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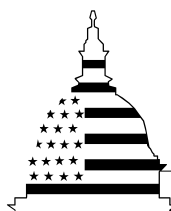
Report to the Chairman, Committee on  
Finance, U.S. Senate, and to the  
Chairman, Committee on Ways and  
Means, House of Representatives

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April 2003

# FREE TRADE AREA OF THE AMERICAS

Negotiations Progress,  
but Successful  
Ministerial Hinges on  
Intensified U.S.  
Preparations



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**Highlights**

Highlights of [GAO-03-560](#), a report to the Chairmen, Senate Committee on Finance, and House Committee on Ways and Means

**Why GAO Did This Study**

Establishing a 34-nation Free Trade Area of the Americas agreement has been under negotiation since 1998. This agreement would eliminate tariffs and create common trade and investment rules for these nations. Most recently, the United States, along with Brazil, assumed the leadership of the negotiations. GAO was asked to analyze (1) the challenges for the current negotiating phase, which will include a ministerial meeting in Miami, Florida, in November 2003; and (2) the U.S.'s readiness to serve as co-chair of the negotiations and host of the November 2003 ministerial.

**What GAO Recommends**

The Office of the U.S. Trade Representative (USTR) should intensify preparations and regularly evaluate whether current 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.

USTR and the Department of State generally agreed with GAO's message but sought amplification on certain issues.

[www.gao.gov/cgi-bin/getrpt?GAO-03-560](http://www.gao.gov/cgi-bin/getrpt?GAO-03-560).

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](mailto:YagerL@gao.gov).

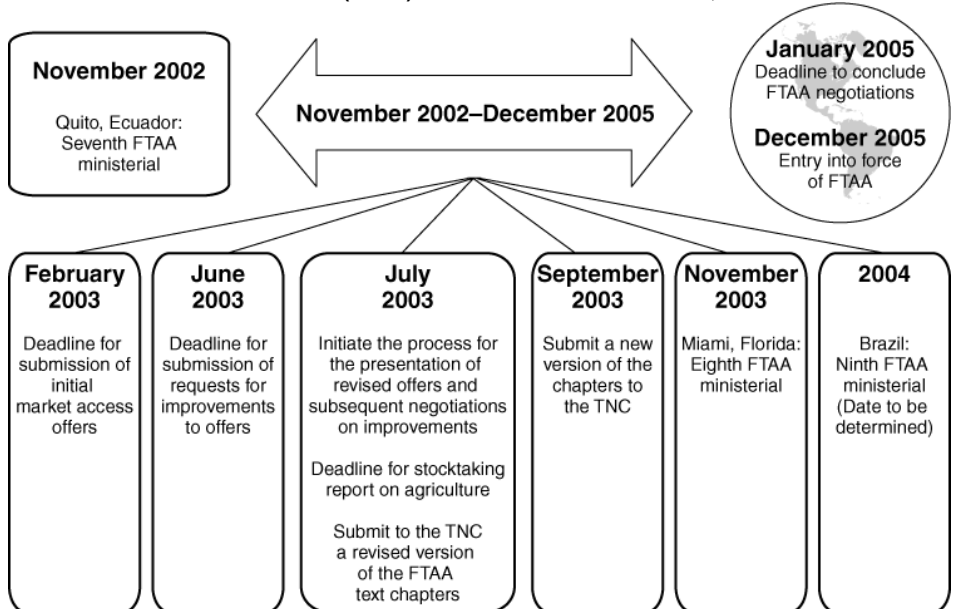
**FREE TRADE AREA OF THE AMERICAS**  
**Negotiations Progress, but Successful Ministerial Hinges on Intensified U.S. Preparations**

**What GAO Found**

USTR, which is responsible for co-chairing the Free Trade Area of the Americas negotiations and hosting the November 2003 ministerial meeting, faces challenges to its readiness to assume these responsibilities. During the current negotiating phase, achieving improved market access for the 34 nations is paramount. It may be difficult, however, for participants to make ambitious offers to lower tariffs and other trade barriers. Another challenge involves the resolution of issues such as subsidies for agriculture. The resolution of this issue has been linked to ongoing negotiations at the World Trade Organization, but these talks are bogged down. A further challenge is ensuring the momentum and the political will of the United States and Brazil to move the process forward to a timely completion by January 2005.

