



Testimony

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WORLD TRADE ORGANIZATION

Seattle Ministerial: Outcomes and Lessons Learned

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G A O

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to provide some observations about the World Trade Organization's ministerial conference in Seattle that took place in December 1999. Specifically, my testimony will address (1) the outcome of the ministerial conference, (2) the factors contributing to the outcome, and (3) the lessons learned from the meeting.

My observations are based on our past and ongoing work; our review of World Trade Organization and executive branch documents; related literature; discussions with experts on the World Trade Organization and international trade; and U.S. government, World Trade Organization, and foreign government officials from 14 countries. In addition, I along with members of my staff attended the Seattle ministerial conference.

The ministerial conference, composed of the trade ministers of all the WTO member countries, is the highest decision making body in the WTO and is required to meet at least every 2 years. Ministerial conferences are intended to evaluate current trade agreements and set the agenda for future work with a ministerial declaration that identifies issues for negotiation and specifies how negotiations should proceed.

The Seattle ministerial conference was to be particularly significant because it was expected to launch a major new round of negotiations and it was hosted and chaired by the United States for the first time. The core of the new round was to be negotiations on agriculture and services (such as telecommunications); these negotiations, referred to as the "built-in agenda," were already mandated to begin on January 1, 2000. Ministers intended to decide on what other trade issues, if any, to include in the agenda for a new round. They also expected to review the implementation of past agreements and to address calls from nongovernmental organizations and some WTO members to improve the WTO's openness. In addition, they were to develop a plan to assist least developed countries in several ways, such as providing technical assistance to help them meet their trade obligations.

SUMMARY

WTO member countries failed to meet their goal of launching a new round of multilateral trade negotiations at their biennial ministerial conference last December in Seattle. The conference was suspended without initiating a new round or issuing a ministerial declaration. No one factor, but a combination of circumstances, led to the impasse. However, two themes emerged. First, there was lack of agreement on many issues both among major trading partners and between developed and many developing countries on the eve of the ministerial conference. Disagreement centered on the scope of the round and stemmed from the sensitivity and complexity of the issues being addressed. Second, the Seattle negotiation process had inherent difficulties. For example, the document used as

the basis for negotiations was a poor starting point for reaching consensus. It was a lengthy amalgamation of countries' divergent positions rather than a text reflecting members' common objectives. In addition, the negotiating process was hampered by the newness of the WTO leadership team. Further, the process was made difficult by the challenge of accommodating the needs and interests of a large and increasingly diverse WTO membership.

Several lessons can be learned:

- Efforts to launch a new round may have been premature.
- Ministerial conferences are more likely to succeed if they address only a handful of politically difficult decisions, having reached consensus on most issues in advance.
- The WTO needs to find ways to address the institutional challenges posed by increases in the number and diversity of its members.
- Holding high profile WTO meetings in countries that are major trading partners, such as the United States and the EU, may present difficulties.

BACKGROUND

The World Trade Organization (WTO) was established on January 1, 1995, as a result of the Uruguay Round of international trade negotiations. The WTO provides the institutional framework for the multilateral trading system. It administers rules for international trade, provides a mechanism for settling disputes, and provides a forum for conducting trade negotiations. The WTO succeeded the General Agreement on Tariffs and Trade (GATT), which had provided the institutional framework for world commerce since 1948. The 1994 Uruguay Round agreements brought agriculture, services, intellectual property rights, trade-related investment measures, and textiles and apparel under the discipline of multilateral trade rules for the first time and established a stronger dispute settlement process. Two of these agreements also mandated a "built-in agenda" for further negotiations on agriculture and services to commence January 1, 2000.

Membership in the WTO has grown to 135 members, up from about 90 GATT members in September 1986, at the start of the Uruguay Round. Not only has there been an increase in membership, but also increased diversity in WTO members. Roughly 80 percent of the current members are developing countries, although some are at more advanced stages of development than others and thus they do not all have the same needs. According to WTO, virtually all of the 30 countries currently applying for membership are also developing nations or economies in transition. Unlike many other international organizations where decisions are based on a majority of member votes, decision-making in the WTO is largely based on consensus among member governments.

There have been three ministerial conferences since the creation of the WTO: one in Singapore in December 1996, one in Geneva in May 1998, and the third in

Seattle in December 1999. The WTO General Council makes major decisions in the periods between ministerial conferences. The Director General, chosen by members, heads the WTO Secretariat that supports the membership and the institution.

