

**STATUS OF THE FREE TRADE AREA OF THE
AMERICAS: NEGOTIATIONS AND PREPARATIONS
FOR THE MIAMI MINISTERIAL**

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

MAY 13, 2003



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**STATUS OF THE FREE TRADE AREA OF THE
AMERICAS: NEGOTIATIONS AND PREPARA-
TIONS FOR THE MIAMI MINISTERIAL**

TUESDAY, MAY 13, 2003

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

The hearing was convened, pursuant to notice, at 2:00 p.m., in room 215, Dirksen Senate Office Building, Hon. Craig Thomas (chairman of the subcommittee) presiding.

**OPENING STATEMENT OF HON. CRAIG THOMAS, A U.S. SEN-
ATOR FROM WYOMING, CHAIRMAN, SUBCOMMITTEE ON
INTERNATIONAL TRADE**

Senator THOMAS. I believe we will go ahead and begin. I know there are some other meetings going on, and policy, and so on. But in any event, it is time to begin, so we will do that.

I welcome you all here. Ambassador, I particularly welcome you. This is the first meeting of this subcommittee of which I have been a part, so it is kind of new business for me.

We want to use it partly to get an idea of where we are in the negotiations that are going on in the Free Trade Area of the Americas, and generally get some idea of where we are in terms of trade.

So, I think that is very important to us. This is a major activity that we are involved in now, and has been going on since the early 1990's. I was impressed by the fact that there are 34 nations involved, which I was frankly surprised at that many. It involves some 800 million people, which is quite more than the European Union. So, I think it makes it quite important.

As I mentioned, it has been going on. There have been some meetings. It is designated, as I understand it, to be completed in 2005, but more specifically there is a meeting planned in Miami at the end of this year, I believe, in November. So, that is kind of where we are.

[The prepared statement of Senator Thomas appears in the appendix.]

Senator THOMAS. So we are very pleased to have the Ambassador here this morning to give us an update as to where we are. And then we will have a second panel made up of people from the industry, and also GAO.

So, Mr. Ambassador, welcome. Go right ahead.

By the way, all of you who are testifying, your total statement will be put in the record. So if you would like to summarize it all and kind of get to the bottom line, why, feel free to do that.

Good morning, sir.

STATEMENT OF HON. PETER ALLGEIER, DEPUTY U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Mr. ALLGEIER. Thank you very much, Senator. I will take advantage of that offer that you made to simply summarize my testimony and have the written testimony submitted.

First of all, I am very pleased to have the opportunity to appear before you today on the subject of the negotiations of the Free Trade Area of the Americas. I appreciate it in particular, because I know that there are many, many other items on your agenda.

As I begin this testimony, let me assure you that we have reviewed very carefully the recent report of the GAO on the FTAA, and we take very seriously our responsibilities for the co-chairmanship of the FTAA process, and also as hosts of the upcoming ministerial in November.

We appreciate the careful examination the GAO has given to these issues and their suggestions for making the Miami ministerial a success. We already are implementing a number of the suggestions. For example, their suggestion that we complete a memorandum of understanding with the Miami group that is helping us to organize this.

Let me just take a few seconds to give an overview of the status of the negotiations. We are entering the final stages of the negotiations. As you mentioned, Senator, they began at the Summit of the Americas in December of 1994. For the rest of the period of negotiations, the United States has assumed the co-chairmanship of the negotiations with Brazil.

Currently, all of the 34 countries are in the process of negotiating market access. All of the countries have made offers to each other on timetables for eliminating tariffs, both in industrial goods and in agricultural products, and most of the countries have made market access offers in services, in investment, and in government procurement.

By June 15, we all will then make requests of each other to improve offers, and by July 15 we will start the process of making a second round of offers, and then it will be a continuing negotiation until we complete that part of the FTAA.

Simultaneously, nine negotiating groups are working on the text of the FTAA, the various disciplines in area ranging from intellectual property, to investment, to government procurement. The results of their work will be made available to the ministers for their review at the ministerial in November.

In addition, the countries are working on the overall framework, the architecture of the agreement, and that also will be available to the ministers for their review in November.

Finally, all the countries are working on a very important aspect of the negotiations, which is providing technical assistance and capacity building to the smaller, and less developed members of the FTAA.

This is taking place in the form of a Hemispheric Cooperation Program that the ministers initiated at their last meeting last November in Ecuador.

One thing I would like to emphasize, is that this negotiation of the FTAA is an important part of our overall trade strategy, so it fits into our broader efforts to liberalize trade globally in the WTO, and it also draws from the bilateral negotiations that we are doing in this hemisphere and elsewhere.

And particularly in this hemisphere, of course, we have just recently completed the free trade agreement with Chile, and we are in the midst of negotiating a free trade area with five Central American countries.

These are important for a number of reasons. First of all, these other agreements contribute momentum to the Free Trade Area of the Americas. Both Chile and the Central American countries have been among the most energetic on the FTAA negotiations.

Second, these bilateral negotiations with other countries in this hemisphere help us to establish models and new practices that we can incorporate into the FTAA, reflecting the advance of technology and also developments in business practices, particularly global sourcing.

Third, I mentioned trade capacity building a minute ago. That is an integral part, especially of our negotiations with Central America, and so what we are doing there in terms of strengthening their capabilities, for example, in customs procedures or in sanitary and phytosanitary procedures, will carry over to the FTAA and they will be better equipped not only to negotiate the FTAA, but to carry out the obligations that ultimately are negotiated.

Finally, especially on the market access offers in the FTAA and in these bilateral arrangements, they are meshed closely with our proposals in the World Trade Organization, and so it helps us to gain support for those approaches in the global negotiations.

The other thing I would like to say about the substance of the FTAA, is that it goes well beyond trade and narrowly commercial benefits. One of the most important reasons for doing it in this hemisphere is to support economic reform, regional integration, and political development in the potential trading partners.

The FTAA will help these developing countries to lock in steps that they have taken toward economic reform and political openness. Particularly if you look at what we negotiated in the Chile FTA on transparency and due process, those sorts of practices we hope to negotiate in the FTAA, and they will be very important in terms of the political and economic development of those regions.

Finally, I do want to say a few words about the Miami ministerial. The GAO spent a lot of effort in examining the preparations for that, and that indeed will be a very important meeting for the FTAA itself because it will really be setting us on the final stage of negotiations, the final year of negotiations.

I want to assure you that we are dedicating substantial resources to the preparations for hosting the ministerial, and those preparations are well under way. At USTR, for example, we have assembled a very strong team of 13 government officials, led by a senior official at USTR, the Assistant U.S. Trade Representative, Chris Padillo, who is here with me today. The other members have expe-

rience in organizing and providing security at large, high-profile events.

Our Director of Security, Doug Melvin, is also here. He was the person who handled all of the security for us at the Doha ministerial, which of course imposed unique security requirements. The other members of the team have experience in all the other aspects of organizing this sort of event.

One thing I do want to point out, is this is not the first FTAA ministerial that USTR has organized. We did organize and host the very first ministerial in Denver in June of 1995.

The other thing that is crucial to the success of this is the development of a strong partnership between USTR and the State and local governments in Florida. Governor Bush has indicated his personal commitment to ensure the success of the ministerial.

The group in Miami that is organizing this is headed by Ambassador Charles Cobb, former U.S. Ambassador to Iceland. Just an added personal note, his wife is the U.S. Ambassador to Jamaica, Sue Cobb, so this is truly a family commitment to the success of the FTAA.

The day-to-day oversight on this and leadership is provided by Ambassador Luis Lauredo. He was former U.S. Ambassador to the OAS, so he knows the region very well. He was the U.S. coordinator to the Summit of the Americas in Quebec in 2001 that President Bush attended. Luis also was the executive director of the group that organized the Summit of the Americas in Miami in 1994.

So, they have a very strong group. They have an extensive support network of partners from both the private and the public sector in Florida. As I said, they have extensive experience in organizing large events. The team is totally bilingual, so it is equipped to deal with all of the members of the FTAA negotiations.

They have made substantial progress to date. First of all, the site has been selected. The rooms and the meeting space have been reserved. Resources for transportation, security, information technology support, and administrative support have been identified.

The team has substantial experience in raising funds and in identifying in-kind support. As I said, we are in the process of completing an Memorandum of Understanding with them so that it is clear which responsibilities fall to the host committee and which responsibilities to USTR or to other elements of the U.S. Government.

On the substantive side, we are working hard with the Brazilians as co-chair to ensure that the substantive outcome is successful. Ambassador Zoellick and I will be traveling to Brazil at the end of this month to have further consultations with our counterparts in Brazil, and we are confident that the Miami ministerial will be a springboard to the timely completion of a strong FTAA.

So, in closing, I just wanted to reiterate that the Bush administration is committed to ensure a timely and successful negotiation of the FTAA, and we look forward to frequent consultations with you and the members of your subcommittee in the 6 months between now and Miami, and then also in the period for completion of the FTAA itself.

So I would like to thank you very much for organizing this hearing, and would be happy to respond to any questions or comments that you or any other member of the subcommittee might have. Thank you.

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

Senator THOMAS. Thank you.

It is sort of interesting, again, I guess, having not been directly involved, that there is as much attention going to the arrangement for the meeting as there is to the reason for the meeting. What is that, a Seattle carry-over?

Mr. ALLGEIER. Well, perhaps I did a disservice by skimming over the substantive work. Let me assure you that every single week we have at least one, and usually two, teams of negotiators down in Pueblo, Mexico which is where the negotiations are being held.

They are the ones who are doing the negotiations of the market access and of the disciplines in the nine chapters. So, the substantive work is extremely active and I assure you that we are not giving that short shrift.

Senator THOMAS. Yes, I am sure. But it is security and those kinds of things. That is what you are talking about, apparently.

Mr. ALLGEIER. In terms of the arrangements for Miami.

Senator THOMAS. In terms of the arrangements.

Mr. ALLGEIER. Yes. Right. And certainly people are aware of the previous experience in Seattle. I was there, and a number of my colleagues were there.

Senator THOMAS. That is too bad. I am sorry it has to be that way.

There have been a number of reports. I just left a meeting, as a matter of fact, with the Trade Representative, and the Secretary of Agriculture, and the Speaker, and others on the Memorandum in the EU, and perhaps bringing the case before the WTO.

But there have been ideas that the negotiations on agriculture are bogged down more than anything else. What is the relationship between agriculture and the other issues?

Mr. ALLGEIER. In the WTO?

Senator THOMAS. No.

Mr. ALLGEIER. Here?

Senator THOMAS. Here.

Mr. ALLGEIER. Well, in some ways it is very similar in that the issue on agriculture, really, are three principal issues. One, of course, is the traditional market access of reducing tariffs and expanding allocations and quotas or eliminating quotas. That is pretty straightforward.

But the other parts that are so difficult, are, first of all, dealing with export subsidies in agriculture, and then dealing with domestic support for agriculture. Agriculture is extremely important in the FTAA because a number of the countries, ourselves included, are major agricultural exporting countries.

A number of the countries in Latin America, particularly Brazil and Argentina, have indicated that they see a linkage between opening up their markets and what would be the disciplines on domestic supports and export subsidies.

We have said, Canada has said, that the place to negotiate, especially domestic supports, is the global negotiations. We cannot negotiate disciplines on domestic supports in a regional context and leave the European Union, Japan, and others to continue their subsidy practices without any restraints.

So, there is a linkage between these two negotiations. We are trying to use the agricultural negotiations in the FTAA to build support for our proposals for agricultural reform in the WTO.

Senator THOMAS. Brazil's Under Secretary of Integration of Economic and Foreign Trade Issues indicated, after an April meeting, that "it reached an important understanding on agriculture." What were the changes in the U.S.'s position that would bring out that kind of a reaction?

Mr. ALLGEIER. Well, we have not changed our position. Our position remains, as I said, on domestic subsidy supports, that the place to negotiate those is in the WTO. I mean, we have agreed to continue to talk about these issues in the FTAA, but we have always said that and we will continue to talk about them. But, as I said, we believe that that requires a global solution and not a regional solution.

Senator THOMAS. Are these bio problems or are they more support problems?

Mr. ALLGEIER. I am sorry?

Senator THOMAS. Are these the same thing the EU is concerned about in terms of bio-agriculture?

Mr. ALLGEIER. No, no. It is the domestic support programs.

Senator THOMAS. I see.

Mr. ALLGEIER. A number of the Latin American countries actually are very supportive of our position on biotech. Argentina, for example, is a co-complainant in this case against the EU. A number of the countries there do use biotech crops and are worried about whether their access to markets in Europe will be impeded.

Senator THOMAS. Does the fact that we have something with Chile make it easier to work with the other Latin American countries?

Mr. ALLGEIER. I think it does. First of all, it increases the incentive to have the same sort of access to the U.S. market as Chile got through its bilateral. Also, I think that we worked through a number of issues with Chile that can be transferred to the negotiations with the other 32 countries.

Senator THOMAS. There has been quite some talk, at least about inadequate resources, for the ministerial. How many people are going to be involved in preparing for the ministerial?

Mr. ALLGEIER. Well, it will be a huge number if you look at the people in the U.S. Government. But, more importantly, the people who are working with the host committee in Miami, and of course all of the security forces there from the four jurisdictions that will be involved. I cannot give you a number today.

Senator THOMAS. It is going to be a large number.

Mr. ALLGEIER. It will be a large number, yes.

Senator THOMAS. There is also some observation that perhaps USTR is not the agency that has had the kind of experience for this, and you could be reaching out to the State Department or others to assist in this development. Is that the case?

Mr. ALLGEIER. Well, we are reaching out. We always have our hand out, Senator, to get support from other agencies. So, we are working primarily with State and with Commerce for assistance.

Senator THOMAS. I see.

Speaking of having your hand out, I guess, what, \$1.3 million additional you have asked for?

Mr. ALLGEIER. That we have asked for?

Senator THOMAS. Yes. Supplemental appropriation to produce equipment that you needed to prepare.

Mr. ALLGEIER. Yes, we do have the request for supplemental support.

Senator THOMAS. Well, let us see. Worldwide, developing countries need technical assistance, and so on. There is quite a bit of unrest in the Americas. Brazil's change in administration apparently brought about some change, certainly Colombia, Argentina.

What is being done in the negotiations to address the different levels of development and the size of the economies to try to balance that out some?

Mr. ALLGEIER. That is a huge issue, of course, given the diversity, the obvious diversity, both in size and in economic levels. That has been a constant theme throughout the negotiations.

Our approach to that really has two components. One, is the one I mentioned earlier about building up their trade capacity and providing technical assistance so that they can negotiate, they can implement, and that they can also benefit from what is negotiated.

The other part of it is to make adjustments to take account of different levels of development. For example, in our market access offer, we offer to open our markets more quickly to the countries of the Caribbean than we do to more advanced developing countries within the hemisphere.

We think that that is an appropriate way to let them get the benefits at an earlier stage, and we are also prepared to give them a longer period in which to implement changes than we would to a more advanced developing country. So, that is the second major element for addressing these differences.

Senator THOMAS. I see. I see.

You are co-chairman with Brazil. Brazil has named a new negotiating team, as I understand it, and several statements they have made sort of indicate a lack of commitment to the FTAA and its deadlines. Is there a prospect that attitudes have changed substantially in Brazil?

Mr. ALLGEIER. I think, honestly, attitudes are in flux in Brazil. If you go back to the campaign, the candidate, Lula DeSilva, was quite critical of the FTAA. When he became president, he became more favorable to it, although continuing to insist that it would have to be a deal that was in Brazil's benefit. Well, it is going to have to be in everybody's benefit or we will not sign it, that is clear.

More recently, there has been some change in their team. They basically have two teams, as we do, one team representing Brazil in the negotiations, the other team being part of the co-chairmanship. This change took place in the co-chairmanship part of the team, and it is very, very recent, so we are still assessing what that means.

My counterpart, Ambassador Qualdoaldo Hugonet, is a very constructive co-chair. We certainly hope that that will continue to be the case. As I mentioned, Ambassador Zoellick will be going to Brazil, and I will be accompanying him, at the end of the month.

One of the principal things we want to discuss, is exactly what Brazil's attitude is toward the negotiations, and work together to sketch out a plan that, as co-chairs, we can ensure that these negotiations go forward to a successful conclusion, on time. We would be happy to report back to you after that trip.

Senator THOMAS. You mentioned this already, but apparently you have an agricultural section in the draft that says "only parties with small economies in the hemisphere can apply special safeguard mechanisms for agricultural products." How does that sell with the other countries?

Mr. ALLGEIER. Well, I do not think that we are limiting safeguard actions to small economies. I mean, that still is under negotiation.

Senator THOMAS. It says, "only parties with small economies may apply for special safeguard mechanisms."

Mr. ALLGEIER. I do not know where that comes from. That may be in the text that is being negotiated, but that certainly has not been finalized.

Senator THOMAS. Apparently that could be someone else's proposal as well. What would your reaction be to that? You have indicated there was some thought given to this.

Mr. ALLGEIER. Yes. In various areas, we would look to ways in which the smaller economies or the less-developed economies could have some extra leeway. Safeguards is a very sensitive area, and we want to be real careful on that.

Senator THOMAS. It is always hard for others to admit that somebody else ought to have a little better advantage, it seems.

Mr. ALLGEIER. Yes.

Senator THOMAS. I used to be the subcommittee chairman for the Pacific Rim, and China always thought they were the least productive of the whole country.

At any rate, just finally, then, what is your prediction in terms of completing this on your timetable?

Mr. ALLGEIER. I feel reasonably optimistic that we will complete it on our timetable. I look to see the commitment that these countries are making in the form of the resources that they are devoting to it.

Just as I said, we are sending teams week after week to Pueblo to negotiate. Even these smaller economies are doing that. That, to me, suggests that it is something that is important to them.

As I said in the testimony, many of them see this in much broader terms than commercial terms. They see it as reinforcing the kinds of reforms that they are trying to make in their economies to open their economies to their public, to have more of the rule of law and due process in their systems. So, I think there is a very strong commitment to achieve this kind of economic arrangement with the United States.

Senator THOMAS. Other purposes, of course, being there, one of our main purposes, is to strengthen foreign trade for the United States. Is that correct?

Mr. ALLGEIER. Absolutely. I mean, our market is very, very open to these economies.

Senator THOMAS. Right.

Mr. ALLGEIER. When you add up the result of the Generalized System of Preferences, the Caribbean Basin Initiative, the Andean Trade Preference Act, and we face barriers in these other countries that are multiples of the levels that we have here.

Senator THOMAS. Well, thank you very much, Mr. Ambassador. Appreciate it. We will be keeping in touch with you as this progresses.

Mr. ALLGEIER. Thank you very much, Senator.

Senator THOMAS. Yes, sir.

Mr. Yager, Director of International Affairs and Trade, General Accounting Office; Craig Hill, vice president of the Iowa Farm Bureau; Thea Lee, assistant director for International Economic Policy for the AFL-CIO; James Fendell, president, Association of American Chambers of Commerce in Latin America; and John Audley, senior associate and director, Trade, Equity and Development Program, Carnegie Endowment for International Peace. Welcome to all of you.

Again, if you have any impulse to shorten your statement and get to the point, why, pursue it recklessly, would you please?

The chairman asked for a GAO report, and that, Mr. Yager, is what you have been involved in and what you are going to talk about this morning.

Mr. YAGER. Yes. I would be pleased to give a short summary of the report today and answer questions afterwards.

Senator THOMAS. Fine, sir. Yes, please go ahead.

STATEMENT OF LOREN YAGER, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Mr. YAGER. Mr. Chairman, I am pleased to be here today to discuss our observations on the current phase of the FTAA negotiations and the preparations for the November ministerial in Miami, Florida.

We have been performing this work for the Finance Committee and for the House Ways and Means Committee, and your committee released the GAO report on this subject last week.

The Bush administration has made establishing the Free Trade Area of the Americas one of its top trade priorities. The final phase of negotiations began last November and is scheduled to lead to the completion of the agreement in January of 2005.

As we heard from Peter Allgeier of USTR in the earlier panel, the United States has leadership responsibilities in two important aspects at this time: the co-chairman of the negotiations with Brazil, and preparations for hosting the next ministerial in Miami in November of this year.

The primary message of my testimony this afternoon is that these two leadership responsibilities pose significant challenges for USTR and risks for the FTAA negotiations.

Specifically, I will discuss, first, the challenges associated with co-chairing the final phase of the negotiations with Brazil, and sec-

ond, the risks the U.S. must address as host to the November ministerial in Miami.

In terms of the challenges as co-chair with Brazil, USTR, which handles the negotiations, has not added appreciably to its staff, despite the sharply increased workload and responsibilities associated with co-chairing the FTAA negotiations.

Now, Mr. Allgeier did announce some additional positions that would be coming on board. We certainly welcome this development, particularly since, as he mentioned, there are 6 months now to go before the actual ministerial.

But the issues that we raise in our report are similar to issues we raised in testimony last year before the Senate on the human capital challenges that do exist at the trade agencies.

The second point. The goals of this negotiating phase, as Mr. Allgeier mentioned, again, are ambitious and they may be difficult to achieve. For example, negotiations on market access commitments, considered the heart of an agreement, will require serious trade-offs among the participants to lower some of the high tariffs that still exist between the nations.

Finally, FTAA negotiations are taking place at the same time as several other complex trade negotiations that often involve the same issues and the same staff. Indeed, the resolution of key issues for the hemisphere, such as agricultural subsidies, have been linked to the negotiations in the World Trade Organization that are presently bogged down.

In terms of the risks to a success ministerial in Miami, plans for hosting the ministerial are in an early stage. But officials with prior experience in hosting ministerial meetings told us that certain key elements must be in place soon to successfully host a major trade ministerial, notably experienced staff, a clear plan, sufficient funding, and adequate security.

However, our examination of agency records and other documents revealed that current U.S. plans leave some gaps in these areas. For example, USTR has sole responsibility for all facets of planning and logistics, a complex task, but USTR has limited institutional experience in this area and is getting little support from other Federal agencies such as the State Department.

In addition, although current estimates are that the ministerial will cost about \$10 million, no Federal agency has yet received any funding for this event. The local organizers are just beginning fundraising efforts.

Failure to address similar risks caused serious logistical and security problems at the 1999 Seattle WTO ministerial, the last major trade ministerial hosted by the United States.

Mr. Allgeier addressed some of these concerns in his testimony. For example, he talked about the additional personnel that will be working on the ministerial, and that USTR may also get some assistance from either the State Department or the Commerce Department. We certainly welcome these developments.

On the other hand, we still feel that issues related to the budget are slower in developing. They have made some progress in identifying costs and the responsibilities of the Federal Government as compared to the Miami organizers. But it appears that resolving

the division of cost and actually carrying out the fundraising itself are at an early stage.

Mr. Chairman, I also want to note that the interest of the Finance Committee has been instrumental in the progress related to planning for the ministerial. There has been significant activity and progress since the committee began asking questions about planning for the ministerial last December, and there has been even more progress as a result of your scheduling this hearing.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you may have.

Senator THOMAS. Thank you very much, sir. We will be back with some questions.

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

Senator THOMAS. Mr. Fendell?

STATEMENT OF JAMES FENDELL, PRESIDENT, ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA, MIAMI, FLORIDA

Mr. FENDELL. Thank you, Chairman Thomas. Thank you for inviting me to appear before this panel today.

I am James Fendell. I am chairman of a company called Aerocasillas—Aeropost in Latin America and Miami, and president of the Association of American Chambers of Commerce in Latin America, which is known as AACCLA.

AACCLA is leading advocate of increased trade and investment between the United States and Latin America, and the Caribbean. We represent 23 American Chambers of Commerce in 21 Latin American and Caribbean nations, and the association's 20,000 member companies manage over 80 percent of all U.S. investment in the region.

I am also pleased to testify on behalf of the U.S. Chamber of Commerce, which, as everyone knows here, is the largest business federation in the world. Representing nearly 3 million companies of every size, sector, and region of our country, the chamber has supported the business community in the United States for nearly a century.

I appreciate the opportunity to testify, first on the status of the Free Trade Area of the Americas negotiations, and second, on the preparations for the November ministerial in Miami.

The FTAA is our top hemispheric priority and we are committed to working with government officials and business leaders throughout the Americas to make this a reality.

In my written testimony, I have gone into greater detail to explain how the FTAA will create new business opportunities for U.S. business workers and consumers, as well as the citizens of the 33 other democracies which are taking part in these negotiations.

In these oral remarks, I would like to summarize our outlook at this critical moment in the FTAA negotiations. Later this month, as has been mentioned here, U.S. Trade Representative Robert Zoellick and Ambassador Allgeier will travel to Brazil to discuss the FTAA with Minister of Foreign Relations Celso Amorim, as well as other Brazilian government ministers.

This is a very important trip, for several reasons. Most obviously, the United States and Brazil are currently co-chairing the FTAA

negotiations. For this reason, and because Brazil accounts for over half of the GDP of Latin America south of Mexico, Brazil carries a great deal of weight in these negotiations.

But the visit is also an important chance to follow up on the initial offers the United States, Brazil, and the other negotiating countries submitted in February of this year.

The United States offered a comprehensive liberalization proposal in agricultural and non-agricultural goods, services, investment, and government procurement, placing all tariff lines on the table. Brazil and its three neighbors in the Mercosur customs union submitted a much more timid initial offer, and the United States expressed disappointment with that offer.

For their part, Brazilian officials expressed disappointment with the differentiated structure of the U.S. offer, which promised to lower tariffs quickly for the small economies of the Caribbean, and more slowly for Brazil, Argentina, and their Mercosur partners.

