru agreed to a rule of origin for roasted coffee, which allows a certain annual quantity of raw Arabica beans from anywhere that are roasted in the United States to be deemed "originating" and, therefore, eligible for preferential tariff treatment under the Agreement when exported from the United States to Peru. This rule of origin is called a "roasting rule" because the roasting of the raw, non-originating coffee confers eligibility for preferential tariff treatment under the Agreement. The roasting rule benefits U.S. coffee processors and retailers whose businesses rely on proprietary blends of Arabica coffee, which contain Arabica beans from a variety of countries. This rule of origin will enable U.S. retailers to export their proprietary Arabica blends to Peru under preference, creating important export opportunities for U.S. coffee roasters and retailers in an important coffee-consuming country.



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

Statement of Senator Charles E. Grassley
 Senate Finance Subcommittee on International Trade Hearing on
 The Status of World Trade Organization Negotiations
 October 27, 2005

Today's hearing on the status of World Trade Organization negotiations provides an important opportunity to examine the status and direction of the Doha Round. This is a particularly auspicious time to review these negotiations -- in just over six weeks trade ministers from around the world will converge in Hong Kong, China, for the Sixth WTO Ministerial Conference. Most participants agree that this Ministerial meeting presents a "make or break" opportunity for the success of the Doha Round. If sufficient progress can be made in Hong Kong on agriculture, services, and non-agricultural market access, there is a strong possibility that the Doha Round of trade negotiations can conclude before Trade Promotion Authority (TPA) effectively expires in early 2007. If progress is not made, I am afraid that any real hope of concluding the round within the time frame set by TPA will be lost. Should this occur, the world may well have squandered a once in a generation opportunity to expand trade, open new markets, and improve the standard of living for millions of people around the world.

The stakes are high. The World Bank estimates that the elimination of global trade barriers could lift 300 to 500 million people out of poverty over the next 15 years, with a large percentage of that gain going to developing countries. Elimination of global barriers to trade in goods and services could increase annual incomes for the average U.S. family of four by \$7,800. But, these gains will not be achieved without an ambitious agreement, one that entails real market liberalization for developed and developing countries alike. Given events over the past few weeks, I can't say that I am optimistic.

Earlier this month Ambassador Portman made a bold and meaningful offer to our trading partners in an effort to jump-start the agriculture negotiations--open your markets to our agricultural exports and we will substantially reduce our trade distorting domestic support. The initial reaction to this good faith offer was underwhelming. Some of our trading partners, particularly the European Union, complained that the proposal to cut domestic support was too ambitious. The European Union also joined others, such as Japan and India, in complaining that our market access proposal went much too far, indicating that they have little zeal for true market opening. And some, who had been holding out on making offers in non-agricultural market access and services until we demonstrated good faith in reducing our trade distorting domestic support, have yet to make any meaningful offers. And, the clock is ticking. With just a few weeks until the Ministerial meeting in Hong Kong, we need to see progress very soon. If progress is not made, I would seriously question whether our trading partners have the desire or political will to achieve a meaningful round of negotiations.

During the 5th Ministerial in Cancun, Mexico, I laid out detailed goals for what I expect these

negotiations to achieve. Two years later our goals are much the same. In agriculture, we must achieve substantial improvements in market access. Today, the average bound tariff in the WTO for the United States is 12 percent compared with an average bound tariff of 62 percent for the world as a whole. Some countries, such as India, have bound agriculture tariffs of 114 percent.

A similar pattern is found when we look at applied agricultural tariffs. According to a 2005 World Bank report, the U.S. trade-weighted average applied tariff for agriculture and food products is 2.4 percent. The average applied tariff for Brazil is 5 percent, for South Africa is 8.8 percent, for Europe and Mexico is over 11 percent, for Thailand is 29.7 percent, for Japan is 34.6 percent, for India is 50.3 percent, and for Korea is 93.9 percent. These disparities must be addressed. At the end of the day, there must be real cuts in both bound and applied agricultural tariffs. Any proposed agreement that does not fulfill this objective will not be supported by the U.S. Congress.

Negotiators must also make it a top priority to reduce and harmonize domestic levels of support. The United States is currently at a significant disadvantage in this area compared with many other nations. The European Union is currently able to provide over \$60 billion annually in trade-distorting domestic support. This amount is over three times the \$19 billion limit of the United States. Japan also maintains much higher levels of trade-distorting domestic support than we do. To correct this imbalance, countries with higher levels of trade-distorting domestic support must make larger cuts in their subsidies compared to other countries. We also need to reduce, and ultimately eliminate, all forms of export subsidies.

To date, agriculture negotiations in the WTO have focused on the necessary contributions that developed countries must make to achieve success in the round. But, as I said before, the success of this round is a shared responsibility. Thus, all nations, developed and developing alike, must make significant and meaningful contributions to global market liberalization. In fact, I believe some developing nations, especially those with highly sophisticated agricultural sectors like Brazil, should contribute more than others. The fact is, Brazil's producers of commodities can and do compete effectively on the global market. Many Brazilian farms are between 30,000 and 200,000 acres in size, and one Brazilian farm -- at one million acres -- is 50 percent larger than the state of Rhode Island. Providing the same degree of special and differential treatment in agriculture to developing countries with first-rate, internationally competitive agricultural sectors like those found in Brazil is unwarranted. To do so would be unfair to the large number of other lesser developed countries whose farmers truly merit special and differential treatment.

On non-agricultural market access, we need an ambitious formula, one that will lead to real cuts in both bound and applied tariffs. Like in agriculture, the disparities between the United States and the rest of the world are glaring. The average U.S. bound tariff is 3 percent. The average worldwide WTO bound tariff is 30 percent. Again, these disparities must be eliminated. I also expect the final agreement to contain a strong sectoral component, so our workers can begin to reap the benefits of liberalization quickly. Finally, we need to address the elimination of non-tariff barriers to ensure that the gains achieved by tariff elimination are not undermined.

Trade in services is an increasingly important factor in the world economy. In the United States, over 40 million jobs have been added in the services sector over the past twenty years. And, with sufficient worldwide liberalization in services, more opportunities will abound for U.S. workers. Some researchers estimate that the world would realize a \$1.4 trillion gain in income if service barriers were eliminated. To date, negotiations have been fundamentally stalled, primarily due to

the unwillingness of our trading partners to make any meaningful offers. It would not take much to show progress here if countries would only commit to bind their current level of market openness. While this is not enough in and of itself to proclaim success, it would be a significant improvement over where we are today.

I hope our trading partners will take advantage of U.S. leadership and put forth meaningful offers in agriculture, non-agricultural market access, and services soon. If not, I fear that this round of negotiations will be near death and very difficult to resurrect in the future. The fact is, the Trade Promotion Authority timetable gives us a limited window to make progress in the Doha Round. If it appears that the negotiations are fruitless, we will pursue our bilateral trade negotiating opportunities vigorously to ensure that we use Trade Promotion Authority to its fullest. Should this round fail, we will all lose. But, the biggest losers will be literally millions of poor people, who will remain locked out of the economic opportunities that a successful Doha Round could bring.

Our challenges today are great, but no greater than those faced by our forefathers. They seized upon their challenges as opportunities. In doing so, they created a global framework to facilitate international trade that helped raise numerous nations out of the ruin and devastation of World War II. I don't think it's too much to say that hundreds of millions, if not billions, of people benefitted from that framework over the last 60 years in terms of a higher standard of living, increased economic opportunities, and greater security against the threat of armed conflict. We face a similar challenge in tackling global poverty today, hence the focus of this round of negotiations on development. But development will not occur in a vacuum. In the absence of meaningful trade liberalization among all nations, developed and developing alike, the goal of fueling increased rates of economic development among poorer nations will be stifled, if not extinguished. And, we are running out of time. The next few weeks will tell whether or not the next generation will be able to look back upon the work of today's global leaders and say that we, too, successfully seized upon our challenges as opportunities. We must do our part to ensure that we fare well in that comparison.

U.S. INTERESTS IN THE WTO AND THE DOHA ROUND

Testimony of Edward Gresser
 Director, Project on Trade and Global Markets
 Progressive Policy Institute

Senate Committee on Finance
 Subcommittee on International Trade
 Thursday, October 27, 2005

Mr. Chairman, Senator Bingaman and Members of the Subcommittee:

Thank you very much for inviting my testimony this afternoon. By way of introduction, I am Director of the Project on Trade and Global Markets at the Progressive Policy Institute, or PPI. PPI is a non-profit think-tank based in Washington, DC, conducting research and policy development in areas ranging from crime and public safety to technology, national defense, foreign policy, health, social policy and other issues. I am honored and especially pleased to testify today, as the Subcommittee has called this hearing at a moment of special importance for American trade policy.

The WTO's Hong Kong Ministerial, scheduled for December 13-18, 2005, marks a key juncture in the Doha Development Agenda – the trade negotiations which began in 2001 and are informally known as the “Doha Round.” These are the first comprehensive trade negotiation since creation of the WTO itself in 1994. Their outcome is of central importance to American trade interests for several broad policy reasons:

- **Export opportunities:** American agricultural producers and services firms are among the U.S.' most competitive exporters, and also those most impeded by trade barriers, subsidies and lack of transparency overseas. Barriers to American manufacturing exporters are lower, but still common in major developing countries. The Doha talks are the best opportunity to address all of them, especially in major markets like the European Union, China, Japan and India.
- **Development and poverty reduction:** The Doha mandate envisions (among much else) broad agricultural reform, and steep reduction or elimination of tariffs in non-agricultural products, including products such as shoes, clothes and other life necessities long excluded from trade negotiations. This can create growth opportunities for poor countries – especially Asian and majority-Muslim states like Afghanistan, Bangladesh, Cambodia, Mongolia, Nepal and Pakistan – and raise living standards for low-income American families.
- **Strategic interest:** A stable and open trading system is important to the U.S. as the world's largest importer and exporter. As a superpower with global security interests, the United States also requires a stable global economy that keeps markets open in the event of financial crisis or supply shock, gives countries a stake in one another's security and prosperity, and thus complements our defense

and foreign policies. A successful Doha Round will help secure these interests, while a deadlock may put them in question.

The Doha talks gain added importance in an environment which mixes rapid global growth and trade expansion with considerable pressure on U.S. trade policy. China and India are emerging as powerful competitors to the U.S. and other industrial economies, and global trade and capital imbalances have risen sharply. There is no reason to believe the U.S. cannot meet these challenges, through close attention to the competitiveness of American businesses, commitments to research and education, worker adjustment and skill development, public and private finance, enforcement of existing trade commitments and other measures. But as this proceeds, a strong, rules-based trading system that keeps markets open to U.S. exports, helps us find new sources of growth by enforcing commitments and opening new markets, and creates a more stable global economy is all the more important.

The Subcommittee has thus chosen a very appropriate time to focus attention on the basic purposes and capacities of the WTO, as well as its current negotiating agenda. And before turning to specific issues, therefore, let me begin with some background.

BACKGROUND: TRADING SYSTEM FROM 1945 TO 2005

The WTO is now nearly eleven years old, dating from its creation on January 1st, 1995. Though a relatively young institution, it is only the most recent institutional expression of an American policy now entering its seventh decade – one which, like NATO membership or the UN system, has helped promote growth and keep the peace among great powers since the Second World War.

1. Background 1945-2005

The modern system can be traced back to Franklin Roosevelt's last message to Congress, written in March of 1945. This letter observes that, as the war approached its end, "the point in history at which we stand is full of promise and danger. The world will either move toward unity and widely shared prosperity, or it will move apart." Roosevelt viewed the closure of the global economy in the 1930s as having not only prolonged the Depression, but intensified the political tension of the era. Calling for the opening of the first postwar trade negotiations, the letter terms reintegration of the world economy through trade liberalization a chance to "lay the economic basis for the secure and peaceful world we all desire."¹

The resulting talks led to the first in a series of eight multilateral trade agreements through the GATT system of 1947-1994, and four more recently through the WTO.² Each year, two countries on average have joined the system as the 23 members of the first GATT talks have grown through "accession" negotiations to today's 148 WTO members. Together, the agreements and accessions have meant an ambitious effort, consistent across twelve administrations of both parties, to fulfill Roosevelt's hope.

Sixty years later, the WTO now includes all but one of the world's twenty largest economies, and its members account for 96 percent of global trade. (As well as 96 percent of American imports and 98 percent of American exports.) The proportion will approach 100 percent in the next five years, as most major trading nations still outside the system have applied to join the group – examples range from Afghanistan and Algeria to Ethiopia, Lebanon, Russia, Saudi Arabia, Ukraine and Vietnam – and no country has chosen to leave the organization.

The WTO's issue coverage is almost equally broad. WTO members participate in twenty separate agreements, ranging from tariff policy – where over sixty years, tariffs have dropped by 90% on average among wealthy countries – to farm subsidies, sanitary and phytosanitary standards, industrial subsidies, anti-dumping and safeguards, technical barriers to trade, intellectual property rights, customs valuation, services generally, along with financial services and basic telecommunications in particular.

In more practical terms, the closed economy of the Depression era has long since vanished, with trade growing rapidly in absolute terms and also relative to the American and world economies. (Since 1950, imports and exports have risen from 11 percent to as much as 45 percent of world GDP, and from 7 percent to 25 percent of American GDP.) As this has proceeded, the world's division of labor has become more sophisticated, once-poor countries in Asia and Latin America have developed into modern industrial societies, and living standards risen as the price of goods has fallen.

The political effects are subjective and difficult to judge. It is interesting to find, however, that a study published in October 2005 by the University of British Columbia's Center for Human Security reveals a sharp decline in the number of international wars and crises since 1980. The study observes – as one partial explanation among others, such as the ends of the Cold War and colonialism, and the deterrent capacity of superpowers – that economic incentives for conflict have waned. Most governments believe “the most effective path to prosperity in modern economies is through increasing productivity and international trade, not through seizing land and raw materials,” and that “the existence of an open global trading regime means it is nearly always cheaper to buy resources from overseas than to use force to acquire them.”³

2. The Future Agenda

Nonetheless, the trade agenda remains challenging and full. Some old issues, in particular agricultural trade and light-industry tariffs, remain unsettled despite the series of postwar trade negotiations. New issues, meanwhile, have emerged from geopolitical change, the evolution of technology, development in poor countries and civil society concerns.

The WTO should not be the only option for the U.S. as we address these issues. Some of them, notably the growth of trade and financial imbalances and the competitive challenge emerging from Asian integration, are better suited to a blend of international financial policy, domestic policy, and regional trade policy than to a long multilateral

negotiation. Others, such as inter-American relations, the decline in the Muslim world's share of global trade, and some labor and environmental issues, can be addressed only slowly or partially at the WTO, and require smaller bilateral agreements and preferences programs as well.

Nor is the Doha Round the only option we have at the WTO itself. Some of America's major commercial interests, such as EU subsidies for civil aircraft or Chinese intellectual property rights enforcement, are questions of implementation and enforcement rather than of new commitments. Others, in particular the economic fragmentation and relative decline of the Middle East, will be met at least as much through the accession of new members as through the Doha Round.

But this said, the Doha Round is the central venue for some of America's top priorities and the world's most pressing issues. It is the only forum in which we deal with all the large economies – Europe, Japan, China, India, Brazil and others – that account for most world and U.S. trade.⁴ It is the only forum in which very poor countries can assert their own interests. And it is the only option for dealing with problems – for example overseas farm and fishery subsidies – that require global solutions. Thus the Doha Round is the central forum for some truly major U.S. interests, and for genuinely global trade reform.

The negotiation has been underway for four years. December's Ministerial Conference in Hong Kong, at which WTO members hope to agree on the outlines of agricultural trade reform and make progress on non-agricultural market access and services trade, is a critical point. Success will form a foundation for conclusion of the round next year and ratification in 2007, before the expiration of the Bipartisan Trade Promotion Act and the revisions of the 2002 farm bill. Failure of course will raise questions about the ability of the WTO to address these issues. America's stake in the outcome is profound, whether one hopes to find export opportunities, reduce poverty in the U.S. and abroad, make progress on trade-related environmental matters, or fundamentally strengthen the open, stable world economy that the United States needs.

Let me address each of these points in turn.

U.S. EXPORT OPPORTUNITIES

First, the Round can create badly needed export opportunities for America. While a short-term rebalancing of American trade accounts will require more financial, currency and budget policy than trade policy per se, over the long term the Doha Round can help the U.S. move to a healthier path of export-intensive growth in agriculture, services and manufacturing.

Agriculture: American farmers are exceptionally efficient and already highly successful exporters. A general commitment to reform, including reduction of domestic supports, lower tariffs and relaxation of quotas, should therefore be in the interest of American farmers and ranchers as well as consumers.

American domestic support and export subsidy programs are lower overall than those of Europe and Japan, and lower relative to GDP or agricultural production than those of smaller economies like Switzerland, Norway and South Korea. Supports also do not apply to some major U.S. farm and ranch products, such as fresh produce, fruits and berries, wines, meats and other goods. By contrast, the European Union's Common Agricultural Policy applies to an almost comprehensive range of products. The EU's most recent notification, for example, lists support programs totaling 39.3 billion euros (roughly \$46 billion at current rates) and an almost comprehensive list of forty-nine products. Examples range from 9.7 billion euros for beef to 4.4 billion for butter, 1.6 billion euros for barley, 535 million for cucumbers, 1.9 billion for tomatoes, 195 million for artichokes and so on. This does not include spending in blue-box and green-box subsidy categories. U.S. market access barriers are also relatively low. Agricultural tariff rates on average are well below those of Europe, Japan and major developing-country markets, and the U.S. also retains fewer very high tariffs than most. Fundamentally, in a more open global market American farmers should do better.

The general public as well as producers have an interest in a successful agricultural agreement for several reasons. A healthy farm sector is a major supporter of non-farm jobs, industries like farm equipment and chemicals, and tax bases in rural communities. Lower farm program spending will mean some reduction in budget deficits. Tariff cuts and eased quotas, finally, will bring lower supermarket prices for families in some highly protected areas.

Agricultural reform is the political heart of the Doha Round, and the top priority of many developing countries and Cairns Group members as well as the United States. The Hong Kong Ministerial's chief goal is design of an acceptable blueprint (though not a final agreement) for this topic. Success will require full participation from all of the world's major industrial countries. The U.S. has made an ambitious proposal for lower subsidies and tariff cuts, which to date neither Europe nor Japan has been willing to match. The burden will be upon these WTO members to ensure a successful meeting.