The 1996 Singapore ministerial conference reviewed the implementation of the Uruguay Round agreements and considered proposals for trade issues to be addressed in the future. The ministers in Singapore reaffirmed their commitment to complete the built-in agenda and also addressed several trade issues that were previously outside the scope of detailed trade negotiations. Among other things, they authorized the creation of working groups to study transparency in government procurement, investment and competition, and agreed to continue ongoing analysis of trade and environment issues. The ministers in Singapore rejected attempts led by the United States to establish a working group on trade and labor, stating that this issue was best handled by the International Labor Organization.

The Geneva ministerial conference coincided with the 50th anniversary of the GATT. Ministers agreed to begin preparing an agenda for further trade liberalization. Ministers also accepted President Clinton's offer that the United States host the next ministerial conference. Seattle was selected as the host city in January 1999.

SEATTLE MINISTERIAL DID NOT ACHIEVE ITS OBJECTIVES

The ministerial conference failed to achieve its goal of initiating a new round of multilateral trade negotiations with a ministerial declaration. After 4 days of intensive talks, the conference was suspended on December 3 without agreeing on a round, or issuing a ministerial declaration or any other formal documentation of its deliberations. As a result of the inconclusive nature of the meeting, the status of the ministerial conference remains unclear. For example, members have not decided if and when the conference might reconvene. Even without a new round, negotiations to further liberalize trade in agriculture and services are scheduled to begin in the year 2000 under the Uruguay Round agreements' built-in agenda. Progress on these negotiations, however, may be slow, partly because the agenda lacks a deadline for completion. The negotiating impasse also left several issues unresolved, such as addressing some developing countries' concerns about expiration of certain Uruguay Round agreement deadlines.

In a brief statement at the end of the meeting, the Conference Chair, U.S. Trade Representative (USTR) Charlene Barshefsky, noted that the issues before WTO ministers were complex, and divergences too wide to be bridged rapidly. Ambassador Barshefsky stated that it was the collective judgement of those present that it would be best to, "take a time out, consult with one another, and find creative means to finish the job." She then announced that the ministers had agreed to suspend the work of the ministerial conference. In the interim, the Chair asked WTO Director General Mike Moore to consult with delegations in an

effort to bridge differences, develop an improved decision-making process, and prepare for a successful conclusion of the ministerial conference.

The Chair and other delegations emphasized that the progress that was made at Seattle would not be lost. But those assurances were quickly dismissed by other participants, who refused to “freeze” their positions and said that any draft texts of a declaration on the table at Seattle were no longer valid. Even if members were to agree in principle to restart negotiations from where ministers left off at Seattle, no text reflects the state of countries’ positions at the end of the day.

One outstanding issue due to the suspension of the Seattle meeting concerns developing countries’ efforts to delay their end-of-1999 deadlines for conforming to certain provisions in a number of Uruguay Round agreements, such as those on intellectual property rights and investment measures. The WTO General Council met on December 17 but could not agree on whether to grant extensions for all developing countries, or to consider them on a member-by-member basis. The General Council postponed until early 2000 a decision on how to proceed. In the meantime, WTO members were asked by the General Council Chairman to exercise restraint and understanding in dealing with these deadlines. USTR officials told us that the United States retains the right to bring cases based on the deadlines, which have since passed.

NO ONE FACTOR CONTRIBUTED TO MINISTERIAL OUTCOME

No one factor, but a combination of circumstances, led to the WTO’s inability to launch a new round. Nonetheless, seemingly unbridgeable gaps on major issues both among the major trading partners and between developed and many developing countries were at the root of the outcome of the ministerial conference. First, disagreements centered on the scope and direction of a new round. They also stemmed from the increased sensitivity and complexity of the issues on the table. Further, Seattle negotiators faced inherent difficulties in their negotiation process both in Seattle and Geneva. These included the challenge of accommodating the needs and interests of a large and increasingly diverse WTO membership. In addition, negotiators were working from an unwieldy draft text symptomatic of the lack of agreement among countries in Geneva on the eve of the ministerial meeting. Further, U.S. and foreign officials noted that WTO members’ selection of a new Director General earlier in the year had been lengthy and divisive. This experience left members without leadership during a good part of their preparations for Seattle and lingering hard feelings. Adding tension to a difficult situation, protesters marching against the WTO in Seattle during the week disrupted the proceedings.