On a positive note, Brazilian government officials and business leaders increasingly see trade negotiations with the United States as an important part of any effort to boost Brazilian exports and economic growth.

On the other hand, some in Brazil argue that the FTAA has become a political hot potato, leading some officials to consider proposing a bilateral free trade agreement with the United States.

A bilateral or four-plus-one free trade agreement in which the four Mercosur countries would negotiate directly with the U.S. is also held up as simpler than the 34-nation FTAA talks.

In our view, it would be an absolutely terrible mistake to walk away from the FTAA. The negotiations have come a long way, and abandoning them now would only postpone the arrival of such obvious benefits as improved access to hemispheric markets.

Moreover, the obvious complexities of the 34-nation FTAA negotiations are not delaying efforts to reach agreement. Rather, the difficulty arises from a lack of political will in hemispheric capitals which would persist in the context of negotiations for a U.S.-Brazil, or four-plus-one, free trade agreement.

A special concern is that such an agreement would freeze out many countries that badly need this hemispheric agreement to allow them to lift their economies and better provide for their impoverished populations.

Ambassador Zoellick is to be praised for his initiative in undertaking this trip to Brazil. The stakes are high, but we are making inroads in convincing our friends in Brazil and elsewhere in the hemisphere that we can create an FTAA that will help jump-start economic growth and will pave the way for a more prosperous hemisphere.

Finally, with respect to the preparation for next November's FTAA ministerial and Americas' Business Forum in Miami, the U.S. Chamber of Commerce, AACCLA, the Council of the Americas, and several other national business organizations are collaborating with the Miami-based organizers to help ensure the success of these important meetings.

We have held meetings with Charles Cobb, Armando Codina, and Ambassador Luis Lauredo to discuss ways to optimize this meeting and to move it forward. As a result, a national advisory board of

U.S. business organizations has been formed with these organizations acting as co-chairs.

We are still at an early stage in the preparations, but we believe that the Miami-based organizers will get it done. Thank you very much, sir.

Senator THOMAS. Thank you.

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

Senator THOMAS. Mr. Hill?

STATEMENT OF CRAIG HILL, VICE PRESIDENT, IOWA FARM BUREAU FEDERATION, WEST DES MOINES, IOWA

Mr. HILL. Good afternoon, Mr. Chairman. My name is Craig Hill. I am vice president of the Iowa Farm Bureau. I am also a full-time farmer in Warren County, Iowa. My farm is somewhat typical of an Iowa farm, growing corn and soybeans, and involved in pork production.

I appreciate the opportunity to speak to you today regarding the proposed Free Trade Area of the Americas, the FTAA, and the potential benefits to American agriculture.

Iowa farmers are among the best in the world at what we do: we provide the world with food. We will continue to meet the future demand, but our ability to be successful depends in large part upon the decisions made by our government in two important areas: opening doors for profitable trade of our products, and enforcing the trade agreements that we have negotiated.

The Farm Bureau has a long history of supporting free trade and the worldwide reduction of tariffs and trade barriers. Iowa farmers especially understand the importance of free trade. Two out of every five acres of corn, every other acre of soybeans, and about 10 percent of our livestock are exported. In fact, about one-third of the total value of Iowa's production is in the export market.

If tariffs were eliminated in the FTAA, North and South America could become the world's largest free market, exceeding that of the European Union in terms of population.

We support the elimination of non-tariff barriers to trade and agricultural products, such as discriminatory licensing requirements, barring market access until domestic supply is exhausted, and the sanitary and phytosanitary measures that are not based on sound science.

U.S. agriculture experienced strong gains in NAFTA, and we would like to repeat this success in the rest of the region. Producers from these countries already enjoy significant access to our market, and also compete with us in the international marketplace. It is imperative that U.S. producers begin to enjoy access to the FTAA markets on equal terms.

The FTAA negotiations are important to Iowa farmers. We want to participate in this market with a combined GDP of nearly \$13 trillion and \$800 million consumers. Most of their products enter the U.S. free or at reduced rates, and we need Central and South America to offer U.S. producers the same access to their markets.

A Free Trade Area of the Americas agreement would build on the progress made through WTO and NAFTA. Breaking down trade barriers would give U.S. farmers a better chance at competing with

other countries who current benefit from preferential trade agreements in the region.

Not all trade agreements are created equal. However, we must take care to ensure that, as agreements are negotiated and concluded, the benefits to the American farmer are positive.

This caution is especially important in the Free Trade Area of the Americas. Three of the major FTAA countries already have an agricultural trade balance with the U.S. that runs substantially in their favor.

According to the USDA's 2002 Trade Statistics Report, the U.S. exports \$52 million of agricultural goods to Argentina, but imports \$602 million worth of agricultural goods, for a negative trade balance of \$550 million. The same is true for Brazil, as well as many other countries.

In addition, the USDA report stated that, under FTAA agreement, total U.S. agricultural exports may increase 2 percent, but the agricultural imports to the U.S. may increase 3 percent, adding to our negative balance of trade in South America.

We recognize that other American industries have much to gain from the FTAA agreement, but we do not want those gains to come at the expense of American agriculture.

We also have concerns that the office of the U.S. Trade Representative, the USTR, may not be fully prepared to meet the challenges of hosting the November, 2003 ministerial in Miami.

In April, 2003, the GAO report concluded that USTR may not be prepared to host the meeting. Its staff remained small, and was stretched too thin. GAO also reports that USTR is counting on funding that has yet to be secured.

The concerns we raise today do not represent opposition to the Free Trade Area of the Americas. We raise concerns to ensure that Congress is aware of the challenges to USTR and so that Congress is aware that, unless negotiated properly, U.S. agriculture can stand to lose more than it would gain.

Negotiators need to be on their toes to ensure that sanitary and phytosanitary rules are transparent and do not unnecessarily restrict our access to foreign markets.

In conclusion, the Iowa Farm Bureau would like to reiterate its support for free trade agreements such as Free Trade Area of the Americas, and to ask Congress for its support in opening doors for the profitable trade of our products. We also ask that USTR carefully negotiate on agricultural issues so that U.S. farmers will gain, and not lose, under this very important free trade agreement.

I thank you for the opportunity to comment.

Senator THOMAS. Thank you for being here.

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

Senator THOMAS. Mr. Audley?

STATEMENT OF JOHN AUDLEY, SENIOR ASSOCIATE AND DIRECTOR, TRADE, EQUITY AND DEVELOPMENT PROGRAM, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE, WASHINGTON, DC

Mr. AUDLEY. Thank you for inviting me to testify today.

The September, 2002 National Security Strategy argues that trade liberalization should help poor countries develop healthy

economies that protect the environment and promote greater respect for workers' rights. As it presently stands, the Free Trade Area of the Americas agreement is a long way from meeting those goals.

My testimony will emphasize three points. First, when followed, the environmental provisions and U.S. trade promotion authority will help to ensure that trade and environment policies are mutually supportive.

But whether or not the trade and environment question has now been answered, the United States, Canada, the European Union, and the WTO itself now negotiate environment into trade agreements. The FTAA should be next.

My second message, is that the United States must be cautious not to develop a one-size-fits-all approach to trade and the environment, and nowhere is this point more important than in negotiations to create a U.S.-Central America free trade agreement.

During meetings this week, the United States is expected to propose environment and labor language similar to that found in the U.S.-Chile FTAA. While I support the Chile FTA's environment provisions, the Central American governments' inability to protect the environment or manage industrial pollution means that the United States must link trade liberalization to enhancing the capacity of these governments to protect the environment and promote public health.

My third message, is that Congress can take a number of steps to help U.S. negotiators bring home an FTAA that is good for America. As you know, environment is not on the formal negotiating agenda, and from the very beginning our Latin American trading partners have been suspicious of the U.S. interest in the environment.

Progress towards a more ecologically sustainable trade agreement has occurred in two areas. First, over the course of 7 years, the FTAA process has been dragged, kicking and screaming, towards transparency.

Second, governments agree to link technical assistance and capacity building to trade negotiations. The Hemispheric Cooperation Program is a positive step towards providing technical assistance and capacity building, as outlined by Congress in TPA.

But, while important, improvements in transparency and the potential for technical assistance and capacity building are insufficient to bring the FTAA in line with U.S. negotiating priorities.

There are four areas in which Congress should take action to help U.S. negotiators meet TPA objectives. First, Congress must ensure that the FTAA, and the manner in which it is negotiated, reflect our commitment to openness, transparency, and accountability.

Congress should encourage more frequent release of the text, provide USTR with guidance regarding proposed the FTAA civil society group, ensure effective public participation during the 2003 Miami ministerial, and instruct USTR to duplicate the public participation financial penalty in panel roster portions of the U.S.-Chile dispute settlement understanding in the FTAA agreement.

Second, Congress should make sure that USTR understands that the FTAA requires a different approach to reconciling trade and en-

vironment policies. In addition to the provisions found in the U.S.-Chile FTAA, the United States should propose that the U.N. environmental program initiate annual reviews of the ability of our FTAA partners to implement their own environmental laws.

This proposal is similar to the role played by the International Labor Organization regarding core labor standards in the U.S.-Cambodia textile agreement, and independent reporting is already common practice among OECD countries.

Members of Congress should be especially vigilant with regard to the FTAA's investment chapter. Congress should hold hearings immediately after the release of the next draft text and invite the various parties to discuss the FTAA investment language.

For guidance on environment in the negotiations, Congress should pay close attention to the results of the FTAA environmental review, the draft of which is expected to be released in October.

Third, Congress should ensure that the United States meets its commitments to help build strong trading partners through appropriate technical assistance and capacity building.

Congress should ask U.S. AID to explain fully its approach to trade-related technical assistance and capacity building, encourage U.S. AID to better use its web site to post information about its contractors involved in trade-related capacity building, and urge the State Department to instruct embassy staff to clearly explain U.S. trade-related capacity building objectives to actively engage environment and development ministers.

Finally, Congress can pass the U.S.-Chile FTA. Already, Chilean trade negotiators are trying to persuade other Latin America governments not to wait until the eleventh hour and engage the United States now in a discussion of how to integrate environment into the FTAA negotiations. We have much to gain and a great deal to lose if we force Chile to wait any longer for improved U.S. trade relations.

Thank you.

Senator THOMAS. Thank you very much.

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

Senator THOMAS. Ms. Lee?

**STATEMENT OF THEA M. LEE, ASSISTANT DIRECTOR FOR
INTERNATIONAL ECONOMIC POLICY, AFL-CIO, WASH-
INGTON, DC**

Ms. LEE. Thank you very much. Thank you, Mr. Chairman, for the opportunity to testify today on behalf of the 13 million working men and women of the AFL-CIO on this very important topic.

The AFL-CIO recognizes and welcomes the deep connections and ties between the United States and the rest of our hemisphere. We are proud to work closely with our union counterparts and civil society allies throughout the hemisphere in tracking the negotiations and analyzing the likely impact of the agreement.

We support the objective of a social and economic integration process that will contribute to stable and sustainable growth, and will ensure that the benefits of that growth are shared equitably.

However, we remain skeptical that a new trade agreement, modeled on past agreements, will deliver these results. We are deeply

concerned, from what we see of the FTAA negotiations, that they are headed in the wrong direction and will exacerbate, rather than solve, the very serious problems facing American working families and our counterparts throughout the hemisphere.

In addition, we believe the negotiation process needs to be opened up dramatically to provide more transparency and accountability, both with respect to the government process within each country, as well as the process of the FTAA ministerial, so that ordinary citizens and their organizations throughout the hemisphere can participate effectively in the political debate over how best to integrate the economies of the western hemisphere.

Our concern is less with getting the FTAA done and finished and negotiated than with doing it right, and we think that this is an important stage for the Senate and the House to really focus in on the details, the substance, as you mentioned earlier, of the agreement as it is shaping up and not wait until it is presented as a fait accompli in 2005, when it is too late to make any changes.

In our view, in order to truly promote the interests of average working people in the United States and throughout the hemisphere, the FTAA must incorporate enforceable workers' rights and environmental protections in its core.

It must also incorporate: measures to ensure that countries retain the ability to regulate the flow of speculative capital in order to protect their economies from excessive volatility; debt relief measures; equitable and transparent market access rules that allow for effective protection against import surges, dumping, and unfair trade subsidies; and a transparent, inclusive, and democratic process, both for the negotiation of the FTAA and for its eventual implementation.

In addition, FTAA negotiations on investment services, procurement, and intellectual property must not undermine the ability of governments to enact and enforce legitimate regulations in the public interest.

I want to say a few words in particular on the workers' rights issue. As you know, that is very important to us.

Unfortunately, so far we have seen a couple of versions of the draft bracketed text, and we see no signs whatsoever that the FTAA is headed in the direction of incorporating any provisions whatsoever, any meaningful provisions, protecting workers' rights.

There is no negotiating group on workers' rights, there is no chapter on labor rights, there has not even been a study group on workers' rights, even though the United States has proposed formation of such a group. We find this very, very troubling, indeed.

There is only one provision on labor that is even included in the draft bracketed text, and that has not been agreed to. That provision is extremely weak, modeled on the NAFTA investment chapter environment provision.

So, without enforceable protections for workers' rights, we believe that the FTAA will cause the same kinds of job loss, wage depression, and rights violations throughout the hemisphere that we have seen under NAFTA.

We are also particularly concerned because, in today's U.S. trade laws, we have preferential trade programs that affect many of the Latin American countries. Mr. Allgeier mentioned the CBTPA and

the Andean Pact, and also the GSP, the Generalized System of Preferences.

These programs all include enforceable protections for workers' rights. In other words, we can withdraw trade benefits from countries in Latin America today if their laws do not meet internationally recognized core labor standards.

We are worried that if the FTAA continues on its current path without any enforceable protections for workers' rights, in fact, we will be stepping backwards from the protections we have today in current U.S. trade law on workers' rights. We will be giving permanent market access to countries, and yet giving up our right to insist that countries at least meet the international workers' rights.

I just wanted to note one thing, that the U.S. market access offers are on the table already at a time when we do not see any progress whatsoever on the workers' rights or any commitments on workers' rights, and we find that a troubling imbalance.

In terms of the trade laws, we are also concerned because we see in the draft bracketed text of the FTAA there are proposed provisions that would eviscerate U.S. trade laws by imposing tight restrictions, and even some outright prohibitions, on methodologies to resolve antidumping and countervailing duty cases.

These provisions, and any other provisions that could undermine U.S. trade laws, are completely unacceptable to us. The FTAA must not in any way infringe on the right of countries to protect their industries, workers, and farmers from unfair trade practices.

Let me just say a couple of words about the Miami ministerial and transparency. In past FTAA ministerials, there has generally been a business forum where business representatives have privileged and superior access to the trade ministerials and to the negotiation process.

We would like to see a labor forum and a civil society forum be given the exact same access, and that is something that is under the control of the U.S. Government. So, we call on the U.S. Government to ensure that labor and civil society groups have the same access to the negotiators as the business representatives will have.

I will leave it at that. I thank you very much for your time, and I look forward to any questions you may have.

[The prepared statement of Ms. Lee appears in the appendix.]

Senator THOMAS. Thank you. Thank you all very much. We have some varied views, and that is the way it should be.

Mr. Yager, you talked quite a bit about some comparison between Seattle and the upcoming meeting, or using that as something of a measurement. Were you involved in Seattle?

Mr. YAGER. GAO actually was heavily involved in monitoring the WTO negotiations before Seattle. We had a team that did attend the ministerial in Seattle and we provided testimony to the Congress after the Seattle meetings.

Senator THOMAS. What kind of support do you think is necessary to cause this meeting to be different than that one?

Mr. YAGER. Well, I think one of the things we did observe when we were doing the work on the FTAA and the preparations, we did observe that there is a significant difference between the assistance provided, for example, by the State Department at that time, compared to what they are able to provide right now.

In that earlier ministerial, the State Department actually had a unit within the department which was dedicated to providing assistance to other agencies for planning for both domestic, as well as international, meetings.

At that time, the unit provided two people full-time to prepare for the Seattle ministerial, I believe it was for 1 year. They hired the management company who was supposed to provide the logistics and the planning, and they also provided some on-site support.

So, at that time the State Department had a unit, and that unit had expertise in planning international meetings, and they provided a lot of that assistance to USTR.

Now, my understanding is that the budget for this particular unit has been cut and the State Department is not able to provide the same kinds of support that they did at this time.

It is not just the resources, but what we wanted to point out in our report was that the institutional experience that existed in a unit like that was quite important, because many of the personnel at USTR are highly professional, very expert in many of the things that they do, but this is not a group that continuously organizes international meetings, and there are certain kinds of experience and skills that are very helpful in doing that kind of planning.

Senator THOMAS. I see.

How would you describe your report? Was it more oriented towards the process of having a meeting, or was it oriented towards what is going on with respect to the negotiations and the issues?

Mr. YAGER. Well, Mr. Chairman, we have actually covered both of the issues. We talked in two major sections, one about the co-chairmanship, and in the other about some of the issues that are coming up at this time.

We also have material talking about the relationship of the FTAA developments to the developments or the lack of progress in the WTO. So, we cover some of the substantive issues and we also cover some of the procedural issues.

I should also mention that we have done a series of reports in the past. For example, we did a report last September which went into much greater detail about the different issues associated with the nine negotiating groups, and we also had a chapter that in report which talked about the economic implications of the FTAA for the United States. So, we have covered both the substantive, as well as procedural, in the work that we have done to date.

Senator THOMAS. As a result of that, what would be your impression of the likelihood of meeting the deadlines in agriculture and other areas?

Mr. YAGER. I think one of the things that we point out in the report, is that it is rather troubling that the process in the WTO has been moving slowly. It is not just agricultural deadlines that have been missed in the WTO, but other deadlines have been missed as well.

There was one last July which had to do with special and differential treatment related to the question that you asked earlier about, how do you treat some of the smaller economies.

There were also important decisions that were to be made by December of last year having to do with providing pharmaceuticals

and pharmaceutical access to some of the less-developed countries for public health crises. That deadline was also missed.

Then most recently, the deadline having to do with the agricultural modalities, the rules associated with reducing tariffs, the schedules, and things like that, that deadline, probably most importantly, was missed in March.

As other witnesses have talked about, the importance of agriculture to the economies in the FTAA region is really quite high, and in many cases it is nearly 20 or more percent of their GDP. So, these kinds of issues are quite important to them.

Senator THOMAS. Are there any other particular negotiations that you might believe are more parallel to what is going on here now? Are there other negotiations, similar ones from which we might learn more?

Mr. YAGER. Well, I think in terms of the progress for the FTAA, certainly the WTO is the most important because of that relationship of domestic support and the U.S. policy, the U.S. statement that they want to make sure that those issues are handled in the multilateral framework. That is the most important related negotiation.

I think it is also important to note that USTR has initiated a number of other bilateral and regional agreements. This is relevant, I think, mostly for the issue of human capital.

USTR is a relatively small agency with about 200 people. They are primarily negotiators, but they also have significant responsibilities having to do with monitoring the existing trade agreements and compliance with the existing trade agreements.

They have announced that they would like to complete agreements with Morocco, with Australia, and with Central America by the end of this year. That is a fairly substantial agenda. I think it is also worth mentioning that these agreements are quite complex, that recent agreements have been, for example, 800 or 1,200 pages. So, this is really quite a tall order for USTR to take on.

Senator THOMAS. I understand. Also, however, you have to remember, this has been going on since 1993.

Mr. YAGER. That is right. But some of the other ones that I mentioned are relatively recent and have a fairly ambitious time frame. In order to get those completed by the end of the year, there is really quite a bit that needs to be done.

Senator THOMAS. That is true.

Mr. FENDELL, a number of the countries we are talking about in Latin America have had some economic problems, and continue to have economic problems, Argentina being one of the most recent. How does that current economic status affect their willingness to negotiate?

Mr. FENDELL. In the case of Argentina, it does not seem to make any difference whatever. If I could move from there, because the Argentines have continued to press for a southern cone version of the FTAA, which would be a much more limited version than that that the United States would like to see.

One of the things that has changed dramatically, I think, is the position of President Lula in Brazil. We expected him to take a very populist position, and in fact there has been, instead, the appearance of quite a bit more openness, quite a bit more willingness

to come to the table for substantive negotiation than we had anticipated.

More troubling to us in the productive sector, is the case of Venezuela, of course, with Mr. Chavez running a government such as we have never seen before, unless it is the neighboring island up in the Caribbean that we are all so fond of in present circumstances.

But beyond that, I would say that the atmosphere for—and I am biased because I have grown up in Central America, so my perspective on Latin America comes from that part of the region—and the need for a Free Trade Area of the Americas has never been so obvious.

The need for a level playing field in terms of common rules, common regulations, government reform, the ability to resolve conflicts among our countries. We are interwoven as never before already.

Certainly the precedents of the Caribbean Basin Initiative, the precedent of the Andean Free Trade Agreement, and obviously the success of NAFTA, notwithstanding the observations made by my fellow panelist here, we believe that NAFTA has increased workers' rights on both sides of the border between Mexico and the United States, and we point at evidence such as increased consumption of protein by the average Mexican. Chicken is now consumed almost 2.8 times more than it was before NAFTA.

Senator THOMAS. Where did the chicken come from?

Mr. FENDELL. Under the agreement, most of it, obviously, is local. But we do have—and I have got a hunch—some of it might come from Idaho. I do not know. We do have also in that area an increase of 50 percent of consumption of beef and pork protein. That means that the average person in Mexico is better off today than 10 years ago.

Senator THOMAS. If, as Mr. Hill points out, generally the balance of trade is in their favor, why would they be willing to make many changes?

Mr. FENDELL. The changes, I think, would come. As with any negotiation, you give up some things and you have to cave in on others. There is great concern throughout Latin America on agricultural issues. There is great suspicion of the United States' positions as regards agricultural subsidies.

Even in CAFTA, the Central American, which many people viewed as a cakewalk, that five small countries would just automatically give in, the countries are taking a position, a fairly tough position, on agricultural subsidies and are looking for offsets in one way or another.

Certainly, we understand that agricultural subsidies come, in great part, because of the situation with the Europeans and the incredible European subsidies. Nonetheless, it is time to take a hard look.

The U.S. farmer and the U.S. farming community is the strongest in the world. Certainly, we are capable of competing on a level playing field with anyplace in the world. I think what we have to be able to do, is make sure that their ability to trade, truly trade, the way we trade within our 50 States—we have got the greatest free trade agreement of the world right here in the United States.

Senator THOMAS. Yes, we do. That is true.

Mr. Hill, do you think, now, we have a level playing field?

Mr. HILL. I think we are gaining ground, but we have not yet achieved that level playing field. I would give you an example.

In Brazil, they have a massive capacity to produce, but they are not doing well in the production of corn. We can supply corn to Brazil, but they have a tariff of U.S. corn at 9.5 percent. With Argentine corn, it is 2 percent today. So, we cannot compete in that market.

It could be a million to 1.8 million metric tons of opportunity for Iowa farmers. So, there are opportunities there. But if you look at the Latin America countries on the whole, their tariff rates are 54 percent; ours average about 12 percent. So, there is a lot of leveling to be done. We would like the opportunity to compete, but there is a delicate balance that needs to be met in this negotiation.

Senator THOMAS. You mentioned, I believe, non-tariff barriers. What is an example of that?

Mr. HILL. Well, as we reach these negotiations and these agreements, we have difficulty enforcing those agreements. Countries will be very creative in barriers. Maybe they are phytosanitary or sanitary restrictions, or licensing issues.

In a case with Mexico, we produce a lot of pork in Iowa. We had a low-price scenario, as you often do in commodities. Low price is a result of over-supply. Well, they banned the acceptance of pork into their country because they said prices were below the cost of production and we were dumping into their country, which was against our agreement. But, of course, we have not been able to win that fight. There are other examples like that.

Senator THOMAS. We have complaints about pork here in the Congress, but we manage to keep going. [Laughter.]

What is your view of the potential market in this area for agricultural products?

Mr. HILL. It varies. I mentioned the huge capacity of Brazil. That frights the U.S. farmer because they have so much area to expand in their production. We know they are going to be a strong competitor.

The Caribbean market, I think, could be very good for Iowa and for the U.S., and we have mentioned Cuba, briefly. We think Cuba offers a lot of opportunities. We do not condone the activities that take place there, but we think people need to be well-fed and we deserve that opportunity.

Senator THOMAS. All right.

Mr. Audley, your thoughts were primarily toward environmental restrictions, and growth, and so on. Do you think these countries are in a position to deal with it to the same degree that we should deal with environmental issues?

Mr. AUDLEY. If you are asking whether or not I think the countries have the same ability to meet a firm commitment to enforce their own laws, the answer would be different for different countries.

Chile has a much greater capacity to protect its environment than, say, to most Central American or Andean countries.

That is why it is so important not to approach the negotiations with a one-size-fits-all remedy, but instead emphasize the ways in which we build the capacity of our trading partners to enhance

their own ability to protect the environment as they grow their economies.

It is difficult for me to reconcile encouraging increases in certain kinds of manufacturing that produces hazardous materials without paying attention to the fact that a country with which we are negotiating may not have the capacity to manage that hazardous material in the first place.

It creates an investment opportunity for private investors, but there is also a public obligation to ensure that regular frameworks are in place or can be put in place to regulate that activity, as well as create the opportunity for a private investor, perhaps, to operate a hazardous waste disposal site.

Senator THOMAS. I do not disagree with you. But you will hear people say, this is a trade agreement, and how much emphasis do you put on items that are peripheral to trade? You might want to respond to that later, Ms. Lee.