Services: Services over the long term represent one of America's largest commercial export opportunities. The U.S. is already by far the world's largest services exporter, with nearly \$300 billion in 2004, or almost a third of total U.S. exports. 'Exports' of education, principally through fees paid by foreign students at American universities, already account for \$13 billion a year, as much as weapons exports or grain exports. Within the U.S., however, commercial services account for the bulk of private-sector GDP and employment. These include very high-wage and high-skill businesses, ranging from software to film, banking, insurance, express delivery and distribution generally, newly developing Internet- and satellite-based services like GPS and commercial satellite photography, the professions, consultancies, computer and database services and so on.

All are successful exporters and can expand exports quickly as barriers to establishment and cross-border trade drop. The potential is evident in the fact that over time, commercial services trade has been growing more rapidly than merchandise trade

despite frequently closed markets. Based on the trends of the past fifteen years, U.S. services exports may equal manufacturing, natural resource and agricultural exports combined by the 2020s. This is a sector in which the U.S. has enjoyed a long-standing trade surplus. To date the services talks have moved slowly, reflecting the centrality of agriculture to the round and also the greater complexity of services trade policy. The Hong Kong Ministerial should begin to focus members' attention on this topic and set the stage for intense talks and improved offers on services in 2006.

Manufacturing: Finally, while American manufacturing exporters encounter fewer barriers to exports than in the past, considerable problems still remain in some particular sectors and in many large developing countries. Latin American tariffs often remain high on information technology goods like semiconductor chips and computers. India has sharply reduced tariffs in the past two years, but has not bound its cuts. Subsidies remain high and capable of distorting markets in newer WTO members, perhaps China in particular. Product standards can also reduce exports even in rich-country markets, though these issues can often be addressed through bilateral talks as well as the WTO.

A successful Doha Round can therefore open export opportunities for a variety of American manufacturing businesses and workers. One notable example is medical technologies and pharmaceuticals, whose place in U.S. trade is already large and will grow rapidly as the world population ages, especially in Europe and East Asia. Another is the fact that with removal of textile quotas, U.S. fabric and yarn mills will need to look abroad for markets and often face extremely restrictive trade regimes. Environmental technologies can be another major potential beneficiary of the Doha talks, as are chemicals, wood products, and other industries.

II. POVERTY REDUCTION AND DEVELOPMENT

Export goals, however, are not the only potential benefit of a successful Doha Round. Trade barriers in the U.S. as well as most other countries remain highest on the goods most important to very poor countries and to poor families at home. This is one of the principal failings of previous multilateral trade agreements, and the Round is a chance to fix it.

Agricultural tariffs and subsidies have received the most attention in this context. Ugandan President Yoweri Museveni's comment at the 2002 World Food Summit is a good example. He observes that his country – as a mountainous place with mild summers and temperate winters – might hope to sell cheese and butter around the world. But \$11 billion in global dairy subsidies, a sum greater than the entire Ugandan national economy, means Ugandan dairy farmers sell none of their produce abroad. Museveni's judgment is that:

“By blocking value-added products, our partners in the world kill the following opportunities: ability to earn more foreign currency, employment, enhancing the purchasing power of the population, expanding the tax base for the governments of Africa and the chance to transform African societies from the backward, pre-

industrial states – in which they are now – to modern ones by building a middle class and a skilled working class.”⁵

Tariff policies in light industry have received less attention. Here, however, the Doha Round offers a unique opportunity to reshape American policies, not only to assist poor countries overseas but to lift a heavy tax burden on America’s own poor families.

America’s tariff system raises \$22 billion annually – a bit less than 1% of total revenue – and is thus America’s smallest major federal tax. The average U.S. tariff rates, at about 1.6%, are very low. But these aggregate figures disguise a remarkably regressive and inequitable system.

Tariffs are gone, or minimal, on vast swathes of goods: information technologies, medical equipment, airplanes, metals, petroleum, wood and so on. They remain very high, however, on a narrow slice of goods bought mainly by poor people, in particular shoes and clothes. Tariffs on these goods are routinely 10%, 20%, 30% and sometimes more – and are systematically higher on cheap consumer goods than on luxuries. Cheap polyester and acrylic clothes, for example, have much higher tariffs than cotton and wool clothes, which in turn have higher tariffs than silks and cashmeres.

Cheap sneakers are the extreme case, but are illustrative. They are bought almost exclusively by poor families, and none have been made in the United States for several decades. But they receive the highest tariff rates in the American schedule. Sneakers costing \$3 or less receive a 48% tariff, which is not only passed directly to families in stores but magnified by retail markups and state sales taxes. Italian shoes, by contrast, have tariff rates of 8.5% and 10%.

In total, shoes and clothes raise over \$9 of the annual \$22 billion in tariff revenue. A few other household goods such as drinking glasses, linens, silverware, plates, cups and luggage add almost \$2 billion more. Together, this relatively limited set of goods – no more than 10% of total imports – accounts for half of all tariff collection. As with sneakers, retail markups and sales taxes mean the actual cost of the system to families is hard to determine, but much higher than the revenue to governments.

At home, this system’s heavy taxation of life necessities means it is uniquely focused on poor families with children, and on single-mother families in particular.⁶ Abroad, while a modest barrier for most of America’s large trading partners, it hits a number of poor Asian states and Muslim countries – examples range from Cambodia and Bangladesh to Turkey, Egypt and Pakistan – very hard. While most big countries, from Japan and China to Norway and the UK, see average tariffs between 0.5% and 3.5%, the average tariff on Cambodian goods is almost 16%, or ten times the average rate. Likewise, as the table below notes, the Customs Bureau routinely collects more money on small volumes of Bangladeshi hats, T-shirts, sweaters and other simple goods than on much larger volumes of French luxuries and technologies or Saudi oil.

TARIFF COLLECTION JANUARY-AUGUST 2005

Country	Total Imports	Goods	Tariff Revenue	Rate
Bangladesh	\$1.7 billion	Clothes	\$254 million	14.9%
France	\$21.9 billion	Computers, wine airplane parts, etc.	\$238 million	1.1%
Cambodia	\$1.1 billion	Clothes	\$172 million	15.8%
Saudi Arabia	\$16.7 billion	Oil	\$39 million	0.2%

The reform of these policies is long overdue. The same is true for almost all other WTO members, virtually all of whom (the main exceptions are Singapore and Hong Kong) reserve their highest tariff rates for clothes, shoes and food.

An important point to note is that large middle-income and developing countries can have even sharper skews against the poor. For example, as valuable as U.S. tariff reform could be for Bangladesh, binding reform of the Indian trade regime might do even more. In 2003, Bangladesh was able to export more than \$1.5 billion worth of clothes to the U.S. despite high tariffs. The figure this year will be considerably higher. Bangladeshi exports to India, meanwhile, yielded only \$55 million despite a long common border and common language,⁷ as India's tariff regime at the time was not only restrictive but prohibitive, imposing a series of flat fees equivalent to 100% or 200% tariffs on the cheap garments supplied by Bangladesh, Nepal and Sri Lanka. Recent reforms in India have improved the situation, and a proposed South Asian Free Trade Agreement may do more in time, but the reforms remain unbound and subject to withdrawal at any time. Similar anecdotes can be drawn from other major middle-income and developing countries such as Brazil, Egypt, Nigeria, China and others.

A trade negotiating round intended to help the poor and promote development will fully succeed only if these countries as well as wealthy nations accept responsibilities. In this context, the United States' 2002 proposal for commitment by the major WTO members to eliminate all non-agricultural tariffs remains an important one and one that in my view is well worth support.

III. FISHERIES REFORM

Third, the round offers an opportunity to reform a sector especially important on environmental grounds. Studies of global fisheries almost universally confirm a sharp drop in the number of large fish – one survey suggests a 90 percent drop since the 1950s – as fishing fleets have grown and adopted new technologies. Well over half of global fishing grounds are reported depleted or overfished. Government attempts to restrict fishing in some grounds to support recovery, meanwhile, are offset by other government subsidies to fishery fleets – through direct payments, access payments to low-income governments, low-interest loans for refitting boats and so forth – that contribute to overfishing.

The estimates of these subsidies range as high as \$14-\$20 billion per year, in a world fishery trade market valued at below \$60 billion annually. As in the case of farm subsidies, the Doha Round provides an opportunity for all governments to cooperate in minor sacrifices by eliminating subsidies that contribute to over-fishing. This will help conserve an essential resource, and may provide a valuable model for future approaches to trade and environmental issues.

IV. STRATEGIC INTERESTS

Finally, and especially in the context of a difficult domestic environment for trade policy, it is always important to remember that the United States has larger interests at stake as the Doha Round proceeds.

America is the world's leading trading nation, both as an exporter and an importer. Ten percent of American GDP goes to foreign markets, including much larger fractions of manufacturing and farm production. American factories and farms also rely on low-cost inputs of raw materials and parts to remain competitive and function efficiently. In purely economic terms, therefore, we have a vital interest in the stable, open world economy the WTO helps to guarantee.

This is equally true, or more so, in a political sense. In a larger sense, the United States is the world's leading great power with vital interests in each major region of the world. More than any other country, therefore, we benefit from a trading system that facilitates the broadly shared growth, provides safeguards in the event of economic shock, and helps keep relationships among great powers stable. This was President Roosevelt's observation in the 1930s and 1940s. Each President since has agreed. The point has been highlighted several times in recent years - in 1997-1999 by the ability of the global economy to withstand the shock of the Asian financial crisis; and this year, as Ministers meet in Hong Kong, by the role of WTO accession in the very large task of integrating China into a world of mutual interest, shared benefit and the rule of law.

The WTO, though some of its agreements have shortcomings and some procedures are not good enough, helps secure these very large interests for the United States and the world. Success in the Doha Round will help to ensure that it remains able to fulfill this vital role as years pass and the global economy changes.

FINAL POINT: ADJUSTMENT

Before closing, let me make one final point. America's commitment to a strong multilateral trade system and an open economy is amply justified, but needs to be balanced by domestic policies that help young people, workers, farmers and businesses meet the challenges a more competitive world creates.

Reducing trade barriers does not imply overall job loss or higher unemployment. For example, in the ten years since 1995, when the WTO was created (and the U.S. began phasing in NAFTA commitments), American unemployment rates have dropped below

rates typical of the 1980s and 1970s, growth has been somewhat higher, and inflation has remained muted.

Nor does preserving trade barriers correlate with job preservation, as experience with cheap sneakers demonstrates.

But trade does bring change in the economy and with it some displacement. Studies by the GAO and other groups also tend to find that trade-related layoffs seem to affect people who are on average older, less educated and sometimes more rural than the average dislocated worker. Thus trade-related layoffs may affect a more vulnerable group of people than average, and the dislocated workers may require more support than most. The Committee's work to improve and broaden the Trade Adjustment Assistance program is therefore to be applauded. GAO reports and other research since the last revision of the TAA program in 2002 indicate, however, that TAA still has some evident flaws and could serve more people than it does. Further attention may well be justified in coming years.

CONCLUSION

Mr. Chairman, Mr. Ranking Member, thank you very much for this opportunity to testify before the Subcommittee. I am pleased to answer any questions you may have.

APPENDIX: U.S. TARIFF RATES AND EFFECTS ABROAD

1. SAMPLE U.S. TARIFFS ON CHEAP GOODS AND LUXURIES

PRODUCT	TYPE	TARIFF RATE	HTS Number
Men's Shirts:	Synthetic Fiber	32%	61052020
	Cotton	19.7%	61051000
	Silk	0.9%	61059040
Ladies' Underwear	Polyester	16%	62089200
	Cotton	11.2%	62089130
	Silk	1.1%	62089930
Sweaters	Acrylic	32%	
	Wool	16%	61101900
	Cashmere	4%	61101210
Shoes:	Men's dress leather	8.5%	64039960
	Sneakers over \$20/pair	20%	64041190
	Sneakers under \$3.00/pair	48%	64041150
Drinking Glasses	Leaded crystal, over \$5/apiece	3%	70132150
	Plain glass, \$3 - \$5 apiece	7.5%	70132950
	Plain glass, 30 cents or less apiece	28.5%	70132910
Forks	Silver-plated	0%	82159130
	Steel, above \$0.25 apiece	8.5%+0.5c	82159905
	Steel, below \$0.25 apiece	15.8%+0.9c	82159901

**2. U.S. TARIFFS ON TOP 100 GOODS⁸ IMPORTED FROM
WORLD & 16 SELECTED TRADING PARTNERS, 2003⁹**

	Duty-free Products	Tariffs 0.1%-4.9%	Tariffs 5%-15%	Tariffs >15%	Average Rate
Cambodia ¹⁰	5	1	42	52	15.9%
Bangladesh ¹¹	6	5	48	41	14.1%
Pakistan ¹²	10	7	66	17	10.5%
Turkey ¹³	49	9	27	15	7.5%
Egypt ¹⁴	37	17	31	15	5.3%
China	56	20	20	4	3.5%
Honduras ¹⁵	58	18	20	4	2.6%
Japan	57	37	6	0	1.8%
WORLD¹⁶	63	24	8	5	1.6%
EU	65	24	11	0	1.5%
Russia ¹⁷	78	9	5	8	1.3%
U.K.	69	23	7	1	1.1%
Malaysia	75	14	4	7	1.0%
South Africa ¹⁸	83	7	9	1	0.6%
Saudi Arabia	69	22	9	0	0.4%
Norway	77	17	6	0	0.4%
Ghana ¹⁹	93	4	2	1	0.1%

Note – in this table, goods exempted from tariffs through the Generalized System of Preferences, the African Growth and Opportunity Act, the Caribbean Basin Initiative or the Andean Trade Preference Act are counted as duty-free.

¹ See Roosevelt, Public Papers of the President, April 1945.

² The Geneva I Round in 1947, the Annecy Round in 1949, the Torquay Round in 1951, the Geneva II Round in 1956, the Dillon Round in 1961, the Kennedy Round in 1967, the Tokyo Round in 1979, the Uruguay Round in 1994, the WTO's Information Technology Agreement in 1997, the Financial Services Agreement in 1998, the Basic Telecommunications Agreement in 1998, and the duty-free cyberspace commitment in 1999.

³ <http://www.humansecurityreport.info/index.php?option=content&task=view&id=28&Itemid=63>

⁴ By way of comparison, the U.S. has negotiated and ratified free trade agreements with ten countries since 2001, and is in the process of doing so with twelve more. The 22 account for just 9 percent of U.S. exports, and one to three (depending on the calculating method) of the world's top twenty economies.

⁵ See Yoweri Museveni, address to World Food Summit 2002, at http://www.fao.org/worldfoodsummit/top/detail.asp?event_id=12702

⁶ See Edward Gresser, "Taxes, Tariffs and the Single Mom," PPI, September 10, 2002, at http://www.ppionline.org/ppi_ci.cfm?knlgAreaID=108&subsecID=900010&contentID=250828

⁷ IMF, *Direction of Trade Statistics 2004*, pg. 77-78.

⁸ HTS classification, 8-digit level, full-year 2003.

⁹ Data for Afghanistan includes imports in 2003 and January-August 2004.

¹⁰ Cambodia: includes GSP duty-free privileges on two jewelry items with tariffs of 5.5% each.

¹¹ Bangladesh: includes GSP duty-free privileges on two items with low tariffs (golf equipment and plastic packing.)

¹² Pakistan: includes GSP duty-free privileges on three low-tariff items and one medium-tariff item (flags).

¹³ Turkey: includes GSP duty-free privileges on 12 low-tariff and six medium-tariff goods.

¹⁴ Egypt: includes: GSP duty-free privileges on seven low-tariff goods.

¹⁵ Honduras: includes partial CBI tariff elimination on 11 high-tariff and 7 medium-tariff goods, plus full CBI and GSP duty-free privileges on 11 low-tariff, 10 medium-tariff and 13 high-tariff goods.

¹⁶ NAFTA eliminates 25% tariffs on two varieties of trucks, imported largely from Canada.

¹⁷ Russia: includes GSP duty-free privileges on 8 low-tariff, 2 medium-tariff and one high-tariff good (titanium.)

¹⁸ South Africa: includes GSP and AGO duty-free privileges on 22 low-tariff, 6 medium-tariff and one high-tariff good, plus reduction on five high-tariff goods.

¹⁹ Ghana: includes GSP & AGOA duty-free privileges on 11 low-tariff, 21 medium-tariff and one high-tariff good.

**Statement of Jim Jarrett
Chairman, NAM Board of Directors' Trade and Technology Policy Group
and
Vice President, Worldwide Government Affairs
Intel Corporation**

On Behalf of The National Association of Manufacturers

Before the Senate Finance International Trade Subcommittee

Hearing on "Doha Round of WTO Negotiations"

October 27, 2005

Good morning Chairman Thomas, Ranking Member Bingaman, and members of the Subcommittee.

I am Jim Jarrett, the Vice President of Worldwide Government Affairs at the Intel Corporation, which is headquartered in Santa Monica, California. I am pleased to testify today on behalf of the National Association of Manufacturers (NAM), as the Chairman of the NAM Board of Directors' Trade and Technology Policy Group, at this hearing to discuss the Doha Round of World Trade Organization (WTO) negotiations. Intel Corporation is also a co-chair of the American Business Coalition for Doha. I am particularly pleased at the opportunity to discuss that part of the Doha Round aimed at reducing manufactured goods trade barriers, the so-called "Non-Agricultural Market Access negotiations, also known as "NAMA."

The National Association of Manufacturers is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Headquartered in Washington, D.C., the NAM has 10 additional offices across the country. All NAM members, including Intel, are affected directly or indirectly by trade and have a keen interest in the factors influencing our trade and international economic relations. For this reason, the NAM places a special emphasis on working with the U.S. government to reduce trade barriers facing U.S. manufactured goods.

Intel Corporation was founded in 1968 with operations in California. Since then we have become the world's largest semiconductor company and have expanded our manufacturing presence in the United States and around the world. Although about 75% of the Intel Corporation's \$34 billion annual sales come from outside the United States, we employ 60% of our workforce here and three quarters of our chip fabrication factories are located here. The continued liberalization of world trade is particularly important to Intel's future growth and the maintenance and enhancement of its global competitive position.

Doha Round of WTO Negotiations

The NAM believes strongly that the successful completion of the Doha Round is of great importance to the U.S. economy and the world's. The United States is the world's leading trading nation and must continue taking a leading role in the negotiations to complete the Round. At this time, however, additional political leadership is needed from other WTO members, for we are at a critical stage in the negotiations leading up to the Hong Kong Ministerial in December.