No Agreement on the Scope of Negotiations

U.S. and foreign officials with whom we met said that fundamental differences between the major trading countries contributed greatly to the ministerial conference’s ultimate lack of consensus. The United States wanted to pursue a

narrow agenda in the new round, while the European Union (EU) and Japan promoted a broad framework for negotiations to bring many new areas under international disciplines. Officials we interviewed generally felt that without agreement among these major players in international trade, it would be impossible to build consensus among the rest of the members.

The United States favored limiting negotiations primarily to address market access concerns and to focus on the areas of agriculture and services as called for under the Uruguay Round agreements. With the backing of the other major agricultural exporting countries, known as the "Cairns Group," the United States insisted that negotiations on agriculture address a number of tough issues, including the elimination of export subsidies and substantial reduction of trade-distorting farm supports. Such far-reaching goals in agriculture were difficult for the EU to accept. According to European officials, they simply could not support language calling for the elimination of agricultural export subsidies as the starting point of negotiations. Instead, the EU viewed the new round as an opportunity to establish international rules in other areas of the global trading system. In addition to agriculture and services, the EU proposed including investment, competition policy, government procurement, and other issues in a broad framework for negotiations. Japan largely supported the EU's position on these issues. Although U.S. negotiators indicated support for continued study of investment and competition policy by WTO working groups, the United States and many other WTO members were unwilling to include these issues in the negotiating agenda.

In addition to differences among the major trading countries, there was also a serious gap between developed and many developing countries on the scope of a new round. Like the United States, developing countries generally backed a narrower scope for negotiations. Although developing countries' positions differed on some issues, many of them called for a reassessment of the commitments of the Uruguay Round agreements. The United States did not want to reopen existing agreements to new negotiations. Some developing countries felt they had received few benefits from the Uruguay Round and had found it difficult to meet their obligations under its agreements. For example, certain developing countries insisted they lacked the financial and technical resources to implement the complex requirements called for under the intellectual property agreement. Developing countries also wanted to re-negotiate areas of the Uruguay Round, such as the agreement on textiles that they argued had not given them the benefits they had anticipated. U.S. negotiators indicated they would consider ways of helping developing countries meet their Uruguay Round commitments on a case-by-case basis, but they rejected any attempt to reopen negotiations on the hard-fought agreements.

Finally, officials from some developing countries we interviewed noted that 5 years did not provide enough time for them to cope with the changes mandated under the Uruguay Round. Given the difficulties they were having in implementing the Uruguay Round agreements, many of these countries expressed

reservations about undertaking further trade liberalization. One developing country official remarked that in comparison with the situation in 1994 when the Uruguay Round was concluded, starting a new round at this time would be considerably more difficult. In 1994, the ideas of market reforms and trade liberalization were still fresh and held tremendous promise. It was also a time of economic growth in many of the developing countries engaged in the negotiations. The current situation is very different. Much of the developing world is going through a difficult time economically, even though many countries have already undertaken far-reaching market reforms and trade liberalization.

Sensitivity and Complexity of Issues Impeding Progress

The most sensitive and complex area of negotiations between the EU on the one hand and major agricultural exporters including the United States on the other was on agriculture. Although the EU has been reducing subsidies to agriculture since the Uruguay Round, it remains by far the world's largest user of agricultural export subsidies.¹ In the WTO, the United States and other major agricultural exporting nations, such as Australia, Brazil, and Canada, have put increased pressure on the EU to abandon its reliance on export subsidies. Export subsidies, however, are a key mechanism in the EU's Common Agricultural Policy. The Common Agricultural Policy is intended to preserve farm incomes and rural economies by supporting high domestic prices for a wide variety of agricultural commodities and products. EU member states have taken a very strong position on maintaining the Common Agricultural Policy, which is a central element in the EU's institutional system and is regarded as essential to its cohesiveness.

Like the EU and its position on agricultural export subsidies, the United States was virtually isolated on the issue of antidumping regulations in the negotiations. Major trading partners like Japan and Korea, as well as some developing countries, called for reconsideration of the agreement on anti-dumping reached under the Uruguay Round. These countries felt that the current antidumping rules allow countries to use trade remedies to unfairly protect certain sectors. The United States argued that re-opening the complex agreement was premature and risked weakening the strength of the existing U.S. anti-dumping regime. U.S. negotiators said they would consider holding discussions on how WTO members were implementing the agreement's procedural requirements, but this U.S. offer attracted limited support.