Mr. AUDLEY. You have asked, pretty much, two questions. One, some of the issues are not peripheral to trade negotiations. I think the World Trade Organization's commitment to address a number of limited trade and environment issues is a reflection, not just of U.S. interests in the trade and environment intersection, but the world's interest in a trade and environment intersection.

We have demonstrated in NAFTA and in a host of bilateral agreements that you can negotiate environment into a trade agreement and deal with those aspects of a trade agreement that make sense with regard to environment.

At the same time, and Ambassador Zoellick speaks eloquently about this, is the need to ensure that our trading partners build the capacity to protect their environment and promote public health while they are growing their economies, because if the goal is to improve the lives of people throughout the hemisphere, it is not just trade that is going to make their lives better off.

Senator THOMAS. So, given the condition of some of these countries, and you have indicated that a one-size-fits-all does not necessarily work—we are not a party to Quoto, for example. How would you go about that? Would you make separate agreements for each of these in terms of environmental issues, or do you think there ought to be a pattern throughout?

Mr. AUDLEY. In a separate paper, I have argued that the lion's share of the environmental issues can, and should, be addressed through parallel negotiations. TPA, for the first time, recognizes this opportunity as a component of overall trade negotiation strategy.

I have suggested in that paper that you have a combination of information generating capacities, conducting environmental assessments so that countries have a clear sense of the implications of expanded trade, ensure public participation in the administration of trade agreements, and report independently of the capacity of these countries to enforce their own environmental laws in a fashion similar to the ILO's role in the U.S.-Cambodia textile agreement.

Senator THOMAS. All right. Thank you.

Ms. Lee, there is always debate on trade issues with regard to labor and environment. The U.S. is not only encouraging raising standards, but providing assistance, in fact.

Do you think that is the way to achieve effective ways of raising labor standards, but urging it, and so on, or do you think it ought to be the heart of any agreement?

Ms. LEE. We certainly think it should be a part of the trade agreement. In addition, we are very supportive of the U.S. giving any kind of resources or technical assistance to developing countries to help them improve their enforcement of their own labor laws and to come into compliance with the ILO core labor standards. So, I think we need to do both.

We are very dismayed to see that the Labor Department, this year, basically zeroed out the portion of its budget that goes to international technical assistance to countries to help them come into compliance with labor standards. So, that is something that we think is very troubling, because we think that is a crucial part of it.

We talk about the trade agreement piece of it. Really, what we are saying is, we look at the International Labor Organization, the tripartite agency, 175 member countries, workers, employers, governments from all these different countries represented, and we see that there has been an international consensus on what the core workers' rights are, that every worker in the entire world deserves to have. Those are the freedom of association, the right to bargain collectively, and prohibitions on child labor, forced labor, and discrimination in employment.

This is important, because a lot of times on the labor rights issue people get a little bit confused and they think we are talking about, for example, whether the United States would enforce its own minimum wage in Haiti, which would be absurd. We are not talking about that. We are talking about the fundamental human rights.

I think the basic point is simply that, in the trade relationship between countries, we protect a lot of commercial interests, we protect the intellectual property rights, we set down rules for what is an allowable subsidy, what is not an allowable subsidy, and so on. This came up earlier when the question came up about whether labor is a non-trade issue.

In our view, there is no way—and I am an economist—that labor is not related to trade. Labor is an input into traded goods. The price of labor is a key element in the trade picture, just as the price of steel is a key element in the trade of cars. If you subsidize steel and then export your automobiles, you are distorting the international trading system.

In our view, for a country to try to gain a comparative advantage internationally by violating fundamental human rights, is also a distortion of the international trading system. We need to take steps. We would like to see those steps taken multilaterally at the World Trade Organization, but we are very slow in getting progress at that level.

So, we think that, as a starting point, certainly, the United States should not enter into any trade agreements that do not have enforceable workers' rights in their core, that that is something that this country values.

All the polls show that anywhere between 75 and 95 percent of the American public believe that we should have workers' rights and environmental standards written into our trade agreements, and we would like to see our negotiators give these provisions the kind of priority that they deserve.

Senator THOMAS. Some are concerned that some of our problems in the Middle East, for example, are a result of our imposing what we consider to be standards on other people. Does that ever seem troublesome to you? Should we be telling other countries how they handle these kinds of issues within their country?

Ms. LEE. Well, as I said, in the labor area we are fortunate enough to have an International Labor Organization. The countries in Latin America are all members of the ILO, and by virtue of their membership in the ILO they have made the commitment to respect the core workers' rights.

The question is whether it is a real commitment or a rhetorical commitment. Since these countries have voluntarily, on their own, made the commitment to respect these fundamental human rights, all we are talking about is how to strengthen enforcement of them, and that that is not an infringement on sovereignty.

In many ways, the trade agreements that the United States is party to trample on sovereignty in a million different ways. Certainly, when we tell a country it has to change its copyright laws and intellectual property rights enforcement provisions and set up a whole new enforcement system, we are enforcing something that is important to many interests here in the United States.

Senator THOMAS. They are more interested in trade than they are personal rights, however.

Ms. LEE. Not necessarily. The intellectual property rights protections are not necessarily even restricted to traded goods. It is something where we have priorities and we are insisting that another government change its domestic laws respecting those priorities with workers' rights because it has a direct relationship to the trade between our countries and the kind of competition that American workers face.

I guess I would just ask you to think about it from the point of view of an American worker. We understand we are in a global economy. We understand trade and investment is going to happen.

But American workers do not feel that they ought to be in competition with workers in other countries whose basic rights are violated, who are, let us say, shot in the head, tortured, or jailed for trying to organize an independent trade union, or with children who are sold into slavery by their parents, that that is a basic, fundamental fairness that goes to this question of this level playing field since these are basic human rights.

Senator THOMAS. It goes a little further than that in terms of human rights. But, yes. One of the organizations opposed to FTAA is called Stop the FTAA Organization. Papers are available on the web site. Do you have any involvement or support in that group?

Ms. LEE. The AFL-CIO is, at the moment, opposed to the FTAA. I do not know what Stop the FTAA is, but on our web site we do have materials that are critical of the FTAA and we are working with other groups within the hemisphere and around the country to study the impact and to discuss it.

Senator THOMAS. You obviously have a right to your position. I just wondered if you are part of, or support, this organization called Stop the FTAA. You do not?

Ms. LEE. I am not sure. Yes.

Senator THOMAS. What both of you, Mr. Audley and Ms. Lee, talked about, was more public involvement in this process. How would you do that?

Mr. AUDLEY. The first place you could begin, or we could begin, is with the Miami ministerial itself. To USTR's credit, it has assisted a local entity, the North-South Center, in its discussions with the business community with regard to the structure of the ministerial meeting to create limited space for civil society involvement. There will be opportunities for workshops.

And, if I understand it correctly, USTR has already assigned an opportunity for direct conversation between the trade ministers themselves and representatives from civil society.

That has not been an easy discussion between the North-South Center and the business community in Florida, in part from—this is secondhand information—what I sense to be resistance among the business community for fear that something inappropriate may happen with regard to engaging civil society. We need to get past this fear and discuss the specific subjects openly and honestly.

Senator THOMAS. Would it not possibly make more sense to have the public deal with our representatives that go into the meeting rather than seeking to be part of a meeting in which they are 39 other countries? That does not work very well.

Mr. AUDLEY. I suppose you could say the same thing about the American Business Forum, which has routinely been granted an opportunity to present its analysis of the negotiations before each ministerial.

Senator THOMAS. I am saying, why do you not make that to our representatives? They are the ones that have to make the decision, not this group.

Mr. AUDLEY. And I am certain that the U.S. business community, as well as non-government organizations, present that to the U.S. Government on a regular basis.

Senator THOMAS. This strikes me a little. I just came from Wyoming, where we were talking about how we get county commissioners and others involved in dealing with Federal land issues. We kind of decided that they ought to talk to the people who are doing the negotiating, and cannot expect to have thousands of people around the meeting. That is just an interesting concept.

Mr. AUDLEY. But what do you do under circumstances when governments do not want to talk to citizens?

Senator THOMAS. I guess you change governments.

Mr. AUDLEY. And in a democratic system, you try. But there are some that are not.

Senator THOMAS. No, I understand.

Ms. LEE. If I may add a little bit. I understand the point you are making, that every organization has the right to deal with its own national government, and ought to do so at that level.

I think what John was trying to say, is that labor and the civil society groups see that the business groups do have the access to the trade ministers as a group. Given that the business groups

have that access, we want the same. Either we need to take away the business access or we need to give labor and civil society groups the same access that business has enjoyed.

I also wanted to make just one more point with respect to our National government, a point I made in my written remarks. The Labor Advisory Committee on Trade Policy and Negotiations, which is the official labor voice to USTR and the DOL, has in fact not really been allowed to meet regularly over the last 2 years, that we have been limited to maybe one or two meetings in the last couple of years and we have not been able to add new members to that committee, as we used to have the right to do. So, even on the level of communicating with our own government, we have been quite frustrated with the lack of access and the lack of responsiveness.

A couple of other points in terms of opening up the process. One of the issues that we have raised with some of our allies around the hemisphere has been that we would like to see, not just a periodic release of the draft text, but also that each government would make clear which of the proposals within the text it is supporting or opposing.

I think that would make it much easier for citizens' groups to have a more intelligent conversation with their own government if they made that public. So, we would like to see both the U.S. show leadership in making its own negotiating proposals entirely public, the full text, and then also urging the other governments in the hemisphere to do the same.

Senator THOMAS. I see. All right. Thank you.

Anyone else have anything that they would like to share? Yes, sir?

Mr. YAGER. I would just like to make one remark related to what Ms. Lee just said. This is actually another advertisement for a report we did for the Finance Committee last year. There is a general problem with the Trade Advisory Committee structure, in that that structure was created in the mid-1970's and has not been regularly updated in order to reflect the changes in the industry structure, as well as other groups that are trying to become involved.

So, it is not just the Labor Advisory Committee that has had difficulties in trying to get access and making sure they have good communication with USTR. It is a wider range.

Frankly, it does appear that USTR is taking a lot of the recommendations and a lot of the support in the statements from the Finance Committee very seriously, but they have not resolved a lot of the problems.

One of the problems Ms. Lee mentioned, was the fact that many people have not been able to get their security clearances to become part of this Trade Advisory Committee structure. I think those problems are still being worked out.

Senator THOMAS. Fine. Thank you. That is an interesting thought.

Mr. FENDELL. Senator Thomas, I was struck by the comments of my colleagues down the table because they sound an awful lot like the complaints of the business sector, sometimes. While we do meet in parallel at these trade ministerials, that has been through initiative of the productive sector itself, not by invitation of any government.

We have organized ourselves. We have met. Yes, we do submit our recommendations to our representatives, both the countries that impose, for example, all the way back to Costa Rica, which was the first trade ministerial.

The second observation that I would like to make in this regard, is that we have never found, in our dealings with Ambassador Allgeier, with anybody at USTR, an unwillingness to listen.

In fact, I have personally been berated, on behalf of the Central Americans in the Central America negotiations, as to why civil society was not better represented in Central America. The answer was that they have chosen in some cases, in our opinion—and this is opinion—to be confrontational rather than participatory.

So, I do not have any discomfort, and my organization has no discomfort, the U.S. Chamber has no discomfort, with participation, and we would invite it.

Senator THOMAS. Well, I think all of us in these kinds of events need to look for ways to have input and have fair input. I appreciate your input today. Thank you very much. I think this is a very important issue and we hope to continue to follow it, as well as some of the other trade things that are going on around the country.

Let me remind members that the record will be open for statements of questions through 5:00 on Wednesday.

Thank you all again for being here.

[The prepared statements of Senator Grassley and Senator Baucus appear in the appendix.]

Senator THOMAS. The committee is adjourned.

[Whereupon, at 3:26 p.m., the hearing was concluded.]

APPENDIX

PREPARED STATEMENT OF HON. PETER F. ALLGEIER

Chairman Thomas, Senator Baucus and Members of the Sub-Committee:

I am pleased to have this opportunity to appear before you on the subject of the ongoing negotiation of the agreement that will create the Free Trade Area of the Americas (FTAA). I thought that I should begin with an outline of the history of the FTAA and the goals that have been set for us by the 34 democratically-elected leaders of the nations in the Western Hemisphere. From there I would like to turn to the current status of these negotiations, including how the U.S.-Brazil Co-Chairship is functioning. I will also touch on what our goals are for these negotiations and why they are so important for the entire hemisphere. I would then like to finish with some information about what we see for the Miami Ministerial, and how we are preparing for it. As I begin this testimony, let me assure you that we have reviewed carefully the new GAO report on the FTAA, and we take very seriously our responsibilities for co-chairmanship of the FTAA process and for the hosting a successful FTAA Ministerial in Miami in November.

With more than 800 million people throughout the Western Hemisphere, the FTAA will be the largest free-trade area in the world. In the 1990s, U.S. exports to Latin America grew faster than exports to any other region, but U.S. businesses, workers, farmers and ranchers still face many market access barriers in the region, such as import taxes that are often five times higher than U.S. import taxes. Many of the region's leaders have identified trade as a critical element in promoting economic growth and development in their economies. The FTAA holds the promise of increasing economic opportunity and touching the lives of the poor, by bringing them increased choices, greater participation in the formal economy and lower prices for consumer goods for their families.

I. History of the FTAA Negotiations

In Miami at the December, 1994 Summit of the Americas, the Heads of State and Government of the 34 democracies in the hemisphere agreed to construct a Free Trade Area of the Americas, or FTAA, in which barriers to trade and investment would be progressively eliminated, and to complete negotiations for the agreement by 2005. The process of developing the FTAA began with preliminary discussions among the participating countries. At their meeting in San Jose, Costa Rica in March of 1998, the Ministers Responsible for Trade in the FTAA countries recommended to their Heads of State and Government the initiation of formal negotiations and set out the structure and general principles and objectives to guide the negotiations. On the basis of the San Jose Declaration, the FTAA negotiations were launched formally in April 1998, at the Second Summit of the Americas in Santiago, Chile. The leaders agreed that the FTAA negotiating process would be transparent and take into account the differences in the levels of development and size of the economies in the Americas, in order to facilitate full participation by all countries.

At the San Jose Ministerial the trade ministers also proposed a structure for the negotiations that involved the creation of nine negotiating groups (market access; agriculture; services; investment; government procurement; intellectual property rights; competition policy; subsidies, antidumping and countervailing duties; and dispute settlement) and three nonnegotiating committees and groups (Consultative Group on Smaller Economies (CGSE), the Committee of Government Representatives on the Participation of Civil Society (SOC); and the Joint Government-Private Sector Committee of Experts on Electronic Commerce).

They also established the Trade Negotiations Committee (TNC), which is made up of the Vice Ministers Responsible for Trade from each of the FTAA countries, to guide the work of the negotiating groups and decide on the overall architecture

of the FTAA agreement and to address institutional issues. The trade ministers also reiterated that the FTAA negotiations will take into account the broad social and economic agenda contained in the Miami Declaration of Principles and Plan of Action with a view to “contributing to raising living standards, to improving the working conditions of all people in the Americas and to better protecting the environment.”

At the Summit of the Americas in Santiago, the leaders of the FTAA countries established a general framework for the negotiation of the FTAA that included the groups and committees recommended by the trade ministers. They also decided that the work of these groups and committees should be guided by the principles and objectives agreed by the ministers in San Jose. These include, among others:

- decisions will be taken by consensus;
- negotiations will be conducted in a transparent manner;
- the FTAA will be consistent with WTO rules and disciplines, and should improve upon these rules and disciplines wherever possible and appropriate;
- the FTAA will be a single undertaking (“nothing is agreed until all is agreed”);
- the FTAA can coexist with bilateral and sub-regional agreements, and countries may negotiate and accept the obligations of the FTAA individually or as members of a sub-regional integration group; and
- special attention will be given to the needs of the smaller economies.

The negotiating groups and non-negotiating committees and groups began meeting in September 1998.

One of the many unique components of the FTAA is the SOC, its Civil Society Committee. At the 1998 meeting in San Jose, the trade ministers jointly recognized and welcomed the interests and concerns expressed by a broad spectrum of interested nongovernmental parties in the hemisphere and encouraged these and other parties to provide their views on trade matters related to the FTAA negotiations. The SOC was given the task of facilitating the input of the business community, labor, environmental, academic groups, and others who wish to present their views in a constructive manner on the issues under negotiation and on other trade matters related to the FTAA. The FTAA is the first major trade negotiation where such a group has been established at the outset of the negotiations. To date, the SOC has been involved in a variety of different activities intended to solicit input from civil society throughout the hemisphere and make that information available to the negotiators of the FTAA. Mexico recently hosted a civil society event in March 2003 and the governments of the United States, Brazil and Chile have volunteered to host future civil society events.

The Ministers have taken other steps to improve the transparency and public understanding of these negotiations. Of particular note was the decision made at their 2001 meeting in Buenos Aires to recommend to the heads of state and government that the draft negotiating text be made available to the public. At the Summit of the Americas in Quebec City the leaders agreed to the recommendation and the draft text was posted on the FTAA website, on the USTR website, and in many other places. Following their 2002 meeting in Quito, Ecuador, the Ministers took the step of again making the current version of the draft text available to the public. This is the first time that drafts of a negotiating text in a major international trade negotiation have been made available to the public for their review and comment.

At the Quebec Summit President Bush commented on the benefits of trade: “Free and open trade creates new jobs and new income. It lifts the lives of all our people, applying the power of markets to the needs of the poor. It spurs the process of economic and legal reform. And open trade reinforces the habit of liberty that sustains democracy over the long haul.” Recognizing the importance of completing the FTAA, President Bush also succeeded in convincing the other leaders of the importance of establishing a commitment to complete the negotiation of the FTAA by January 2005.

II. Current Status of the Negotiations

We are now in the final stages of this unprecedented effort to create a free trade zone stretching from the Arctic to Tierra del Fuego. The United States, which has assumed the role of Co-Chair of the process with Brazil, has taken on an even greater leadership role in the process. However, even before the United States began its tenure as Co-Chair, it has been a leader of the FTAA process. For example, in large part due to the work of Ambassador Zoellick, at the November 2002 ministerial meeting in Quito, Ecuador, all 34 countries reaffirmed their willingness to pursue an FTAA, and confirmed certain deadlines that are intended to move the negotiating process to completion by January of 2005, with implementation by December of 2005. These deadlines concerned the exchange of market access offers in agricultural and non-agricultural goods, services, investment, and government procure-

ment. In accordance with these deadlines, all of the FTAA countries have now exchanged offers on agricultural and non-agricultural goods, and most have exchanged their other offers.

The U.S. also achieved its aim to have tariff negotiations proceed from current applied rates, rather than higher WTO bound rates. One implication of this decision is that the lowering of tariffs begins immediately upon implementation of the FTAA. In the WTO, where the negotiations would result in the lowering of bound rates over time, the reduction in actual tariffs would be delayed until after such time as the level of the bound rates was reduced below the level of the current applied rates. In addition, U.S. leadership resulted in the Ministers' agreement on a comprehensive trade capacity-building program—the Hemisphere Cooperation Program—to help small and developing countries in the region to fully benefit from the FTAA.

a. FTAA Market Access Offers

The United States has also shown its leadership of the FTAA negotiations by the market access offers that it has tabled. The offer tabled by the United States was very aggressive and reflected our commitment to eliminate tariffs and trade barriers throughout the hemisphere. The U.S. has offered to eliminate its import duties on the majority of industrial and agricultural imports from the Western Hemisphere immediately upon entry into force of the FTAA, and has offered broad access to its services, investment and government procurement sectors. In addition, the U.S. offered to make textiles and apparel imports from the region duty-free in the U.S. just five years after the FTAA takes effect, provided other countries reciprocate. The U.S. offer set an important benchmark in the market access negotiations, and demonstrated U.S. leadership as negotiations move into a critical and substantive phase.

Approximately 65% of U.S. imports of consumer and industrial goods from the Hemisphere (not already covered by NAFTA) would be duty-free immediately upon effectiveness of FTAA, with all duties on consumer & industrial products eliminated by 2015. For U.S. imports of textiles and apparel from FTAA countries, the offer is even bolder: we propose to move to zero tariffs in just five years, provided other countries reciprocate. In addition, and in an effort to jumpstart the move toward open markets, immediate elimination of tariffs is offered on a reciprocal basis in key sectors such as chemicals, construction and mining equipment, electrical equipment, energy products, environmental products, information technology, medical equipment, non-woven fabric, paper, steel, and wood products. Approximately 56% of agricultural imports from the Hemisphere would be duty-free immediately when the FTAA takes effect. Other agricultural tariffs fall into staging categories of 5 years, 10 years, or longer.

Both our agriculture and non-agricultural market access offers differentiate—in timing—according to countries' respective levels of development and size of economy. This is consistent with the agreement among all countries that such differences “shall be taken into account in the development of proposals, offers and throughout the negotiation process. . . .”

Market access opportunities would be provided broadly across the U.S. investment and services sector, with markets open unless a specific exception is taken. This presumption for market opening—a “negative list”—is similar to the presumptions applied in the U.S. free trade agreements (FTA) with Chile and Singapore. In addition, companies in FTAA countries would be able to compete for U.S. government procurement contracts on an equal footing with firms from current NAFTA partners. This market opportunity covers nearly all the goods and services purchased by 51 federal government agencies.

USTR has consulted extensively with Congress and our trade advisory committees during the drafting of these offers and on our text proposals. In addition, we have published several Federal Register notices seeking input on the U.S. positions in these negotiations. Comments received have provided, and will continue to provide important input to the process of developing and refining our positions.

Over the next several months, the United States and other FTAA countries will respond to each other's initial offers, exchange revised offers, and negotiate over the terms of the market access to be provided under the FTAA. The United States will push other countries to table revised offers that demonstrate a strong commitment to a FTAA agreement that eliminates tariffs and barriers to trade in the hemisphere.

The United States, working closely with Brazil, has also shown strong leadership in reforming the negotiating process so that the countries move forward on resolving differences in the text of the FTAA. The TNC Co-Chairs have begun to work more closely with the chairs of the various negotiating groups and entities to identify and clearly articulate the substantive difference between the positions of the various FTAA countries. The input received from these meetings was used to develop an an-

notated agenda for the most recent meeting of the TNC. This technique permitted the participants to more clearly identify the issues to be discussed, and led to more fruitful discussions. The Co-Chairs have also begun to meet with small groups of FTAA Vice Ministers in an effort to identify creative ways to resolve these differences. Ambassador Zoellick has been consulting with his counterparts in the hemisphere in order to ensure that the agreement is completed on a timely basis. He has an ambitious schedule of additional consultations in the coming months.

The FTAA has reached a crucial stage, in which the United States and Brazil, as co-chairs of the Free Trade Area of the Americas, share the responsibility of bringing it to a successful conclusion by January 2005. The new administration in Brazil has assembled an impressive economic team, in Foreign Minister Amorim, Minister of Agriculture Rodrigues, Minister of Trade and Industry Furlan and Finance Minister Palocci.

Ambassador Zoellick has had an opportunity to meet with members of the team already, and will be meeting with them again at the end of this month in Brasilia. At that time, he hopes to work with them to sketch out a plan to make the Miami FTAA Ministerial in November the springboard to the January 2005 conclusion of the negotiations.

b. The FTAA in the Greater U.S. Trade Strategy

The negotiation of the FTAA is an important part of our overall trade strategy. These market access proposals and the work that is being done on the text of the agreement fit into our broader efforts to eliminate trade barriers globally. And they build upon our ongoing bilateral efforts. The United States has recently completed the negotiation of a free trade agreement with Chile, and is in the midst of negotiating an FTA agreement with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. These negotiations are important to the successful negotiation of the FTAA for a number of reasons. First, there is no doubt that the U.S.-Chile FTA and the negotiation of the agreement with our Central American partners contributes momentum to a Free Trade Agreement of the Americas.

Also, in the FTAA, the United States is seeking to negotiate a state-of-the-art agreement. While some countries negotiate free-trade agreements that exclude important areas of trade such as services and E-commerce, the United States seeks to negotiate the kind of ambitious and far-reaching commitments that one would expect to see in a 21st century free-trade agreement. To accomplish this, the U.S. is using bilateral FTAs as models to break new ground and set new higher standards. For example, the United States has relatively unique interests in protecting the intellectual property of its world-class entertainment, software, biotechnology, and pharmaceutical industries. In the Chile FTA, we have set very high standards of protection in these areas and we are seeking to do the same with our CAFTA partners.

Even as we push our FTAA partners to agree to a modern agreement, we recognize that it is important for all of the FTAA countries, even those with the smallest economies or the lowest levels of development, to participate fully in the negotiation and benefits of the FTAA. In order to facilitate the FTAA negotiations, the United States is providing assistance and coordinating trade capacity building throughout the Western Hemisphere. An important part of those efforts is the Hemispheric Cooperation Program (HCP), a comprehensive trade capacity-building program to help small and developing countries in the region to fully benefit from the FTAA. At the Quito Ministerial, Ambassador Zoellick worked hard to ensure that a robust program was adopted. The United States is now working very aggressively within the Consultative Group on Smaller Economies, and with other institutions, such as the Inter-American Development Bank, to ensure that the program is a success.

Finally, it is important to recognize that the market access offers made by the United States were designed to mesh with broad U.S. initiatives in the World Trade Organization (WTO) negotiations. For example, the U.S. FTAA offer envisions the elimination of consumer and industrial tariffs no later than 2015, which is in line with the U.S. "TariffFree World 2015" proposal in the WTO. The U.S. offer also is intended to spur increased cooperation in the WTO on important global issues, such as the U.S. proposal to eliminate agricultural export subsidies in all WTO members and to reduce substantially trade-distorting farm supports. In the negotiation of all of our trade agreements, and certainly in the FTAA, we seek to achieve all of the objectives set forth in the Trade Promotion Act of 2002 (TPA).