The negotiations are called the "Doha Development Agenda" (DDA) because it is time that the developing countries, particularly the least developed, become more integrated into the global trading system and obtain more of the gains from trade. The record is clear: countries that do not trade openly do not develop as rapidly as those that have more open trade regimes. Thus, many of the gains to developing countries will come from reducing their trade barriers and opening their own markets – just as we have gained from our own market openness. Seventy percent of the tariffs that developing nations pay are paid to other developing nations. Consequently, developing countries would be the prime beneficiaries of their own tariff cuts. Special consideration must be made for the least developed nations, and provisions have to be made for flexibility. However, we believe that all countries, without exception, must be actively engaged in the negotiations.

Being the U.S. association of manufacturers, the NAM's key interest in the Doha Round is achieving an ambitious outcome in the Non-Agricultural Market Access (NAMA) negotiations. We know, though, that such a result is not possible without a far-reaching agricultural agreement. Agriculture has largely been left untouched during previous rounds, and the current negotiations cannot come to a conclusion without a far-reaching agreement that sharply cuts agricultural subsidies and other market access barriers.

The NAM was extremely pleased with the bold U.S. agricultural proposal recently announced by U.S. Trade Representative Ambassador Rob Portman in Zurich, Switzerland, to break the deadlock that has stalled agricultural negotiations. In response to this proposal, some other nations have now stepped forward with more advanced positions than before, but all eyes are on the European Union, which still has not offered the ambitious cuts in agricultural market access that is an absolute must for the Round to move forward.

Last week, NAM President Governor John Engler reached out to the NAM's counterpart industrial associations in European Union countries, encouraging manufacturers to press their European Representatives to put forth an aggressive offer on agriculture. Time is of the essence. Without a timely and robust proposal from the European Union the negotiations in all sectors could be negatively impacted.

While recognizing that agriculture is a critical component of the talks, negotiators must not wait for a firm consensus on agricultural issues before addressing industrial market access, services and other pressing issues. All major parts of the negotiation must move together, for the final result will be a balanced outcome comprised of the whole set of negotiations. Here the NAM is concerned that too many countries, particularly the advanced developing countries with high tariffs, are not yet seriously engaged in NAMA or services negotiations..

The Doha round cannot succeed without achieving very ambitious results in non-agricultural market access and in services. A good agricultural deal, coupled with a poor outcome in industrial trade and other areas would undoubtedly weaken support for the round. Manufactured goods account for over 70% of world merchandise trade – and for the United States the figure is even higher. American manufacturers do not face a level playing field abroad and must obtain significant commitments from other countries to eliminate industrial trade barriers.

The NAM could not consider any negotiation successful if it merely brought the level of the “bound tariffs” (the rates countries agree not to exceed) down to the level of the tariffs that are actually applied to manufactured goods today. Such a result would leave the actual tariff rates our member companies face unchanged, and would be unacceptable. We must see substantial cuts in the tariffs that are actually applied.

Manufacturers in other leading producing nations agree. Twice this year, the NAM led delegations of global manufacturers to the WTO headquarters in Geneva, Switzerland, to stress that industrial trade barriers must be cut sharply in the Doha Round. Manufacturing organizations from around the world joined the NAM to promote this message, including from Australia, Brazil, Canada, Europe, Japan and Korea. The principal objective of these efforts was to underscore the fact that the Round cannot be a success without achieving ambitious outcomes for NAMA.

Peter Mandelson, the EU’s Trade Commissioner, underscored this last week, when he said that if a high level of ambition does not result from NAMA, “let me be crystal clear – there will be no outcome on agriculture or other parts of our negotiation.”

Importance of Manufactured goods exports

Manufactured goods are by far the largest part of America’s international trade. Last year America’s farmers exported \$63 billion of agricultural goods. But America’s manufacturers export almost that much every month! U.S. exports of manufactured goods last year were \$710 billion – over ten times the amount of our agricultural exports. Manufactured goods, in fact, account for 87 percent of America’s total merchandise exports. Even when services are factored in, manufactured goods are nearly two-thirds of total exports of goods and services.

These exports are important to America's manufacturers and our workers. Commerce Department data show that one-fifth of all U.S. manufacturing output is exported. Fully 63 thousand U.S. manufacturers export, and they count on export growth for a substantial amount of their sales increases – and this is not just large companies. In fact, 95 percent of all exporting manufacturers are small and medium sized firms – 60 thousand of them. While large firms account for the bulk of our exports, small and medium-sized firms account for about one-third of the dollar value of U.S. manufactured goods exports, and these exports are very important to them.

Trade is particularly important to Intel and other U.S. producers of high technology goods. Growth through trade is critical to our industry's ability to compete. U.S. exports of advanced technology products reached \$201 billion in 2004, one in every four dollars of U.S. merchandise exports. Semiconductor industry exports specifically are the leading U.S. high-tech industry export, reaching \$48 billion in 2004, a 29% increase over the same statistic for 1998.

The NAM's Objectives in Non-Agricultural Market Access (NAMA)

Three years ago, in our initial Doha Round policy recommendations to the Administration and the Congress, the NAM stated our goal as being to obtain deep cuts in existing tariff and other trade barriers inhibiting our manufactured goods exports, and to have these lead to the eventual elimination of all tariffs on industrial goods. The WTO non-agricultural market access negotiations should aim at achieving the broadest and deepest possible reductions in tariffs and non-tariff measures, with the particular objective of *totally eliminating as many tariffs as possible*. Achieving this ambitious result would speed global economic growth and living standards worldwide.

The NAM laid out a three-pronged approach to achieving our ambitious goals. We proposed to the Administration:

- (1) An aggressive tariff-cutting formula that would slash tariffs dramatically;
- (2) Sectoral tariff negotiations aimed at eliminating tariffs in agreed sectors; and
- (3) Reductions in non-tariff barriers.

This is basically the outline that U.S. negotiators have been following. The NAM works very closely with the U.S. Trade Representative's office, the Commerce Department, and the State Department and we are very pleased with the aggressive manner in which the Administration is pursuing ambitious goals in the NAMA negotiations. We believe that all three aspects are important, and particularly believe that the sectoral negotiations offer in many instances the best hope for bringing tariffs down to zero.

This was the approach taken in the 1994 "Information Technology Agreement," (ITA) in which countries accounting for over 90 percent of world trade in computers, semiconductors, and other information technology products agreed to eliminate their tariffs in this sector. The ITA has been very important to Intel's ability to compete in world markets while maintain a strong employment base in the United States.

In the NAM's view, the outline for the NAMA negotiations that was agreed by the Asia-Pacific Economic Cooperation (APEC) Trade Ministers this summer provides the best hope for rapid movement in these negotiations. We support the "Swiss formula" approach¹ coupled with voluntary sectoral agreements with critical masses of countries as key elements of a successful outcome in the Doha Round. The NAMA negotiations must take place without *a priori* exclusions and should be as comprehensive as possible. We also want to underscore the importance of pursuing ambitious negotiations on non-tariff barriers (NTBs) on a horizontal and vertical basis.

Country Priorities

Mr. Chairman, many people are startled to learn that nearly half of all U.S. manufactured goods exports now go to countries with which the United States already has free trade agreements (FTAs). That's how successful America's trade agreement program has been. There are no further tariff-cutting gains to be had from these countries, and the NAM's Doha Round priorities are understandably focused on the other part of our exports.

After decades of multilateral negotiating rounds, tariffs in industrial nations have fallen significantly, but tariffs in developing nations remain high. Developing nations were not expected to make proportional cuts in their tariffs, and in many cases were not asked to make reductions at all. The resulting imbalance in tariff rates is enormous: U.S. and other industrial countries' bound tariff rates on imports of manufactured goods are down to an average of about 3 percent, whereas the unweighted average bound industrial tariffs in the developing countries is about 30 percent – roughly 10 times as high.

The situation is further complicated by the fact that while most developing nations maintained their WTO bound tariff rates (the rates countries agree not to exceed) at high levels, many actually charge lower tariff rates in practice – so-called "applied rates." These applied rates are the rates that U.S. exporters actually face.

While bound and applied rates in industrial nations are the same in almost all cases, developing nation applied rates average about half the level of their WTO bound rates. This means that if developing nations were to agree to a 50 percent cut in their bound rates, on average their bound rates would only come down to the level of their actual applied rates – and U.S. exporters would see no reductions in the actual tariff rates they face today.

¹ The "Swiss formula" is a mathematical formula for a parabola, and cuts high tariffs proportionately more than low ones – see the attachment to my statement for illustrations of how this works.

Such an outcome would be unacceptable for U.S. manufacturers. The United States cannot lower or eliminate its few remaining tariffs if others aren't committed to significantly furthering their own commitments. It would be difficult for U.S. industry to support such an outcome. If we are to obtain substantial reductions in tariff barriers around the world, the developing countries must be willing to enter into meaningful negotiations in which they cut their tariff and non-tariff trade barriers more than industrial nations. Without such strong commitment from all parties, it is difficult to see how genuine industrial trade liberalization can occur in the Doha Round.

The NAM believes the task of obtaining substantial cuts in foreign tariffs on U.S. manufactured goods is achievable by focusing on 23 trading partners – three industrial partners and 20 developing partners. Together, we estimate these 23 countries or regions account for 96 percent of the global duties assessed on U.S. exports of manufactured goods.

The three industrial partners are the European Union, Japan, and New Zealand. Tariffs applied by industrial countries are generally low, however they cover so much trade that the dollar cost to U.S. companies is high. For example, while the average U.S. duty collected on imports from the European Union is only 1.4 percent, those duties amounted to nearly \$4 billion last year. As 47 percent of America's transatlantic commerce is comprised of intra-company trade, roughly half of these duties collected on imports from the EU in essence are a tax on companies' internal transactions – as are many of the European Union's duties on U.S. exports.

Of the 110 developing countries with which the United States has not negotiated free trade agreements, twenty countries account for 85 percent of U.S. manufactured goods exports and 95 percent of all duties assessed by all developing countries. The twenty developing countries, in order of importance in terms of the estimated amount of duties U.S. manufacturers now pay are: China, Brazil, Korea, India, Thailand, Taiwan, Malaysia, Colombia, Egypt, Argentina, Venezuela, the Philippines, Peru, the United Arab Emirates, Pakistan, Nigeria, South Africa, Indonesia, Ecuador, and Panama.

Seven of these countries are currently in free trade agreement (FTA) negotiations with the United States, which attests to the accuracy with which the United States has identified prospective FTA partners. We have included those seven countries in our WTO priorities because until the FTA agreements have actually been signed and approved, our manufacturers will continue to face prohibitive tariffs on their exports to these countries.

All the remaining developing countries together account for only 5 percent of the duties charged on U.S. manufactured goods exports to the entire developing world. While we do not mean to imply that tariff cuts on their part are not important, negotiations should focus on the 20 developing countries we have identified.

There is ample room for special and differential treatment and for exemptions for the least developed countries. We do not believe, however, that this is true for the top 20 countries identified on our list. Finally, the NAM believes all countries, regardless of development status, should agree to bind 100 percent of their tariffs in the Doha Round.

Negotiating Methods

The NAM endorses the U.S. negotiating position according to which tariff cuts should take place through two co-equal forms of negotiation: a tariff-cutting formula and sectoral negotiations aimed at eliminating duties or at least harmonizing them at a low level. It is critical for the sectoral negotiations to remain a top priority as the negotiations progress as we believe the sectoral approach will result in substantial trade liberalization.

Formula Approach--Since the average bound rate in developing countries is twice the average applied rate, the ultimate goal must be to significantly cut the applied rates. For example, a 75 percent linear cut in bound rates would be necessary to achieve a 50 percent cut in applied rates. Such a formula would fall unevenly on countries, and would leave the highest tariff rates still too high. Consequently, we believe that the "Swiss formula" approach is the best available alternative, and a quick look at the attachment to my statement shows how this approach would have the most substantial impact on high tariffs.

Sectoral Negotiations -- Given the deep cuts that would be required by a tariff formula, many developing countries may be resistant. The complications of special and differential treatment, and other exemptions for developing countries also pose formidable challenges to the development of a tariff formula that can result in the size of reductions we seek.

For that reason, the NAM has pressed for parallel negotiations by sector. The NAM leads the Zero Tariff Coalition -- a group of industry associations seeking tariff elimination in their sectors. We are very pleased with the vigorous way in which U.S. negotiators have been moving forward on sectoral negotiations and are delighted to see that other countries are proposing their own sectoral initiatives. We believe this approach will prove to be a necessity if the United States is to achieve the sort of bold reduction in tariffs envisioned.

The key to the sectoral approach is that not all countries have to participate. If countries comprising a satisfactory "critical mass" of trade in a particular sector (for example, 85 percent of world trade -- though the coverage could vary from sector to sector) would agree to eliminate or harmonize tariffs at a low level, the rest of the countries could be exempted. For some sectors, a critical mass of countries may not be able to agree on zero duties, but might be able to decide on a low harmonized rate.

The high tech industry has greatly benefited from the Information Technology Agreement (ITA), which was concluded as a result of the last WTO round of negotiations. The agreement eliminated all tariffs on most IT products, lowering the costs of those products in developing countries, encouraging high-tech growth across the world. Since 1997, 34 additional nations have joined the ITA, now representing more than 90 percent of global trade in the IT sector.

But the agreement has not kept pace with technology, and both industry and governments are struggling to appropriately classify converged products for customs purposes. For example, the European Union is proposing a tariff on some large multi-function LCD monitors, arguing that it is impossible to discern between LCD computer monitors (which are duty free under the ITA) and LCD Televisions (which are not covered by ITA).

The U.S. high-tech industry is concerned that as this convergence continues, more and more customs officers will reclassify products into dutiable categories, undermining the letter and spirit of the ITA. In addition to the classification problems caused by convergence of new technologies, completely new products have emerged that weren't on the market when the agreement was finalized. In addition to these tariff concerns, increasing non-tariff barriers in the IT sector have the potential to erode the benefits of tariff elimination and create even more severe market access obstacles.

From the U.S. Tech industry's perspective, this round offers us the opportunity to address many of these issues by initiating a sectoral negotiation in electronics that would build on current ITA commitments and members to further eliminate tariffs on new and converged electronic products.

At a minimum, the United States should seek to obtain significant information technology product (IT) tariff reductions. Similar to other products in the NAMA negotiations, IT products are subject to non-declared discriminatory taxes in a number of markets. It is important to ensure that tariffs removed through the ITA are not replaced with discriminatory domestic taxes.

Non-Tariff Barriers and Other Aspects Affecting Manufactured Goods

The NAM also believes that negotiations on non-tariff barriers (NTBs) should be addressed as an important feature of the non-agricultural market access negotiations. Non-tariff barriers are a concern because they can be an even greater impediment to trade than tariffs. Moreover, non-tariff barriers tend to raise the fixed costs of trading. This is a particular disadvantage for small and medium-size enterprises (SME's), which have to spread those fixed costs over fewer dollars of sales.

NTBs have been rising in importance as trade-distorting factors, including such measures as discriminatory standards, conformity assessment requirements, pre-shipment inspections, custom valuation practices, regulatory requirements, port procedures, and security procedures.

Product requirements, including environmental and other regulations, should be nondiscriminatory and based on sound and widely accepted scientific principles and available technical information. From the U.S. tech sector's perspective, NTBs, if not addressed have the potential to dangerously erode the benefits of the ITA and hinder trade in information technology products. We strongly encourage our negotiators to consider negotiating an agreement that would aim to eliminate these barriers in our sector.

In addition, the NAM seeks robust results from the "Trade Facilitation" negotiations that are part of the Doha Round. These negotiations are aimed at simplifying, speeding, and reducing the cost of customs clearances. Some NAM members have estimated that current customs costs and delays in many countries – particularly developing countries – add from 5-8 percent of the cost of the goods being exported. Thus in some cases, the cost of clearing customs can exceed the tariff!

Finally, I want to note the NAM's position on the negotiation of trade rules. The NAM's strong view is that the effectiveness of U.S. trade laws should not be diminished in these negotiations. To build public confidence in an open trading system, the U.S. Government must maintain a level playing field ensuring that market-distorting practices can continue to be addressed effectively under internationally agreed-upon rules.

Conclusion

The final Doha agreement needs to ensure that all countries participate in and benefit from the gains of trade liberalization. According to the World Bank, developing countries alone could gain up to US\$500 billion *per annum* from trade liberalization. An ambitious agreement in NAMA is essential to achieving that objective. While we understand the special needs of developing countries, many have highly competitive industries and it is vital that they agree to participate in genuine market liberalization. The NAM strongly urges all WTO member countries to work together and make the political decisions necessary to lay the groundwork for a successful Hong Kong Ministerial in December.

Mr. Chairman, the NAM looks forward to continuing to work with you to ensure that our important objectives are realized in the final outcome of the Doha Round.

