Statement of
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Introduction

Thank you Mr. Chairman and Members of the Committee for the opportunity to testify today. I am pleased to be here with Secretary of Agriculture Mike Johanns to discuss the World Trade Organization (WTO) agriculture negotiations for the Doha Development Agenda (DDA). As we sit here today, the negotiations are at a critical stage in the lead up to the WTO ministerial meeting in Hong Kong, China in December.

Dismantling trade barriers multilaterally holds immense potential for the United States. From 1994, when the Uruguay Round Agreements were implemented, to 2003, the world economy expanded at an average rate of about 2.6 percent, but U.S. exports grew at more than double that pace – about 5.5 percent. Even more impressive, U.S. agricultural exports expanded an astounding 29 percent during that same time period, suggesting real benefits realized from the Uruguay Round for America's farmers and ranchers.

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

The main focus of the negotiations is in six key areas: agriculture; industrial market access; services; trade facilitation; WTO rules (i.e., trade remedies, regional agreements and fish subsidies); and development. The goal of the DDA is to reduce trade barriers so as to expand global economic growth, development and opportunity.

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

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

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

WTO Director General Lamy suggested that we need to be two-thirds of the way to finishing the DDA negotiations by the time Members meet in Hong Kong. We are not likely to meet that objective for Hong Kong unless much greater progress is made.

With that as background, I would like to describe for the Committee the current situation in the negotiations, focusing on the key to these negotiations: agriculture.

Agriculture

I think it is fair to say that the fate of the DDA hangs in the balance because of the lack of progress in agriculture, where much of the responsibility for this lies with the European Union. The Doha mandate concentrates the negotiations in agriculture in three main areas or "pillars": export competition, domestic support, and market access. Our view and that of the other delegations in Geneva is that the shape of an agreement in the first two pillars can be achieved by Hong Kong. This is not true for the third and most important pillar, market access.

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

Building on Uruguay Round commitments and the July 2004 Framework agreement for agricultural modalities, on October 10, 2005, the United States presented a proposal for bold reform in global agricultural trade to move the WTO agriculture negotiations forward and unleash the full potential of the Doha Development Agenda. The proposal is not unilateral. It is contingent on comprehensive reform in all pillars and meaningful commitments by all WTO members, except least developed countries.

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

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

- **Stage 2**: An additional five year phase-in period that delivers the elimination of remaining trade-distorting agricultural subsidies and agricultural tariffs.

Market Access

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

- Progressive tariff reduction: Developed countries cut their tariffs by 55-90%. Lowest tariffs are cut by 55%, with cuts ranging to 90% for highest tariffs.
- Tariff rate caps: Establish a "tariff cap" ensuring no tariff is higher than 75%.
- Sensitive products: Limit tariff lines subject to "sensitive product" treatment to 1% of total dutiable tariff lines. For these lines that have lesser tariff cuts, full compensation would need to be provided through large expansion of tariff rate quotas, where they exist, and use other means to address sensitive products where TRQs are not in place.
- Special provisions for developing countries: Create special and differential treatment provisions for developing countries to provide real improvements in access, while ensuring import-sensitive sectors in those countries are afforded appropriate protection.

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

Export Competition

The United States has made clear our strong commitment to rapidly eliminate of export subsidies. Under the U.S. proposal, the following rules would be phased-in by the year 2010:

- Export subsidies: Eliminate all agriculture export subsidies.
- Export credit programs: Establish specific disciplines on export credit programs to bring them in line with commercial practice, including a maximum repayment period of 180 days.
- Export State Trading Enterprises: Install new disciplines on export state trading enterprises, such as the wheat boards in Canada and Australia, that end monopoly export privileges, prohibit export subsidies, and expand transparency obligations.
- Food aid: Continued use of food aid, while establishing disciplines on food aid shipments that guard against commercial displacement while ensuring emergency shipments and deliveries to countries with chronic food aid needs. Establish an objective test to identify commercial displacement in other circumstances.

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

Domestic Support

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

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

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

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

The G-20 has responded by elaborating on its earlier market access ideas, limiting substantially the number of "sensitive" products that would be subject to lesser tariff reductions. The G-20 recognizes that this is essential if deep tariff cuts are to have real meaning. Specifically, the G-20 offered to limit sensitive products to no more than one percent of tariff lines for developed countries and 1.5 percent of tariff lines for developing countries. This proposal is one that the

United States can endorse. Australia underscored its support for this approach, and we welcomed its contribution.

On the other hand, our partners in the EU have come up short. Last Friday, the EU presented a revised proposal on agriculture that was disappointing to us and other members seeking an ambitious result in the Doha Round. While in some ways the EU proposal is a step in the right direction, and we acknowledge the efforts of Commissioners Mandelson and Fischer-Boel, we believe that much more needs to be done. For example, the tariff reductions proposed by the EU appear to be lower than the proposals from the G-20 developing countries and are far lower than the U.S. proposal. In addition, the EU's proposal to allow up to eight percent of tariff lines to be identified as sensitive products subject to reduced tariff cuts could threaten any real market access that might be provided. Frankly, the EU's proposal does not meet the mandate of Doha, and we look to the EU to come forward with a stronger market access offer.

My focus today has been on the EU and developed country market access. Developing country members of the G-20 have signaled their readiness to move ahead in the negotiations and to set the targets for reduction for developing countries once the broad outlines for developed countries are established. Without question, more work needs to be done to improve the G-20's proposal to increase market access by developing countries, but we will also need to be sensitive to the concerns of developing countries with subsistence farmers. Nevertheless, we will never be able to proceed if the EU doesn't quickly show substantially more flexibility on market access and help us set an overall parameter for the agriculture negotiations. We are now just six weeks away from the ministerial meeting in Hong Kong, and without very quick progress on this issue, the outcome of the ministerial meeting, and the entire Doha round, may be at risk.

Beyond Agriculture

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

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

Conclusion

We know that the global trading system is not perfect, and remains – and perhaps always will remain – a work in progress. But through American leadership within the WTO, the core U.S. objectives of promoting open markets and the rule of law remains the core agenda of the global trading system. The United States, which is the world's largest agricultural exporter and is strongly dependent on export sales to support farm profitability, has been well served by the global trading system. We will continue to pursue our interests in the DDA with this in mind.

The DDA provides us an historic opportunity that we cannot afford to waste. We can set a vision for the global economy for the next decades to come and make a major contribution to development.   The United States is already leading by example, and we are firmly committed to our objectives. In making these commitments, however, we must be certain that we receive the benefit of the bargain by securing real gains and market opportunities for our farmers and ranchers into the future.