As co-chair of the negotiations, USTR also faces risks to assuring its readiness as host of the November ministerial. First, USTR has little experience in hosting a major ministerial meeting, and its staff remains small and is stretched thin. Second, plans for the meeting are at an early stage, and much remains to be done. Third, USTR is counting on funding that has not yet been secured. And finally, USTR is likely to encounter protestors at the November ministerial. Factoring security for the invited participants into the logistical arrangements for the ministerial is a prime concern.

**Free Trade Area of the Americas (FTAA) Time Frames and Milestones, 2002-2005**



TNC = Trade Negotiations Committee

Source: GAO.

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**Abbreviations**

ATPA	Andean Trade Preference Act
CAFTA	U.S.-Central American Free Trade Agreement
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
EU	European Union
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
HCP	Hemispheric Cooperation Program
Mercosur	Common Market of the South
NAFTA	North American Free Trade Agreement
OMB	Office of Management and Budget
TNC	Trade Negotiations Committee
TPA	Trade Promotion Authority
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization

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United States General Accounting Office  
Washington, D.C. 20548

April 11, 2003

The Honorable Charles Grassley  
Chairman  
Committee on Finance  
United States Senate

The Honorable William H. Thomas  
Chairman  
Committee on Ways and Means  
House of Representatives

Negotiations toward establishing a Free Trade Area of the Americas 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. If completed, the Free Trade Area of the Americas agreement would cover about 800 million people and about \$13 trillion in production of goods and services. Work on this agreement is the most significant of ongoing regional trade negotiations for the United States, and the Bush administration has made establishing the Free Trade Area of the Americas one of its top trade priorities. Indeed, the United States assumed leadership of the process when it became co-chair, with Brazil, of the current and final phase of negotiations. This phase began in Quito, Ecuador, during the ministerial meeting on November 1, 2002, and will conclude with the completion of the agreement.

Because of the significance of the Free Trade Area of the Americas initiative, you asked us to update our previous work for you on the current status of the negotiations. In this report, we analyze the (1) progress made in the negotiations on creating a Free Trade Area of the Americas and the outcome of the Quito ministerial meeting;<sup>1</sup> (2) key challenges for the current and final negotiating phase, which will include a ministerial in Miami, Florida, in November 2003; and (3) readiness of the United States to successfully perform as co-chair (with Brazil) of the Free Trade Area of the

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<sup>1</sup>The ministerial meeting, composed of the trade ministers of all the countries that are members of the proposed Free Trade Area of the Americas, is the highest decision-making body in the ongoing negotiations. Ministerial meetings are intended to evaluate the progress and overall status of the trade negotiations to date and to set the agenda for future work. The meetings result in a ministerial declaration setting forth agreed decisions and directions.

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Americas negotiations process and host of the November 2003 ministerial. Our analysis is based on our past and ongoing work on the Free Trade Area of the Americas negotiations process.<sup>2</sup>

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## Results in Brief

Progress on creating a Free Trade Area of the Americas had occurred in a number of technical and procedural areas by the time of the November 2002 ministerial meeting in Quito, Ecuador. For example, participants had defined the timetable for completing the negotiating process and drafted versions of the agreement text. Participants also had set ground rules for conducting negotiations on liberalizing access to their markets and dates for exchanging offers on liberalizing market access. At the Quito ministerial, participants reaffirmed their willingness to continue Free Trade Area of the Americas negotiations while stressing the need for a balanced outcome that provides benefits to all participants. The negotiators also launched a Hemispheric Cooperation Program to help lesser-developed countries participating in the Free Trade Area of the Americas talks obtain the expertise and resources they need to negotiate, implement, and benefit from the agreement. However, trade-offs did not begin, because negotiators had made limited progress in resolving substantive differences in the agreement's text and developing concrete proposals to improve market access.