Thank you, Mr. Chairman

Doha Round Non-Agricultural Market Access Negotiations:
Final Tariff Rates using Swiss Formula, %

Initial Tariff Rates, %	Coefficients																								
	4	5	6	8	10	12	15	18	20	22	25	30	35	40	50										
1	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0										
2	1.3	1.4	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9										
3	1.7	1.9	2.0	2.2	2.3	2.4	2.5	2.6	2.6	2.6	2.7	2.7	2.7	2.8	2.8										
4	2.0	2.2	2.4	2.7	2.9	3.0	3.2	3.3	3.3	3.4	3.4	3.5	3.5	3.6	3.7										
5	2.2	2.5	2.7	3.1	3.3	3.5	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.4	4.5										
10	2.9	3.3	3.8	4.4	5.0	5.5	6.0	6.4	6.7	6.9	7.1	7.5	7.8	8.0	8.3										
12	3.0	3.5	4.0	4.8	5.5	6.0	6.7	7.2	7.5	7.8	8.1	8.6	8.9	9.2	9.7										
15	3.2	3.8	4.3	5.2	6.0	6.7	7.5	8.2	8.6	8.9	9.4	10.0	10.5	10.9	11.5										
18	3.3	3.9	4.5	5.5	6.4	7.2	8.2	9.0	9.5	9.9	10.5	11.3	11.9	12.4	13.2										
20	3.3	4.0	4.6	5.7	6.7	7.5	8.6	9.5	10.0	10.5	11.1	11.7	12.5	13.3	14.3										
25	3.4	4.2	4.8	6.1	7.1	8.1	9.4	10.5	11.1	11.7	12.5	13.6	14.6	15.4	16.7										
30	3.5	4.3	5.0	6.3	7.5	8.6	10.0	11.3	12.0	12.7	13.6	15.0	16.2	17.1	18.8										
35	3.6	4.4	5.1	6.5	7.8	8.9	10.5	11.9	12.7	13.5	14.6	16.2	17.5	18.7	20.6										
40	3.6	4.4	5.2	6.7	8.0	9.2	10.9	12.4	13.3	14.2	15.4	17.1	18.7	20.0	22.2										
45	3.7	4.5	5.3	6.8	8.2	9.5	11.3	12.9	13.8	14.8	16.1	18.0	19.7	21.2	23.7										
50	3.7	4.5	5.4	6.9	8.3	9.7	11.5	13.2	14.3	15.3	16.7	18.8	20.6	22.2	25.0										
55	3.7	4.6	5.4	7.0	8.5	9.9	11.8	13.6	14.7	15.7	17.2	19.4	21.4	23.2	26.2										
60	3.8	4.6	5.5	7.1	8.6	10.0	12.0	13.8	15.0	16.1	17.6	20.0	22.1	24.0	27.3										
65	3.8	4.6	5.5	7.1	8.7	10.1	12.2	14.1	15.3	16.4	18.1	20.5	22.8	24.8	28.3										
70	3.8	4.7	5.6	7.2	8.8	10.2	12.4	14.3	15.6	16.7	18.4	21.0	23.3	25.5	29.2										
80	3.8	4.7	5.6	7.3	8.9	10.4	12.6	14.7	16.0	17.3	19.0	21.8	24.3	26.7	30.8										
90	3.8	4.7	5.6	7.3	9.0	10.6	12.9	15.0	16.4	17.7	19.6	22.5	25.2	27.7	32.1										
100	3.8	4.8	5.7	7.4	9.1	10.7	13.0	15.3	16.7	18.0	20.0	23.1	25.9	28.6	33.3										
120	3.9	4.8	5.7	7.5	9.2	10.9	13.3	15.7	17.1	18.6	20.7	24.0	27.1	30.0	35.3										
125	3.9	4.8	5.7	7.5	9.3	10.9	13.4	15.7	17.2	18.7	20.8	24.2	27.3	30.3	35.7										
250	3.9	4.9	5.9	7.8	9.6	11.5	14.2	16.8	18.5	20.2	22.7	26.8	30.7	34.5	41.7										

Formula: final tariff rate = (initial tariff * coefficient)/(initial tariff + coefficient)

STATEMENT
OF THE AMERICAN FARM BUREAU FEDERATION
TO THE
SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON INTERNATIONAL TRADE
REGARDING
STATUS OF WORLD TRADE ORGANIZATION NEGOTIATIONS

October 27, 2005

Presented by
Craig Lang
President of Iowa Farm Bureau

Good afternoon, I am Craig Lang, a fifth generation farmer from Brooklyn, Iowa, and president of the Iowa Farm Bureau. I currently serve on the American Farm Bureau Federation (AFBF) Board of Directors and also on the AFBF Trade Advisory Committee. The points about the importance of world trade that I will discuss with you are Farm Bureau policy. I want to assure you that as a dairy farmer and a crop farmer of corn and soybeans I believe the World Trade Organization (WTO) is the best way to ultimately settle world trade differences.

Farm Bureau believes that the WTO is important to the future of agriculture in the United States **and around the world**. The trade negotiation, standard-setting and dispute-settlement functions of the WTO strive to provide a stable and predictable world trading environment for U.S. agriculture. With the production of one-fourth of U.S. cropland destined for foreign markets, U.S. agriculture is strongly export-dependent. Our farmers and ranchers know that the best place to receive the end price for the crops we raise and the livestock we nurture is the marketplace. A marketplace void of the ability to export our goods will lead to higher consumer prices and higher risks in our ability to provide consumers around the world with the highest quality of goods.

From a local perspective, export markets are crucial for the Iowa farmers I represent. Iowa exports more than a billion dollars of corn and soybeans each year. Iowa's \$3.7 billion of total agricultural exports represents about one third of our total farm production. This \$3.7 billion is made up of about one half of our soybean crop, a fifth of the two billion bushels of corn we raise and a tenth of the pork and beef we raise.

Because exports are so critical to U.S. agriculture, we must have a structure to address the many trade-related issues before the U.S. The 148-member WTO operates to provide that structure through a rules-based environment for continued growth in markets for America's farmers and ranchers. At this time, the WTO is our best chance at resolving differences in global trade.

The recent discussions around the U.S. proposal of October 10 have given direction to the current WTO agriculture negotiations. The proposal which seeks to achieve meaningful market access through major reductions in tariffs while reducing spending on trade-distorting domestic support programs incorporates the crucial linkage between these major areas.

Real trade reform must include substantial, ambitious and quantifiable expansion in access to markets. We recognize that to achieve a successful outcome the U.S. must do its share in reforming trade distorting domestic support programs while developed and developing countries must do their share in expanding market access opportunities. Farm Bureau will weigh the outcomes of these negotiations to determine if they provide an overall economic benefit to U.S. agriculture.

MARKET ACCESS

The world average tariff on agricultural imports is 62 percent, while the U.S. average agricultural tariff is 12 percent. The Framework Agreement of July 2004 supports the use of a formula for reducing all agricultural tariffs so that high tariffs would be reduced more than low tariffs, thus reducing the gap between high-tariff and low-tariff products. The U.S. proposal includes a cap on tariffs of 75 percent and progressive cuts with the highest tariffs being reduced 90 percent. A final agreement on tariffs must result in significant percentage reductions that result in commercially meaningful access.

Sensitive Products – The framework agreement allows all countries, developed and developing, to negotiate some number of “sensitive” products that will be subject to smaller tariff cuts. Our goal is to assure that the number of sensitive products is limited so that meaningful market access is achievable as a result of these negotiations. The recent U.S. proposal to limit the number of tariff lines to one percent would achieve that result.

Tariff-Rate Quotas – A method to expand market access is to have a nation agree to a tariff-rate quota (TRQ) for a specific product. A TRQ is a reduced tariff on a specified amount of imported product. The U.S. would gain increased exports if countries actually “filled” their TRQs. The U.S. proposal would provide compensation through expanded TRQs if countries did not reduce tariffs. This negotiation must result in a requirement that nations fill their agreed upon TRQs in order to help accomplish the goal of commercially meaningful market access.

Special and Differential (S&D) Treatment – Developing countries, and in particular least developed countries (LDCs), have received S&D treatment to give them more time to adjust to competition. While the LDCs clearly require greater protection, some developing countries, such as Brazil, are actually highly developed and competitive. It is unreasonable to provide those countries special treatment. Those countries must assume greater obligations and to increase market access.

DOMESTIC SUPPORT

U.S. agriculture will negotiate reductions in trade-distorting domestic supports as part of an overall agreement that increases market access in both developed and developing countries. Under the framework agreement, countries must commit to “substantive reduction” in domestic support levels. The recent U.S. proposal incorporates changes in domestic support programs that

will create economic challenges for some commodities and farm types. In the long term U.S. agriculture will overcome these challenges through the expanded opportunity for exports created by specific and measurable improvements in market access.

The WTO categorizes domestic support into the amber, blue and green boxes.

Amber Box – The amber box is composed of domestic support programs that are used to support prices or are directly related to production and are viewed as “trade-distorting.” An example is the U.S. marketing loan program. The framework agreement calls for “substantive reduction” in trade-distorting domestic support. The U.S. proposal adds greater specificity with a 60 percent reduction for the U.S. and an 83 percent reduction for the European Union (EU) and Japan. Any reductions in domestic support **must** be balanced against improvements in the area of market access in order to advance export prospects for our farmers and ranchers.

Blue Box – The blue box includes agricultural support programs that are not related to production and are considered less trade-distorting. The July 2004 Framework Agreement includes criteria that will allow U.S. countercyclical programs to be included in the blue box. We support the framework blue box changes but oppose any further criteria which would limit U.S. utilization of the blue box. The recent U.S. proposal includes a cap of 2.5 percent of agricultural output for programs that meet the blue box criteria for the U.S., EU and Japan.

Green Box – No caps should be placed on non-trade-distorting support. U.S. green box programs include research, extension, conservation and part of the crop insurance programs. Farm Bureau supports the U.S. proposal which does not include any changes in green box criteria.

The negotiations over market access and domestic support must be directly linked for any substantive agricultural trade liberalization. While the U.S. is able to use domestic programs to assist producers, most nations use high tariffs. Overall, tariffs average 62 percent, while many tariff lines exceed 100 percent to provide import protection for agricultural producers. Both mechanisms of support – tariffs and domestic programs – need to be addressed together to achieve a successful negotiation.

EXPORT COMPETITION

We support the complete elimination of export subsidies as contained in the framework agreement. Export subsidies are recognized as the most trade-distorting measure in trade. The EU spends from \$3 billion to \$5 billion a year on export subsidies and is allowed to spend as much as \$8 billion under the current WTO agreement. The EU accounts for about 88 percent of the world’s export subsidies and uses them to market products of export interest to the United States. Farm Bureau also supports the phase-out and elimination of the trade-distorting practices of state trading enterprises, such as the Canadian and Australian Wheat Boards, which are also included in the framework.

The U.S. proposal on food aid disciplines to help minimize commercial displacement and opposes converting all food aid to a cash-only basis.

Reduction in the subsidy component of existing export credit programs should be implemented in a parallel manner with the phase-out of export subsidies and the elimination of the monopoly powers of state trading enterprises.

GEOGRAPHICAL INDICATORS

There must be no extension of geographical indicators beyond wines and spirits. As a dairy farmer myself, I don't buy the European argument that cheese names like parmesan, cheddar or feta should be their exclusive trademarks. Those terms have long since become generic product names used around the world. The fact is, I believe our U.S. cheeses are superior. Issues of product labeling should be dealt with by the intellectual property system and not part of the Doha negotiation.

In conclusion, Farm Bureau believes completion of a successful WTO Doha agriculture negotiation is the best way to achieve progress in a wide variety of international agricultural trade concerns. As a farmer, I'm certain the American farm and ranch community can be competitive in a global market. I'm confident of this, **but only if we have fair and unrestricted access to markets we've been denied in the past because of unfair trade barriers.**

A final agreement must build on the July 2004 Framework Agreement, which calls for substantial improvement in market access, trade-distorting domestic support and export competition. The U.S. proposal adds the specifics necessary to have a successful WTO Ministerial meeting in Hong Kong in December 2005.

The Doha Round and US Service Sector Interests

Statement by

Jeffrey R. Shafer
Vice Chairman, Global Banking
Citigroup

On behalf of the
Coalition of Service Industries

United States Senate
Committee on Finance
Subcommittee on Trade

October 27, 2005

Introduction

Thank you, Mr. Chairman, for the opportunity to testify today on US service industry interests and priorities in the Doha Round. I am speaking today on behalf of The Coalition of Service Industries (CSI), the leading business organization dedicated to the reduction of barriers to US services exports.

Our overriding objective is to obtain commercially significant trade liberalization in the WTO and in other forums for services trade: financial and payments services, express delivery and logistics, telecommunications, energy services, computer and related services, travel and tourism, audio-visual services, and accounting and legal services. We believe such liberalization is a vital US national interest and will also contribute to economic modernization and growth in emerging markets and the developing world.

Along with agriculture and goods, services is one of the three main "pillars" of negotiation in the Doha Round. The services sector represents the largest part of US employment and economic output, and the US is the world's largest services trader. But the attention accorded to services in trade negotiations, at least until recently, was not equal to that of the other two pillars. Several issues threaten to put a meaningful outcome on services beyond reach. Such a failure would be a tremendous loss for the United States. It would be impossible for our sector to support a Round that did not achieve substantial liberalization in services.

The Importance of Services

I want to highlight just how important services are to our economy, our foreign trade, and to American jobs.

- ❑ Services account for nearly four-fifths of US economic output.
- ❑ 90 million Americans are employed in the service sector - 80% of the private sector workforce.
- ❑ The US is the world's largest services exporter, with cross border exports of services having grown steadily in recent years, reaching \$340 billion last year.
- ❑ The US enjoys a surplus in services trade of about \$50 billion, offsetting a small portion of our goods deficit.
- ❑ Sales of services by US affiliates in foreign markets are even larger, rising from \$190 billion in 1995 to over \$477 billion in 2003. The operations of these affiliates are vital to US companies' global competitiveness, and thus to American jobs.
- ❑ The Labor Department estimates that 90% of all the new jobs created in the US between now and 2012 will be in the service sector.
- ❑ In the last decade, the service sector added 18 million new American jobs.

The importance for the United States of securing meaningful services liberalization in the Doha Round is clear.

Problems with services negotiations

WTO members' participation in the Doha Round services negotiations has been uneven and generally weak, and the talks are far behind schedule as a result.

Roughly 20 WTO members (counting the EU as one) submitted initial services offers by the Doha Declaration deadline of March 31, 2003. At this point, 69 initial offers have been put forward, meaning that more than 20 WTO members that are obligated to do so still have not yet tabled an initial offer¹. The "July Package" adopted by WTO members last year called for the submission of revised (meaning improved) offers by May 31 of this year, an obligation met by 28 members.

These are meager results. Why? There are two sets of reasons. The first involve the lack of progress in areas of interest to others in the negotiations, which have left other countries with the sense that there are few benefits from concluding a successful Round. The second involve how the services negotiations have been conducted.

¹ The least-developed WTO members are not obligated to table services offers.

Areas of interest to others

Agriculture. First and foremost, an agriculture breakthrough is the key to the entire Doha Round undertaking. Agriculture has been the central issue in this Round from the outset, and many developing countries have linked their willingness to liberalize services trade with progress in the agriculture negotiations.

In that regard, we strongly supported Ambassador Portman's bold proposal in Zurich earlier this month, in which he outlined US proposals for the reduction of subsidies and other forms of support that distort agricultural trade. Reciprocity by the EU would generate positive momentum for the Round. Those countries that have made services conditional on progress in agriculture would then have no further excuse not to negotiate services in earnest. But the EU response has fallen far short. Until agriculture is resolved, the services negotiations will progress slowly, if at all.

Business Travel Facilitation. US business needs a new business travel facilitation program for two reasons. First, a number of important trading partners have made it clear that their willingness to liberalize in our priority sectors is dependent on the willingness of the United States to discuss business travel facilitation. Second, existing programs do not meet our own companies' needs.

We are unable to engage in such discussions in the Doha Round because there is no agreement in the United States on how to proceed. This inability is adversely affecting the efforts of US services companies to expand their market share in key foreign countries.

The Congress, US trade negotiators and the business community need to work together to shape a business travel facilitation initiative. To move forward, the business community has fashioned a proposal to facilitate the temporary entry of key business personnel, by which we mean professionals, managers, consultants, and highly skilled experts and technicians. We want to work with the Congress in the coming months to develop and refine this proposal. Should it be possible to garner Congressional support, it would give us a much-needed way forward on business travel problems, and valuable negotiating leverage in the Round.

Emergency Safeguard Mechanism. A group of developing countries, spearheaded by the ASEAN nations, has advocated an Emergency Safeguard Mechanism (ESM) for services, similar to anti-dumping remedies for goods. The US and a large number of other WTO members have taken the position that an ESM for services is neither feasible nor desirable. The nature of services trade is such that it would be extremely difficult, if not impossible, to demonstrate damage from increased service imports. It would be even more difficult to determine remedies. For goods, the remedies are quantitative, in the form of tariffs and quotas, options which are not possible in services. Moreover, the record of the use and abuse of the escape clause for goods should make anyone interested in free trade hesitant in trying to apply it to services.

Despite the inherent problems with ESMs, demanders have taken a firm line, and are unlikely to abandon this demand. An effort will therefore have to be made to find some acceptable compromise. It is possible without sacrificing core US interests.

The process of services negotiations

Incentives to Negotiate. A fundamental problem in the services negotiations is that of insufficient incentives for WTO members to negotiate. Tremendous effort is often needed in

order to build domestic support for liberalization. Any move to liberalize a service such as banking, telecommunications, transportation, etc. necessarily entails negotiations within governments -- between trade ministries and the various ministries or agencies that regulate the service for which liberalization is being negotiated. Thus, extensive internal heavy lifting is needed in order for countries to formulate and table truly meaningful offers. (Services is also distinguished in this way from trade in goods and agriculture, where responsibility for developing negotiating positions lies within a single ministry).

Unfortunately, many countries do not expect trade liberalization to generate sufficient economic gains to make this political effort worthwhile. Moreover, in some countries there is simply no domestic constituency advocating liberalization, or such constituencies are weaker than opposing interests. Some developing and less developed countries do not understand how they might benefit from liberalization, or do not have the resources to identify their own services export potential. These are all contributing factors to the submission of late, poor offers, and a lack of interest in engaging in the services negotiations.

Request offer and the search for complementary approaches. Services negotiations are by their nature complex and time-consuming. They are based on a request-offer process, requiring multiple intensive negotiating sessions in which initial offers are followed by further negotiations, (and by the domestic political legwork mentioned above) leading to improved offers, followed by further negotiation. These negotiations are undertaken trading partner by trading partner, sector by sector, across the range of service sectors in which concessions are being sought. It is easy to see how effective services negotiations can take, at a minimum, many months. Unfortunately, this process has thus far not gained traction in the Doha Round.

For this reason, a number of WTO Members have advocated "complementary approaches" that would supplement the request offer process by setting benchmarks or creating formulas that Members would use as guidelines in scheduling commitments. Several different proposals have been tabled, most of which propose multilaterally agreed baseline levels of commitments, combined with a plurilateral approach, whereby a critical mass of interested Members agrees to a higher level of liberalization for a particular service sector in which those Members have shared interests. Those higher levels of liberalization are then offered on an MFN basis to all WTO members. None of the complementary approaches advocate doing away with the request-offer process, which will remain the principal negotiating mechanism.

An example of a complementary approach is the European Commission proposal by which WTO members would agree to liberalization in a given percentage of the 156 service subsectors identified in the General Agreement on Trade in Services (GATS). Developed countries would have to make commitments in x percent of subsectors, and developing countries in some lesser percentage.

However, developing countries object to the proposals from the EC and others on a couple grounds:

--The GATS agreement specifically says that countries are free to choose whether, and in which sectors, they will liberalize. A prescriptive number undercuts this flexibility.

--Developing countries generally have made commitments in a small portion of the subsectors identified in the GATS (about 15-20%), while the portion is higher for developed countries (about 60%). Developing countries thus would be required to do more than developed countries, who might have to make relatively few new commitments, depending on the percentage of

subsectors adopted as the benchmark.