III. Other Benefits

The benefits of the FTAA (or any other trade agreement negotiated by the United States) do not just relate to trade. These agreements also support economic reform, regional integration, and political development in potential trading partners. Indeed,

the theme of our negotiations with Central America is "Strengthening Democracy, Promoting Prosperity." Ambassador Zoellick has been clear that he sees the FTAA and the FTA with Central America in more than just commercial terms. Such agreements will serve the important purpose of helping developing economies lock in the steps they have taken toward economic reform and political openness. Negotiating with them as a group will also help deepen regional integration, creating a larger and more attractive market for trade and investment.

The benefits of the FTAA transcend tariff reduction and increased market access in many other ways. The FTAA is the cornerstone to building a prosperous, free and democratic hemisphere. Whether in government procurement, foreign investment regulations, or dispute resolution, the FTAA promises transparency and due process. While it is too early to tell what the final provisions of the FTAA will look like, it would be instructive to look at the transparency provisions in the U.S.-Chile FTA. For example, under the agreement both parties must publish all laws, regulations, procedures and administrative rulings of general application concerning subjects covered by the agreement. As this is a comprehensive agreement, covering most aspects of economic activity in each country, the benefits of transparency accrue to both domestic and U.S. interests. Both will be able to review all laws, regulations and rulings affecting their interests.

Another key aspect of the U.S. Chile FTA Transparency Chapter provides for review and appeal of final administrative actions. Each government must establish or maintain independent administrative or judicial review procedures. These appeal rights must include a reasonable opportunity to present arguments and to obtain a decision based on evidence in the administrative record.

Again, these provisions will benefit domestic as well as U.S. interests. The countries involved in the FTAA will establish rules and procedures concerning subjects covered by the agreement that will ensure transparent administration of all provisions. This aspect of the FTAA may, in the end, be among the most significant contributions to the economic development of the region.

The FTAA will strengthen democracy throughout the Hemisphere—a proposition that is not just theory, but fact. Time and time again, the world has witnessed the evolution from open markets to open political systems, from South Korea to Taiwan to Mexico. Free trade will likewise bolster young democracies in the Americas and the Caribbean. Through the Declaration completed in Quito, the governments of the Americas also reaffirmed their commitment to the observance of internationally recognized labor standards and to the objective of making trade liberalization and environmental policies mutually supportive.

IV. Miami Ministerial

The next meeting of the FTAA trade ministers is scheduled for November in Miami. It will be very important for this Ministerial to be a success if the governments are to complete the negotiations on schedule. In Miami the trade ministers will have an opportunity to make decisions about the direction of the agreement that will allow the negotiators to bridge differences, close text and reach agreement on market access commitments. As a result, the United States is dedicating substantial resources to preparations for hosting the Ministerial and these preparations are well underway.

An important component of these preparations is the development of a strong partnership between USTR and State and local governments in Florida. Governor Bush has publicly stated his commitment to a successful Ministerial and his intention to remain personally involved in order to ensure that the Ministerial is successful. Under his direction, Florida has developed a strong and experienced team to work on organizing the Ministerial. Ambassador Charles Cobb, former U.S. Ambassador to Iceland, and Ambassador Luis Lauredo, who is serving as the Executive Director of the organizing group, are leading these efforts. Ambassador Lauredo is the former U.S. Ambassador to the Organization of American States, previously served as U.S. Coordinator for the Presidential Summit of the Americas in Quebec City in April 2001 and as Executive Director of the first Summit of the Americas, held in Miami in December 1994. Together they have established an extensive support network of partners from both the public and the private sector. The organizing group and its partners, have extensive experience in organizing large events and has made substantial progress to date, including the selection of the site for the Ministerial and the identification and reservation of hotel rooms and meeting space, and the identification of resources for transportation, security, information technology support, and administrative services. The team also has substantial experience in raising funds and identifying in-kind support for this type of event.

USTR has also assembled a strong team of U.S. government officials to work on preparations for the Ministerial. Led by a senior official in USTR, the team includes

members with a variety of different skills and experiences. The members have experience in organizing and providing security at large high profile events, media, Congressional relations, interaction with the private sector, and trade negotiations. Of course, this will not be the first FTAA Ministerial organized by USTR. We hosted the first FTAA Ministerial in Denver in June 1995. Since then, of course, we have worked closely in support of the subsequent Ministerial hosts (which includes our Co-Chair, Brazil), and we have consulted closely with them in preparation for the upcoming Miami Ministerial.

In addition, USTR is working hard to ensure that the substantive outcome of the meeting will be successful and serve as a springboard for the timely completion of a strong agreement. As mentioned above, USTR is working closely with Brazil to ensure that the Ministers will be able to make the decisions necessary to ensure that the FTAA negotiating process moves forward.

V. Conclusion

The Bush Administration is committed to ensure the timely and successful negotiation of the FTAA. An important part of its global strategy on improving global trade, the FTAA is also important to the development of freedom, security and democracy, and the reduction of poverty in the Western Hemisphere. USTR is working closely and creatively with Brazil, as CoChairs, and with the other governments involved in the FTAA negotiations to ensure the completion of a comprehensive agreement that removes trade and investment barriers in the hemisphere and that also contributes to improving global trade. As part of that effort, USTR is working with its Florida partners and others in the government to ensure that the Miami Ministerial is a success. We look forward to frequent consultation with the Senate Finance Committee and its Trade Subcommittee in the next six months leading to the Miami Ministerial, as well as during the remaining period to the conclusion of negotiations.

RESPONSES TO QUESTIONS FROM SENATOR GRAHAM

Question 1: Colombia is a strategic partner in South America and one with which we have much invested. Its economy is larger than Chile or the CAFTA countries combined. Is the Administration considering a bilateral FTA with Colombia? If so, when might negotiations begin? If not, why?

Answer: The United States is currently engaged in free trade negotiations with Colombia through the FTAA. This provides us the prospect of achieving free trade not just with each other, but with the hemisphere as a whole. Colombia is also one of a number of countries that have asked to consider negotiating a bilateral FTA as well. We are certainly prepared to consider any such request, within the limits of our negotiating resources and provided it would reinforce rather than detract from our objective of successfully concluding the FTAA. No time frame has been set for this analysis.

Question 2: Do you consider establishing the permanent FTAA secretariat in the U.S. a priority? When will you designate a U.S. candidate? Of the two cities seeking the Administration's endorsement, Miami and Atlanta, which city has the best chance of success to win the international competition?

Answer: Keeping the negotiations on track and moving forward to a timely conclusion in January 2005 of an agreement that eliminates the trade barriers in the Hemisphere is the top U.S. priority with respect to the FTAA. Successful completion of this Agreement will benefit American businesses and workers by providing access to the markets of the Hemisphere. Another top priority is ensuring a successful Ministerial in Miami in November. While the Administration supports the idea of having the permanent secretariat located in the United States, the FTAA Ministers have not even begun to discuss the process for selecting the site. It is therefore premature for the U.S. to designate one city as the U.S. choice for the home of the permanent secretariat. I do not anticipate our making such a choice until after the Ministerial in November.

While the City of Miami has had greater exposure in the FTAA process having served as the site of the negotiations for a period, and while it will again be on display when the FTAA Ministerial is hosted there in November, I have not heard Ministers or Vice-Ministers from the other FTAA governments express a preference for either Miami or Atlanta over the other city.

PREPARED STATEMENT OF JOHN AUDLEY

My name is John Audley, and I am Senior Associate and Trade, Equity, and Development Project Director at the Carnegie Endowment for International Peace. Founded in 1910 by Andrew Carnegie, the Endowment is a private, nonpartisan,

nonprofit organization dedicated to advancing cooperation between nations and promoting active international engagement by the United States. The Trade, Equity, and Development Project seeks innovative, ative. workable Solutions to the tensions between trade liberalization, and environment. development. and labor policies. In the September 2002 *National Security Strategy of the United States*, President George W. Bush states: "As we wage war today to keep the world safe from terror, we must also work to make the world a better place for all its citizens."¹ The *National Security Strategy* argues that trade liberalization should help poor countries develop healthy economies that protect the environment and promote greater respect for worker rights.² To achieve this goal, the United States must work very hard to find common ground among the 34 nations in the Free Trade Area of the Americas (FTAA) oil the difficult subjects of labor and the environment. My testimony focuses on the environment side of that challenge.

Bold Steps Taken by Congress

Last August, congressional leaders took an unprecedented step by making environmental policy goals a principal negotiating objective for U.S. trade policy. In the *Trade Act of 2002*, Congress for the first time outlines binding negotiating objectives on the environment, which obligate trade agreements to:³

- Ensure that U.S. trading partners do not fail to effectively enforce their own environmental laws to gain all unfair trading advantage;
- Promote the sale of U.S. green products and services;
- Strengthen the capacity of U.S. trading partners to protect the environment;
- Reduce or eliminate government practices or policies that unduly threaten sustainable development;
- Establish consultative mechanisms to strengthen the capacity of U.S. trading partners to develop and implement environment and human health protection standards;
- Conduct environmental reviews, consistent with the policy and procedures established during the Clinton administration under Executive Order 13141; and
- Promote consideration of multilateral environmental agreements (MEAs) in negotiations on the relationship between MEAs and trade rules, especially as they relate to GATT Article XX exceptions for the protection of human health and natural resource conservation.⁴

A Grmving Trend in Trade Policy

U.S. efforts to ensure that trade rules promote a healthy environment are part of a global trend to reconcile trade and the environment policies. In the November 2001 *World Trade Organization Doha Ministerial Declaration*, trade ministers agreed to negotiate key aspects of the trade and environment policy intersection.⁵ Two recently concluded bilateral trade agreements—the U.S.-Singapore and U.S.-Chile Free Trade Agreements—include chapters on the environment and transparency and include parallel commitments to develop and implement a common agenda.⁶ Along with the U.S.-Jordan Free Trade Agreement, the United States has successfully negotiated environment into three free trade agreements (FTAs). Regional negotiations with five Central American governments and the Southern African Customs Union and bilateral negotiations with Australia and Morocco are expected to follow this same pattern. Finally, Canada negotiated bilateral trade agree-

¹ The White House, *The National Security Strategy of the United States of America*, September 2002.

² *National Strategy* page 19; "The United States must foster economic growth in ways that will provide a better life along with widening prosperity. We will incorporate labor and environmental concerns into U.S. trade negotiations."

³ Public Law 107-210, August 6, 2002.

⁴ For an explanation of the *Trade Act's* environmental provisions, see John J. Audley, *Environment's New Role in U. S. Trade Policy*, (Washington, DC: Carnegie Endowment for International Peace, Trade, Equity and Development, Policy Brief no. 3, September 2002). Online at <<http://www.ceip.org/trade>>.

⁵ *Ministerial Declaration*, World Trade Organization Ministerial Conference, Fourth Session, Doha, Qatar, November 9-14th, 2001. WT/MIN/(01)/DEC/1.

⁶ Drafts of both the United States—Singapore FTA, and the United States—Chile FTA can be found at <<http://www.ustr.gov/new/fta/index.htm>>. For an analysis of the environmental provisions in the U.S.-Singapore FTA, see John Audley, *Evaluating Environmental Issues in the U.S.-Singapore Free Trade Agreement*, (Washington, DC: Carnegie Endowment for International Peace, Issue Brief, April 2003), on line at <<http://ceip.org/files/pdf/TED-Audley-Singapore-FTA.pdf>>.

ments containing environmental provisions with Chile and Costa Rica and is engaged in ongoing negotiations with four Central American nations.⁷

One of the important lessons to learn from trade and environment linkages is that integrating environment into trade agreements is not a “one size fits all” task. Each negotiation involves countries at different levels of development and requires individually tailored responses. Trade Promotion Authority (TPA) provides U.S. negotiators with the flexibility necessary to adhere to congressional instructions while tailoring each negotiation to its unique circumstances. Therefore, the challenge before FTAA negotiators is not whether, but how.

A Rough Road Ahead

FTAA negotiations began in 1994, a time when the United States was still engaged in a bitter domestic argument over trade and environment linkages. From the very beginning, Latin American governments were very suspicious of U.S. efforts to link environment to trade, fearing that “green protectionism” would deny them market access. By deferring to solutions that might be found in World Trade Organization (WTO) trade negotiations, FTAA ministers effectively excluded environment.⁸ Now, nearly halfway through negotiations, the United States is faced with the daunting task of re-integrating environment into trade.

I remain hopeful that empowered with TPA instructions and drawing from other examples where environment is linked to trade, U.S. negotiators can still bring home a trade agreement that successfully integrates environment into trade. The balance of this testimony uses TPA instructions as a benchmark to evaluate the FTAA.

Transparency and Public Participation

Though not nearly as transparent as the WTO, over the course of seven years the FTAA process has been dragged kicking and screaming toward transparency. Unfortunately, trade negotiators’ resistance to a more open negotiating process has left deep scars that now threaten public support for the agreement. For example, using the Internet search engine “Google,” I found that fourteen of the first twenty web sites listed for FTAA are *opposed* to negotiations.

Business community involvement in the FTAA dates back to the first Denver Ministerial in 1995, but during the 1996 FTAA Cartagena Ministerial the Government of Colombia asked the business community to meet before negotiations began to share their comments directly with trade negotiators. That decision fostered what has become known as the Americas Business Forum (ABF), which is now responsible for hosting the ministerial meetings.⁹

Although nongovernmental organizations (NGOs) have not been granted the same level of access to negotiators as has the business community, they have struggled to keep apace by hosting parallel meetings at each FTAA ministerial. However, preferred access to negotiations for business groups fostered a great deal of resentment among NGOs, who felt that trade negotiators did not consider their interests. NGO misgivings regarding negotiations were exacerbated by the lack of negotiating transparency; texts were not made public, and a 1998 effort by the United States and Costa Rica to establish a formal avenue for public comments was rendered useless by Latin American negotiators.¹⁰

The first real step toward greater public involvement in the FTAA took place during the 2001 Quebec City Summit of the Americas. Building on their shared commitment to strengthen democracies, the heads of state instructed trade negotiators

⁷ Canada-Chile Free Trade Agreement, available in Spanish at <<http://www.direcon.cl/frame/acuerdos-internacionales/f-bilaterales.html>>; Canada-Costa Rica Free Trade Agreement, available at <<http://www.dfait-maeci.gc.ca/tna-nac/Costa-Rica-toc-e.asp>>; and the Canada-Central America Four Free Trade Agreement negotiations were launched in November, 2001. See <<http://www.dfait-maeci.gc.ca/tna-nac/ca4-en.asp>>.

⁸In particular, see Articles 15 of the Summit of the Americas, Third Ministerial Meeting, Belo Horizonte, Brazil, May 1997; The issue of the environment and its relation to trade has been considered by our Vice Ministers since the Cartagena meeting and is the subject of ongoing discussions within the WTO and within the FTAA process. We will keep this issue under consideration, in light of further developments in the work of the WTO Committee on Trade and Environment.”

⁹Donald R. Mackay, *Challenges Confronting the Free Trade Area of the Americas*, (Canadian Foundation for the Americas (FOCAL), June 2002).

¹⁰During the 1995 San Jose Ministerial, at the eleventh hour the ministers agreed to create the “Committee of Government Representatives on Civil Society.” Until recently, efforts by the United States to use this channel to effectively engage the public have been blocked by other governments, most importantly Mexico during the administration of President Ernesto Zedillo (See Mackay, 2002).

to strengthen their ties to the public.¹¹ During the Argentina FTAA Ministerial held immediately after the Summit, trade ministers agreed to release the draft negotiating text, improve information dissemination through the official FTAA web site, and instruct the Committee of Government Representatives on Civil Society (CGR) to develop a list of options designed to strengthen the ties between negotiators and interested citizens.¹² In response to these instructions, North American government officials hosted a regional FTAA public meeting in July 2002, where negotiators discussed specific subjects with civil society representatives.¹³ During the November 2002 Quito FTAA Ministerial, negotiators failed to make further progress toward transparency, but the Government of Ecuador took the initiative to invite civil society representatives to report directly to the trade ministers, a first for NGOs at an FTAA ministerial.¹⁴ While making little progress on substantive negotiations, vice ministers attending the April 2003 Trade Negotiation Committee (TNC) meeting in Puebla, Mexico, made considerable progress in the area of greater transparency. They instructed the CGR to organize a series of issue-specific public meetings, develop a list of “best practices” with regard to civil society outreach, and explore the possibility of creating a civil society committee to be incorporated into the institutional architecture of the FTAA.¹⁵ The steps taken in Puebla are due largely to efforts by the Government of Chile, who first proposed these ideas during the November 2002 Quito Ministerial.

Given the improvements in access to information and negotiations, civil society groups are wrong to say that the FTAA negotiations remain secretive. The formal steps taken by trade negotiators to improve relations with civil society are important but by themselves are incapable of erasing the mistrust that has built up between governments and civil society groups. Congress has an excellent opportunity to assist U.S. negotiators in several ways as they try to earn the public trust:

- **Encourage more frequent release of the text:** It is difficult for anybody to offer negotiators useful comments using a draft text that is more than nine months old. As negotiations approach the critical stage, civil society groups should be allowed access to more recent versions of the draft text. The TNC, composed of FTAA “vice ministers,” normally meets three times each year; the draft texts used during these meetings should be released shortly thereafter.
- **Fund civil society participation at regional issue meetings:** The real challenge to building trust between negotiators and civil society is in Latin America, where travel costs, even within a host country, are expensive for most citizens. The U.S. Agency for International Development (USAID) should be instructed to provide resources to enable Latin Americans to travel to the regional issue meetings. If USAID earmarked \$25,000 in travel costs per meeting, the money would enable a minimum of 250 Latin Americans to attend each meeting.
- **Provide USTR with guidance regarding the proposed FTAA civil society group:** For example, the United States could propose all approach based upon the tripartite governing structures of the North American on Environmental Cooperation and the International Labor Organization. Such a structure would enable governments, civil society groups, and the business sector to work together to provide guidance to the anticipated FTAA secretariat charged with administering the agreement.¹⁶
- **Ensure effective public participation during the 2003 Miami Ministerial:** The United States will host the 2003 FTAA Ministerial in Miami, Florida.

¹¹Summit of the Americas, Declaration of Quebec City, April 22, 2001. <<http://www.americascanada.org/eventsummit/declarations/declara-e.asp>>.

¹²*Ministerial Declaration*, Free Trade Area of the Americas, Sixth Meeting of Ministers of Trade of the Hemisphere, April 7, 2001, Paragraphs 23–27.

¹³See, North America Regional Seminar on the Free Trade Area of the Americas, hosted by the United States, Mexico, and Canada, Merida, Mexico, July 18, 2002, at <<http://www.ustr.gov/new/ftaa-merida.htm>>.

¹⁴*The Hemispheric Trade and Environment Forum to the VII Ministerial Conference of the FTAA*, October 31, 2002. The forum was organized by the Centro Ecuatoriano de Derecho Ambiental, in collaboration with non-governmental organizations from throughout the Western Hemisphere.

¹⁵FTAA Trade Negotiating Committee, *Guidance and Instructions to the FTAA Entities*, FTAA.TNC22, April 10, 2003.

¹⁶In a paper co-authored by Edward Sherwin, I make a number of detailed recommendations regarding the relationship between the FTAA and civil society groups, including an effective role for civil society in the administration of the trade agreement, technical assistance and capacity building resource coordination among donor organizations, environmental indicator information collection and dissemination, and assistance conducting national environmental assessments. See *Politics and Parallel Negotiations: Environment and Trade in the Western Hemisphere* (Washington, DC: Carnegie Endowment for International Peace, Working Paper no. 25, April 2002), <<http://www.ceip.org/trade>>.

On behalf of civil society groups, over the past few months the Miami-based North/South Centre has been negotiating with the Americas Business Forum organizers to ensure adequate space for civil society discussions. The Office of the U.S. Trade Representative (USTR) is actively engaged in these discussions, and has encouraged the Business Forum to work cooperatively with NGOs. It has also guaranteed civil society groups an opportunity to meet with trade ministers to discuss their comments. Congress should monitor these discussions to ensure adequate opportunities for civil society at the ministerial.

Transparency begins at home, and there are a number of steps that the USTR can take to improve its relationship with civil society. Recently I assisted members of the Trade and Environment Policy Advisory Committee (TEPAC) in the development of a report to U.S. Trade Representative Robert Zoellick regarding civil society relations. The suggestions raised during that public meeting included:

- Post public register testimony and comments on USTR's web site;
- Provide the public with a clear explanation about how trade decisions are made;
- Publish the names and e-mail addresses of USTR and interagency personnel involved in U.S. trade policymaking; and
- Balance representation of civil society groups on USTR private advisory committees.

In a related matter, USTR's response to a federal court ruling issued late last year sends a mixed message regarding transparency to civil society groups. In December 2002 the U.S. District Court for the District of Columbia largely ruled in favor of a case brought by environmental groups who pushed for the release of U.S. negotiating positions related to the U.S.-Chile Free Trade Agreement negotiations. To protect future documents from access under the Freedom of Information Act, the USTR routinely formally classifies negotiating texts and related documents.¹⁷ Presented with an opportunity to demonstrate to other trade negotiators that total secrecy is *not* essential to successful negotiations, the USTR instead chose to put more distance between itself and the interested public. The standard for transparency has already been set by USTR, when it immediately made public and placed on-line its March 31st, 2003 initial commitments on services liberalization submitted to the WTO Special Session of the General Agreement on Trade in services.

Environment in the FTAA

Environmental issues are simply not part of the draft FTAA text. Today, environment is not a recognized component of the negotiations, and most Latin American governments have fought repeated efforts by the United States and Canada to propose environmental language. Their opposition to the inclusion of the environment jeopardizes the USTR's ability to meet TPA's instructions, thereby reducing the FTAA's chances of winning support in Congress.

The U.S.-Chile FTA includes many examples that demonstrate how TPA environmental instructions can be met in the FTAA. In a separate chapter on the environmental protection, and that the parties will not fail to effectively enforce trade-related environmental laws to encourage trade or investment activity. This commitment is subject to dispute settlement, and any fines resulting from violations will be targeted at addressing the underlying problems preventing enforcement.¹⁸ Disputes involving environmental policy will include panelists with expertise in environmental policy matters.¹⁹

The U.S.-Chile FTA environment chapter also establishes a variety of means to ensure public involvement in the administration of the agreement. Parties are required to establish and maintain opportunities for public discussion regarding implementation of the environment terms of the agreement. In addition to regular dialogue, an Environment Affairs Council will be created, which will meet regularly to discuss issues of common interest and engage the public in developing agendas for council meetings, including the use of fines assessed for violations of this chapter.²⁰

Finally, both parties have agreed to an ambitious agenda for environmental cooperation on issues such as pollutant release and transfer register, reducing mining pollution, and improving agricultural practices.²¹

The United States was fortunate to have Chile as a negotiating partner, as it shares the same strong commitment to trade liberalization, high standards for envi-

¹⁷"Court Decision Leads to New USTR Strategy of Classifying Documents," *Inside U.S. Trade*, Vol. 21, No. 17, April 25, 2003.

¹⁸*U.S.-Chile FTA*, Articles 19.1, 19.2. Dispute Settlement is addressed in Article 22.16.

¹⁹*U.S.-Chile FTA*, Article 19.7.

²⁰*U.S.-Chile FTA*, Article 19.3

²¹*U.S.-Chile FTA*, Annex 19.3

ronmental protection and public involvement. The U.S.-Chile FTA breaks new ground on trade and the environment by taking the best from the North American and U.S.-Jordan FTAs and building a chapter that reflects both countries' commitment to strong economies, protected environment, and healthy public dialogue. While not perfect, it clearly meets congressional benchmarks for integrating environment into U.S. trade agreements.²²

That said, the FTAA is an entirely different kind of trade negotiations, involving many more countries, each with its own history and differing levels of development. Although it is important to build on the U.S.-Chile FTA, given the stark differences between these two negotiating environments, it is not appropriate to adopt its environment provisions as a model for the FTAA. FTAA negotiations need to differ in several important ways:

- First, given the different commitments to democratic processes, U.S. positions in FTAA negotiations should emphasize the important role citizen involvement plays in the administration of a trade agreement. The United States should propose concrete approaches to incorporating citizens into the administration of the FTAA—such as the joint public advisory committee in the North American Agreement for Environmental Cooperation. A related model of national reporting is the Trade Policy Review Mechanism of the WTO: this could be a basis for examining environmental capacity and progress in the FTAA contest.
- Second, given the poor capacity of most Latin American governments to protect the environment, the U.S. should propose that the UN Environment Program (UNEP) initiate annual reviews of the ability of our FTAA partners to implement their own environmental laws. This practice is already common practice among the Organization for Economic and Cooperation Countries, who are regularly subject to independent reviews of their environmental laws.
- Independent reviews of environmental enforcement by a responsible intergovernmental organization would accomplish three things. First, a UNEP-led study would help governments improve the quality of their environmental laws. Second, by identifying weaknesses in protection capacity or enforcement, the report would help target foreign assistance or private investment opportunities to build and operate key components of environmental infrastructure. Finally, as most environmental damage is caused by domestic consumption, building the capacity of poor governments to mitigate trade-related environmental damage would also help to address community wide environmental infrastructure needs.
- Finally, Congress should become aware of the changes in U.S. trade-related negotiating responsibilities. By executive order, the U.S. Department of State is now responsible for negotiating and implementing environmental agreements that run parallel to trade negotiations.²³ Overall, this is a positive step; the State Department's Bureau of Oceans and International Environmental and Scientific Affairs has greater competence in the area of international environmental protection and is thus better able to negotiate and administer the agreement. It may also have the added benefit of freeing up badly needed human resources at USTR for other trade negotiations. That said, dividing trade negotiation-related responsibilities between agencies may complicate policy development. Congress should be aware of this new interagency procedure and ensure that it receives the support from other federal agencies necessary to be effective.

