

**Statement of
Peter F. Allgeier
Deputy U.S. Trade Representative
before the
Finance Committee,
Subcommittee on International Trade
of the
U.S. Senate
May 13, 2003**

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 José, 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 José 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 non-negotiating 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 non-governmental 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 procurement. 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 annotated 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. "Tariff-Free 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 Co-Chairs, 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.