A further flaw is that countries could meet the numerical requirement simply by making commitments in sectors in which we have no interest, while making no new commitments in priority sectors for the US, like financial services. The US, in cooperation with India, has therefore been working on compromise proposals to bridge the gap between the EU and developing countries.

The discussions on complementary approaches have been helpful in drawing attention to the problems with the request offer process specifically, and the services negotiations generally. If ways to improve and streamline request offer can be identified and agreed upon, so much the better. However, it is important that the dialogue on complementary approaches not become a negotiation in itself, and distract from the objective of seeking liberalization.

As the one-time negotiator for financial services in the Uruguay Round, I can tell you that there are no magical short-cuts to the negotiation process that will bring a solution. What is needed is leadership by the United States, working with others who are committed to a successful round with meaningful progress on services.

Conclusion

Without a decisive push by the US and other key WTO members, the Doha Round could reach a point where, even if agreement is reached on agricultural liberalization, there simply will not be sufficient time left to adequately address services before the Round's scheduled conclusion. Resources and energy must be directed toward a successful conclusion to the services negotiations.

It is encouraging that efforts are being made, as evidenced by Ambassador Portman's work, by the recent attempts to supplement the request-offer process, and by the support of other key officials. WTO Director-General Pascal Lamy, for example, noted in an October 5 speech that "a satisfactory result [for services] is a sine qua non for the whole [Doha Round] project." And he highlighted the need to improve offers now, rather than wait for a solution in agriculture, because there may not be sufficient time to do so.²

The US and India co-chair a new "core group" on services. Formed on September 23, the group also includes Brazil, China, EU, Mexico, Australia, South Korea, Malaysia, Singapore, Japan, Argentina, Chile and Canada. Already dubbed "the New Quad", we hope that this group can provide the leadership necessary to overcome the impediments to progress in the services negotiations.

Mr. Chairman, all the issues cited above may require concessions by the United States which have been offered in agriculture and can be offered without any sacrifice of vital interests in temporary entry and safeguards. Continued demonstration of US willingness to engage is the best way to elicit the needed offers in the sectors of greatest commercial value to our service industries.

² "Export of Services: Hype or High Potential? Implications for Strategy-Makers." Address by WTO Director-General Pascal Lamy to the International Trade Centre Executive Forum on National Export Strategy, Montreux, Switzerland, October 5, 2005.

We therefore need the support of the Congress in these areas. In addition we need clear signals from Congress that services liberalization is a critical US interest and that no agreement without this is acceptable. With these elements, we will be in a very good position to press priority countries for substantial services liberalization.

An important message that must continually be emphasized is that services liberalization is first and foremost in the interest of the liberalizing country. Services such as banking and insurance, telecommunications, transportation and logistics, legal and accounting and others form the infrastructure essential to economic development and are crucial to other areas of an economy. Countries therefore need to stop viewing services as something to trade off; countries where world class services are available are more attractive places to invest. The cost of investment, and associated risks for US service providers, are higher in markets where there are not bound commitments and hence development lags. Services liberalization also serves the interests of US farmers and goods exporters by fostering stronger markets abroad.

Multilateral trade Rounds occur roughly twice per generation. International trade moves much more quickly than the rules that govern it, and global trade in services currently operates within the framework adopted at the conclusion of the Uruguay Round more than ten years ago. In the fast-changing world of those of us who work in the services sectors, this is an epoch.

Failure to negotiate commercially meaningful commitments for services would mean that the trade rules for services would fall far behind the reality of markets. This would mean lost opportunities for both US services producers and for countries that failed to modernize their services trade. The US services sector could not support a Doha round outcome that failed in this respect. We would enthusiastically support a conclusion of the Round that moved significantly forward in liberalizing services.

I thank you for your time, and would be glad to answer any questions you might have.

COMMUNICATIONS



Subcommittee on International Trade Senate Finance Committee

Hearing on the Status of World Trade Organization Negotiations Thursday, October 27, 2005

The American Chemistry Council is pleased to present the following comments on the current status of the Doha Round multilateral trade negotiations at the World Trade Organization (WTO).

The American Chemistry Council (ACC) represents the leading companies engaged in the business of chemistry in the U.S. ACC is committed to improved environmental, health and safety performance through Responsible Care®, common sense advocacy designed to address major public policy issues, and health and environmental research and product testing. Chemistry companies invest more in research and development than any other business sector.

ACC has long been a supporter of trade liberalization worldwide and of the multilateral, rules-based trading system of the WTO. ACC and its member companies worked for the launch of the Doha Round of WTO trade negotiations, and we are hopeful that significant trade liberalization objectives can be achieved so that more of the world's population can share in the benefits of trade and economic development.

The Doha Round, however, has progressed slowly, and many political and technical decisions have been delayed. We are dismayed that so much of the focus of the Doha Round has been on agriculture, precluding serious consideration of trade liberalization in industrial goods, which account for 75% of world trade. Indeed, it is the industrial negotiations that will open opportunities for developing countries to create new competitive advantages, diversify their export capabilities, and integrate their manufacturers into the global economy.

At this critical point in the Doha Round negotiations, it is imperative that WTO Members resolve the deadlock in the agriculture discussions so that adequate consideration can be given to the other elements of the Doha Round, most notably the non-agricultural market access (NAMA) negotiations.

ACC welcomes recent progress in the NAMA discussions on the tariff reduction formula and its coefficients and on the treatment of unbound tariff lines. In addition, we commend the Office of the U.S. Trade Representative for its leadership in promoting sectoral tariff agreements as a key element in the NAMA modality. As a result of USTR's efforts, significant work has been done on developing a group of sectors viable for tariff elimination negotiations, and several formal proposals have been made, including for chemicals.

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At their meeting in Hong Kong on December 13-18, 2005, WTO Trade Ministers will have to make important decisions on how the Doha Round negotiations will proceed. If the Hong Ministerial fails, the potential for multilateral trade liberalization will be crippled in the near term. The outcome of the Doha Round will affect all world trade for the next 20 years. The Doha Round results must be ambitious and create market access opportunities so that global industries, such as the chemical industry, can continue to expand and grow.

The Doha Round and the Chemical Industry

The U.S. chemical industry is the world's largest and, with production of \$516 billion in 2004, accounted for nearly a quarter of the world's total chemical output. The U.S. chemical industry is also the nation's largest exporting sector, with a record \$109 billion in exports in 2004, far surpassing total U.S. agricultural exports of \$61 billion. 20% of U.S. chemical production is exported.

Moreover, world chemical output exceeds \$1.94 billion annually, and \$792 billion, or 40%, of that output is traded globally. Global chemicals trade accounts for 10% of world trade in goods. Because the chemical industry is highly globalized, bilateral free trade agreements only affect a fraction of the world's chemical trade flows. A multilateral agreement resulting from the Doha Round is the best prospect for comprehensive, worldwide trade liberalization and market access for the chemical industry.

Chemical Tariff Elimination

Chemical tariffs are a tax on chemicals trade, and they impede the U.S. chemical industry's competitiveness and access to foreign markets. ACC estimates that \$5.3 billion in tariffs is paid each year on U.S. chemical exports and imports.

As a key objective in the NAMA negotiations, ACC and its member companies would like to see an ambitious, across-the-board, non-linear formula for tariff reduction that achieves real, meaningful trade liberalizing results in all products for all WTO members.

Yet even an ambitious formula will have little or no impact on current applied tariff rates for chemicals, especially in countries that did not participate in the Chemical Tariff Harmonization Agreement (CTHA) of the Uruguay Round. Therefore, we call for a comprehensive chemical tariff elimination agreement in addition to the formula reduction.

ACC believes that both the formula and sectoral tariff agreements are key elements of the NAMA modality and equal and integral components of the trade liberalization objectives of the Doha Round.

Chemicals Proposal at the WTO

In July 2005, seven governments—Canada, Japan, Norway, Singapore, Switzerland, United States, Taiwan—presented a formal proposal (attached) at the WTO calling for negotiations on chemical tariff

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elimination in the Doha Round. The proposal highlights the importance of the chemical industry to the global economy and to the economic growth of developing countries.

Trade Ministers meeting in Hong Kong for the WTO Ministerial should approve the chemicals proposal so that chemical sector negotiations can begin immediately.

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WORLD TRADE

ORGANIZATION

TN/MA/W/58
 4 July 2005

(05-2884)

Negotiating Group on Market Access

Original: English

MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Tariff Liberalization in the Chemicals Sector

Communication from Canada, Japan, Norway, Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu, Singapore, Switzerland, and the United States

The following communication, dated 1 July 2005, is being circulated at the request of the Delegations of Canada, Japan, Norway, Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu, Singapore, Switzerland, and the United States.

GLOBAL TRADE IN CHEMICALS

1. The global chemical industry is essential to a broad range of manufacturing and agricultural industries, with virtually every product – from automobiles to zippers – using chemical inputs. Worldwide, the output of this industry is valued at \$1.9 trillion annually. Of that output, forty percent -- \$792 billion -- is traded globally, accounting for more than 10 percent of world merchandise exports in 2003. The chemicals industry also employs more than 7 million people worldwide.
2. Due to the ability of the chemicals industry to globally migrate state-of-the-art technology and facilities, chemical industries in countries at all levels of development can be internationally competitive. According to UNCTAD, developing countries' share of trade in world chemicals exports grew from 16.5% in 1990 to 20.7% in 2000.¹ During the same period, global chemicals trade nearly doubled from \$296 billion in 1990 to \$566 billion in 2000.

¹ United Nations Conference on Trade and Development, Trade and Development Board, Commission on Trade in Goods and Services, and Commodities: Expert Meeting on New and Dynamic Sectors of World Trade, Geneva, 7 February 2005, "Strengthening participation of developing countries in dynamic and new sectors of world trade: Trends, issues and policies", Document TD/COM.1/EM.26/2; 15 December 2004.

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3. Chemicals are inputs into products across a broad range of sectors. High tariffs on chemicals translate into costs that significantly raise the prices of intermediate and finished goods. Chemicals also comprise a significant percentage of the value of goods exported by developing countries. For example, chemicals comprise 35 percent of the value needed to produce and package footwear products, 16 percent of the value of material inputs to motor vehicles, and 15 percent of the value of material inputs to jewelry. Liberalization in this sector would continue to ensure that these and other chemical inputs can be supplied at a low price globally, thus enabling other industry sectors to diversify and to produce finished goods at lower costs.

BUILDING A CHEMICAL SECTORAL INITIATIVE USING CRITICAL MASS

4. In the Uruguay Round, a group of WTO Members agreed to harmonize tariffs on a broad range of chemical goods to promote liberalization in this sector and to develop a more predictable and transparent global tariff structure for a growing industry. The result was the Chemical Tariff Harmonization Agreement (CTHA), which led to a substantial reduction and harmonization of chemical tariffs in the signatory countries. Participants in the Agreement agreed to harmonize tariffs at three levels: zero, 5.5 percent, and 6.5 percent. Basic organic and inorganic chemicals were harmonized at 5.5 percent, with more highly-processed goods such as cosmetics and plastics harmonized at 6.5 percent. Additionally, tariffs on pharmaceutical products in Chapter 30 and some primary petrochemicals in Chapter 29 were eliminated. Since the Uruguay Round, 14 Members have chosen to participate in the CTHA as part of their accession to the WTO.

5. Tariffs on chemicals in some countries not participating in the CTHA remain as high as 60%. Such charges impose unnecessary costs which significantly raise the prices of intermediate and finished goods for both manufacturers and consumers.

6. A chemical sectoral initiative in the Doha Development Round should build on the success of the CTHA and include WTO Members who are key traders and producers of chemicals. Such an agreement would also encourage further growth in global chemical exports, which have already grown by more than 90 percent between 1994 and 2004, as compared to a cumulative increase of 75 percent in all industrial global exports.

7. Building on the CTHA, Members should look to expand participation in the harmonization initiative, and then seek the elimination of tariffs as discussions move forward in this new initiative. Interested Members would determine how critical mass would be defined in this sector and discuss which Members should participate in order to make liberalization as meaningful as possible.

8. Participating Members would also decide which products should be included in the initiative and what form of liberalization (e.g. harmonization, elimination) would be expected. This approach encourages all interested Members to participate in the negotiation of a chemical sectoral initiative, including Members that may not currently be major traders, but see future opportunity for economic growth and investment in this sector.

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PRODUCT COVERAGE:

9. A chemical sectoral initiative should be as comprehensive as possible. Using the model of the CTHA, product coverage should include HS chapters 28-39. These chapters cover products including inorganic and organic chemicals, fertilizers and pesticides, soaps and cosmetics, and pharmaceuticals and plastics.

Ch. 28	Inorganic chemicals, organic or inorganic compounds of precious metals such as: chlorine, fluorine, sulfur, alkaline, hydrogen chloride
Ch. 29	Organic chemicals such as: ethane, butane, propane, octane
Ch. 30	Pharmaceutical products
Ch. 31	Fertilizers
Ch. 32	Tanning or dyeing extracts
Ch. 33	Essential oils
Ch. 34	Soap, organic surfacing agents, lubricating preparations, artificial and prepared waxes, candles, etc.
Ch. 35	Albuminoidal substances; modified starches; glues; enzymes such as: adhesives
Ch. 36	Explosives
Ch. 37	Photographic or cinematographic goods
Ch. 38	Miscellaneous chemical products such as: pine oil, herbicides, insecticides
Ch. 39	Plastics and articles thereof such as: resins and polymers

The list could also include additional products of interest to participating Members.

SPECIAL AND DIFFERENTIAL TREATMENT

10. A variety of flexibilities could be employed to account for the needs of developing countries. Possible options might include the following:

- * Longer implementation periods for all chemical products
- * Longer implementation periods in certain products/sub-sectors
- * Zero for "x"
- * Participation in certain sub-sectors

11. Varied implementation periods were used successfully during the CTHA to provide appropriate adjustment to participating Members based on their tariff rates. Implementation periods used in the CTHA are provided for Members' reference: tariffs greater than 25% received 15 year staging; tariffs greater than 10 percent and less than 25 percent received 10 year staging; and tariffs less than 10 percent received 5 year staging.

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CHEMICAL TARIFF LIBERALIZATION AND ECONOMIC DEVELOPMENT

12. The participation of WTO Members who produce and trade chemicals in a Doha sectoral initiative is important not only for the liberalization of global trade, but also in terms of economic development. For example, high chemical tariffs can make crop protection and other chemical-based agricultural inputs cost prohibitive for farmers. These products can ultimately increase crop yields and facilitate control of diseases and insects. Countries with high chemical tariffs are also potentially undermining the export competitiveness of downstream manufacturers by keeping tariffs on raw and intermediate goods high, thus hindering their own economic development, and discouraging foreign direct investment that tends to flow to low-tariff economies.



EMERGENCY COMMITTEE FOR AMERICAN TRADE

HEARING ON:
**“THE STATUS OF WORLD TRADE ORGANIZATION
NEGOTIATIONS”**

**BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE OF THE U.S. SENATE**

**ON
OCTOBER 27, 2005**

**WRITTEN COMMENTS SUBMITTED BY THE
EMERGENCY COMMITTEE FOR AMERICAN TRADE**

The Emergency Committee for American Trade (ECAT) strongly supports the negotiation of a comprehensive, ambitious, and balanced agreement through the World Trade Organization (WTO) Doha Development Agenda (DDA) negotiations. The Sixth Ministerial of the WTO, scheduled for Hong Kong in December 2005, represents an important milestone for the 148 member countries to spur forward momentum in the negotiations and affirm an ambitious outcome that will open markets in all key sectors and spur economic growth and an improved standard of living at home and abroad, potentially lifting hundreds of millions of people out of poverty throughout the world.

Such a result is only possible if the negotiations continue along a path of high ambition and comprehensiveness in which all WTO members fully participate.

ECAT welcomes the efforts by the U.S. government and, in particular, the Office of the U.S. Trade Representative, in substantially moving forward the negotiations with the recent U.S. offer on agricultural liberalization, as well as earlier offers on a tariff-free world in the consumer and industrial goods negotiations, and strong services proposals.

While several other WTO members have started to step up to the plate, indicating their support for an ambitious outcome, still others remain on the sidelines or have made offers that fall short. The promise of economic growth and development opportunities from the DDA negotiations can only be realized if developed and developing country participants also make serious trade-liberalizing proposals.

Background on the WTO Negotiations

The trade liberalization shaped by the General Agreement on Tariffs and Trade (GATT) and now the WTO has been a major engine of global economic growth, helping to lift hundreds of millions of people out of poverty over the past five decades. Since the founding of the multilateral trading system and the eight successful rounds of trade negotiations, the world economy has grown six-fold and per capita income worldwide has tripled. With a membership of 23 countries in 1947, the WTO has now grown to 148 members in 2005 and is expected to grow further before year's end. World trade in goods grew from approximately \$50 billion in 1947 to \$8.9 trillion in 2004; services trade has expanded even more rapidly. By institutionalizing trade protocols established under the GATT, the WTO has also played a significant role in promoting a strong and predictable multilateral trading system.

The WTO is now in its ninth round of global trade negotiations, the so-called Doha Development Agenda (DDA) negotiations launched in Doha, Qatar in 2001. In several weeks, the trade ministers from the 148 WTO member countries will meet in Hong Kong for the 6th Ministerial of the WTO to push forward the negotiations, which are slated for completion in 2006.

Since 1994, before the creation of the WTO at the beginning of 1995, U.S. exports and overall trade have expanded significantly, with:

- a \$283 billion or 64 percent increase in U.S. manufacturing exports;
- a \$139 billion or 70 percent increase in U.S. services exports; and
- an \$18 billion or 39 percent increase in U.S. agricultural exports.

Imports into the United States also grew significantly by \$810 billion, improving the variety, quality, and availability of products throughout the United States, increasing the competitiveness of U.S. companies, and helping to dampen inflationary pressures.

The Uruguay Round Agreements and successor agreements on information technology, telecommunications, and financial services have contributed importantly to gains in the U.S. economy. It is also notable that the three post Uruguay Round WTO agreements – on information technology, financial services and telecommunications – have lowered other countries' barriers in sectors where the United States is highly competitive, creating new opportunities for U.S. manufacturing and service companies and their workers.

Since the advent of binding dispute settlement rules in 1995 – dispute settlement rules strongly advocated by successive U.S. Administrations – the WTO has also considered over 300 cases, helping developed and developing countries to resolve their disputes peaceably and fairly. For the United States, as one of the most active participants in the dispute settlement system, this has meant the successful resolution of some 44 cases where the United States has challenged other governments' trade restrictive measures. The United States has also been a major defendant -- in about 48 WTO cases that have been concluded, successfully negotiating and/or winning half of the cases brought against it.