Dispute Settlement

The November FTAA draft contains bracketed language that directly conflicts with TPA guidelines. For example, there is not yet a certain, meaningful mechanism for public participation. Several provisions would call for non-state experts to join dispute panels or provide technical support to governments, but the nature of this input would appear to be limited.²⁴ Outside experts would in essence serve as government consultants, not public liaisons or community voices. While the experts would bring their experience and training to the table, they would not be acting in a true nongovernmental capacity. Their freedom to take positions at odds with their

²² For a critique of some aspects of the U.S.-Chile FTA's environment provisions, see the February 27, 2003 Trade and Environment Policy Advisory Committee (TEPAC) report to the President, at <<http://www.ustr.gov/new/fta/Chile/advisor-reports.htm>>.

²³ See Federal Register Notice "DEPARTMENT OF STATE: Delegation of Authority 250; Further Assignment of Functions Under the Trade Act of 2002 ("Trade Act") to Other Departments and Agencies of the Executive Branch," Federal Register Notices, Vol. 67, No. 243, Wednesday, December 18, 2002.

²⁴ *FTAA Draft Text*, November 2002, Article 12, paragraph 63 at <<http://www.ftaa-alca.org/ftaadraft02/eng/draft-e.asp>>.

governmental counterparts or to act in any representative capacity of a segment of civil society would presumably be very constrained.

There is a bracketed provision that would require public notice when a dispute resolution panel is established, but competing provisions make it unclear whether proceedings thereafter would be open or closed to the public.²⁵ Later in the draft, another bracketed paragraph under the heading “Public Participation” would provide notice to the public within a week after a dispute panel is chosen to allow “members of the public to submit views on legal or factual issues to the neutral panel.”²⁶ This is a very promising proposal because it could result in an *amicus curiae* (friend of court) process that would give non-state actors a direct voice in disputes. But a competing bracketed provision would resolve the matter in precisely the opposite manner. It states unequivocally “non-governmental participation in the dispute settlement system in the Chapter shall not be permitted.”²⁷ The resolution of this issue is unclear, but it may be a critical turning point for public accountability and access to justice under the FTAA.

Finally, there is a proposed requirement that information filed in connection with a dispute be made public²⁸—but again this is bracketed and constrained by provisions for the protection of “confidential information” whose scope is yet unclear.²⁹

The U.S.-Chile FTA once again provides an example of how civil society can be effectively integrated into a dispute settlement procedure without compromising the need to withhold sensitive information from the public. As mentioned earlier, it stipulates that panels that hear environment and trade disputes will have expertise in environmental policy matters, allow for *amicus curiae* submissions, allow panels to independently seek information and technical advice from experts, and ensure that reports will be made public in a timely fashion. Congress should instruct the USTR to duplicate the public participation, financial penalty, and panel roster portions of the U.S.-Chile Dispute Settlement Understanding in the FTAA agreement.

Investment

In their reports on the U.S.-Chile and U.S.-Singapore FTAs, a majority of the Trade and Environment Policy and Intergovernmental Policy Advisory Committees felt that both agreements comply with TPA instructions.³⁰ That said, a sizeable minority of TEPAC members, as well as the Intergovernmental Advisory Committee (IGPAC), expressed concern over language in the dispute settlement chapter that they believe gives foreign investors rights of action not available to domestic investors.³¹

During the TPA debates, Congress became aware of the controversy surrounding legal terms such as “tantamount to,” “fair and equitable treatment,” and “customary international law,” all of which are contained in the bracketed chapter text.³² While I do not entirely share the view of those who feel that this language undermines national and subnational regulatory authority, when coupled with a dispute settlement system that is not transparent, or whose decisions are not subject to appeal, it creates opportunities for the private sector to employ a new source of political pressure on domestic regulations.

Given the level of concern surrounding investment, I urge members of Congress to be especially vigilant with regard to the FTAA’s investment chapter. One way to shed greater light on this issue would be to hold hearings immediately after the release of the next draft text and allow the various parties to discuss their different opinions of the FTAA investment language.

It is also particularly important to ensure that the dispute settlement proceedings meet the minimum test for openness and accountability, as set forward in TPA. Here again, the U.S.-Chile FTA serves as a useful model.

²⁵ *FTAA Draft Text*, Article 39, paragraph 210.

²⁶ *FTAA Draft Text*, paragraph 259.

²⁷ *FTAA Draft Text*, paragraph 26.

²⁸ *FTAA Draft Text*, paragraph 210.

²⁹ *FTAA Draft Text*, paragraph 211. For examples of potential restrictions on information deemed “confidential,” see paragraphs 44(c) and 263(e).

³⁰ Copies of the Trade and Environment Policy Advisory Committee and Intergovernmental Policy Advisory Committee reports on the Chile and Singapore bilateral agreements can be found on USTR’s web site at <http://www.ustr.gov/new/fta/Chile/advisor—reports.htm>, and <http://www.ustr.gov/new/fta/Singapore/advisor—reports.htm>.

³¹ In particular, see the letter attached to the IGPAC report from the National League of Cities, National Conference of State Legislatures, and National Association of Towns and Townships, and to the TEPAC report from the Center for International Environmental Law.

³² See the *Trade Act of 2002* legislative history for a complete discussion of the controversy surrounding these phrases.

Technical Assistance and Capacity Building

President Bush's *National Security Strategy* wisely links trade liberalization with development assistance designed to actually make a difference in the lives of the world's poor.³³ The Bush administration's 2003 foreign assistance budget proposal tries to make good on this commitment: for example, it includes \$47 million to technical assistance and capacity building for Central American nations—a 74 percent increase over the 2002 budget. U.S. leadership in preparations for the 2002 Quito FTAA Ministerial led to the announcement of a new technical assistance and development plan designed to encourage our trading partners to identify technical assistance and capacity-building needs. The Hemispheric Cooperation Program (HCP) is a positive step toward providing technical assistance and capacity building as outlined by Congress in TPA.³⁴

As part of the Central American Free Trade Agreement (CAFTA) negotiations, Central Americans accelerated the development of their “national plans of action,” giving us a chance to learn from this first experience. First, while the USAID trade program strategy explicitly references environment, Central American governments did not include references to the environmental infrastructure (i.e. solid waste management, wastewater treatment, air quality monitoring) necessary to mitigate the negative effects of expanded economic activity.³⁵ Beyond the obvious suspicions regarding environment and trade felt by Latin American governments, there are three additional explanations for this omission. First, reports prepared for the Inter-American Development Bank indicate that, outside the United States and Canada, there is very little interaction between ministries responsible for trade policymaking and their environment or development ministries.³⁶ If environment and development ministries are not part of trade policy development, then their views will not become part of a government proposal. Second, despite USTR web site information that emphasizes all aspects of trade capacity building, it appears that U.S. foreign service officers are not fully aware of all aspects of U.S. policy. During a recent USAID training session on technical assistance and capacity building, Central American field officers asked for additional background on the subject of trade and environment to enable them to explain the connections more plainly to their counterparts.³⁷ In addition, USAID's trade-related capacity-building strategy gives top priority to projects that help generate local support for trade reforms and emphasizes participation in trade negotiations, implementation of trade agreements, and economic responsiveness to opportunities for trade. Trade and environment is given “specific consideration” as important for long-term “economic responsiveness”—i.e. building capacity to promote sustainable economic growth and reduce poverty.³⁸ However, to date environmental concerns have been largely neglected in terms of trade capacity building for negotiations and implementation, despite requirements set forth in the *Trade Act of 2002* that U.S. trade agreements will include commitments in this area. Finally, given the lack of public involvement in negotiations to date, Latin American governments may not feel the urgency to include environment and other development priorities as part of trade negotiations. This is unfortunate, because the Quito civil society declaration shared with ministers clearly demonstrates public support for linkages between trade and environment policies.³⁹

To its credit, USTR and USAID are encouraging their Central American counterparts to engage in more active public outreach. One U.S. contractor, the Carana Corporation, recently reported that, after initial misgivings expressed by government officials, most Central American government officials support the public out-

³³ *National Security Strategy*, section VII.

³⁴ Hemispheric Cooperation Program, Annex III of the *Ministerial Declaration of Quito*9, Seventh Meeting of Ministers of Trade of the Hemisphere, Quito, Ecuador, November 1, 2002. <<http://www.ftaa-alca.org/ministerials/quito/minist—e.asp>>.

³⁵ The public version of each country's “national action plan” is posted on USTR's web site at <<http://www.ustr.gov/new/fta/cafta.htm>>.

³⁶ See Inter-American Development Bank, The University of Toronto Munk Centre for International Studies, and the Inter-American Dialogue. *The Trade Policy-Making Process Level One of the Two Level Game: Country Studies in the Western Hemisphere*, Occasional Paper no. 13 (Washington, DC: Inter-American Development Bank, March 2002).

³⁷ Course evaluation materials from the trade training course for USAID Economic Growth Officers, held March 3–4 in Antigua, Guatemala. USAID officials may request access to course evaluation materials at <<http://www.tcb-project.com/tcb/level4.php?domain=TCB&cat1=101&cat2=206&cat3=361>>. Evaluation materials are not available to the public at this writing, a policy which I recommend be changed to allow greater transparency and public input.

³⁸ See U.S. Agency for International Development, *USAID Strategy: Building Trade Capacity in the Developing World*, PD–ABX–241 (Washington, DC: USAID, March 2003), p. 15.

³⁹ See *The Hemispheric Trade and Environment Forum to the VII Ministerial Conference of the FTAA*, October 31, 2002, at footnote 14.

reach process. Unfortunately, a few weeks of outreach to communities that have suffered decades of government repression will not overcome citizens' mistrust of government officials.

Finally, there is a problem of coordinating resources. USAID development plans begin in regional offices and are timed to provide Washington headquarters information necessary to prepare budget proposals that coincide with the congressional budget cycle. Trade negotiations operate at their own speed, so technical assistance and capacity-building proposals that arise from trade negotiations may not be covered in a federal agencies funding requests to Congress. The resulting misconnection between promises and resources is evident. Technical cooperation pledges made in the U.S.-Jordan "side letter" on environment have yet to be realized, due in part to inadequate funding. And neither the U.S.-Chile nor U.S.-Singapore environmental accords are linked in any way to U.S. government support.

Ensuring that the United States meets its commitments to help build strong trading partners through appropriate technical assistance and capacity building should be a high priority for the U.S. Congress. I recommend that Congress take the following steps:

- Ask USAID to testify before Congress and explain fully its approach to trade-related technical assistance and capacity building. In particular, Congress should explore how federal agencies link financial resource allocation with technical assistance proposals that arise from trade negotiations.
- Encourage USAID to better use its web site to post information about USAID contractors involved in trade-related capacity building. A recently launched internal USAID Trade and Investment home page takes an important step in this direction and should be expanded.⁴⁰ But, while the web page can be accessed by members of the public who learn of its existence, it is not linked to the public USAID site; moreover, certain portions of the site which would benefit from transparency—including evaluation materials for trade capacity building seminars—are password protected. Citizens in every country, not just their governments, should have all the details regarding U.S. technical assistance contractors.
- Urge the U.S. Department of State to issue *demarches* that clearly explain U.S. trade-related capacity-building objectives and instruct foreign service officers to actively engage environment and development ministers to expand their level of understanding of the trade and environment linkages.

FTAA Environmental Review

Per TPA instructions, and consistent with Executive Order 13141, USTR and the Council for Environmental Quality (CEQ) have initiated an environmental review of the FTAA negotiations. When completed, it will represent the seventh environmental review of U.S. trade negotiations.⁴¹

Environmental reviews of trade agreements represent an important tool to determine both positive and negative impacts of trade liberalization on the environment. Assessment methodologies have now been developed by UNEP, the North American Commission for Environmental Cooperation, the Organization for Economic Cooperation and Development, as well as private organizations the World Wildlife Fund and World Resources Institute.⁴² But like all new methodologies, they must be flexible enough to build upon their strengths, and to minimize or eliminate their weaknesses. The executive order and guidelines lock in a U.S. approach to environmental reviews that is U.S.-centered and based on measurable changes to the U.S. economy before further examination of changes to specific environmental media is

⁴⁰ See <<http://www.usaid.gov/economic-growth/egat/eg/tech-trade/>>.

⁴¹ The other six include: the North American Free Trade Agreement, the Uruguay Round General Agreement on Tariffs and Trade, the proposed acceleration of tariff reductions in forest products under the Asia Pacific Economic Cooperation, the U.S.-Jordan FTA, the U.S.-Singapore FTA, and the U.S.-Chile FTA.

⁴² See UNEP Reference Manual for the Integrated Assessment of Trade-Related Policies (New York and Geneva: United Nations, 2001); Commission for Environmental Cooperation, *Assessing Environmental Effects of the North American Free Trade Agreement (NAFTA): An Analytic Framework (Phase II) and Issue Studies* (Montreal: Commission for Environmental Cooperation, 1999); OECD, "Methodologies For Environmental Assessment Of Trade Liberalisation Agreements: Report Of The OECD Workshop Held On 26-27 October 1999," COM/TD/ENV(99)92/FINAL (OECD, May 2000); World Wildlife Fund for Nature (WWF) and Fundacion Futuro Latinoamericano (FFLA), *The International Experts' Meeting on Sustainability Assessments of Trade Liberalisation: Quito, Ecuador, 6-8 March 2000* (Switzerland: WWF and FFLA, November 2000).

warranted.⁴³ Given the size of the U.S. economy, this approach has resulted in a series of *de minimus* (no significant effect) reviews, an outcome that has begun to undermine U.S. public support for this policy.

Now that Congress has made conducting environmental assessments of trade agreements part of U.S. law, I recommend that it pay closer attention to the results of each review. The draft FTAA review will be released early this summer, and I recommend that Congress include a closer examination of its results during the next hearing on the FTAA.

The Way Forward

The FTAA negotiations have reached their final stage; until they are concluded. Congress should devote additional attention to their oversight and provide ample opportunity for public comment and discussion. Achieving U.S. trade and environmental priorities in the FTAA will not be easy because the United States has few supporters in the region for this agenda. Achieving this goal remains possible, however, but success will require greater dedication to explaining U.S. objectives, developing coordinated technical assistance packages, and reaching out to the public.

Chile is a crucial ally in the U.S. effort to integrate environment and labor provisions into the FTAA. Already Chilean trade negotiators are trying to persuade other Latin American governments to engage the United States in a discussion of how to integrate the environment into the FTAA negotiations and not to wait until the United States forces some environment provisions as part of its eleventh hour negotiating strategy. I applaud efforts by Senator Max Baucus (D-Mont.), Senator Chris Dodd (D-CT), and their colleagues to urge President Bush not to punish Chile for its decision not to support the U.S. war in Iraq.⁴⁴ We have much to gain and a great deal to lose if we force Chile to wait any longer for improved U.S. trade relations.

PREPARED STATEMENT OF HON. MAX BAUCUS

Two years ago, I traveled to Quebec City to attend the Third Summit of the Americas. What I saw there was something with great promise: a trade agreement involving 34 countries all working together toward a single undertaking of economic development and cooperation, 34 neighbors strengthening ties and relationships with the goal of shared prosperity.

I also saw that we had a long way to go to achieve this goal. Now, two years later, it appears we still have a long way to go. Diverging goals for agriculture divide participating countries. So do concerns over labor and the environment. This is disappointing.

When President Clinton launched the initiative to create a hemispheric agreement, he envisioned a market of nearly 800 million consumers stretching from the Arctic Circle to the Straits of Magellan. An agreement of this magnitude offers tremendous opportunities for American farmers, companies, and workers, and it could be a significant boon to the U.S. economy.

Wheat farmers in Montana could benefit greatly from expanded trade with Latin America. So, too, would American workers and companies in a variety of sectors, including services, hi-tech, and manufacturing.

Nevertheless, the slow pace of progress in the negotiations illuminates several crucial problems—some of them within the immediate purview of the FTAA, some of them outside of it—but all of them bearing directly on prospects for successful and fair trade within the hemisphere.

The first concern involves pressure from Brazil and others to address U.S. farm programs within the FTAA, rather than at the WTO. I think everyone here recognizes the danger if we were to give in to this pressure. U.S. domestic supports do not exist in a vacuum, nor would any changes we might make to them simply to conform to a regional agreement. Our farm supports exist, in great part, as a counterweight to the far, far higher supports enjoyed by farmers in Europe and other places, outside our hemisphere. Domestic supports can only be addressed in the broad, multilateral context of the WTO. Addressing them in any other context would not only be counterproductive, but also terribly unfair to U. S. farmers.

A second problem impeding our progress towards hemispheric free trade is the reluctance of some of our negotiating partners to recognize that labor rights and envi-

⁴³ See Kevin Gallagher, Frank Ackerman, and Luke Ney, *Environmental Reviews of Trade Agreements: Assessing the North American Experience* (Montreal: North American Commission for Environmental Cooperation, December 2001).

⁴⁴ "Chilean Minister Says Powell Offered Assurances on Chile FTA." *Inside U.S. Trade*, Vol. 21, No. 18. May 2, 2003

ronmental standards have just as much of an effect on the economics of trade as do standards, technical barriers, and intellectual property rights. We need to engage constructively on trade-related labor and environmental issues in order to move the whole process forward.

The long, and growing, list of agricultural disputes we now have with one of our closest hemispheric partners, Mexico, is the third concern. One of the major disputes, in sweetener trade, is pushing into its seventh year without resolution. The list of disputes also includes beef, pork, poultry, rice, and apples. Now, Mexico is considering an effort to rescind the progress of NAFTA in other commodities like dry beans and white corn. Unfortunately, the effect of these disputes is to erode the confidence of farmers—major supporters of trade—in the benefits of trade liberalization.

Finally, I would be remiss if I did not mention Cuba. Cuba, of course, is not a part of the FTAA. Cuba, in fact, is not even a part of this Administration's trade agenda.

From Chile to Central America, from Australia to Morocco, the U.S. is pushing forward with an aggressive strategy to engage virtually the entire world—except, that is, with Cuba, a country that lies less than 90 miles off our shore. This is a mistake.

We must forge ahead with a new strategy for Cuba and figure out a meaningful way to bring the Cuban people into our world of ideas and development. The first step needs to be through contact and engagement. Last week, eight colleagues and I introduced legislation to lift the restrictions on travel between our two countries. Tomorrow, our colleagues in the House are expected to introduce a companion bill. I have asked Majority Leader Frist for floor time to debate this important legislation. We cannot afford to ignore the failures of current U.S. policy towards Cuba any longer.

If we are to push forward on greater integration with Latin America—and we should—we must work hard to ensure that all of the Americas and its nearly 800 million people benefit from the growth and prosperity such integration will bring.

Earlier this year, countries began submitting their first round of market access offers. The U.S. put forth an aggressive proposal. I understand Brazil has still not yet completed their submissions. I hope this is a delay that will soon be rectified.

If we are to make real progress at the Miami Ministerial in November, every country must take these negotiations seriously. Two years ago, in Quebec City, countries agreed to conclude negotiations by January 2005. That deadline is now only twenty months away. It is time to get to work. I look forward to hearing from our witnesses today to find out how we can do this.

PREPARED STATEMENT OF JAMES FENDELL

Mr. Chairman, thank you for inviting me to appear before this panel today. I am James Fendell, President of Aerocasillas—Aeropost, and President of the Association of American Chambers of Commerce in Latin America, known as AACCLA.

AACCLA is a leading advocate of increased trade and investment between the United States and Latin America and the Caribbean. Representing 23 American Chambers of Commerce in 21 Latin American and Caribbean nations, the association's 20,000 member companies manage over 80 percent of all U.S. investment in the region.

I am also pleased to submit this testimony on behalf of the U.S. Chamber of Commerce, which is the largest business federation in the world. Representing nearly three million companies of every size, sector, and region, the Chamber has supported the business community in the United States for nearly a century.

I appreciate this opportunity to testify on the status of the Free Trade Area of the Americas (FTAA) negotiations and preparations for the Miami FTAA Ministerial, which is scheduled for November 2003. The FTAA is our top hemispheric priority, and we are committed to working with government officials and business leaders throughout the Americas to make it a reality.

Commerce in the Americas

First, it is worth noting just how far the commercial relationship between the United States, Canada, and Latin America has advanced in recent years. Despite significant economic setbacks in a number of Latin American countries, the flow of trade and investment throughout the hemisphere has never been greater. The day is not far distant when the United States will trade more with our neighbors here in the Western Hemisphere than with Asia and Europe—combined.

The numbers tell quite a story. The United States trades more with Canada than with the entire European Union. This is true even though the European Union has a population ten times that of Canada. Mexico is our second largest trading partner, and two-way trade reached nearly \$250 billion last year.

Beyond our two NAFTA partners, we see additional potential. The total stock of U.S. investment in Brazil—roughly \$36 billion—is triple the amount American companies have invested in China. The Caribbean Basin has emerged as a vital trading partner to the United States. Last year, the 24 countries in the Caribbean and Central America purchased more U.S. goods and services than China, India, and Russia—combined.

Rationale for the FTAA

I believe we have seen this progress because the basic rationale for the FTAA is stronger than ever. Hemispheric free trade will boost economic growth and reduce poverty throughout the hemisphere. The FTAA will also provide an opportunity to re-energize economic reform throughout the Americas. It will confirm a shared commitment to the market-opening policies that create the conditions for growth.

The FTAA will encompass 34 nations with over 800 million citizens. Its collective GDP will exceed \$13 trillion. The FTAA will:

- Eliminate existing tariff and non-tariff barriers and bar the creation of new ones;
- Remove other restrictions on trade in goods and services as well as investment unless specifically exempted;
- Harmonize technical and government rule-making standards;
- Exceed World Trade Organization disciplines, where possible;
- Provide national treatment and investor safeguards against expropriation;
- Establish a viable dispute settlement mechanism;
- Improve intellectual property rights protection; and
- Enhance the local business environment by fostering more transparent regulatory institutions.

An additional rationale for the FTAA arises from the rapidly changing patterns of international trade. As you know, special interests in the United States spent a great deal of time in the 1990s arguing about trade. While this was going on, other nations around the world have been busy weaving a spiderweb of free trade agreements. Over 130 regional trade agreements are currently in force worldwide. The European Union, Canada, Mexico, and other countries have signed dozens of FTAs in the past decade, while the United States today enjoys free trade with just four countries (Canada, Mexico, Israel, and Jordan).

This pattern of diminished U.S. participation in trade liberalization must not continue. The spiderweb of free trade agreements that we've seen emerging around the world has already put U.S. companies at a competitive disadvantage in key markets—especially in Latin America. Basically, other nations are negotiating trade agreements that provide preferences for their firms over our own.

Benefits of the FTAA

For a final rationale for the FTAA, the North American Free Trade Agreement (NAFTA) offers an excellent preview of the benefits a hemispheric free trade agreement might bring. Since the NAFTA came into force nearly a decade ago, trade between the United States and Mexico has tripled to nearly \$250 billion last year. Trade between the United States and Canada exceeds \$400 billion—a figure double the pre-NAFTA level. This explosion in trade has allowed companies in all three NAFTA countries to generate hundreds of thousands of new jobs. The NAFTA is one of the main reasons why some 12 million U.S. jobs rely on exports.

While enhanced competition in the marketplace has led to job losses in some industries, the new, trade-related jobs that have been created tend to provide better pay than the jobs that were lost. Studies show that export-related jobs pay 13 to 18 percent more than other jobs.

As Ambassador Zoellick has pointed out, the combined effects of the NAFTA and the Uruguay Round trade agreement that created the World Trade Organization (WTO) have increased U.S. national income by \$40 billion to \$60 billion a year. Thanks to the lower prices that these agreements have generated for such imported items as clothing, the average American family of four has gained between \$1,000 to \$1,300 from these two pacts.

The NAFTA has proven to be a foreign policy masterpiece, transforming Mexico's economic prospects and arguably paving the way for the democratic breakthrough witnessed in the 2000 elections. From a national security perspective, the possibility of reproducing these results on a hemispheric scale is enticing.

Status of the FTAA. Negotiations

The business community has been moving toward an integrated hemispheric market for decades, and now our governments are running to catch up. At the First Summit of the Americas in 1994, the leaders of 34 Western Hemisphere nations set the goal of free trade in the Americas. Now, as negotiations move into the final, decisive stage, it's clear that we have moved closer to this objective than we might have thought possible.

On February 15, 2003, FTAA governments submitted their initial market access offers, signaling that the 34 Western Hemisphere nations are entering the home stretch of the negotiations. The United States offered a comprehensive liberalization proposal in agricultural and nonagricultural goods, services, investment, and government procurement—placing all tariff lines on the table. In recognition of different levels of development around the hemisphere, the U.S. offer will provide immediate duty free treatment for 91% of goods from Caricom countries, 66% of goods from Central American countries, 61% of goods from Andean countries, and 58% of goods from Mercosur countries.