Developing countries were very concerned about U.S. and EU initiatives to bring labor into the WTO. They feared that addressing labor standards under the WTO was simply a veiled form of protectionism aimed at undermining one of the few competitive advantages they enjoy as lower-wage producers. At the Singapore ministerial conference, it had been agreed that labor standards were best addressed in the International Labor Organization rather than in the WTO, and

¹ See Commitments by the European Union and the United States to Reduce Agricultural Export Subsidies (GAO/NSIAD-99-198R, June 18, 1999) for more details.

many developing countries felt the issue had been put to rest. According to some officials from developing countries, the U.S. insistence on resurfacing the issue of labor in Seattle and the President's remarks potentially linking labor standards to trade sanctions were counterproductive.

Seattle Negotiation Process had Inherent Difficulties

The difficult task of accommodating the needs and interests of a large and increasingly diverse WTO membership hampered progress in Seattle. Efforts to balance efficiency with allowing the maximum participation of all WTO members in negotiations presented a challenge to reaching consensus.

In an effort to give all WTO members the opportunity to take part in the negotiations, Chairperson Barshefsky and Director General Moore set up five large working groups on the major issues including agriculture, market access, implementation, Singapore issues (such as investment), and systemic issues (such as the structure of the WTO). The working groups were open to all WTO member delegations and convened on the second day of the conference. Working group chairs--trade ministers selected in Seattle--were to facilitate consensus and refine the Geneva draft text into a consensus document. Next, working group consensus texts were to be brought together later in the week to produce a complete ministerial declaration to be issued at the end of the conference.

Ultimately however, the working groups were not able to achieve the necessary consensus to avoid the more traditional less inclusive "green room" process.² Chairperson Barshefsky had told ministers at a meeting on Wednesday that she intended to proceed with the large working groups, but if they were unsuccessful she would initiate a green room to facilitate consensus. After 2 days of large working group meetings, the green room process began Friday morning, the last day of the conference.

One difficulty in achieving consensus may have been that the chairpersons of the working group meetings were not in place until Tuesday during the ministerial conference. This may have prevented parts of the leadership team from effectively preparing for their roles—such as developing compromise texts and meeting with key delegations before Seattle—as some have claimed. Officials said that it had been difficult to find chairpersons because trade ministers had to volunteer their time to lead the sessions as opposed to their own country delegations.

The green room had only 1 day to work out compromises across the range of unresolved issues and then gather the support of the rest of the delegation. Furthermore, the green room worked sequentially—issue by issue. Negotiators began in the morning with agriculture and spent until mid-afternoon on this issue.

² Traditionally, negotiations have taken place among a smaller number of key WTO members, which would work out privately some of the more difficult compromises. This smaller group negotiation of 20-30 members is known as the "green room" process.

Although many officials said that the green room did make progress in agriculture, others argued that too much time was spent on this issue to the exclusion of others. However, officials expressed mixed views about whether additional time would have resulted in consensus on a round. Some said an additional day would have sufficed with the progress made in agriculture, while others were more pessimistic or said outright that no agreement could have been reached.

Despite efforts to the contrary, some countries still expressed frustration about being left out when the negotiations shifted to the green room. In fact, a group of Latin American and Caribbean countries and a group of African countries stated publicly in Seattle that they would reject the outcome of these smaller sessions. However, some officials noted that a green room process involving a smaller number of countries is necessary to efficiently handle the negotiations. Some said the particular problem with the green room process in Seattle was that countries were selected to participate in an ad hoc, informal manner. They recommended a more formalized or transparent process of determining the members invited to participate in the green room.

A number of officials with whom we spoke said that hosting the Seattle WTO ministerial meeting posed both substantive and procedural challenges for the United States, given its large stake in the world trading system. First, perceptions about the U.S. role as chair may have affected the negotiating dynamic. For example, it may have raised questions about U.S. neutrality in brokering compromise, or raised WTO members' expectations about U.S. willingness to make concessions to ensure the ministerial conference's success. Second, the United States was wearing two hats, that of host and key participant, a difficult job that was made harder by the newness of the WTO team and the number of issues to be resolved at Seattle. Overall, several U.S. and foreign officials said that a major trading nation hosting such meetings inevitably poses problems.