Three key challenges are of primary concern during the current phase of the negotiations. First, resolution of issues such as subsidies for agriculture, which are important for most countries of the hemisphere, have been linked to ongoing global negotiations at the World Trade Organization.<sup>3</sup> However, there is concern that global talks are bogged down on issues such as agriculture subsidies and that this situation could cause Free Trade Area of the Americas talks to slow down or deadlock. World Trade Organization negotiators have already missed several interim

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<sup>2</sup>See 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-01-1027](#) (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); 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).

<sup>3</sup>The World Trade Organization, established in January 1995, consists of 146 members and provides the institutional framework for the multilateral trading system.

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deadlines, including one specifically related to agriculture. Second, improved market access is the single most important goal for most Free Trade Area of the Americas participants, and the quality of offers the 34 nations make will set the tone for ongoing negotiations. Offers to significantly reduce trade barriers could provide momentum to the negotiations, but it may be difficult for participants to make ambitious offers. Third, ensuring the momentum and the political will of the United States and Brazil, two of the key participants in the negotiations, to move the process vigorously forward to a timely completion is a key challenge.

As co-chair of the negotiations, the United States faces several risks to its readiness to ensure the successful conclusion of the final phase of Free Trade Area of the Americas negotiations. First, the Office of the U.S. Trade Representative, which handles the negotiations, has assumed the increased responsibilities associated with chairing the Free Trade Area of the Americas negotiations without a significant addition in staff. Second, the co-chair arrangement with Brazil is a novel situation that could involve additional time and effort for the U.S. Trade Representative. Third, certain aspects of the current U.S. plans for hosting the Eighth Free Trade Area of the Americas Trade Ministerial in Miami in November 2003 pose risks, including acquiring expertise in hosting a ministerial, working on planning the ministerial with the host city, arranging financing, and ensuring the security of ministerial participants. Failure to mitigate similar risks ultimately caused serious logistical and security problems at the last major trade ministerial hosted by the United States, the 1999 Seattle World Trade Organization ministerial.

In this report, we recommend that the U.S. Trade Representative intensify preparations and promptly and regularly evaluate whether its current resources and plans are sufficient to carry out the tasks and mitigate the risks associated with co-chairing the Free Trade Area of the Americas negotiations and hosting the November 2003 ministerial meeting.

In commenting on our draft report, the U.S. Trade Representative and the Department of State agreed with our overall message. However, the U.S. Trade Representative asked us to amplify on the steps it has taken to address the challenges ahead for the Free Trade Area of the Americas negotiations and upcoming November 2003 ministerial in Miami and stressed that it believes plans for hosting the ministerial are at an appropriate stage of development. The Department of State addressed the issue of its assistance to the U.S. Trade Representative by saying that it is trying to be as helpful as it can within the constraints of its resources. We

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have noted these positions in the report and added new information about several specific steps that the U.S. Trade Representative and State have taken to bolster U.S. readiness. Nevertheless, we maintain our basic findings and recommendation that U.S. preparations should be intensified and plans be kept under regular review.

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## Background

Building on a decade of expanding trade and investment ties and increasing economic integration in the region, the leaders of 34 countries in the Western Hemisphere pledged in December 1994 to form a Free Trade Area of the Americas (FTAA) no later than 2005. The agreement would progressively eliminate barriers to trade and investment. The FTAA involves a diverse set of countries,<sup>4</sup> from some of the wealthiest (the United States and Canada) to some of the poorest (Haiti) and from some of the largest (Brazil) to some of the smallest in the world (St. Kitts and Nevis). The large disparities in size and economic development in the hemisphere mean that countries come to the negotiating table with different and sometimes widely divergent interests and goals. For example, the United States seeks broad improvements in trade rules and market access, while the smaller economies seek assurances that their economies will not be overwhelmed by larger ones. Many nations are participating in certain aspects of the negotiations as subregional groupings such as the Caribbean Community (CARICOM)<sup>5</sup> and the Common Market of the South (Mercosur)<sup>6</sup> to facilitate their participation in FTAA talks.