To summarize the current phase of the negotiations, offers for agricultural and nonagricultural products, services, investments, and government procurement will be presented in accordance with the following schedule: Initial offers were presented on February 15; submission of request for improvements to the offers will be delivered between February 16 and June 15; and presentation of revised offers should start on July 15.

Our Key Partner: Brazil and its neighbors in Mercosur

In a sharp contrast to the U.S. offer, the four Mercosur member countries—Brazil, Argentina, Uruguay, and Paraguay—committed themselves to eliminate tariffs immediately on just 17% of all imports. According to this schedule, the elimination of tariffs for another 22% of the goods will happen within five years, 52% will happen within ten years, and 100% tariff elimination will happen within more than ten years. While Mercosur's offer is conservative, sources in Brazil have indicated that they may improve the offer to the same level proposed in free trade negotiations with the European Union—91% of goods duty free within ten years.

Unsatisfied with the initial U.S. offer, Brazil and other Mercosur countries also announced they will consider making differential offers of their own, meaning that offers to the United States and Canada may be less aggressive than with other smaller trading partners.

During the Vice Ministerial meeting held last month in Puebla, Mexico, the Mercosur countries also discussed the impact of the war on Iraq on the FTAA. At first glance, the war had no apparent impact on the rhythm of the discussions. However, respected Brazilian opinion leaders have questioned whether the "unilateral" nature of the U.S.-led war in Iraq implies a weakening of the U.S. commitment to multilateral initiatives such as the FTAA.

It is against this backdrop that U.S. Trade Representative Robert Zoellick will travel to Brazil to discuss the FTAA with Minister of Foreign Relations Celso Amonm, who is currently co-chairing the FTAA negotiations with Zoellick, as well as other Brazilian government ministers. Several reports have indicated that sentiment in the Brazilian private sector may be shifting in favor of a bilateral rather than multilateral approach to trade liberalization.

Ambassador Zoellick faces several major challenges during this trip. On the one hand, Brazilian government officials and business leaders increasingly see trade negotiations with the United States as an important part of any effort to boost Brazilian exports and economic growth. On the other hand, some argue that the FTAA has become a political hot potato in Brazil, leading some officials to consider proposing a bilateral free trade agreement with the United States. A bilateral or "Four Plus One" free trade agreement (in which the four Mercosur countries would negotiate with the United States) is also held up as simpler than the 34-nation FTAA talks.

In our view, it would be a terrible mistake to walk away from the FTAA. The negotiations have come a long way, and abandoning them now would only postpone the arrival of such obvious benefits as improved access to hemispheric markets. Moreover, the obvious complexities of the 34-nation FTAA negotiations are not delaying efforts to reach agreement. Rather, the difficulty arises from a lack of political will in hemispheric capitals, which would persist in the context of negotiations for a U.S.-Brazil or "Four Plus One" free trade agreement.

Preparations for the Miami Ministerial

In anticipation of next November's FTAA Ministerial and Americas Business Forum (ABF) in Miami, the U.S. Chamber of Commerce, AACCLA, the Council of

the Americas, and several other national business organizations have held a series of meetings since February 2003 with Ambassador Charles Cobb, Armando Codina, and Ambassador Luis Laurodo—who are among the leaders of the team organizing the VIII FTAA Ministerial and ABF—to discuss ways to optimize productivity and move the FTAA negotiations forward expeditiously.

As a result, a National Advisory Board of U.S. business organizations was formed, with AACCLA, the U.S. Chamber of Commerce, and the Council of the Americas acting as co-chairs. The committee has been meeting with Ambassador Laurodo and other members of the Miami-based organizing committee regularly throughout the year to offer counsel and to help shape the agenda for the Ministerial and ABF. We are also working to coordinate the flow of information between the National Advisory Board and Ambassador Laurodo's team.

While the Miami-based organizers of the Ministerial and ABF will be focusing on the logistics and the leadership structure of the two events, our organizations see an opportunity to reshape the interaction between the ministers and the business community with a special focus on our policy priorities.

We are still at an early stage in preparations for Miami, but we believe that the Miami-based organizers are to be congratulated for their efforts to lay a strong organizational foundation for the Ministerial and ABF and to reach out to a broad swath of the business community. Ambassador Cobb, Mr. Codina, and Ambassador Laurodo have led the charge with energy and a spirit of openness. They have sought input, and they have gotten it—which bodes well for the November meetings.

This spirit of openness is also evident at the Office of the U.S. Trade Representative, where Ambassador Zoellick and his Western Hemisphere team—including Deputy U.S. Trade Representative Peter Allgeier, Assistant U.S. Trade Representative for the Americas Regina Vargo, and others—has also done an excellent job over the past year reaching out to civil society as well as the business community to seek our input. Our dialogue with them has focused on both the ideal content of the FTAA itself as well as ways to involve non-government actors in the negotiations to help ensure their success. Assistant U.S. Trade Representative Chris Padilla, whose brief includes intergovernmental affairs and public liaison, has been particularly effective in this role, which he assumed just six months ago.

The National Advisory Board to the FTAA Ministerial and ABF has put together a series of recommendations for the Miami-based organizers, who have welcomed both the substance and intent of these ideas. In general, the aim of these recommendations is to arrange the structure and calendar of the Miami meetings to allow for more interaction between the trade negotiators and the business representatives participating in the ABF.

To give one example, one recommendation from the National Advisory Board was to provide daily briefings during the week of the Ministerial by the Office of the U.S. Trade Representative for the U.S. business community. Another suggestion was to create an additional session during the ABF in which the negotiating leads would join business delegates at the workshops corresponding to their areas of specialization for a dialogue on the negotiations. Such a meeting would help the negotiators to get a better feel for the nuances surrounding specific recommendations from the business community (as well as areas where consensus remains elusive).

Conclusion

In sum, we find ourselves at a crucial juncture in the negotiations for the Free Trade Area of the Americas. Economic difficulties in a number of countries only underscore how critical it is that we proceed to bring the negotiations to a successful conclusion by the January 2005 deadline.

Trade expansion is an essential ingredient in any recipe for economic success in the 21st century. If U.S. companies, workers, and consumers are to thrive amidst rising competition, completing the FTAA must be a top priority. In the end, U.S. business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level. All we are asking for is the chance to get in the game.

PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY

I would like to welcome our witnesses to today's subcommittee hearing on the status of negotiations for the Free Trade Area of the Americas and preparations for the Miami ministerial. I would especially like to welcome Craig Hill, vice president of the Iowa Farm Bureau. Craig traveled from Iowa to be with us. We appreciate his dedication and willingness to be here today. I also want to thank subcommittee Chairman Thomas for agreeing to hold this hearing. It requires a significant

amount of time for him to be here, and I greatly appreciate his strong support of the Finance Committee's agenda. I think today's hearing is particularly timely. In just six months the United States will host the next FTAA ministerial in Miami. A lot of time and preparation is required to make sure it is done right. Many people attribute the failure of the WTO ministerial in Seattle to lack of adequate preparation by the U. S. government. We cannot repeat the mistakes of the past. The Congress and the Administration need to focus early on potential problems, and work in tandem to resolve them, so that this FTAA ministerial is a success.

We are also just a year and a half away from January 1, 2005, when the FTAA negotiations are supposed to conclude. Although progress has been made, negotiations are at a critical juncture. Brazil and the United States now co-chair the negotiations, a novel and untested arrangement. We shouldn't underestimate the challenges inherent in forging a free trade agreement that includes 34 nations and covers nearly 800 million people producing more than \$11 trillion in goods and services. How well we succeed could have a big impact on the U.S. economy. Nearly 36 percent of all U.S. exports in goods and services are purchased by countries in our hemisphere. In my state of Iowa, about one-third of all the goods sold in international commerce are shipped to the FTAA region. If we want to succeed in our push for the elimination of tariffs and for the opening of markets, we need to do all we can to be prepared for the tough task ahead.

Unfortunately, a recent GAO report exposed some serious shortcomings in both our preparations for the Miami ministerial and the current state of FTAA negotiations. The GAO noted that negotiations within the FTAA could be hampered by failure to reach consensus on agricultural liberalization within the WTO. On this point I am extremely disappointed. The intransigence of the European Union and Japan on agricultural liberalization in the WTO is becoming a drag on the prospects for future worldwide economic growth. From the poorest African nations to the pampas of Argentina, the European Union's misguided agricultural policies are infecting the prospects for advancing international trade, thereby thwarting the ambition and livelihood of millions of farmers around the world. I sincerely hope the EU appreciates how harmful its lack of worldwide leadership is, and makes real efforts at agricultural reform this summer.

The GAO report also showed that FTAA participants need to seek a high level of ambition in their market access offers to give FTAA negotiations a boost. Finally, some concerns are raised about the ability of the United States and Brazil to successfully co-chair the negotiations and guide them to a successful conclusion. On preparations for the Miami ministerial, a number of concerns are raised by the GAO report. First, there is some question about the ability of the USTR to both chair and host the negotiations without additional staff. There is also concern that adequate resources and expertise in hosting a ministerial may be lacking. If so, we must intensify our efforts and provide the resources necessary to make the upcoming Miami ministerial, and the FTAA negotiations themselves, a resounding success. Again, I thank our witnesses and look forward to today's testimony.

PREPARED STATEMENT OF CRAIG HILL

My name is Craig Hill, and I am the Vice President of the Iowa Farm Bureau. I am also a full time farmer from Warren County, Iowa, and my farm is somewhat typical of an Iowa farm with corn, soybeans, and pork production. I appreciate the opportunity to speak to you today regarding the proposed Free Trade Agreement of the Americas (FTAA) and the potential benefits for American agriculture.

Iowa farmers are among the best in the world at what we do; providing the world with food. We will continue to meet future demand, but our ability to be successful depends in large part upon the decisions made by our government in two important areas: opening doors for the profitable trade of our products, and enforcing the trade agreements we have negotiated.

Farm Bureau has a long history of supporting free trade, and the worldwide reduction of tariffs, and other barriers to trade. Iowa farmers especially understand the importance of free trade, because two out of five acres of corn, and every other acre of soybeans, and 10% of the livestock produced in Iowa are sold to the world market. Exports represent about a third of the total value of Iowa's agricultural production. One of the principal successes of an FTAA would be to eliminate agricultural tariffs affecting trade. If tariffs were eliminated in the FTAA, North and South America could become the world's largest free market, exceeding that of the European Union in terms of population.

We support elimination of nontariff barriers to trade in agricultural products, such as discriminatory licensing requirements, barring market access until the do-

mestic supply is exhausted, and sanitary and phytosanitary measures that are not based on sound science.

US agriculture experienced strong gains with NAFTA and would like to repeat this success in the rest of the region. Producers from these countries already enjoy significant access to our market and also compete with us in the international marketplace. It is imperative that U.S. producers begin to enjoy access to the FTAA markets on equal terms.

The FTAA negotiations are important to Iowa farmers if we want to participate in this market with a combined GDP of nearly \$13 trillion and nearly 800 million consumers in 34 countries. Most of their products enter the U.S. market free or at reduced rates, and we need Central and South America to offer US producers the same access to their markets. A Free Trade Area of the Americas agreement would build on progress made through the WTO and NAFTA. Breaking down trade barriers would give U.S. farmers a much better chance at competing with other countries who currently benefit from preferential trade agreements in the region.

Not all trade agreements are created equal, however. We must take care to ensure that as agreements are negotiated and concluded, the benefits to the American farmer are positive. This caution is especially important in the Free Trade Agreement of the Americas. Three of the major FTAA countries already have an agricultural balance of trade with the US that runs substantially in their favor. According to USDA's 2002 trade statistics, the US exports \$52 million of agricultural products to Argentina, but imports \$602 million, for a negative balance of trade of \$550 million. The same is true for Brazil, where the US exports \$329 million, but imports \$1.15 billion, leaving a negative agricultural balance of trade of \$823 million. We also have a negative agricultural trade balance of \$408 million with Colombia. Some of the negative trade balance can be attributed to agricultural products that are difficult to grow in the US, such as bananas, coffee, cocoa, rubber and spices. 12% of Argentina's imports into the US are considered "non-competitive" agricultural products, 29% for Brazil and 56% for Columbia. In addition, a USDA report has stated that under a FTAA agreement, total US agricultural exports may increase 2 percent, but that agricultural imports may increase 3 percent, adding to our negative balance of trade with South America. We recognize that other American industries have much to gain from an FTAA agreement, but we do not want those gains to come at the expense of American agriculture.

We also have concerns that the office of the US Trade Representative (USTR) may not be fully prepared to meet the challenges of hosting the November 2003 Ministerial meeting in Miami. An April 2003 GAO (General Accounting Office) Report concluded that the USTR may not be prepared to host the meeting, its staff remains too small and is stretched too thin. GAO also reports that USTR is counting on funding that had yet to be secured.

The concerns we raise today do not represent opposition to the Free Trade Agreement of the Americas. We raise these concerns to ensure that Congress is aware of the challenges to USTR, and so that Congress is aware that unless negotiated properly, US agriculture could stand to lose more than it would gain.

Negotiators need to be on their toes to ensure sanitary and phytosanitary (SPS) rules are transparent and don't unnecessarily restrict our access to foreign markets. Under NAFTA, for example, US farmers have experienced trade barriers with Mexico involving chicken and pork; and Mexico is now wanting to re-negotiate duty reductions on white corn and dry beans.

Free trade agreements are only good if all parties live up to those agreements. When one party receives the benefit of the agreement, but wants to change terms not beneficial to them, the agreement becomes irrelevant, and actually detrimental to the US. Congress must ensure that these concerns are negotiated properly, but must also ensure that USTR has adequate staff and funding to enforce the existing agreements as written.

In conclusion, the Iowa Farm Bureau would like to reiterate its support for free trade agreements such as the FTAA, and to ask Congress for its support in opening doors for the profitable trade of our products. We also ask that the USTR carefully negotiate on agricultural issues, so that US farmers will gain, and not lose, under this very important free trade agreement.

Thank you for the opportunity to comment.

PREPARED STATEMENT OF THEA M. LEE

Mr. Chairman, Members of the Subcommittee, I thank you for the opportunity to testify today on behalf of the thirteen million working men and women of the AFL-CIO on this important topic.

As negotiations toward a Free Trade Area of the Americas (FTAA) enter the final stretch, it is essential that the U.S. Congress evaluate the progress of these negotiations and convey its views to our negotiators.

The AFL-CIO recognizes and welcomes the deep connections and ties between the United States and the rest of our hemisphere. We support the objective of a social and economic integration process that will contribute to stable and sustainable growth and will ensure that the benefits of growth are shared. However, we remain skeptical that a new trade agreement modeled on past agreements will deliver these results.

We are deeply concerned that the Free Trade Area of the Americas negotiations are headed in the wrong direction and will exacerbate, rather than solve, the very serious problems facing American working families and our counterparts throughout the hemisphere. In addition, we believe that the negotiation process needs to be opened up dramatically to more transparency and accountability, so that ordinary citizens and their organizations throughout the hemisphere can participate effectively in the political debate over how best to integrate the economies of the western hemisphere.

In our view, in order to truly promote the interests of average working people in the United States and throughout the hemisphere, the FTAA must incorporate:

- enforceable workers' rights and environmental standards in its core;
- measures to ensure that countries retain the ability to regulate the flow of speculative capital in order to protect their economies from excessive volatility;
- debt relief measures that will improve the ability of the developing countries to fund education, health care, and infrastructure needs, thereby contributing to closing the gap between rich and poor nations, and reducing inequality within nations;
- equitable and transparent market access rules that allow for effective protection against import surges, dumping, and unfair trade subsidies; and
- a transparent, inclusive, and democratic process, both for the negotiation of the FTAA and for its eventual implementation.

In addition, FTAA negotiations on investment, services, procurement, and intellectual property must not undermine the ability of governments to enact and enforce legitimate regulations in the public interest:

- investment rules should not discipline so-called indirect expropriations, should rely on government-to-government rather than investor-to-state dispute resolution, and should contain a broad carve-out allowing governments to regulate corporate behavior to protect the economic, social, and health and safety interests of their citizens;
- services rules should be negotiated sector by sector, should not apply to public services, and should not include commitments on temporary work visas until these visa programs are revised to protect the rights of all workers;
- government procurement rules should allow federal, state and local preferences for domestic purchases to continue and should give governments scope to serve important public policy aims such as respect for human rights and worker rights, environmental protection, economic development and social justice; and
- intellectual property rights provisions should allow governments to limit patent protection in order to protect public health and safety, especially regarding patents on life-saving medicines and life forms.

These issues are addressed in turn below.

Workers' Rights

The FTAA's rules governing international trade and investment will affect the living standards and communities of working people all over the hemisphere. As the San Jose Ministerial Declaration states, "the negotiation of the FTAA shall take into account the broad social and economic agenda contained in the Miami Declaration of Principles and Plan of Action *with a view to contributing to raising living standards, to improving the working condition of all people in the Americas and better protecting the environment*" (emphasis added). This goal should be at the center of the FTAA negotiations.

Unfortunately, the AFL-CIO sees few signs that the FTAA process has fulfilled this mandate. There is no chapter on labor issues in the draft FTAA text. The FTAA ministers have rejected reasonable U.S. proposals even to establish a study group to discuss workers' rights in the FTAA context. Only one provision relating to labor has even been proposed in the FTAA, and this provision would be non-binding.¹ Un-

¹This proposal, part of the draft chapter on investment, calls for countries to "strive to ensure" that labor laws are not waived or derogated from in order to attract an investment. This proposal is unacceptably weak. A similar provision on the relaxation of environmental standards

less the FTAA includes enforceable protections for core workers' rights, we are likely to see the same kinds of job loss, wage depression, and rights violations throughout the hemisphere under the FTAA that have characterized NAFTA.

If enacted, the FTAA would eventually replace current preferential programs in Latin America for the Caribbean Basin and Andean countries, as well as the Generalized System of Preferences (GSP). Since all these programs contain enforceable workers' rights conditionality, the FTAA would represent a big step backwards for workers' rights protections in the region, while simultaneously locking in permanent market access. This would exacerbate U.S. job losses, while failing to ensure that Latin American workers could benefit from increased trade and investment flows.

NAFTA has not raised living standards or improved working conditions in the U.S., Mexico and Canada as its promoters promised. Trade and investment between the NAFTA countries grew dramatically in the past nine years, but this growth has been very unbalanced, with the benefits disproportionately favoring multinational corporations, often at the expense of workers, family farmers, communities, and the environment in all three NAFTA signatories. U.S. workers lost hundreds of thousands of good jobs under NAFTA, Canadian wages have fallen below U.S. levels, and average real wages have fallen for workers in Mexico.

The weak NAFTA labor side agreement has not protected workers' rights. In all three NAFTA countries, fundamental workers' rights continue to be abused with impunity. The North American Agreement on Labor Cooperation (NAALC) has very limited enforcement powers, especially when contrasted with the commercial provisions of NAFTA. Although NAALC cases have led to many hearings and reports on labor issues, virtually no concrete changes have been made to countries' laws or practices to improve workers' rights.

To truly promote growing employment and better working conditions, the FTAA must include enforceable workers' rights in the core of the agreement itself. The core labor rights recognized by the International Labor Organization (ILO) in its 1998 Declaration on Fundamental Rights and Principles include the freedom of association, right to organize and bargain collectively, a minimum age for the employment of children, and prohibitions on forced labor and employment discrimination. Commitment to observing these core labor rights, in addition to adequate enforcement of each country's own labor laws, should be a condition of entry into the FTAA, and appropriate enforcement mechanisms must be established to ensure that countries continue to adhere to core labor standards and effectively enforce their own labor laws. Non-compliance must be remedied, with recourse to the withdrawal of trade benefits for serious and on-going violations, as would be the case for the violation of any other portion of the agreement.

Trade Remedy Laws

Recourse to effective and transparent domestic trade remedy laws is necessary to ensure that international trade is fair and balanced and to allow domestic industry and workers to adjust to international competition. Trade agreements such as the Uruguay Round, which established the WTO, have required the U.S. to make dozens of changes to weaken its domestic trade laws and have reduced the government's ability to effectively implement these laws. The draft bracketed text of the FTAA contains even more proposed provisions that would eviscerate U.S. trade laws by imposing tight restrictions, and even some outright prohibitions, on methodologies used to resolve antidumping and countervailing duty cases. These provisions—and any other provisions that could undermine U.S. trade laws—are completely unacceptable. The FTAA must not in any way infringe on the right of countries to protect their industries, workers and farmers from unfair trade practices.

Investment

NAFTA gives corporations the right to challenge our laws in secret tribunals and to demand compensation from governments. Companies have used NAFTA to challenge laws protecting the environment, public health, workers, and consumers, arguing that these laws hurt their profits. For example, when a Mexican state did not allow the Metalclad Corporation to build a toxic waste dump on a local ecological preserve, Metalclad used NAFTA to successfully demand \$16 million in compensation from the Mexican government. In another case, a company called Methanex is demanding almost one billion dollars from the United States because California passed a law banning a harmful fuel additive that Methanex produces. The draft FTAA contains bracketed language identical to many of NAFTA's investment provi-

in the NAFTA investment chapter is nonbinding, and the only remedy it provides is Party-to-Party consultations, not regular dispute resolution procedures.

sions. If enacted, these provisions would extend these rights to even more investors throughout the hemisphere.

FTAA investment rules should not grant investors any rights greater than those rights that investors already enjoy under U.S. law. The FTAA should contain a broad carve-out allowing governments to regulate corporate behavior to protect the economic, social, and health and safety interests of their citizens. The FTAA should rely on government-to-government rather than investor-to-state dispute resolution, and all dispute resolution mechanisms should be fully transparent and accessible to interested members of the public.

Services

NAFTA restricts the ability of governments to regulate services—even public services. Increased pressure to deregulate and privatize services could raise the cost and reduce the quality of such basic services as health care and education. A NAFTA dispute panel decided the United States will have to let Mexican truck companies provide their services throughout this country, even though we do not have enough inspectors to ensure that all of these trucks meet U.S. safety and labor standards. Enron is using an investment agreement with rules similar to those found in NAFTA to demand compensation from Argentina for a water service concession contract gone wrong. The government took a local water system back into public hands when, under Enron's control, rates went through the roof, dirty water came from the taps, and the water was shut off. Enron is now challenging the government's right to re-take control of the water system under the investment agreement.

The FTAA should not constrain the ability of governments to regulate services and to protect and promote public services. Services rules should be negotiated sector by sector and the FTAA should contain a broad, explicit carve-out for all public services. The FTAA should not include commitments on temporary work visas until these visa programs are revised to protect the rights of all workers.

Procurement

NAFTA does not allow governments to include social, environmental or workers' rights criteria in their purchasing decisions. When President Clinton ordered the federal government to stop using taxpayer dollars to buy goods made with the worst forms of child labor in 1999, he had to exclude Mexico and Canada from the order because these kinds of protections are not allowed under NAFTA rules. If these rules are extended to state and local governments, as is now being proposed in the FTAA negotiations, responsible contracting requirements, project labor agreements and living wage laws could all be challenged. FTAA government procurement rules should allow federal, state and local preferences for domestic purchases to continue and should give governments scope to serve important public policy aims such as environmental protection, economic development and social justice, and respect for human rights and worker rights through their purchasing decisions.

Development

NAFTA has not created shared prosperity in Mexico. Despite growing trade and investment under NAFTA, Mexican wages are lower than they were before NAFTA came into effect, and poverty levels are higher. Regional and economic inequality persist, and many workers from rural areas have migrated to work in the *maquiladora* zones or in the United States, where their rights are not protected fully. In recent years, many of the maquiladoras have closed, as production has shifted once again, often to China, leaving higher unemployment and devastated communities. Pollution levels have also risen in Mexico and the border region poses a severe environmental challenge. If the FTAA does not do more to help countries pursue sustainable and equitable development, instability and inequality in the region will only increase.

The FTAA should allow countries to regulate the flow of speculative capital in order to protect their economies from the excessive volatility that has led to financial crises in Mexico and Argentina. In addition, the agreement must address the possibility of massive currency devaluations and the impact these devaluations have on fair competition in the hemisphere. The FTAA should include debt relief measures that will allow developing countries to adequately fund education, health care, and infrastructure needs, thereby contributing to closing the gap between rich and poor nations, reducing inequality within nations, and diminishing the financial instability caused by mounting debt burdens. The FTAA also must include equitable and transparent market access rules that allow for effective protection against import surges or other trade law violations, and end massive and unfair trade-distorting subsidies for agribusiness. The FTAA must also include enforceable protections for the environment.

Transparency and Participation

We welcome the periodic publication of bracketed draft FTAA text (in 2000 and in 2002) and encourage the FTAA governments to continue to make these drafts available, as negotiations proceed. However, citizens in every country have a right to know not only what the draft FTAA proposals are, but which ones their government is supporting and opposing. We urge the U.S. government to provide leadership and promote transparency in the FTAA negotiations by volunteering to make its own full negotiating positions public in a timely fashion and encouraging other countries to do the same.

In addition, all of the new market access proposals submitted this year should also be made public. Once the agreement is concluded, dispute resolution measures should also be open to the public.

All non-governmental input into the FTAA process, including that of the business community, should be subject to equivalent procedures. The AFL-CIO strongly objects to the privileged and superior access to the negotiation process given to Business Forum, a gathering of business representatives in the days immediately preceding each FTAA ministerial, relative to groups representing other segments of civil society.

We call on the U.S. government to officially recognize the Labor Forum at the upcoming ministerial in Miami, and give the Labor Forum the same terms of access as that of the Business Forum. We also call on the Bush Administration to ensure that the Labor Advisory Committee on Trade Policy and Negotiations (LAC) can resume regular meetings and have new members added in a timely fashion.