Another major factor affecting the outcome of the Seattle negotiations was the inherent weakness of the draft text used as the basis for negotiations. When WTO ministers arrived in Seattle in late November, the draft declaration officially on the table was some 32 pages long and contained nearly 400 bracketed items indicating disagreement among members. The draft was, in fact, an amalgamation of all the proposals, or position papers, members had submitted to the WTO General Council during their 15-month, pre-Seattle preparatory process. The problems with the draft conveyed the wide differences over substance and philosophical approach that remained at the conclusion of those preparations. Also, one WTO official noted that because the text included many strongly held competing proposals, negotiators had to "build down," or remove text, to reach a consensus document. In his view, this is more difficult to do than "building up," or negotiating to add desired language. Thus, he believed, in Seattle, countries automatically perceived agreeing to remove text as a loss.

Contributing to members' inability to reach consensus before Seattle were the difficulties they had experienced in selecting a new Director General. In Geneva

in early 1999, WTO members had had great difficulty reaching consensus on a new Director General, whose 4-year term had expired. There were two final candidates, Mike Moore from New Zealand and Supachai Panitchpakdi from Thailand, from a developed and developing country, respectively. Ultimately, members selected both candidates to serve a split term, with Mike Moore serving first. Many U.S. and foreign officials said that the divisiveness of that experience had dampened the mood for compromise in Seattle.

In addition, the lengthy and contentious selection process left WTO members without leadership for 5 of the 11 months they had available to prepare for Seattle. Mike Moore did not take the helm at the WTO until September, when drafting of a declaration started in earnest. His principal deputies were named less than a month before the WTO ministerial conference. While the WTO is largely a member-driven organization, the WTO Director-General and his deputies can play an important role in facilitating consensus and organizing work so as to ensure maximum progress. The diversity of member interests and lack of institutional leadership meant that fewer informal, consensus-building meetings took place both in Geneva and Seattle.

During the ministerial conference, nongovernmental organizations representing labor, the environment, and other interests demonstrated and marched against the WTO in the vicinity of the Seattle convention center. The protests interfered with the convention by causing delays and dampening the general mood among the delegates but were not a major cause for their ultimate inability to launch a new trade round. The most frequent comment we heard from foreign government officials was that the protests cost them 1 to 2 days of work. Some foreign officials attending the ministerial conference said that limitations on moving safely about the city interfered with delegates' normal ability to resolve differences through informal social contacts. Another foreign embassy official said that, while not a deciding factor, the protests raised questions about the U.S. ability to conduct trade negotiations without being unduly influenced by domestic politics. Overall, however, delegates did not believe that the protesters changed the outcome of the conference.

Lessons Learned

Several lessons can be learned from the experience in Seattle:

- Efforts to launch a new round may have been premature. Countries, for various reasons, may not have been ready to launch a new round. Due to current strong domestic concerns, the EU and United States each found it politically difficult to make concessions and exert leadership. Many developing countries were resistant to calls for the WTO to address new issues such as labor and skeptical about the benefits of the last round.
- Ministerial conferences are more likely to succeed if they address only a handful of politically difficult decisions, having reached consensus on most

issues in advance. WTO members had not reached agreement on most issues on the eve of the conference. As a result, ministers in Seattle faced a long list of unresolved items. This left ministers with an overwhelming task to be accomplished within a short time frame. Efforts to sort through and agree upon a manageable number of issues should be made before a ministerial conference takes place.

- The WTO needs to find ways to address the institutional challenges posed by increases in the number and diversity of its members. The Seattle negotiations demonstrated the importance of taking into account the different views of the WTO's large and diverse membership on issues such as the scope and nature of any further trade liberalization. Since the ministerial conference, the WTO Director General has been consulting with WTO member governments on ways to help developing countries engage in world trade and has been examining how the WTO can better gauge and act on its varied members' interests.
- Holding high profile WTO meetings in countries that are major trading partners, such as the United States and the EU, may present difficulties. It is not easy for major trading countries to host ministerial conferences, given their significant interests in international trade and possible concerns about their influence on the negotiating agenda.

Mr. Chairman and members of the subcommittee, this concludes my prepared remarks. I will be happy to respond to any questions you may have.

Contacts and Acknowledgement

For future contacts regarding this testimony, please call Susan Westin or Beth Sirois at (202) 512-4128. Individuals making key contributions to this testimony included Nina Pfeiffer, Howard Cott, Kim Frankena, Juan Gobel, Richard Seldin, and Tim Wedding.

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