Doha Development Agenda

The Doha Development Agenda (DDA) negotiations are the ninth round of negotiations under the auspices of the GATT and WTO. The 52-paragraph Ministerial Declaration agreed to in Doha launched a new round of negotiations that began in January 2002. On February 1, 2002, WTO countries agreed on the organization of the negotiations mandated by the Doha Declaration. Acting as part of the Trade Negotiations Committee (TNC), they agreed to the establishment of seven negotiating bodies on the following issues:

- | | |
|----------------------------------|--|
| ▪ Agriculture | ▪ Geographical indications for wines and spirits |
| ▪ Services | ▪ Reform of the Dispute Settlement Understanding (DSU) |
| ▪ Non-agricultural market access | |
| ▪ Rules | |
| ▪ Trade and environment | |

On August 1, 2005, the WTO's General Council adopted the so-called Framework Agreement to move forward the Doha negotiations by establishing the following structure for the negotiations.

Agriculture: Negotiators will seek:

- | | |
|--|---|
| ▪ Elimination of agricultural export subsidies | ▪ Disciplines on export credits and guarantees |
| ▪ Reductions in trade-distorting domestic subsidies, with higher levels cut more | ▪ New disciplines on state trading enterprises |
| ▪ Tariff cuts, with deeper cuts of higher tariffs, and quota expansion | ▪ Special focus on cotton subsidies and tariffs |

Manufactured Goods: Negotiators will seek:

- Formula tariff cuts, with higher tariffs being cut more
- Sectoral tariff elimination/harmonization
- Reduction of non-tariff barriers

Services: Negotiators will seek intensified market access negotiations, with revised offers due May, 2005.

Trade Facilitation: Negotiators will launch negotiations to clarify and improve customs procedures to expedite the movement of goods and to enhance cooperation and technical assistance.

Development: Negotiators will reflect development concerns through:

- Special and differential treatment provisions, particularly for least developed countries
- Technical assistance
- Continued work on implementation issues, including related to the TRIPS agreement

Other Issues: The General Council directed negotiators to continue other negotiations, including:

- *Trade remedies* (antidumping, countervailing duties, safeguards) to clarify and improve disciplines;
- *Environment*, to explore relationship between WTO rules and multilateral environmental agreements and the reduction or elimination of tariff and non-tariff barriers on environmental goods and services;
- *Dispute Settlement*, to improve and clarify the WTO's dispute settlement system

ECAT Priorities

Market Access

Critical to the ultimate success of the DDA is comprehensive, substantial and meaningful market access in the three key areas of trade – agriculture, manufacturing and services – by developed and developing countries alike. Anything less than a highly ambitious and comprehensive approach will almost assuredly lead to a least common denominator approach and the failure of this opportunity to make substantial progress towards the type of market liberalization that is critical for economic growth and higher standards of living. It is important as well that efforts be made to move each of the negotiating areas forward.

Agricultural Market Access

The removal of barriers across all levels of agricultural trade is not only a commercial imperative, it is critical to help promote access to affordable food and better living conditions throughout the world where many live on less than \$2 a day. The key priority of U.S. negotiators in agriculture must remain ambitious and comprehensive market liberalization in agriculture. Key objectives should include:

- A comprehensive agreement that does not exempt any commodity or product. To do otherwise would open the floodgates to a myriad of exceptions that will substantially undermine the opportunities for the United States' competitive agricultural and non-agricultural sectors;

- Elimination of agricultural export subsidies as quickly as possible, with early deep cuts for the highest level of subsidies;
 - Elimination of all agricultural tariffs, with deep cuts as early as possible to reduce prohibitively high tariffs;
 - Elimination of agricultural tariffs on a sectoral basis (zero-for-zero) where possible;
 - Elimination of trade-distorting domestic support; and
 - Elimination of monopolistic practices of state trading enterprises.

Consumer and Industrial Goods Market Access

Tariff and non-tariff barriers distort efficient trade flows to the detriment of both the exporting and importing countries; their reduction and elimination represents an important factor in generating economic growth and achieving development goals. In the non-agricultural market access (NAMA) sector comprising consumer and industrial products, the U.S. negotiators should seek:

Full Tariff Elimination by a Date Certain. Continued promotion of U.S. proposals to eliminate all consumer and industrial tariffs by a date certain is critical to spur an ambitious outcome of the DDA in a manner that will truly promote economic growth, development and higher living standards.

Zero-for-Zero Initiatives. Negotiation and implementation of zero-for-zero initiatives in key sectors in a critical mass of countries are also critically important to spur progress and interest in the DDA, as well as to foster the competitiveness of U.S. products. Zero-for-zero initiatives are critical in key sectors such as entertainment products, information technology and related products (not already covered by the ITA), energy, chemicals, toys, environmental products, medical and scientific equipment, forest products, fish, and gems and jewelry. These sectors, many of which were identified first in APEC discussions, represent a balanced package and reflect the interests of both developed and developing countries.

Non-Tariff Barriers. Reduction of NTBs has been established as an integral component of the Doha mandate, and negotiators should continue to identify and eliminate these barriers. NTBs range from discriminatory or inhibiting import, tax and investment or technology sharing policies to unjustified rules, technical standards, specifications, certifications and other regulatory procedures that function as de facto barriers by favoring local suppliers or otherwise placing U.S. firms at a competitive disadvantage. For example, rules that are unnecessarily complex, technical specifications not based in terms of performance and functional requirements, and arbitrary customs valuation procedures can represent more substantial barriers to trade than tariffs. Accordingly, negotiations should make it a priority to eliminate current NTBs, while preventing the establishment of new ones. For example, standards included as technical specifications should be developed under an open, voluntary, consensus-based process, publicly available, vendor neutral, and, where applicable, based on international standards. As well, customs valuation disciplines should also be negotiated to provide that software, entertainment and similar products delivered on a physical medium be assessed on the value of the physical medium, not on the imputed value of the content. As discussed below, new barriers should not be created for content delivered electronically, for which the WTO should adopt a permanent moratorium on customs duties for electronic transmissions.

E-Commerce. As technology has advanced, many of the products that previously have been distributed in physical form are more efficiently and productively distributed through a variety of media, such as the internet, satellite and cable. The final outcome of the DDA should ensure that new barriers are not erected on products now being delivered electronically or in similar formats. Software, entertainment and other products delivered online should be subject to the same trade rules and protections as these products enjoy when delivered on physical medium, including full market access, national treatment, MFN protections, and commitments under the Agreement on Technical Barriers to Trade, the Agreement on Government Procurement, and the Agreement on Trade-Related Investment Measures. In addition, the WTO moratorium on customs duties on electronic transmissions should be made permanent.

Services Market Access

As recognized by the final Framework Agreement reached in 2004, services are a key component of global trade that must be considered on par with agriculture and industrial goods market access. Indeed, services are essential inputs into the production of products in virtually all sectors of the economy and the price and quality of services are important components in the cost and productivity of the agricultural and manufacturing sectors. More liberalized, efficient services trade is, therefore, an essential component in promoting the competitiveness of the entire economy. The key objectives should include:

- Increase market access and national treatment commitments across all sectors, including advertising, audiovisual, distribution, education, energy, financial, computer and related services, print media and publishing, retail, basic and value-added telecommunications, wholesaling, express delivery and professional services;
- Ensure rights of establishment and ownership for U.S. foreign investors through wholly-owned entities or other business structures;
- Eliminate unnecessary restrictions on cross-border transactions;
- Promote pro-competitive, regulatory reform through the promulgation of adequate, fair and consistent rules and regulations;
- Establish transparent, impartial and independent regulatory administration processes through the (a) public publication of texts of proposed and existing regulations, including substantive rules of general applicability, policies and interpretation of rules and regulations and (b) institution of due process for the making of rules and regulations which would establish how and within what timeframe public comment may be made;
- Ensure that market-access commitments apply to services, including software and entertainment products made available over the Internet, and to other evolving information technology services, which develop too rapidly to keep pace with trade designations;
- Remove obstacles to the free movement of people by streamlining and improving the administration of U.S. and foreign business visa policies in order to facilitate the entry of business travelers;
- Commence negotiation of government procurement commitments within the GATS; and
- Ensure that the rights of U.S. companies that have already been acquired are guaranteed going forward.

Special and Differential Treatment

Recognition of the different situations of developing, particularly least developed, countries is important as recognized by the DDA. Yet, that recognition should not be expanded to undermine the benefits of trade liberalization that are so critical to help spur economic growth in such countries. Proposals to extend transition times should be viewed on a case-by-case basis and efforts to exempt countries from making commitments should be actively discouraged.

Trade Facilitation

The Framework Agreement's commencement of trade facilitation negotiations is an important development that can help developed and developing countries alike reduce administrative burdens, increase efficiencies and lower costs for consumers. Indeed, APEC has calculated that progress on trade facilitation could cut export costs by five to 15 percent. Key objectives should be to produce tangible progress to reduce customs clearance times and costs and promote more efficient trade movement and processing. Key objectives should include the work by APEC, including addressing such issues as:

- Transparency and greater government-private sector communication and coordination;
- Simplification, harmonization and greater efficiency in processing, with special programs for major shippers;
- Modernization and automation, including through the use of paperless transactions and secure methods for electronic payment; and
- Consistent and predictable resolution of issues, including an expeditious right to appeal rulings.

WTO Rules – Antidumping and Countervailing Duty Rules

As recognized by the DDA, negotiations are also necessary to clarify and improve disciplines under the trade remedy rules (*e.g.*, antidumping and countervailing duty provisions). In that regard, key objectives should include:

- Increased transparency in the operation of trade remedy rules;
- Increased recognition of commercial business practices as normal, not unfair, pricing behavior, particularly for agricultural, cyclical and other products;
- Increased fairness in the calculation of antidumping and countervailing duty provisions; and
- Increased balance in the rules to account for public interest considerations.

Dispute Settlement

While the United States may not agree with all WTO panel decisions, the WTO dispute settlement system on balance has been a very effective mechanism in enforcing U.S. rights. The United States has made aggressive use of the dispute settlement process, bringing more complaints than any other WTO member. It has prevailed in or favorably settled the majority of the cases that it has filed.

In order to promote continued respect for this very important and innovative system of dispute settlement, longstanding U.S. initiatives to reform and improve the operation of the WTO dispute settlement system should continue to be included as U.S. priorities. In particular, greater transparency and openness to documents and hearings are critical to foster a greater understanding of this system. As well, efforts should continue to clarify the rules to promote greater flexibility in settling disputes among members.

Government Procurement

Government procurement comprises a significant share of the global economy. For many WTO Members, government procurement may represent 10 to 15 percent of GDP, and this figure may reach as high as 20 percent of GDP in some developing countries. The WTO Agreement on Government Procurement (GPA) provides a strong framework for ensuring that the procurement practices of signatory nations are open, competitive, and respect the core WTO principles of national treatment, MFN, and transparency.

ECAT remains very disappointed that transparency in government procurement negotiations were not formally commenced by the July Framework Agreement. Nevertheless, U.S. priorities in this area remain no less important, and we urge the United States to emphasize the importance of further government procurement liberalization in the course of the DDA negotiations. Work is ongoing to improve the text of the GPA, and efforts to expand the membership of the GPA should intensify. Accession to the GPA should remain a key U.S. negotiating priority for ongoing WTO accession negotiations, such as with Russia and Vietnam and particularly with such key markets as China, India and Brazil during the course of the Doha Development Agenda negotiations.

Importance of WTO Negotiations

The Doha Development Agenda has the potential to open markets on a broad range of goods and services that are critical to spur economic growth in the United States and throughout the world. The completed agreements could dramatically change agricultural trade, eliminating export subsidies and creating enormous new market opportunities for U.S. farmers. If U.S. proposals are adopted, it will result in the elimination of all tariffs by 2015 and provide enormous opportunities for U.S. service providers and others.

Depending upon the final outcome, some estimates predict that the DDA would provide a net increase of \$2,500 for a typical American family of four and could lift 500 million people out of poverty and help promote a dramatically improved standard of living at home and abroad. Even if agreement were reached only to cut global tariffs by a third, it would add \$177 billion per year to the U.S. economy, equivalent to a \$2,500 per year tax cut for the typical family of four. The expected gain from these negotiations for the developing world will also be significant, adding \$90 to \$190 billion in higher incomes. These economic gains will help promote a dramatically improved standard of living at home and abroad.

The Hong Kong Ministerial represents an incredibly important opportunity to provide forward momentum in negotiations that have been halting at best over the past four years. It is an opportunity for the WTO member countries to reaffirm the ambitions of the WTO itself. ECAT and its companies will continue to work actively in support of a comprehensive and ambitious outcome to the DDA negotiations.

Statement of the International Dairy Foods Association

[SUBMITTED BY CONSTANCE E. TIPTON, PRESIDENT AND CEO]

Mr. Chairman and Members of the Committee, the International Dairy Foods Association (IDFA) would like to thank you for this opportunity to comment on the World Trade Organization (WTO) Doha Development Agenda negotiations. IDFA and its constituent organizations -- the Milk Industry Foundation, the International Ice Cream Association and the National Cheese Institute -- represent more than 500 companies that account for over 80% of the dairy products produced in the United States.

Agreement among the 148 WTO member countries on an ambitious and comprehensive agricultural package holds great promise for the U.S. dairy industry. We believe open consumer driven global markets, both abroad and at home, offer the best promise for our industry. Accordingly, the WTO Doha Development Agenda is viewed by our industry as a huge opportunity to position the U.S. as a global dairy supplier meeting the needs of not only the U.S. consumer, but consumers around the world. We are bullish on the opportunities for the U.S. dairy foods and dairy farming industry if we are successful in the Doha Round. Accordingly, we strongly support a very ambitious agriculture package in the Doha Round that dramatically opens markets, eliminates exports subsidies and greatly reduces trade distorting domestic support. We therefore applaud and support the recent offer by the Administration to reignite the Doha Round. Only through a broad agreement that accomplishes these objectives will we enable our industry to become the global supplier we believe possible for the U.S. industry. Within the scope of the WTO agricultural negotiations, IDFA wishes to emphasize that continued agricultural reforms should be comprehensive, covering all products, policies and countries.

In addition to our obvious interest in dairy products trade, our milk processors, yogurt and ice cream manufacturers also have strong interests in liberalizing sugar trading rules. Sweeteners are an important cost factor in the manufacture of flavored milk beverages, yogurt and ice cream products.

Market Access

For the U.S. dairy industry and other sectors to benefit from the WTO Doha Round, substantial new commitments on market access are required. Accordingly, we are pleased that earlier this month, the U.S. offered a bold proposal in the WTO agricultural negotiations to cut developed country tariffs by 55-90%, and establish a "tariff cap" ensuring no tariff is higher than 75%. We are also extremely supportive of the U.S. position to limit tariff lines subject to "sensitive product" treatment to 1% of total dutiable tariff lines, and to expand tariff-rate quotas where they exist. We believe that this will severely limit WTO Member countries' ability to designate dairy and sugar products as "sensitive" and keep their domestic market protected from U.S. dairy exports. In addition, we urge the elimination of all in-quota tariffs on products subject to tariff-rate quotas (TRQs). We also support substantial expansion of all tariff-rate quotas and improved administration of tariff-rate quota disciplines to ensure that TRQs do not restrict trade.

We firmly believe that both developed countries and developing economies need to open their markets to U.S. dairy foods. We understand that as part of the negotiations, the U.S. will also have to open its markets. However, we firmly believe that in an open global system, the U.S. advantage in dairy productive capacity and processing technology will enable our country to be a principal player in the global dairy market.

Domestic Subsidies

With respect to the WTO agricultural rules on domestic subsidies, IDFA supports continued reduction and eventual elimination of all trade-distorting domestic programs. Thus, we applaud the recent U.S. proposal to cut "amber box" subsidies by 60% and to limit "blue box" spending at 2.5% of the total value of agricultural production, instead of 5% as set in the July 2004 Framework for the WTO Doha negotiations.

IDFA believes that domestic support policies which artificially stimulate or restrict production or ensure inefficient production can have significant detrimental effects on international market conditions and, most importantly, are not sustainable because they fail to adequately take into account the needs of consumers. As WTO agricultural negotiations move forward, we urge U.S. policymakers to advocate that new criteria for "blue box" programs are truly less trade-distorting than "amber box" subsidies and that WTO Members are not able to increase overall trade-distorting domestic support by "box shifting." We see both trade-distorting domestic support programs and market access barriers abroad and at home as being damaging obstacles to our objective of positioning the U.S. as a global dairy supplier. The two are interrelated, and both need to be addressed for the U.S. industry to succeed.

Export Subsidies

We are pleased that the U.S. has proposed to eliminate export subsidies in the WTO agricultural negotiations within a five-year period. The U.S. dairy industry's competitiveness in international markets has been greatly hindered by European Union (EU) export subsidies, which have unfairly enabled its dairy industry to capture a large percentage of world dairy trade. Without export subsidies, world market dairy prices would be higher and more efficient dairy producers, including the U.S. dairy industry, would enjoy a larger share of international markets.

However, it is critical that the elimination of export subsidies be synchronized with the reduction in tariffs and increased market access. As prices increase due to the removal of subsidized dairy products in the international arena, there will be an incentive for more dairy exports to enter the global market. To avoid an excess of dairy products flowing to already liberalized markets, countries that maintain high tariff barriers, such as Canada, must also reduce their duties.

Just as trade inhibiting market access and domestic support policies need to be dramatically reduced, so do export subsidies need to be reduced in a manner that brings increasingly greater opportunities for market and consumer driven forces to drive global dairy trade and the related domestic dairy production. Our industry knows how to respond to consumers. We want to be given that opportunity by governments around the world and at home.

Geographic indications

Finally, IDFA members are extremely concerned about efforts by the EU in the current Doha Round negotiations to extend to foods the geographic indication (GI) protections, or its synonym, Protected Designation of Origin (PDO), that were established exclusively for wines and spirits in the Uruguay Round Agreement on Trade-Related Aspects of Intellectual property Rights (TRIPS).

The EU has recently indicated that it will submit a new offer on market access for the WTO agricultural negotiations, which will include a proposal on GIs. IDFA is adamantly opposed to extending GI protections to food products and we urge U.S. policymakers to resist making any concessions to the EU on this issue.