A transparent, inclusive, and democratic process, both for the negotiation of the FTAA and for its eventual implementation, is essential to ensure the legitimacy of the FTAA process.

Conclusion

The FTAA must not simply replicate the failed trade policies of the past. If the negotiations continue along their current path, they will yield an agreement that undermines workers' rights and the environment, exacerbates inequality in the hemisphere, and constrains the ability of governments to regulate in the interest of public health and the environment. Such an agreement will face fierce opposition from groups in many countries, including from the AFL-CIO.

A different kind of hemispheric integration agreement is needed—one that upholds workers' rights, protects the environment, and stimulates equitable development. The labor movement and other members of civil society have presented reasonable and coherent proposals for what such an agreement should look like. In our view, the success or failure of the FTAA will hinge on negotiators' willingness carry these proposals forward in the FTAA process.

 PREPARED STATEMENT OF HON. CRAIG THOMAS

In December 1994, leaders from throughout the Western Hemisphere put in motion a plan to create the largest trading block in the world. Representatives from thirty-four nations agreed to form the Free Trade Area of the Americas (FTAA) which would cover more than 800 million people. The proposal was aggressive and reflected the desire of participating nations to use trade as a tool to improve the quality of life for the region's residents.

Recognizing the challenges in front of them, the countries set January 2005, as the completion target date. That deadline is fast approaching. Negotiations, which were formally launched in 1998, are well underway. However, there is much that needs to be accomplished. Difficult decisions remain on a wide range of issues: market access, agriculture, services, government procurement, antidumping and countervailing duties, subsidies, intellectual property, and dispute settlement.

Recent activity suggests participants are increasing efforts to reach agreement before the January 2005 deadline. The United States and Brazil will serve as co-chairs for the remaining negotiations; ground rules are in place; specific timetables have been set; market access offers are being exchanged; and there has been a near unanimous reaffirmation that nations are still committed to forming a FTAA.

The eighth FTAA ministerial is scheduled to be held in Miami in November 2003. What happens in November will be crucial to the overall outcome of the negotiations. As host, the United States faces the added responsibility of insuring a successful gathering in Miami.

The importance of this meeting cannot be overstated. After nearly a decade of planning, serious and difficult negotiations remain. U.S. leadership will be required. Recognizing this fact, the General Accounting Office (GAO) was commissioned to ex-

amine the status of FTAA negotiations. The GAO was asked to analyze (1) the challenges for the current negotiating phase, including plans for the Miami ministerial; and (2) the U.S.'s readiness to serve as co-host of the negotiations and host for the November ministerial.

Findings contained in the GAO report are mixed. On the one hand, expanded responsibilities have increased the workload at USTR and staff is stretched thin. Global discussions on agriculture, a key issue of interest in FTAA negotiations, have stalled and will impact future FTAA negotiations. Planning for the Miami ministerial has not progressed to a point that success can be assured.

On the other hand, negotiating deadlines have been met. Draft text is being exchanged and participating nations remain engaged in the process. The co-chairs, Brazil and the United States, appear to be putting forward the leadership that will be required to conclude negotiations by 2005.

Today's testimony will focus on the challenges facing FTAA negotiators and the ability of the United States to successfully host the Miami ministerial. While the challenges are not insurmountable, U.S. negotiators have their work cut out for them. Time is of the essence and leadership by the United States will be required to insure successful completion of a Free Trade Area of the Americas agreement. I am confident that the U.S. negotiating team is up to the task.

United States General Accounting Office

GAO

Testimony
Before the Subcommittee on International
Trade, Committee on Finance, U.S. Senate

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FREE TRADE AREA OF THE AMERICAS

United States Faces Challenges as Co-Chair of Final Negotiating Phase and Host of November 2003 Ministerial

Statement of Loren Yager, Director
International Affairs and Trade





Highlights of GAO-03-700T, a testimony before the Subcommittee on International Trade, U.S. Senate Committee on Finance

Why GAO Did This Study

Since 1998, the 34 democratic nations of the Western Hemisphere have been negotiating a Free Trade Area of the Americas agreement to eliminate tariffs and create common trade and investment rules for these nations. The United States will co-chair, with Brazil, the final phase of the negotiations, due to conclude in January 2005. GAO was asked to (1) review challenges that the United States faces as co-chair of the final negotiating phase and (2) discuss risks that the United States may encounter, as host, in Miami, of the November 2003 ministerial meeting.

What GAO Recommends

The Office of the U.S. Trade Representative (USTR) should intensify U.S. preparations and regularly evaluate whether resources and plans are sufficient to carry out the tasks and mitigate the risks associated with its responsibilities as co-chair of the negotiations and host of the November ministerial. These are related to USTR's (1) increased workload, (2) planning for the ministerial, (3) funding sources, and (4) security needs at the ministerial.

www.gao.gov/cgi-bin/getrpt?GAO-03-700T.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or YagerL@gao.gov.

May 13, 2003

FREE TRADE AREA OF THE AMERICAS

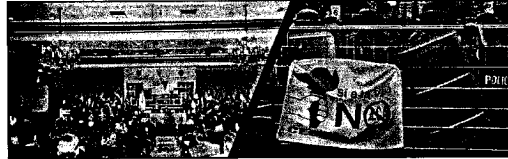
United States Faces Challenges as Co-Chair of Final Negotiating Phase and Host of November 2003 Ministerial

What GAO Found

The United States faces several challenges as co-chair of the final phase of Free Trade Area of the Americas negotiations. First, USTR, which is responsible for co-chairing these negotiations and hosting the November 2003 ministerial, has not added appreciably to its staff, despite the sharply increased workload. Second, the goals of this phase—such as achieving improved market access for the 34 nations—are ambitious and will require serious, substantive trade-offs. Finally, the negotiations are proceeding on the same timeline as several other complex trade negotiations involving the United States. In fact, the resolution of a key issue, agricultural subsidies, has been linked to ongoing negotiations in the World Trade Organization. Currently, these negotiations are bogged down.

Moreover, important risks are already apparent in current U.S. plans for hosting the November 2003 Miami ministerial meeting. Gaps exist in several key areas important to successfully hosting a major trade ministerial. For example, USTR has limited experience in planning and providing logistics for such a meeting. Furthermore, USTR is getting little support from other federal agencies. In addition, no federal agency has yet received any funding for the November event, which is projected to cost \$10 million. Finally, USTR is likely to encounter protestors at the November ministerial. Failure to link security, funding, and logistics at a prior ministerial caused serious problems for the organizers of that event.

Contrasting Events Surround 2002 Quito Ministerial Meeting



Members of Americas Business Forum meet inside during 2002 Quito Ministerial (left) as police secure outside area against anti-FTAA demonstrators.

Source: GAO (left photo) and Centro de Medios Independientes de Ecuador. Used with permission.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the readiness of the United States to successfully perform as co-chair (with Brazil) of the Free Trade Area of the Americas negotiations process and host of the November 2003 ministerial meeting. As you know, work on the Free Trade Area of the Americas, or FTAA, agreement is one of the most significant ongoing trade negotiations for the United States. In fact, the Bush administration has made establishing the FTAA one of its top trade priorities. Negotiations toward establishing this agreement among the 34 democratic nations of the Western Hemisphere have formally been under way since 1998. Such an agreement would eliminate tariffs and create common trade and investment rules for these nations. The final phase of FTAA negotiations began last November and is scheduled to conclude with the completion of the agreement in January 2005. Today, I will first review the challenges that the United States faces, as co-chair of this final phase of FTAA negotiations. Second, I will discuss the risks that the United States may encounter as host of the November ministerial in Miami.

My testimony is based on our recently published report on this subject.¹ It is also based on our past and ongoing work on the FTAA negotiations process.²

Summary

The United States faces several challenges as co-chair of the final phase of the FTAA negotiations. First, the Office of the U.S. Trade Representative (USTR), which handles the negotiations, has not added appreciably to its staff, despite the sharply increased workload and responsibilities associated with co-chairing the FTAA negotiations. Second, the goals of this negotiating phase are ambitious and may be difficult to achieve. For example, FTAA negotiations on market access commitments—considered the “heart” of an agreement—will require serious trade-offs among the

¹See U.S. General Accounting Office, *Negotiations Progress, but Successful Ministerial Hinges on Intensified U.S. Preparations*, GAO-03-560 (Washington, D.C.: Apr. 11, 2003).

²See U.S. General Accounting Office, *Free Trade Area of the Americas: Negotiators Move Toward Agreement That Will Have Benefits, Costs to U.S. Economy*, GAO-01-1927 (Washington, D.C.: Sept. 7, 2001); U.S. General Accounting Office, *Free Trade Area of the Americas: April 2001 Meetings Set Stage for Hard Bargaining to Begin*, GAO-01-706T (Washington, D.C.: May 8, 2001); and U.S. General Accounting Office, *Free Trade Area of the Americas: Negotiations at Key Juncture on Eve of April Meetings*, GAO-01-552 (Washington, D.C.: Mar. 30, 2001).

participating nations. In addition, finalizing the FTAA agreement will require the 34 participating nations to bridge wide, substantive differences on topics such as investment and intellectual property. Finally, FTAA negotiations are taking place at the same time as several other complex trade negotiations that often involve the same issues and staff. Indeed, the resolution of key issues for the hemisphere, such as agricultural subsidies, has been linked to negotiations in the World Trade Organization (WTO) that are presently bogged down.

Although current U.S. plans for hosting the FTAA Trade Ministerial in Miami in November 20 and 21, 2003, are at an early stage, important risks are already apparent. Officials with prior experience in hosting ministerial meetings told us that certain key elements must be in place soon to successfully host a major trade ministerial, notably experienced staff, a clear plan, sufficient funding, and adequate security. However, our examination of agency records and other documents reveals that current U.S. plans leave gaps in several of these areas. For example, USTR has sole responsibility for all facets of planning and logistics, a complex task. However, USTR has limited institutional experience in this area and is getting little support from other federal agencies, such as the Department of State. In addition, although current estimates are that the FTAA ministerial will cost \$10 million, no federal agency has yet received any funding for this event, and the local organizers are just beginning fundraising efforts. Failure to mitigate similar risks caused serious logistical and security problems at the last major trade ministerial hosted by the United States, the 1999 Seattle WTO ministerial.³

In our report, we recommend that USTR intensify preparations and regularly evaluate whether its resources and plans are sufficient to successfully carry out the tasks and mitigate the risks associated with co-chairing the FTAA negotiations and hosting the November 2003 ministerial meeting.

In commenting on our report, USTR and the Department of State agreed with our overall message. However, USTR stressed that it believes plans for hosting the ministerial are currently at an appropriate stage of development.

³See U.S. General Accounting Office, *World Trade Organization: Seattle Ministerial: Outcomes and Lessons Learned*, GAO/T-NSIAD-00-86 (Washington, D.C.: Feb 10, 2000).

Background

The United States has long been a key player in the FTAA negotiations. Now, in addition to participating as a major negotiating country charged with advancing its own position with the FTAA negotiations, the United States has assumed responsibility in two other areas. First, this past November, the United States became co-chairman (with Brazil) of the negotiations. In this capacity, the United States has assumed responsibility for leading the FTAA process as a whole forward to its conclusion. Second, in conjunction with this role, the United States will serve as host of a hemispheric trade ministerial in November of this year. As such, it is responsible for providing facilities and making logistical and security arrangements for that meeting.

Co-chairmanship Poses Challenges for United States

The United States faces three key challenges as it takes on the responsibility, together with Brazil, of co-chair of the negotiations charged with guiding the FTAA process forward to a successful conclusion by January 2005: (1) handling a substantial increase in its workload, (2) managing the intensified negotiating pace and substantively difficult trade-offs associated with concluding an FTAA agreement, and (3) simultaneously juggling the FTAA and several other complex trade negotiations.

Workload and Negotiating Pace to Increase, but Resources Not Commensurate

Workload to Increase

The first key challenge for the USTR as co-chair of the FTAA process will be handling the increased workload as negotiations intensify, without an appreciable increase in staff. The co-chair's responsibilities are considerable. They include providing leadership to the negotiating process and regular guidance to the 10 negotiating groups and special committees charged with developing the FTAA rules, specific market access commitments, and institutional arrangements that will together comprise an FTAA agreement. The United States must also coordinate with Brazil, the other co-chair, on a daily basis.

Despite general recognition that co-chairing will involve more work for the United States than chairing on its own, USTR only has about half as many staff devoted to co-chairing the FTAA negotiations as previous chairs have had. Presently, USTR has two staff working full-time on the day-to-day

FTAA co-chairmanship tasks. Two other staff devote some of their time to the co-chair function and some to advancing U.S. positions in the FTAA negotiations. Brazil currently has five staff handling the co-chair function and plans to add a sixth. Ecuador, which chaired the negotiations from April 2001 to October 2002, had eight people working on substantive issues and additional people working on logistics. Canada, which chaired the negotiations from March 1998 to November 1999, had eight people, with access to others for special projects. To mitigate this situation, USTR is seeking to bolster its resources quickly by borrowing staff from other agencies. Although it has recently had limited success,⁴ funding caps and other concerns may make agencies reluctant to detail more people to USTR without receiving reimbursement.

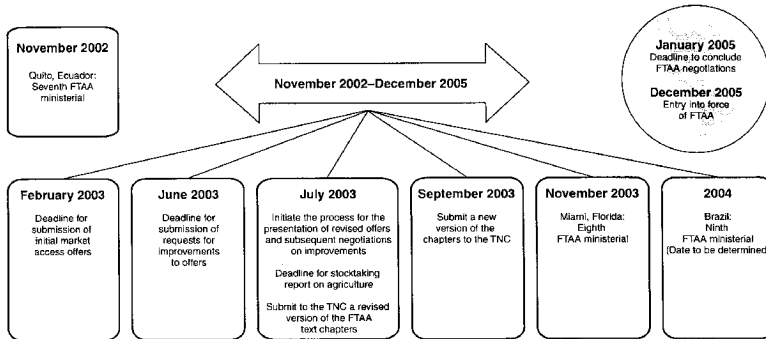
Several past FTAA chairs have told us that the consequence of a U.S. failure to adequately staff the co-chairmanship could be a slowdown of FTAA negotiations. These negotiations have reached a critical juncture with the launch of market access talks on February 15, 2003. Any slowdown could make it even more difficult to achieve substantial results by the November 2003 Miami ministerial.

**FTAA Negotiations
Intensifying, as Are Substantive
Demands**

A second key challenge facing USTR is the intensifying pace of the FTAA negotiations. To conclude a final agreement by January 2005, much remains to be done. In fact, various FTAA negotiating group meetings have been scheduled for practically every day for the coming 6 months. As our report explains, although considerable technical groundwork has been laid since FTAA negotiations were formally launched in 1998, up to now, FTAA negotiations did not involve serious, substantive trade-offs. This lack of substantive movement is a concern to some observers, given that only 20 months remain until the January 2005 deadline for concluding an FTAA agreement. The overall timetable for FTAA negotiations and key milestones for the current phase are depicted in figure 1.

⁴In mid-March, USTR announced that a senior Department of State official will be loaned to the agency effective June 23, 2003, to head the U.S. delegation to the FTAA's vice ministerial level Trade Negotiations Committee. The official has been ambassador to the Republic of Azerbaijan since October 2000. Prior to being nominated to serve in Azerbaijan, he was principal deputy to the ambassador-at-large and special advisor to the Secretary of State for the New and Independent States of the former Soviet Union (1997-2000), where he had direct responsibility for U.S. relations with Ukraine, Central Asia, and the Caucasus. (This addition basically means that the senior USTR person presently responsible for this role will no longer have to split her time among the Chile Free Trade Area (FTA), Central American FTA, and FTAA negotiations, as well as the North American Free Trade Area (NAFTA) and other duties.) Another Department of State detailee is expected this summer.

Figure 1: FTAA Time Frames and Milestones, 2002–2005



Source: GAO.

Note: The TNC refers to the Trade Negotiations Committee. The TNC guides the work of the negotiating groups and other committees and groups and decides on the overall architecture of the agreement and institutional issues.

Five of the nine FTAA negotiating groups—agriculture, market access, services, government procurement, and investment—finally began work negotiating concrete market access commitments, or schedules to liberalize trade, in mid-February 2003. These negotiations are considered very important, because they will determine how much trade and investment will actually be liberalized and how rapidly trade barriers will be removed. Even though all 34 FTAA countries met the deadline for submitting initial offers on industrial and agricultural market access, many of these offers were conservative. For example, in contrast to the U.S. offer, several nations placed sizeable shares of their trade into the longest phaseout category (more than 10 years) or excluded some key items from liberalization. In addition, some nations have not yet made offers on investment, services, and government procurement. Ultimately, achieving substantial liberalization will be difficult, because the tariffs of many FTAA participants are high, and tariffs are an important source of government revenue for many FTAA nations.

FTAA participants must also agree on the final legal text or rules on such complex topics as intellectual property rights and competition policy. To give you an idea of the magnitude of this task, the draft FTAA agreement made public last November was nearly 400 pages long. Moreover, most of the text was in brackets, which signified disagreement among the 34 participating nations. Bridging these disagreements may be difficult, given the number and diversity of nations participating. Several FTAA participants, including the United States, are among the wealthiest nations in the world. But some FTAA participants, such as Haiti, are among the poorest, and others are small or isolated in geographic terms.

To deal with the problem of differences in the 34 participants' wealth and size, the November 2002 Quito ministerial launched a Hemispheric Cooperation Program. This program is considered vital to building a necessary consensus among the FTAA participants. The program's goal is to identify critical priorities and help marshal funds that would bolster the capacity of the lesser-developed nations to negotiate, implement, and benefit from an FTAA. Participants' interests within the FTAA negotiations differ, even among the largest countries. According to reports, although the U.S.'s work with Brazil is going smoothly, Brazil's commitment to the FTAA and to its deadlines remains unclear. Recently, for example, Brazil's Foreign Minister stated that the FTAA completion deadline of 2005 is too ambitious.

Indeed, FTAA negotiators have set ambitious goals for the coming months. By June 15, 2003, the five groups negotiating market access will exchange requests for revised offers. All ten negotiating groups are working to provide vice ministers with a revised text at their next meeting on July 7, 2003 (in El Salvador). The goal is to have a rather advanced agreement by this November's FTAA ministerial in Miami.

Other Trade Negotiations Occurring Concurrently

A third challenge facing the United States as co-chair is that other major negotiations are occurring concurrently with the FTAA. For example, the U.S. Trade Representative has notified Congress of his intent to pursue free trade agreements with (1) five nations of Central America, (2) Australia, (3) the South African Customs Union,⁵ and (4) Morocco, and USTR has started negotiations toward this end. Meanwhile, the Doha Development round of WTO negotiations involving 146 nations and a similarly broad set of issues will officially be at the midpoint at the

⁵A customs union including South Africa, Lesotho, Botswana, Namibia, and Swaziland.

September 2003 WTO ministerial. Some of the same USTR staff are involved in these concurrent negotiations. Moreover, several issues of importance to U.S. trade partners in the hemisphere, notably agriculture subsidies and trade injury remedies, are linked to ongoing negotiations at the WTO. The U.S. position is that the WTO is the appropriate forum to deal with domestic agriculture subsidies, but many other FTAA participants maintain that domestic agriculture support needs to be addressed in both the FTAA and the WTO. The November 2002 Quito ministerial declaration notes the importance of progress in both the WTO and FTAA agriculture negotiations.⁶ However, WTO negotiators missed a March 31, 2003, deadline to establish modalities, or the rules and guidelines for agricultural liberalization, as well as other deadlines in other areas under negotiation. We noted in a September 2002 report that meeting this deadline was a crucial indicator of the likelihood of success in the overall negotiations.⁷ Lack of progress in these WTO negotiations has caused concern about prospects for progress in FTAA negotiations.

Gaps in U.S. Preparations for Hosting November 2003 Ministerial Pose Risks

The United States will host the Eighth FTAA Trade Ministerial in Miami in November 2003, just 6 months from now. This ministerial is particularly significant, because it will occur just over a year before the slated conclusion of FTAA and WTO negotiations. As host, the United States has numerous responsibilities, but U.S. planning for the ministerial is at an early stage. Given the lead times involved, however, intense efforts are needed to fill the remaining gaps in the areas of expertise, planning, funding, and security.

⁶Specifically, the Quito ministerial declaration states:

We recognize that, in a global market, we must have significant results in the negotiations on agriculture, both in the FTAA and in the WTO. In this context, we must also take into account the practices by third countries that distort world trade in agricultural products. We also recognize that our respective evaluation by country or group of countries, of the results in the market access negotiations in agriculture in the FTAA, will depend on the progress we can reach in other subjects that are part of the agriculture agenda.

⁷See U.S. General Accounting Office, *World Trade Organization: Early Decisions are Vital to Progress in Ongoing Negotiations*, GAO-02-579 (Washington, D.C.: Sept. 4, 2002).

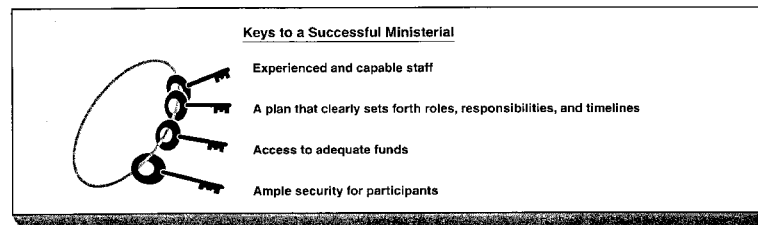
Responsibilities of the Host of an FTAA Ministerial Are Numerous, Important

The host of an FTAA ministerial is generally responsible for providing facilities, transportation, and security for both the ministerial and the Trade Negotiations Committee meeting, a gathering of vice ministers that precedes the ministerial. In addition, separate forums for the business community and civil society typically accompany FTAA ministerials. Each of these events involves hundreds of people, including many high-level officials requiring appropriate protocol and special security measures. The task of the United States as host is especially complex, because USTR must coordinate actively with local officials and oversee host city preparations to ensure they are satisfactory. Successfully executing the many responsibilities of an FTAA ministerial host is critical, given the importance of ministerial meetings in the negotiations.

Several Factors Critical to Success

Our discussions with cognizant officials suggest that hosts must have several basic elements in place to fulfill the responsibilities outlined above (see fig. 2). Particularly important is having (1) staff experienced in bringing together all the different components including logistics, budgeting, and procurement; (2) a plan that clearly sets forth responsibilities and timelines for putting in place necessary logistical arrangements; (3) access to funds to pay for expenses; and (4) assurance of adequate security.

Figure 2: Keys to a Successful Ministerial



Source: GAO.

USTR Lacks Experience Hosting; Miami Has Track Record but Wants Support

USTR has sole responsibility for organizing the FTAA ministerial. As an agency, it has relatively little institutional experience in this area, however, and it is receiving limited assistance from other agencies with expertise.

Until late April USTR had four permanent staff working part-time on planning the FTAA ministerial, only one of these staff has significant experience in logistics, security, and administration. USTR had received substantial help in planning the last major trade ministerial it hosted, the 1999 Seattle WTO ministerial, including assistance from several Department of State officials with previous international conference planning experience.⁸ The Department of State is not providing similar support for the November 2003 FTAA ministerial, however, largely due to budgetary constraints. In fiscal year 1995, the Department of State was receiving \$6 million to fund and support U.S. participation in international conferences. By fiscal year 1999, this appropriation had been discontinued, with no commensurate increase to USTR's budget for trade meetings.⁹

As a result, USTR plans to rely heavily on Miami's expertise to carry out the November 2003 meeting. Miami hosted the 1994 Summit of the Americas that launched the FTAA initiative, and the city has hosted other major events. However, the Miami organizers (committees and individuals representing both private and public sectors in South Florida, including the jurisdictions of the city of Miami, the county of Miami-Dade, the city of Coral Gables, and the city of Miami Beach), informed us that they would like more support from the federal government. In particular, on the premise that the workload and need for coordination will increase as the ministerial draws closer, they would like a full-time federal staff person to be detailed from the Department of State to Miami in a liaison capacity as soon as possible. (This had been done for the 1994 Summit of the Americas, also in Miami.)

Plans for Ministerial in Early Stages; Intense Preparations Required

Both the federal government's and Miami's plans for hosting the November 2003 ministerial are in early stages. Some of the specific tasks identified in FTAA guidelines have been accomplished, and more are in process. For example, accommodations for delegates and meeting space have been selected. However, the USTR and Miami both agree that much remains to be done between now and the November 2003 ministerial. Among other things, a budget that clearly outlines funding sources and responsible

⁸Although some records are available, including timelines and task lists, the Department of State does not have written guidelines on how to plan such an event, and no formal, written "lessons learned" were prepared after the Seattle WTO ministerial.

⁹In fiscal year 2000, the Department of State received a separate appropriations for the Seattle ministerial.

Funding Has Not Been Secured,
and Funding Responsibilities
Are Still Unclear

parties must be finalized; meeting space configured; a security plan developed; and arrangements for providing credentials, translation, administrative support, and other services made. The FTAA Administrative Secretariat requires the United States to provide both the Secretariat and the delegates with details of the U.S. arrangements for the November FTAA ministerial by late September 2003. Making all of the required arrangements by then will require intense preparations on the part of both the USTR and Miami officials.

Among other things, funding for the FTAA ministerial has not been secured. As of early May, a budget for the event had not been finalized, local fund-raising had just begun, and no federal agencies had received funding for the FTAA ministerial meeting. Current estimates are that the ministerial will cost \$10 million. Although some funding requirements can be met through in-kind contributions, expenses that require an outlay of funds are expected to total about \$3 million and will be incurred within the next 2 months. Such expenses include making deposits for hotels and transportation and paying the firms supporting the FTAA Web site and preparing delegate credentials.