Between December 1994 and the formal launch of negotiations on March 1998, the FTAA negotiators agreed on several principles to guide them: (1) All decisions would be reached by consensus; (2) The final FTAA agreement would be consistent with the rules and practices of the World

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<sup>4</sup>The 34 countries participating in FTAA negotiations are Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Colombia, Chile, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, the United States, Uruguay, and Venezuela.

<sup>5</sup>CARICOM is a regional bloc whose members are Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat (overseas territory of the United Kingdom), St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

<sup>6</sup>Mercosur includes Argentina, Brazil, Paraguay, and Uruguay.



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Trade Organization (WTO); (3) The final agreement would be able to coexist with other subregional free trade and customs union agreements<sup>7</sup> such as Mercosur and the North American Free Trade Agreement (NAFTA)<sup>8</sup>; (4) Special consideration would be given to differences in levels of development and sizes of economies; and (5) An eventual FTAA agreement will be implemented as a single undertaking. A single undertaking implies that the FTAA is a package deal that must be accepted in its entirety by each signatory country in order for the country to benefit from the agreement's provisions. It also means that "nothing is agreed until everything is agreed," meaning that concluding the agreement could involve trade-offs across chapters of the proposed FTAA text agreement to achieve the desired balance.

Additionally, the negotiators agreed to the overall structure, scope, and organization of the negotiations, including establishing nine negotiating groups on particular areas. (See fig. 1.) The nine negotiating groups are (1) Market Access; (2) Agriculture; (3) Services; (4) Government Procurement; (5) Investment; (6) Intellectual Property Rights (IPR); (7) Competition Policy; (8) Dispute Settlement; and (9) Subsidies, Antidumping, and Countervailing Duties.<sup>9</sup> The completed FTAA agreement is to include trade rules, which each of the nine designated negotiating groups is currently working to establish; market-opening schedules; and a general text to cover overarching and institutional issues.