The EU's PDO directive restricts the use of certain names (i.e. Parmigiano Reggiano, Feta, Gorgonzola, etc.) to cheese made or processed in a defined geographic area of Europe. The EU's PDO concept is currently being debated at the WTO level. Presently, under the 1994 WTO TRIPS agreement, there is a provision which protects GI for wines and spirits. The EU is now demanding that the TRIPS Agreement also include GI protection for the following cheeses:

Asiago;
Comte;
Feta;
Fontina;
Gorgonzola;
Manchego;
Mozzarella di Bufala Campana;
Parmigiano Reggiano;
Pecorino Romano;
Reblochon; and
Roquefort.

Should the EU obtain recognition of its GIs at the WTO level it is likely that it and other countries would wish to expand protection to other cheeses such as Cheddar, Edam, Emmental, Gammelost, Greyere, Mozzarella, Muenster, Neufchatel, and Swiss. As a result, U.S. cheese manufacturers would be prohibited from using these names in their exports or in the U.S. domestic market. U.S. companies would be forced to develop new and confusing names for their traditional cheese products. We see this as nothing more than an attempt to limit legitimate trade and protect certain producer interests at the expense of market based competition, which only hurts consumers here and abroad. Why reduce market access barriers and then take away that opportunity with the expansion of GIs?

We cannot emphasize enough that we are on the verge of a great moment for the U.S. dairy industry. If we handle the Doha negotiations carefully, not only will we open new markets around the world for U.S. dairy producers, but we will position our industry in a policy environment that can ensure we meet the needs of consumers around the world. Mr. Chairman, we urge Congress to work closely with the Administration and with us to make the most of this opportunity and start us towards a new era of dairy industry prosperity.

Thank you for the opportunity to comment on the WTO Doha Development Agenda negotiations.

**STATEMENT OF
THE MONTANA FARM BUREAU FEDERATION
TO THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
SENATE FINANCE COMMITTEE
REGARDING
THE WORLD TRADE ORGANIZATION NEGOTIATIONS**

**Submitted by
David McClure
President
Montana Farm Bureau**

October 27, 2005

Montana Farm Bureau appreciates the opportunity to submit this statement for the record on the World Trade Organization and the Doha Round of multilateral trade negotiations.

DOHA ROUND OF THE WORLD TRADE ORGANIZATION NEGOTIATIONS

Farm Bureau policy, as adopted by the delegate body at our 86th annual convention, makes clear that our highest trade priority remains a successful conclusion to the multilateral Doha Round of the WTO trade negotiations.

Our delegates approved a thorough and well-thought-out position to guide Farm Bureau in the trade arena. Farm Bureau policy affirms that all commodity sectors should be on the table during trade negotiations. Our delegates believe U.S. agriculture's best opportunity to address critical trade issues, such as market access and domestic subsidies, is through the multilateral process.

A review of the issues involved in the current round of agricultural trade talks highlights the vital role that the WTO plays in the economic development of agriculture. The Framework Agreement of July 2004 set the guidelines for further negotiations in the areas of market access, domestic support and export competition.

The future of the WTO depends upon the success of the current negotiations as a vehicle to advance trade liberalization. Progress in all three 'pillars' of the agriculture negotiation is necessary in order to have a balanced and achievable result.

MARKET ACCESS

The world average tariff on agricultural imports is 62 percent, while the U.S. average agricultural tariff is 12 percent. The Framework Agreement supports the use of a formula for reducing all agricultural tariffs so that high tariffs would be reduced more than low tariffs, thus reducing the gap between high-tariff and low-tariff products. A final agreement on tariffs must result in significant percentage reductions that result in commercially meaningful access.

DOMESTIC SUPPORT

U.S. agriculture has clearly indicated its willingness to negotiate reductions in trade-distorting domestic supports as part of an overall agreement that increases market access in both developed and developing countries. Under the Framework Agreement countries must commit to “substantive reduction” in domestic support levels.

The negotiations over market access and domestic support must be directly linked for any substantive agricultural trade liberalization. Both mechanisms of support – tariffs and domestic programs – need to be addressed together to achieve a successful negotiation.

EXPORT COMPETITION

We support the complete elimination of export subsidies as contained in the Framework Agreement. Farm Bureau also supports the phase-out and elimination of the trade-distorting practices of State Trading Enterprises. We believe that discussions on food aid must focus on ways to help prevent the commercial displacement of locally produced foods. We strongly oppose the conversion of commodity food aid to cash grants.

The recent proposal by the United States for the agriculture negotiations is a bold and necessary measure to advance the negotiations. In order to significantly reduce world agricultural tariffs to provide commercially meaningful access to the worlds expanding markets a strong approach on expanding both market access and reducing trade distorting domestic support is crucial. Real trade reform must include substantial, ambitious and quantifiable expansion in access to markets for America’s farmers and ranchers. We will do our share on domestic support but developed and developing countries must also do their part in reforming and expanding market access opportunities.

Dispute Resolution

One of the major accomplishments of the Uruguay Round was the strengthening of the dispute settlement system. A rules-based trading regime requires a mechanism for holding nations to their commitments so that following the rules will not be seen as a competitive disadvantage. With the reduction of trade barriers and the increase in trade in agricultural products, the opportunities for disputes are ever increasing.

The U.S. has both won and lost WTO trade cases. The U.S. has prevailed in cases against Japan on apple exports, Canada on grains and the EU on hormones in beef. The U.S. lost the case brought by Brazil on cotton. While we disagree with the Appellate Body's ruling in the "cotton case," we have urged the administration to comply with the ruling. The WTO provides a trading system based on rules that helps maintain stable markets for our exports.

Conclusion

Farm Bureau believes that the completion of a successful WTO Doha agriculture negotiation is the best way to achieve progress in a wide variety of international agricultural trade concerns. We believe agriculture's future continues to lie in expanding foreign markets and eliminating barriers to our exports.

Farmers and ranchers are not very interested in process. We are vitally interested in real trade reform that expands the market for U.S. agricultural products.



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Statement for the Record **Regarding Senate Committee on Finance Hearing of October 27, 2005** **on the Status of World Trade Organization Negotiations**

Submitted by R-CALF USA
November 9, 2005

The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) appreciates this opportunity to comment on the status of World Trade Organization (WTO) negotiations on agriculture, particularly with regard to the cattle and beef industry.

R-CALF USA is a non-profit association that represents over 18,000 U.S. cattle producers in 47 states across the nation. R-CALF USA works to sustain the profitability and viability of the U.S. cattle industry, a vital component of American agriculture. R-CALF USA's membership consists primarily of cow-calf operators, cattle backgrounders, and feedlot owners. Various main street businesses are associate members of R-CALF USA.

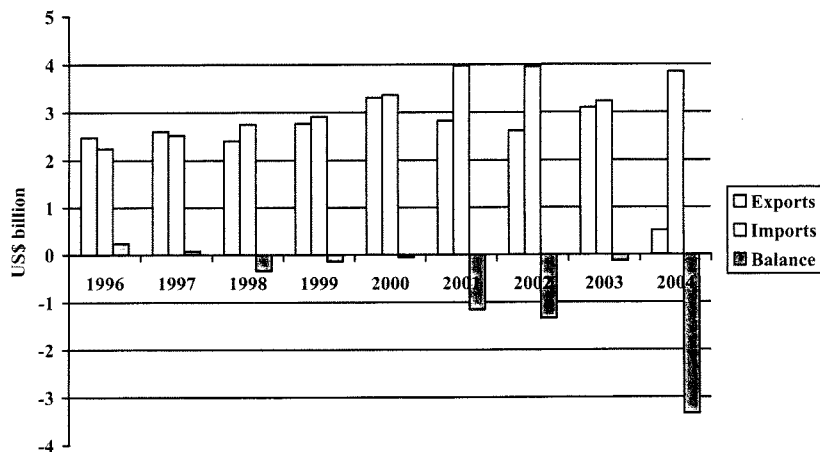
I. The Doha Round

R-CALF USA believes the current round of negotiations at the WTO – the Doha Development Round – provides an important opportunity for the U.S. to address deep imbalances in the global cattle and beef markets. The world market place for cattle and beef is one of the most grossly distorted markets of any sector. Foreign cattle and beef markets are plagued by massive subsidies, including those provided through state trading enterprises; high tariffs and the manipulation of unscientific sanitary and phytosanitary measures to block imports.

These distortions drive down prices for U.S. producers and close markets for U.S. exports. As a result, the American cattle industry suffered catastrophic losses during the 1990s and up until the last two years. While the American cattle and beef market remains one of the most open in the world, markets abroad have slammed their doors shut to American exports. As a result, the U.S. has not enjoyed a trade surplus in cattle and beef trade since 1997, and the deficit in the sector has exploded

over the past six years, hitting more than \$3.3 billion in 2004.² Over the same period, the U.S. has lost its position as a global exporter of beef. While the U.S. was the second-largest exporter of beef in the world in 2000, accounting for 19.5% of global beef exports, in 2005 the U.S. has regressed to the position of the ninth-largest exporter of beef and is projected to account for only 4.1% of world beef exports, falling behind Brazil (the number one exporter), Argentina, Australia, Canada, the EU, India, New Zealand, and Uruguay.³

U.S. Trade in Cattle and Beef



Source: Census Bureau Foreign Trade Statistics for HS 0102, 0201, and 0202.

Since 1994, more than 122,000 cattle ranches and farms have closed down or otherwise exited the beef cattle business.⁴ During the same period, the inventory of cattle and calves in the U.S. dropped from 101 million to just under 95 million.⁵ The steep decline of the cattle industry – a vital component of America's rural economy – has devastated ranching families and rural communities across the nation. The underlying problems facing the American cattle industry are caused in part by the massive distortions in the global cattle and beef market. The Doha Development Round at the WTO provides a crucial opportunity for eliminating these distortions.

² U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef).

³ U.S. Department of Agriculture, Foreign Agricultural Service, *Livestock and Poultry: World Markets and Trade*, April 2005.

⁴ U.S. Department of Agriculture, National Agricultural Statistics Service Agricultural Statistics Database, *U.S. and All States Data – Cattle and Calves, 1994 – 2004*.

⁵ *Id.*

The United States has one of the most open cattle and beef markets in the world, with very low tariffs and no trade-distorting subsidies. Other countries' trade policies in this sector must be harmonized to achieve parity with U.S. levels of openness. The best way to pursue such harmonization in the Doha Round is through a sectoral approach that addresses the variety of trade barriers facing U.S. cattle and beef exports. While the U.S. has reserved the right to pursue sectoral initiatives in the Doha agriculture negotiations, the U.S. has not yet pushed trading partners to adopt a sectoral approach for cattle and beef. The U.S. should propose a sectoral initiative on cattle and beef trade as soon as possible. Given the dramatic disparities between U.S. trade policies in this sector and the policies of our major trading partners, the standard negotiating approaches for market access and subsidies disciplines employed in the current round are unlikely to achieve the necessary level of harmonization. A sectoral approach is also merited in light of the extreme perishability of cattle and beef. All major cattle and beef producing and consuming nations should participate in this sectoral initiative, regardless of their level of development. The goal of the sectoral approach should be to greatly reduce or eliminate trade distortions so that U.S. cattle and beef producers enjoy the same access to global markets that foreign producers currently enjoy to the U.S. market.

Specifically, a sectoral approach in the cattle and beef sector should aim for elimination of trade-distorting subsidies in the sector as quickly as possible and harmonization of cattle and beef tariffs to U.S. levels. In addition, it is essential that the current round of WTO negotiations result in special rules for cattle and beef as perishable products within the meaning of the terms in the Trade Act of 2002. America's ability to effectively enforce its trade remedy laws must also be fully maintained in the Doha Round. Meanwhile, given that the Agreement on Sanitary and Phytosanitary Measures has not been opened to negotiations in the Doha Round, the Administration and Congress need to use other means available to insist that unsound sanitary and phytosanitary barriers to American beef and cattle exports be eliminated and bring trade cases to remove such barriers if necessary. These outstanding issues must receive urgent attention if the current round of negotiations is to level the playing field for America's cattle producers.

II. Eliminate Harmful Subsidies

Major cattle and beef producing nations provide billions of dollars of subsidies to cattle and beef producers through export subsidies and domestic support programs. Australia, Brazil, Canada, China, the EU, Japan, Korea and other producers all subsidize cattle and beef production, while the U.S. provides no subsidies to the cattle and beef industry outside of disaster assistance and drought relief.⁶ In addition, countries such as Australia and Canada use state trading enterprises for beef and for cattle feedstuffs such as wheat. Wheat Boards in these countries, for example, are able to guarantee domestic cattle producers artificially low feed prices, further disadvantaging American ranchers. These

⁶ For a summary of foreign subsidies in the cattle and beef sector, see Office of the U.S. Trade Representative and the U.S. Department of Commerce, *Subsidies Enforcement Annual Report to Congress*, February 2004, at 37 – 43.

massive subsidies severely distort the global market for cattle and beef, artificially depressing prices and undercutting American producers.

R-CALF USA believes that these trade-distorting subsidies in this sector need to be eliminated in order to create a truly balanced international cattle and beef market in which the domestic industry can compete and thrive. R-CALF USA welcomes the commitment made in the Doha Development Round to eliminate export subsidies by a date certain because of the overall benefit such elimination would confer on our sector, and believes the U.S. must push aggressively to reach agreement on the earliest termination date possible for these subsidies in the cattle and beef sector. The recent U.S. proposal to eliminate agricultural export subsidies by 2010 is a welcome first step,⁷ and a sectoral initiative on cattle and beef could help achieve the earliest possible date for export subsidy elimination in our sector.

On the issue of domestic support, R-CALF USA believes that an overall sectoral initiative for cattle and beef would provide the best framework for elimination of trade-distorting domestic subsidies in the cattle and beef sector. Given the larger difficulties in reducing and rationalizing domestic support across all of agriculture, a sectoral approach on this matter provides significant advantages to American producers in a sector where the U.S. already provides no trade-distorting support and foreign support regimes severely disadvantage domestic producers. If a sectoral approach is not employed, it may be possible for foreign producers to maintain unacceptably high subsidization rates for cattle and beef under the subsidy reduction formulas and timetables currently being discussed in the Doha round. The goal of a sectoral approach should be to eliminate all domestic support measures for cattle and beef that do not fit the criteria of the so-called permissible “green box” subsidies. Internal support mechanisms for cattle and beef permitted under the so-called “blue box” category should be as narrow and limited as possible, and “amber box” subsidies for cattle and beef should be eliminated entirely. Finally, the U.S. should work in the Doha negotiations to eliminate state trading enterprises (such as wheat boards) that undermine American cattle and beef producers.

III. Expand Market Access

U.S. tariffs on cattle and beef imports are among the lowest in the world. The U.S. has only minimal tariffs, and no quotas, on cattle imports.⁸ In-quota tariffs on beef imports range from 4 to 10 cents per kilogram,⁹ and calculated duties for all beef imports in 2004 equaled less than 2.6 percent of the value of those imports.¹⁰ In addition, dozens of countries

⁷ See, “U.S. Proposal for WTO Agriculture Negotiations,” USTR website at http://www.ustr.gov/Trade_Sectors/Agriculture/US_Proposal_for_WTO_Agriculture_Negotiations.html, downloaded Oct. 11, 2005.

⁸ U.S. Harmonized Tariff Schedule at Chap. 1, heading 0102 (live cattle) (supp. 2005).

⁹ U.S. Harmonized Tariff Schedule at Chap. 2, headings 0201 (fresh and chilled beef) and 0202 (frozen beef) (supp. 2005).

¹⁰ Calculation based on data from the U.S. International Trade Commission’s Interactive Tariff and Trade DataWeb for HS 0201 and 0202

receive duty-free access to the U.S. market for in-quota beef imports, either through bilateral free trade agreements or unilateral trade preference programs.¹¹ Major U.S. trading partners, on the other hand, apply tariffs rates four to ten times higher than the effective U.S. rate. The European Union, for example, imposes tariffs of at least 12.8 percent on beef imports.¹² Japan applies a tariff of 38 percent on beef imports, and Korea's tariffs on beef imports are 40 percent or higher.¹³

In the face of such disproportionately high tariffs in prime export markets, and in light of the already extremely low tariffs imposed on imports into the U.S., a sectoral approach to market access in the cattle and beef sector is needed. Sectoral negotiations on cattle and beef trade will allow the U.S. to seek parity in tariff and quota rates by pushing for harmonization of world rates to the U.S. level.

A formula approach to tariff reductions in the cattle and beef sector would make it much more difficult to achieve parity and thus poses significant risks to U.S. producers. If a formula approach is to be employed, it must be designed to ensure that major cattle and beef producing and consuming countries with the highest tariffs are obligated to make the steepest cuts so that parity with U.S. tariff levels can be achieved. It is not clear that even the most ambitious tariff-reduction formulas proposed to date, such as that of the U.S., could accomplish this critical result.

Less ambitious proposals, particularly the current EU proposal on market access, with its lower tariff cuts and large loopholes for sensitive products, are even more problematic for American cattle producers. Though the EU's proposal does not explicitly state it would designate beef as one of the sensitive products subject to less ambitious tariff cuts, the EU's proposal to maintain the special agricultural safeguard for beef and its call for a relatively large number of permissible sensitive product categories suggests such designation may be contemplated. While inclusion of special safeguard rules for cattle and beef is an important goal (see section V, below), it is vital that countries not be able to designate cattle and beef as sensitive products in order to avoid meaningful market access commitments in this sector. Similarly, current formula proposals that would allow all developing countries to make significantly lower tariff concessions are particularly inappropriate in the cattle and beef sector, where large developing countries – such as Argentina, Brazil, India and Uruguay – are highly competitive in global markets and currently export more beef than the U.S.

Therefore a sectoral approach to cattle and beef trade in the Doha Round presents much greater opportunities and fewer risks for domestic producers who seek to harmonize world tariff levels to U.S. levels. In order to succeed, a sectoral approach to tariff reductions must bring the tariffs on beef and cattle imposed by all major producing and consuming nations into parity with U.S. levels, regardless of the country's level of development. In addition, the U.S. must seek to limit as much as possible any major producing or consuming nation's ability to avoid or delay tariff cuts in cattle and beef by designating them as sensitive

¹¹ U.S. Harmonized Tariff Schedule at Chap. 2, headings 0201 – 0202 (supp. 2005).

¹² European Union Tariff Schedule at 0201 – 0202 (2004).

¹³ U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, at 317 and 359.

products. Trading partners must not be allowed to manipulate the sensitive product designation in order to avoid achieving parity in cattle and beef tariffs.