Relying on the host city to pay the majority of the costs is a model the United States has followed at past summits and trade ministerials where a host committee, or an organizing group composed of local representatives associated with the host city, paid for the majority of the costs. For example, this model was used for a ministerial meeting of the International Telecommunications Union held in 1998 in Minneapolis, Minnesota. Some experiences with host committees have been unsuccessful, however. For example, at the 1999 Seattle WTO ministerial, decisions to rely on the host committee, and the committee's ultimate failure to raise sufficient funds, caused problems at the meeting. In addition, costs kept escalating as year-long planning efforts continued, ultimately reaching \$24 million.¹⁹ This amount is considerably higher than the December 1998 budget of \$9 million. Moreover, it is nearly as large as USTR's entire fiscal year 2001 budget, which was \$29 million.

No federal agency has yet received funding for the FTAA ministerial. The USTR has only requested \$200,000 for the FTAA ministerial, or 2 percent of the currently projected cost, but this is in the President's fiscal year

¹⁹Security expenses accounted for more than half of the total cost, amounting to \$14 million.

2004 budget request for the year that begins October 1, 2003. At a minimum, USTR will have to pay for the expenses of its staff participating in the event, for setting up and staffing a fully equipped office in which U.S. delegates can work, for basic translation services, and for certain aspects of security. To reduce costs, USTR had planned to use computers and other equipment procured for the September 2003 Cancun WTO ministerial for the Miami FTAA ministerial. To date, however, USTR has not been given approval by the Office of Management and Budget to submit a request for a \$1.3 million supplemental appropriation that would fund this procurement.

USTR has stated that Miami will provide the vast majority of funds for the ministerial. USTR plans to rely on Miami's desire to be the site of the permanent FTAA Administrative Secretariat as incentive to raise the necessary funds. However, the Miami organizers believe the federal government will also assume some financial responsibility because, in their view, the ultimate host of the ministerial is the federal government. Both parties have agreed to use the budget development process to identify funding sources and apportion financial and logistical responsibilities. However, this breakdown is still being discussed.

USTR has sought to forestall any possible funding difficulties through signing an agreement with the Miami organizers for them to provide a statement of fund-raising principles and periodic status reports. So far, the four Miami municipalities involved have drafted a memorandum of understanding regarding their financial support of the meeting. Under the memorandum, they agreed to provide in-kind and cash support according to a yet-to-be specified formula.¹¹ This agreement allows signatories to withdraw, however, if they determine that they can no longer financially participate.

Security Is Critical

Another key risk the United States will face in Miami is ensuring the security of participants. Previous trade ministerials have involved extensive security requirements, in part because these events have attracted protestors opposing globalization. USTR expects around 6,000 participants at the Miami ministerial. The number of protestors expected, however, ranges between 20,000 and 100,000, according to both USTR and the Miami organizers, compared to 9,000 participants and 50,000 protestors

¹¹The four municipalities involved are the city of Miami, the county of Miami-Dade, the city of Coral Gables, and the city of Miami Beach.

at the Seattle WTO ministerial. In a February 2000 report,¹² we noted that protestors interfered with the Seattle WTO ministerial by causing delays and disrupting proceedings. Protestors also threatened and, in some cases, assaulted delegates. Local reports indicated that 92 protestors and bystanders and 56 police officers were injured, and that downtown Seattle businesses suffered \$3 million in property damage. At the FTAA ministerial in Quito, Ecuador, protestors were also present, and a breakdown in order at a meeting between trade ministers and civil society groups raised security concerns.

According to USTR officials, the need to link logistics and security is an important lesson learned after the security problems experienced at the Seattle ministerial and is a critical component of the planning for the Miami event. At the Seattle ministerial, security costs accounted for more than half of the expenses incurred, in part because security had not been factored into logistical arrangements from the beginning. USTR's goal is to have a security plan finalized by May 30, 2003.

Conclusions

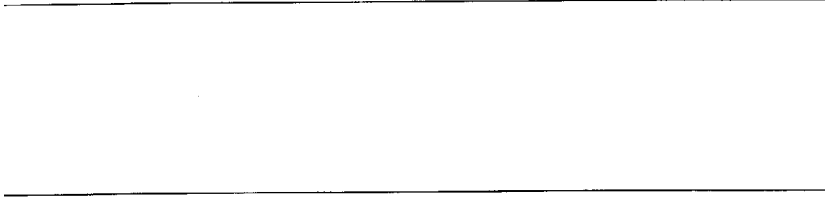
In summary, Mr. Chairman, despite 4 years of talks, considerable work remains in order to culminate an initiative that the hemisphere's 34 democratically elected leaders once embraced as key to integrating their economies, improving growth and equity, and strengthening democracy. With a January 2005 deadline for completion, our work suggests that the United States faces challenges as co-chair of the final phase of FTAA negotiations and as host of a major trade ministerial in Miami just over 6 months from now. Filling gaps in human and financial resources is critical to success and will require intense preparations on the part of both USTR and the Miami organizers between now and November. As a result, in our report, we recommend that USTR intensify U.S. preparations and regularly evaluate whether resources and plans are sufficient.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be pleased to answer any questions you may have.

¹²See GAO/T-NSIAD-00-86.

**Contacts and Staff
Acknowledgments**

For future information on this testimony, please call Loren Yager or Kim Frankena at (202) 512-8124. Individuals making key contributions to this testimony included Venecia Rojas Kenah, R. Gifford Howland, Rona Mendelsohn, Kirstin Nelson, Jon Rose, and Marc Molino.



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COMMUNICATIONS

STATEMENT OF THE WASHINGTON OPERATIONS COUNCIL OF THE AMERICAS

[SUBMITTED BY ERIC FARNSWORTH, VICE PRESIDENT]

On behalf of the Council of the Americas, I am delighted to submit views concerning the Free Trade Area of the Americas (FTAA) and preparations for the Trade Ministerial and Americas Business Forum (ABF) this November in Miami.

The Council of the Americas speaks for US business on Latin America and Caribbean issues. Our members include over 160 of the top US companies invested and doing business in the hemisphere. For almost 40 years, the mandate of the New York-based Council of the Americas has been to promote free markets, free ideas, and free people throughout the hemisphere. We are proud to have played a significant and successful role in the formulation and passage of NAFTA, passage of trade promotion authority, and expansion of Caribbean Basin and Andean trade preferences.

The Council of the Americas strongly supports FTAA, and calls for negotiations to be concluded by the 2005 deadline. FTAA supports US economic security interests, while also providing the impetus and leverage to drive a broader hemispheric development agenda. Without FTAA, US policy in the hemisphere would lose its overarching vision, removing the best tool we have to encourage political and economic reforms. We look for the November ABF to make a significant contribution to the conclusion of negotiations.

Trade, Investment, and Economic Growth and Development Go Hand-In-Hand

At the same time, the Council recognizes that, both in the United States and abroad, trade expansion and democratic governance are not sustainable over time unless the benefits of each are shared broadly and without prejudice. As a result, the Council strongly supports the continued political and economic development of the Latin American and Caribbean region in the manner called for by the 1994, 1998, and 2001 Summits of the Americas in Miami, Santiago, and Quebec City, respectively.

Trade expansion and democratic development are two sides of the same coin. Therefore, even as the United States pursues FTAA, it must place renewed emphasis on the hemispheric development agenda, while working with hemispheric partners to show the tangible benefits of closer economic integration. Trade works best when the benefits of trade are shared most broadly, and FTAA is no exception.

FTAA and WTO—A Synergistic Relationship

The broadest forum of all of course is the Doha round of global trade talks in the WTO. That strength is also the WTO's weakness, since the need for global consensus places obvious limitations on the amount of liberalization that can be achieved. Thus, even as we strive for the best possible rules for global trade at the WTO, it continues to make sense to pursue regional, sub-regional, and bilateral agreements that can go farther and deeper, in more sectors, than it is otherwise possible to go. These agreements are stepping stones, laboratories that allow testing with increasing levels of sophistication, of what is possible on a global scale. The FTAA experience is especially relevant to the global process due to the size and complexity of the negotiations. What is more, FTAA and WTO negotiations are mutually reinforcing. Success in the FTAA inevitably brings global players who fear being marginalized to the WTO table. Meanwhile, progress at the WTO on problems that are uniquely global in nature, such as subsidies, will contribute to successful completion of the FTAA.

Technical Discussions on Track

The Council of the Americas commends the US and hemispheric governments for the seriousness of purpose which has attended negotiations to this point, and the transparency of the negotiation process. Technical discussions are progressing, and timelines are being met. Given the historic importance and logistical immensity of the undertaking, this is a significant achievement in and of itself. Nonetheless, the most difficult negotiations lie ahead as politically-sensitive areas remain to be addressed. Agriculture subsidies, market access for textiles and apparel, and services industry matters among others will have to be addressed with purpose and resolve at the political level. Doing so will require goodwill among hemispheric governments. Present difficulties in hemispheric relations must be set aside.

Political Will Is Required

The Council of the Americas strongly supports efforts by the United States to deepen bilateral relations with Brazil, the co-chair with the United States of the final phase of negotiations, and urges that high-level contacts continue, and even be intensified. The initiative to create a bilateral cabinet-to-cabinet dialogue, much as the United States has with Mexico through the Bi-National Commission, is a welcome advance in the agenda.

Even so, in the effort to approach Brazil, relations with other hemispheric nations including Mexico and Chile cannot be allowed to languish. Both are friends and allies of the United States, among the best examples of economic and political reform in the hemisphere, and the positive role of trade expansion and sustained US engagement. Despite recent setbacks, the bilateral agenda with Mexico must be nurtured—it is too important to US interests, with 1800 miles of shared border, to be neglected. Goodwill political gestures on both sides would be welcome, and would go a long way toward restoring one of the hemisphere's most vibrant and important relationships.

Similarly, Chile is a friend of long-standing, the model for the hemisphere of economic, political, and social development. As a broader signal to the hemispheric community, the bilateral trade agreement between the United States and Chile must be implemented as soon as possible. Otherwise, there will be dramatically less incentive for other nations in Latin America and the Caribbean to negotiate a hemispheric trade agreement in good faith with the United States. Some are already asking, if not with Chile, then with whom? The entire US agenda in the hemisphere would be undercut.

The Miami ABF—Another Important Step to FTAA

The Council of the Americas is delighted to be playing a leadership role with Miami ABF organizers and the US Chamber of Commerce, with whom we are co-chairing the National Advisory Board. This is an effort to organize the US business community in a manner that will provide FTAA negotiators and Congress with sector specific recommendations and ideas for negotiators to incorporate into discussions with hemispheric counterparts. We commend USTR and other agencies within the US government for their willingness to consider our recommendations with a view toward incorporating them into US negotiating positions.

To ensure that US business community recommendations are most useful to negotiators and to Congress, it is imperative that specific negotiating concerns be raised with the business community well in advance of the ABF, so that the recommendations of the business community will be relevant, timely, and value adding.

The Miami ABF will be an important milestone in the FTAA process, and as such, it is critical that the meetings succeed. Progress will in part be determined by the lead up to the negotiations, and the willingness of government officials, the business community, and NGO's to engage responsibly, to listen, and to find a way to make trade work for the nations and people of the hemisphere.

The Council of the Americas stands ready to assist.

STATEMENT OF THE WHEAT EXPORT TRADE EDUCATION COMMITTEE, U.S. WHEAT ASSOCIATES AND NATIONAL ASSOCIATION OF WHEAT GROWERS

The U.S. generally exports between 40 and 50 percent of our wheat production. In the Pacific Northwest, the percentage is much higher. As a trade-dependent commodity, therefore, our success or failure hinges on our ability to expand U.S. wheat export markets.

The U.S. wheat industry strongly supports moving forward aggressively in both the World Trade Organization and Free Trade Area of the Americas negotiations. The WTO process is important for liberalizing world wheat trade, and the U.S.

wheat industry has a clear set of goals in this round of negotiations. However, just as the North American Free Trade Agreement provided great market opportunities—and clear successes for wheat—the FTAA can extend liberalization beyond the level envisioned in the WTO, and holds tremendous market growth potential for U.S. wheat producers.

As an added benefit, alliances gained in the FTAA can carry over to the WTO negotiations where there are some extremely contentious differences. We believe that a strong commitment in the hemisphere can be a very positive force against the European Union's protectionist positions.

The U.S.—including our industry—is on the brink of major opportunities offered by the FTAA. First, however, several important issues must be addressed in negotiations: market access, state-trading enterprises, monopoly practices, export subsidies, and sanitary/and phytosanitary issues. Resolutions of these issues must result in freer and fairer trade among the countries of the Americas.

The U.S. must refrain from negotiating on domestic supports within the context of the FTAA. It would be unwise to unilaterally disarm within the hemisphere while leaving the EU to continue subsidizing their producers at high levels. We concur with the U.S. position encouraging the countries within the hemisphere to “work together in the WTO to substantially reduce and more tightly discipline trade-distorting domestic support.”

An FTAA offers market opportunities for wheat

The benefits of free trade can clearly be seen in the dramatic increase in wheat exports following the North American Free Trade Agreement. U.S. wheat exports to Mexico have soared 48% over the last five years, and this year's record exports to Mexico will reach over two and a half million tons, making Mexico our second largest customer in the world.

U.S. wheat exports are doing well in Central America and the Caribbean too. During the last five years, U.S. wheat market share in the Caribbean has averaged 75–80%. We are posting significant gains in Central America, where we currently have a 70% market share, and the situation is looking particularly bright in Guatemala and Costa Rica.

While Mexico, the Caribbean and the Central American region are marked by success, however, the South American region is marked by a tougher struggle for market access and market share. U.S. wheat exports to South America have been about 2 million metric tons (MMT) for the past ten years. Conversely, Argentina's exports within the region have gone from 1.6 MMT to 8.2 MMT. The total value of wheat exports to the region is \$1.6 billion, with the total value of U.S. exports amounting to just \$220 million.

It is expected that South America will experience a five-percent growth rate in wheat imports, and we look to the FTAA to give U.S. wheat a more level playing field on which to compete.

Recently, Brazil has imported almost eight million tons of wheat each year. Despite an U.S. logistical advantage to northern Brazil, the country has been basically a captive of Argentine wheat because of the MERCOSUR arrangement that puts the U.S. at an unfair disadvantage due to a tariff differential.

The U.S. wheat industry also faces difficulties in Guatemala, Peru, Columbia and Venezuela as a result of the monopolistic trading practices of the Canadian Wheat Board (CWB), an anachronistic state trading enterprise. When it has ample stocks, the CWB intentionally undercuts U.S. wheat prices in these markets (and others) and is able to do so not because of a legitimate competitive advantage, but an unfair trading practice.

The FTAA must be negotiated so that we have duty-free access to Brazil, along with all other markets in Central and Latin America, and it must give us access on a par with Argentina and Canada to the entire hemisphere and the growing economies of 800 million people.

Export competition must be on a level playing field

The U.S. wheat industry vigorously agrees with the U.S. government position that calls for the elimination of all trade-distorting export subsidies within the hemisphere and the establishment of a mechanism that would prohibit “agricultural products from being exported to the FTAA by non-FTAA countries with the aid of export subsidies.”

We are also very encouraged by the U.S. position opposing state trading enterprises within the hemisphere. CUSTA and NAFTA left unresolved issues between the U.S. and Canada, and we must not allow these unresolved issues to be carried into the FTAA.

The CWB's state-supported export monopoly controls virtually every aspect of wheat production in the western Canadian provinces, including varietal control, day-to-day execution of sales contracts and long-term market development. It is the largest single grain marketing board in the world, with monopoly control of about 20 percent of world wheat and barley trade. To put it into perspective, recall the Cargill acquisition of Continental's grain business. Together, the two merged companies control roughly 20 percent of U.S. wheat exports, or about 228 million bushels, based on a five-year average. In contrast, the CWB controls annual average wheat exports of 680 million bushels, or about three and half times as much as Cargill and Continental combined.

As a government-supported grain monopoly, the CWB uses discounted price offers, bonus deliveries, supplemental cleaning, delayed payments, indirect transportation subsidies, and other favorable contract terms to often undercut U.S. grain prices. Canadian producers have little say in marketing their crop, and they receive only about 80 percent of its value when turned over to the CWB. No private company that faces commercial risk and stockholder oversight has such control, nor can any offer wheat at whatever price it chooses.

While we are very optimistic about market growth in the Western Hemisphere, U.S. wheat producers have had numerous problems with specific provisions of previous trade agreements in the hemisphere. The Canada-U.S. Free Trade Agreement of 1988, CUSTA, resulted in memorializing trade inequities between U.S. and Canadian farmers. Regrettably, CUSTA talks to open the CWB marketing system to competition were unsuccessful and, even worse, CUSTA actually gave the CWB an advantage over U.S. wheat producers in the U.S. market. Without getting too technical, the two sides agreed (very mistakenly) that the CWB's cost of acquisition was equivalent to the CWB's initial price. (The CWB provides the "initial price" to its growers when they deliver wheat to the pool.) In truth, according to CWB documents, the initial price amounts to about 80 percent of the final price farmers in Canada receive for their wheat after all pool accounts are completed.

We believe that the inequities established in the CUSTA have encouraged the injurious surge of wheat exports from Canada to the United States. Over the last decade, this issue has been one of the single biggest sources of contention along the U.S.-Canada border and one that continues today. Despite the urging of the wheat industry, NAFTA provided no resolution of the Canadian trade issues.

In 2001 the North Dakota Wheat Commission filed a Section 301 petition with the Office of the U.S. Trade Representative. USTR initiated its investigation of the CWB under section 301 at the urging of the Wheat Export Trade Education Committee, the National Association of Wheat Growers, U.S. Wheat Associates, the American Farm Bureau Federation, the National Farmers Union and every state wheat commission.

In February 2002, after a review of the investigation, USTR released an "affirmative finding" that detailed the CWB's monopolistic characteristics. The USTR found "that the acts, policies and practices of the Government of Canada and the CWB are unreasonable and burden or restrict U.S. commerce". Based on the findings, the USTR concluded "that the CWB's subsidies, protected domestic market, special benefits and privileges disadvantage U.S. wheat farmers and infringe on the integrity of a competitive trading system."

With the affirmative finding, U.S. Trade Representative Robert B. Zoellick also announced "that the United States will pursue multiple avenues to seek relief for U.S. wheat farmers from the trading practices of the Canadian Wheat Board (CWB), a government monopoly trading enterprise." This included taking a possible dispute settlement case against the Board in the World Trade Organization, working with the U.S. industry on possibly filing U.S. countervailing duty and antidumping petitions, and working towards market access for U.S. wheat exports to Canada.

The U.S. industry has made specific, realistic suggestions for addressing the underlying problems with the CWB. Our particular focus has been to end the state-mandated monopoly, subjecting the CWB to market discipline. The proactive actions taken by the NDWC and the U.S. wheat industry were intended to work in conjunction with multilateral and regional negotiations on export state trading entities, and any final agreement must provide effective discipline over the CWB's activities in the hemisphere.

The national wheat organizations are very pleased at the progress that has been made on this longstanding issue. We are especially pleased that the Department of Commerce has confirmed that the Canadian Wheat Board is dumping into the U.S. market. The Department of Commerce will begin imposing an 8.15 percent duty on Durum wheat and a 6.12 percent duty on Hard Red Spring Wheat.

The U.S. wheat industry has proven its case and we must not allow monopoly actions to be legalized in the FTAA or any future trade agreements.

Addressing market access issues of tariffs, price bands, and TRQ's

U.S. wheat producers agree with the U.S. FTAA negotiating position that the tariff methods and modalities agreed to must be "fair and reasonable" to "ensure the benefits of free trade are broadly distributed." Since the average U.S. tariff on agricultural imports is about twelve percent, while the rest of the world exceeds sixty percent, reducing high tariffs must be a priority in the FTAA discussions.

We also agree with the U.S. proposal to use the lower of either a product's "most favored nation" applied rate in effect during the negotiations or the WTO bound rate at the end of the negotiating process. This will ensure that the reduction will substantially open markets to U.S. products. Whichever rate is used, it should become a bound rate to add stability in the region.

In addition to negotiations on tariffs, action must be taken to address problems in tariff rate quota administration and price band systems. We are very pleased with the provisions of the Chile Free Trade Agreement that eliminate the use of price bands and we hope this sets a guideline for the FTAA negotiations. We would like to see the elimination of the existing price band mechanisms for wheat and flour, to be replaced by a system of tariffs that would be phased out over an implementation period. The tariffs should be reasonable and should not constitute new trade barriers. We compliment Chile, the principal user of the price band system for wheat, for looking at ways to remove the bands in accordance with World Trade Organization findings that their bands are illegal.

Those countries that administer TRQ'S do so in a variety of ways, from auctioning to allocation of licenses to producer groups, which clearly hinder U.S. exports. The duties outside the quotas must be targeted for reduction. Additionally, the fill-rate of tariff quotas appears to be very low among some countries, resulting in part from bad TRQ administration. To correct this problem, the U.S. may want to consider an incentive-based system to encourage increased imports where fill rates are low.

We concur with the U.S. market access "Tariffs and Non-Tariff Measures Text." This proposes a level playing field by requiring all FTAA countries to grant "national treatment" to products from other FTAA countries, the elimination of import and export restrictions and increasing transparency resulting in reductions in the cost of doing business in the Hemisphere.

Risk assessment is needed for sanitary and phytosanitary (SPS) issues

The proliferation of sanitary/phytosanitary issues has resulted in the slowing or—in some especially egregious cases—the temporary cessation of trade with some countries. We must build upon the Uruguay Round Agreement on Agriculture with respect to plant, health and safety. In particular, negotiations to expand NAFTA into a hemispheric agreement must establish a risk assessment framework, as well as the creation of an accepted and expedited procedure for addressing sanitary/phytosanitary disputes when they arise among signatories to the FTAA. We also believe that trade in new technologies is adequately addressed in the SPS/TBT agreements of the World Trade Organization and should not be revisited in these negotiations.

Labor and environmental standards should be addressed in other forums

The importance of environmental protection and labor standards is without question; however, those concerns may be more appropriately addressed in other forums and by other methods than through FTAA negotiations. The U.S. wheat industry is concerned that an effort to link environmental and labor concerns to trade may hinder negotiating leverage or impinge on the goals of trade liberalizing negotiations.

We are especially concerned about any proposal to use trade as an enforcement mechanism, through the imposition of sanctions, in pursuing goals in these or other areas, however desirable the goals may be. We believe that ultimately the most successful resolutions to these concerns can only happen if our trading partners are assured that the U.S. does not intend to use sanctions to "bully" them into relinquishing their sovereignty with respect to environmental and labor standards.

MEAs should not disrupt trade

The wheat industry is very concerned that the many Multilateral Environmental Agreements (MEAs) may disrupt trade around the world. There has been insufficient discussion on how these agreements work with—or conflict with—WTO rules. Of immediate concern is the Cartagena Protocol on Biosafety, adopted by the Conference of the Parties to the United Nations Convention on Biodiversity in Montreal on January 29, 2000.

The Protocol is designed to contribute "to the safe transfer, handling and use of living modified organisms" resulting from modern biotechnology, "that may have ad-

verse effects on the conservation of sustainable use of biological diversity, taking also into account risks to human health, and specifically focusing on transboundary movements.”

As of May 6, 2003, 103 countries have signed and 46 countries of the required 50 have ratified the Protocol. We expect that the full 50 countries will have ratified the agreement this summer, bringing the commitment into force within 90 days of ratification. The Biosafety Protocol has created many unknowns for traders around the world, the most basic of which is the undefined relationship to WTO agreements. Included in the written copy is background information on this issue.

Our markets are at risk of intended and unintended consequences from the growing number of MEAs, and particularly those dealing with use of new technologies. Our negotiators must use all available negotiating opportunities, with the FTAA and elsewhere, to ensure that the WTO is paramount and that sound science prevails in disputes that may arise from use of biotechnology and other new technologies and from MEAs.

Trade must be with all countries in the Americas

Finally, to take full advantage of trading opportunities in the Americas, we need access to all of our neighboring markets. Congress must remove the Cuban sanctions. While no one condones recent human rights violations by Fidel Castro, we strongly believe that opening travel, trade and dialogue creates the best opportunities for the Cuban people.

Conclusion

The wheat industry is very pleased by the U.S. Position on Agriculture in the FTAA and for the Doha Round of the WTO. We believe that the U.S. trade policy is headed in the right direction.

To recap, our positions are:

- We need duty-free access to Brazil.
- The unfair advantages given to the CWB monopoly must be ended. We cannot allow monopoly actions to be legalized in the FTAA.
- Reducing high tariffs must be a priority in the FTAA discussions
- Existing price band mechanisms for wheat and flour should be eliminated, replaced by a system of tariffs, which would be phased out.
- A risk assessment framework, including an expedited process, should be established to address sanitary/phytosanitary disputes.
- Environmental and labor issues should not unnecessarily hinder trade opportunities.
- The final agreement must ensure that sound science and WTO rules prevail, especially in regards to biotechnology.
- The existing barriers to trade and travel to Cuba should be removed. Reconsideration should be given to Cuba's inclusion in the FTAA.

The U.S. wheat industry has worked for over 50 years to expand export markets, and we are committed to doing all we can to secure fair and open trading practices around the world. We stand ready to work with you towards a successful outcome of these negotiations in order to realize the market potential of an FTAA and solidify alliances with our neighbors.