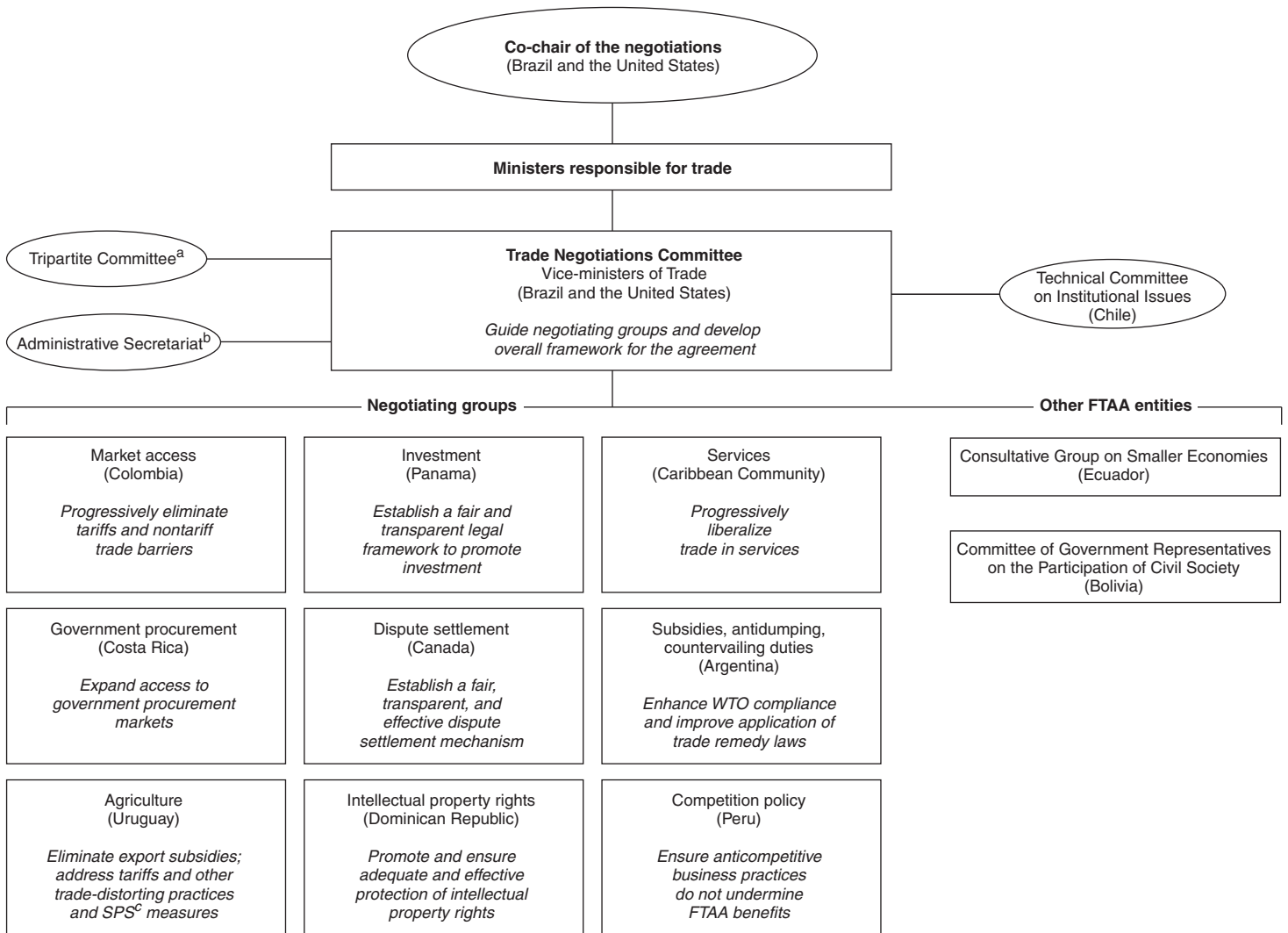
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<sup>7</sup>Free trade agreements generally eliminate tariff duties and other barriers on substantially all trade between the member countries and may include other provisions covering subjects such as investment and government procurement. Customs unions go beyond free trade agreements by not only eliminating duties between partners but also by setting common external tariffs applied to countries not party to the agreement.

<sup>8</sup>NAFTA consists of Canada, Mexico, and the United States.

<sup>9</sup>A subsidy is generally considered to be a financial contribution provided by a government that gives a benefit to a specific company, industry, or group of industries for the production, manufacture, or distribution of goods or services. Antidumping duties are imposed on "dumped imports" (i.e., imports sold at a price lower than normal value). Countervailing duties are imposed on subsidized imports.

**Figure 1: Organization of the FTAA Negotiations**



Source: GAO.

**Notes:**

Current chairs of the various FTAA entities are in parentheses. The general objectives of each negotiating group and the Trade Negotiations Committee appear in italics.

The venue for the negotiating group discussions is Puebla, Mexico.

<sup>a</sup>The Tripartite Committee, which provides technical support to the negotiations, is comprised of the Organization of American States, the Inter-American Development Bank, and the United Nations Economic Commission for Latin America and the Caribbean.