IV. Remove Unjustifiable Sanitary and Phytosanitary Barriers

In addition to tariffs, trading partners' abuse of sanitary and phytosanitary standards (SPS) presents a nearly insurmountable obstacle to exports of American cattle and beef. Scores of foreign countries shut their markets to American cattle and beef following the reported first bovine spongiform encephalopathy (BSE) case in the U.S. at the end of 2003, which involved a Canadian animal. Export markets have largely remained closed after the second reported BSE case in the U.S. this year. Currently, 54 countries prohibit some or all imports of U.S. beef, citing concerns about BSE.¹⁴ The United States has repeatedly expressed concerns that many of these import bans are unjustified because they have been imposed with no science-based risk assessment, with an inadequate scientific basis, and/or on the basis of SPS standards that are inconsistent with international standards.¹⁵

The unscientific BSE bans instituted by U.S. trading partners have drastically curtailed U.S. exports of cattle and beef. The value of U.S. exports of cattle and beef plummeted by more than 83 percent from 2003 to 2004, representing a loss of nearly \$2.6 billion in export revenue for the industry in just one year.¹⁶ These losses come on the heels of other unjustifiable SPS barriers to U.S. beef exports, such as the European Union's ban on imports of hormone-treated beef dating back to 1988. While the SPS Agreement is not open for negotiations in the Doha Round, there are many steps the U.S. can take to push for an end to these bans on U.S. cattle and beef exports, including through bilateral negotiations, trade enforcement, and improvements in the U.S.'s own controls on cattle imports from countries known to have BSE risks. Ultimately, the U.S. must do everything it can to re-open these essential markets for American cattle and beef as quickly as possible.

V. Create Special Rules for Perishable and Cyclical Agricultural Products

In recognition of the unique challenges that producers of perishable, seasonal, and cyclical agricultural products face in international markets, Congress has directed U.S. trade negotiators to:

eliminat[e] practices that adversely affect trade in perishable or cyclical products, while improving import relief mechanisms to recognize the unique characteristics of perishable and cyclical agriculture;¹⁷

¹⁴ U.S. Department of Agriculture, Animal and Plant Health Inspection Service, *BSE Trade Ban Status as of 09/21/05* at http://www.aphis.usda.gov/lpa/issues/bse/trade/bse_trade_ban_status.html.

¹⁵ See, e.g., U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, sections on Argentina, Brazil, Chile, China, Hong Kong, Japan, Korea, and Taiwan at 11, 32, 65, 91, 257, 320, 364, and 596, respectively.

¹⁶ U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef).

¹⁷ 19 U.S.C. § 3802(b)(10)(A)(ix).

ensur[e] that import relief mechanisms for perishable and cyclical agriculture are as accessible and timely to growers in the United States as those mechanisms that are used by other countries;¹⁸

and

[seek to] develop an international consensus on the treatment of seasonal or perishable agricultural products in investigations relating to dumping and safeguards and in any other relevant area.¹⁹

While the U.S. has made an initial proposal to clarify and improve rules on anti-dumping and countervailing duty investigations of perishable, seasonal, and cyclical products in the context of the Rules negotiations at the WTO,²⁰ the U.S. has also proposed eliminating the special safeguard for agriculture in negotiations on the Agreement on Agriculture.²¹ The U.S. has suggested that some kind of special safeguard for agriculture could be available for a limited time for less developed countries.²²

A markedly different approach to special rules is needed in the cattle and beef sector given the highly perishable nature of these products. R-CALF USA believes that the special agriculture safeguard in Article V of the WTO Agreement on Agriculture should be maintained for beef and cattle. If the special safeguard has to be eliminated, it must be compensated for by significant liberalization of trading partners' import restrictions on cattle and beef, as described above, and by the establishment of an effective import relief mechanism for cattle and beef. The Doha Round should establish meaningful special rules for cattle and beef in recognition of their status as perishable products. These rules must include an automatic trigger for import relief and be capable of addressing both volume surges and price collapses. As the U.S. Congress has recognized, such market disruptions are of particular concern in perishable and cyclical product sectors such as cattle and beef, and thus merit the creation of a special relief mechanism.

The U.S. successfully included a quantity-based and price-based beef safeguard in the U.S. – Australia Free Trade Agreement, and this is a model that could be built upon in the Doha Round of negotiations. But where the Australia safeguard was discretionary, any safeguard mechanism for cattle and beef established in the Doha Round should incorporate an automatic trigger. Such a trigger is needed because a petition mechanism would be unworkable in a highly fragmented industry such as cattle and beef. An automatic trigger

¹⁸ 19 U.S.C. § 3802(b)(10)(A)(x).

¹⁹ 19 U.S.C. § 3802(b)(10)(B)(i).

²⁰ *Identification of Certain Major Issues under the Anti-Dumping and Subsidies Agreements*, Submission by the United States to the Negotiating Group on Rules, WTO, TN/RL/W/72, March 19, 2003.

²¹ *Proposal for Comprehensive Long-Term Agricultural Trade Reform*, Submission from the United States to the Committee on Agriculture Special Session, WTO, G/AG/NG/W/15, June 23, 2000.

²² See, "U.S. Proposal for WTO Agriculture Negotiations," USTR website at http://www.ustr.gov/Trade_Sectors/Agriculture/US_Proposal_for_WTO_Agriculture_Negotiations.html, downloaded Oct. 11, 2005.

will also ensure that import relief is not delayed by an onerous petition process, but instead is available as soon as possible to the producers of perishable products who need immediate relief. In addition, the safeguard should be designed to protect domestic producers from sudden spurts in volumes of imports and from excessive price volatility, both of which pose a particularly severe risk for producers of perishable products like cattle and beef. Finally, the Doha Round should establish a safeguard that recognizes cattle and beef as like products, so that declining prices or rising imports in either product automatically triggers the safeguard for both products.

VI. Preserve and Strengthen U.S. Trade Laws

In addition to negotiations regarding the Agreement on Agriculture, negotiations on the anti-dumping, countervailing duty, and safeguard rules are also a core concern of R-CALF USA members. While establishment of a sector-specific safeguard that recognizes the unique challenges the cattle and beef industry faces is essential, as discussed above, the U.S. must also work to ensure that the overall effectiveness of our trade laws, upon which the industry continues to rely, is preserved and strengthened. Of particular concern are on-going Rules negotiations in the Doha Round. Some countries have seized upon the Rules negotiations to try to weaken U.S. trade remedy laws. The U.S. needs to resist these threats and instead use the negotiations to clarify and improve WTO rules so U.S. trade laws can be preserved and strengthened. Congress has expressed its support for such a position through one of its principal negotiating objectives for trade agreements, which is to:

preserve the ability of the United States to enforce rigorously its trade laws ... and avoid agreements that lessen the effectiveness of domestic and international disciplines on unfair trade, especially dumping and subsidies, or that lessen the effectiveness of domestic and international safeguard provisions.²³

Unfortunately, to date the Rules negotiations appear to be headed in exactly the wrong direction – the very direction that Congress foresaw and directed U.S. negotiators to avoid. Since the Uruguay Round was concluded in 1994, WTO dispute panels and the Appellate Body have made numerous adverse and overreaching decisions regarding U.S. trade laws. Some of these decisions have created new obligations beyond those agreed to by the parties in negotiations, and some panels have reached adverse conclusions by applying a more onerous standard of review than that provided for in WTO agreements. To redress these wrongs, the U.S. should work to clarify and improve the agreements so that adverse dispute settlement decisions can be resolved favorably, U.S. trade laws are protected from further challenge, and the U.S. retains the ability to strengthen its trade laws in the future. The U.S. should also take advantage of the current negotiations to ensure that future WTO panels cannot overreach their authority. While U.S. negotiators have made

²³ 19 U.S.C. § 3802(b)(14)(A).

some positive proposals in the current round of negotiations, much more needs to be done if the problems that have arisen over the last decade are to be resolved.

In addition, an aggressive reaction is needed to stave off harmful proposals that have been made by foreign countries in the Rules negotiations. Of the more than 180 formal submissions made in the negotiations so far, the vast majority are designed to weaken trade remedy laws and limit the ability to effectively enforce those trade laws. These proposals must be rejected if the U.S. is to preserve its ability to counteract unfair trade practices that undermine American producers.

VII. Conclusion

R-CALF USA believes that the current round of negotiations at the WTO can benefit America's ranchers if the negotiators work to eliminate gross distortions of the global cattle and beef market. In order to achieve an appropriate balance in rights and obligations, and in recognition of the severe imbalance between very low U.S. barriers to cattle and beef trade and very high barriers in other major trading partners' markets, a sectoral approach to negotiations in the cattle and beef sector is required. The U.S. should pursue an aggressive agenda in the cattle and beef sector in the Doha Round to: eliminate subsidies; harmonize market access; preserve the special safeguard for agriculture; establish special rules for perishable, seasonal and cyclical products; and preserve and strengthen U.S. trade laws. This agenda must be accompanied by vigorous efforts to end unjustifiable sanitary and phytosanitary barriers to U.S. cattle and beef exports. America's cattle and beef producers are faced with unfair trade practices, a sharp deterioration in our trade balance, and threats to U.S. trade laws. The industry has lost tens of thousands of farms and ranches in the past decade and stands to lose many more. This decline can be reversed if the Doha Round results in trade that is open, fair, and balanced.

R-CALF USA appreciates this opportunity to present its views, and looks forward to a continued dialogue with the Committee on these important issues.

Sincerely,



Leo R. McDonnell, Jr.
President, R-CALF USA

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**Comments to the
Committee on Finance
United States Senate
Hearing on
“The Status of the World Trade Organization Negotiations”**

October 27, 2005

Submitted by:

Lee McConnell
Chairman
Sweetener Users Association

Executive Summary

- **We agree with U.S. farm groups as represented by the AgTrade Coalition about the significance of substantial improvement in market access** in the Doha WTO Round. The U.S. agriculture and food industry have much to gain from more liberalized world trade in this vital sector.
- **We support the U.S. agriculture proposal that calls for deep tariff cuts as well as the substantial expansion of tariff-rate quotas and the limitation of tariff lines for sensitive products.** The U.S. proposal to limit “sensitive products” to 1 percent of tariff lines would benefit U.S. farm exports to a much greater degree than the recent EU proposal to allow 8 percent of tariffs lines to be essentially excluded from any real competition.
- **Tariff-rate quotas should be expanded** to permit the entry of substantially greater quantities, and ultimately abolished. The U.S. and G-20 proposals are consistent with the July 2004 Agriculture Framework text on this issue in regard to expanding TRQs. We support the U.S. proposal on sensitive products, which increases the WTO minimum TRQ by 7.5 percent of consumption.
- Tariffs should be reduced through **a formula approach** that assures coverage of all products. We support the U.S. proposal, which provides for progressive tariff reduction from tiered tariff levels and establishes a tariff cap ensuring that no tariff is higher than 75 percent.
- The Doha Round should lead to **reductions in market access barriers, not increases.** No tariff anywhere in the world, on any product, should *increase*, nor should any non-tariff barrier anywhere in the world, on any product, become *more* restrictive, as a result of the Round.
- **Export subsidies should be eliminated** worldwide as called for in the U.S. proposal. The WTO ruling against the EU Sugar Regime is correct in finding that schemes such as the European Union’s preferential access for former colonies should not be used to justify the continuation of export subsidies.
- **Domestic support** should be provided in ways that permit market forces to set prices. Trade-distorting domestic supports should be reduced substantially, with deeper cuts by countries with larger subsidies as proposed by the U.S. The U.S. proposal to reduce amber box subsidies by 83% for more heavily subsidized countries will help level the playing field for the U.S. agriculture and food industry sector.

The members of the Sweetener Users Association applaud the efforts of Ambassador Portman and the rest of the U.S. trade negotiating team for their aggressive approach in developing a proposal on agriculture to jump-start the World Trade Organization's Doha Development Round. Without such strong U.S. leadership, the Doha Round was destined to collapse. The clock is ticking on this round with prior setbacks in the Seattle and Cancun Ministerial meetings, the upcoming Hong Kong Ministerial in December and Trade Promotion Authority set to expire in June 2007.

The Sweetener Users Association (SUA) represents companies that produce confectionery, grocery products, dairy foods, soft drinks and other products made with nutritive sweeteners, as well as trade associations representing the interests of these companies. SUA is an active member of the AgTrade Coalition and we support its effort to advance multilateral trade in agriculture. We appreciate the opportunity to submit comments to the Finance Committee.

We support the elimination of export subsidies, reductions in trade-distorting support and substantial improvements in market access as called for in the comprehensive U.S. proposal on agriculture, which was released in October. Our members believe a successful Doha Round will benefit U.S. agriculture and our nation's food industry by opening up new opportunities for export sales, including sales of the processed foods manufactured by many of our members.

We believe the U.S. proposal represents another significant step to flesh out the July 2004 Framework text on agriculture. Despite EU intransigence in failing to make a meaningful offer on October 28, we are hopeful that negotiators can find a way to move the Doha Round forward. It is still possible for the U.S. to obtain advancements that are consistent with the original agricultural liberalization goals set forth in the Doha Ministerial Declaration: **"substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support."**

For these goals to be achieved, two principles must guide U.S. negotiators as they seek agricultural trade liberalization. First, all products must be subject to negotiation, and the final agreement must actually include all products.

Second, trade-distorting policies must be decreased in every instance, not increased. Undoubtedly there will be variations in how fully liberalization proceeds in different sectors. But in no case should the Doha Round be the occasion for heightened protection – for higher tariffs, more restrictive TRQs, greater export subsidies or more extensive trade-distorting domestic support.

Of course, the Doha Round results will be imperfect, and the United States like other countries will endeavor to secure the most favorable outcome for its interests. That will require movement toward liberalization by many sectors – including our domestic sugar industry – even if perfect free trade is not achieved.

The U.S. proposal positions the United States as leader in liberalizing world agricultural trade. In these comments, we have attempted to provide our thoughts on each of the three agriculture pillars.

Market Access

As recognized by U.S. trade negotiators and the AgTrade Coalition, the United States can only gain access to other markets if it is successful in aggressively reducing tariffs. By using the tiered formula agreed to in the July 2004 Agriculture Framework and taking into account the formula proposed by the G-20 countries, the U.S. proposal provides a phase-in period of five years for WTO member countries to make substantial improvements in market access by implementing real tariff cuts to all commodities, whether sensitive or otherwise.

The July 2004 Framework required that substantial improvement in market access be applied to all products, even those considered sensitive. Tariff-rate quotas (TRQs) should be expanded to permit the entry of substantially greater quantities and TRQ expansion should apply to all TRQs (including those established pursuant to both minimum access and current access obligations under the Uruguay Round).

The expansion of TRQs should not prejudice the operations of any legitimate free trade agreement, including the North American Free Trade Agreement. Preferential quotas under NAFTA are in addition to, not part of, the minimum TRQ, and must remain so.

Tariffs should be reduced through a formula approach that assures coverage of all products and tariffs should be capped at a commercially meaningful level. We support the U.S. proposal on sensitive products, which provides that there should be both a substantial expansion of the TRQ level and a reduction in the over-quota tariff.

The revised EU agriculture proposal calls for 8 percent of tariff lines to be treated as “sensitive products” in contrast with the U.S. proposal of capping such treatment at 1 percent of all agricultural product tariff lines. The EU proposal would allow it to maintain high tariff barriers for about 176 of 2,200 agriculture products. Ambassador Portman has correctly pointed out that the EU’s treatment of sensitive products would remain sheltered under relatively high import barriers. We agree with USTR Portman and our AgTrade Coalition colleagues, who have challenged the recent EU offer as allowing the EU to shield sensitive products from substantial improvements in market access.

The most recent G-20 proposal on “sensitive products” is consistent with the U.S. because it calls for greater expansion of the TRQ as the price for smaller cuts in the over-quota tariff. This is an improvement on a previous G-20 proposal that only required cuts to be made from bound rather than applied tariffs (cuts based on the bound rate would not have allowed any significant market access). We believe the U.S. and G-20 proposals on sensitive products together may help keep the EU in a negotiating corner on this issue.

Export Subsidies

Export subsidies should be eliminated worldwide. In the sugar market, export subsidies – particularly those of the European Union – not only tend to depress prices, but also encourage the maintenance of restrictive border measures as a means of countering their effect.

As evidenced by the WTO ruling against the EU Sugar Regime, schemes such as the European Union's preferential access for former colonies should not be used to justify the continuation of export subsidies. The European Commission has proposed serious cuts of 39 percent in its raw sugar support price and 33 percent in its refined sugar support price to comply with the adverse WTO ruling.

Clearly, the EU – and other nations – should end all export subsidies. Reductions in trade-distorting domestic subsidies to encourage a more appropriate level of domestic production are the means by which the EU should balance its markets.

Domestic Support

The U.S. proposal calling for substantial reductions in trade-distorting domestic support is consistent with the Uruguay Round Agreement on Agriculture, where the U.S. advocated and achieved an agriculture agreement that disfavors domestic support deemed to distort trade.

In general, despite some retrograde motion, agricultural policies in the United States over the past two decades have moved in the direction of direct payments and other mechanisms that, by the standards of the Uruguay Round, are less trade distorting than former policies.

Sugar is the principal exception to this trend. Sugar regularly constitutes approximately \$1.1 billion of the total trade-distorting subsidies notified to the WTO by the United States. Essentially, this level of subsidy represents the price gap between the U.S. support price and the world price. Sugar policy in the United States relies almost exclusively on mechanisms deemed by international standards to distort trade.

The U.S. negotiators should be commended for seeking further substantial reductions in trade-distorting domestic support. The proposed 83 percent reduction in amber box subsidies for more heavily subsidized trading partners will help make U.S. agriculture more competitive. However, such reductions should apply on a commodity-by-commodity basis, not on an aggregate basis. Moreover, mechanisms should be established to ensure that no commodity is allowed to enjoy a level of subsidy in excess of that which presently prevails, or which prevailed during a subsequently selected base period.

Conclusion

U.S. trade negotiators have presented an agriculture proposal that demonstrates just how serious this Administration is in achieving a successful and significant outcome in the Doha Round. These agricultural negotiations represent an important opportunity to secure gains for U.S. agricultural and food industries; to further rationalize market-distorting policies worldwide; and to structure trade policy in a way that considers the interests of all affected U.S. parties, not just currently protected industries.

As we move closer to the Hong Kong Ministerial meeting in December, SUA appreciates the opportunity to comment on these critical negotiations.