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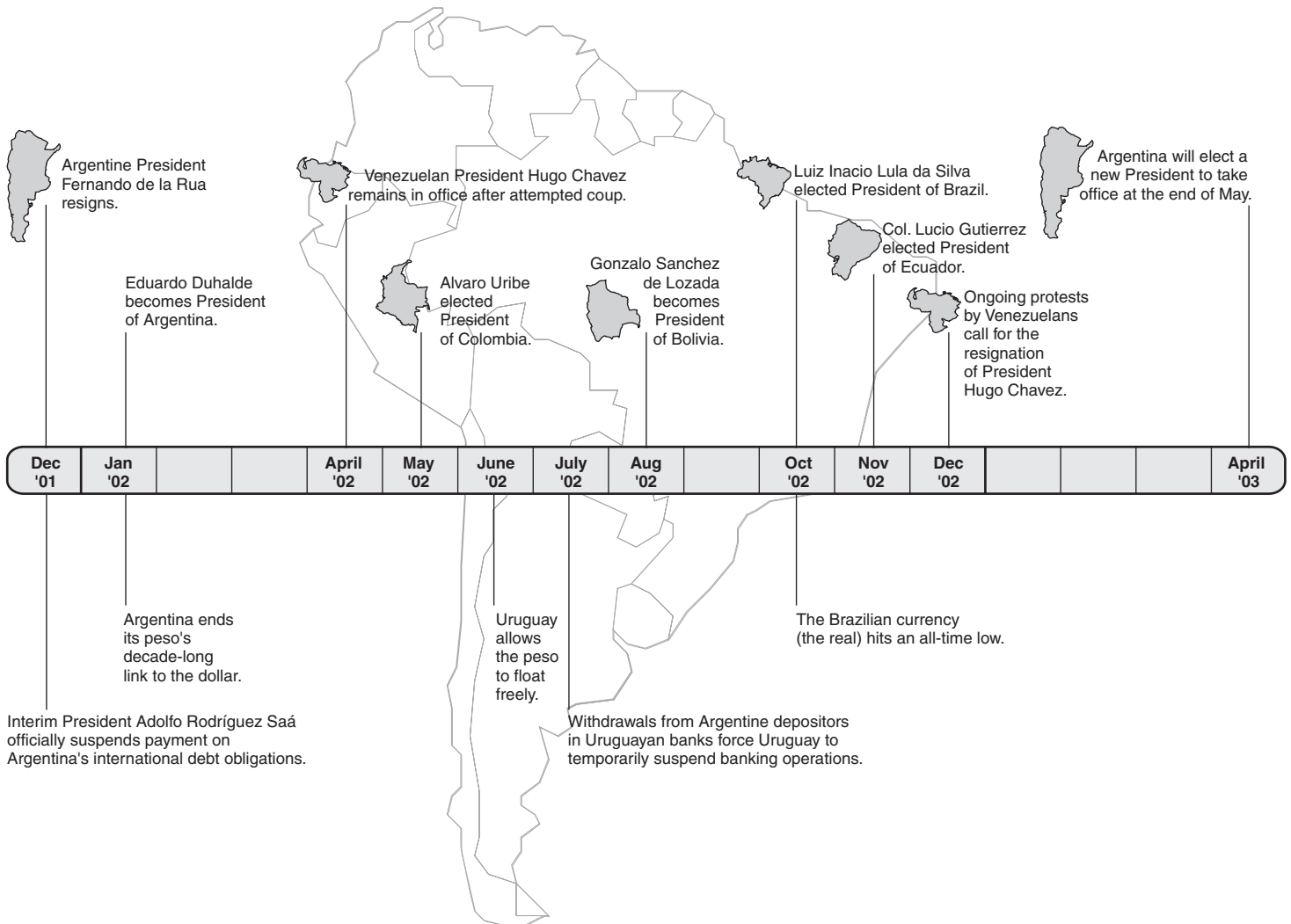
<sup>b</sup>The Administrative Secretariat supports the FTAA ministers, the Trade Negotiations Committee, negotiating groups, and other FTAA entities.

<sup>c</sup>SPS stands for sanitary and phytosanitary measures. These measures are taken to protect human, animal, or plant life or health.

Until November 2002, the chairmanship of the entire negotiating process rotated in approximately 18-month cycles, with the beginning and end of each cycle marked by a ministerial meeting. Ecuador served as chair for the most recent cycle of negotiations, which began in April 2001 and ended with the November 1, 2002, FTAA ministerial in Quito, Ecuador. Brazil and the United States assumed the co-chairmanship of the FTAA process at the conclusion of the November meeting and are expected to remain in that role until the FTAA negotiations conclude in January 2005. Handling the negotiations as well as the co-chairs' responsibility for the U.S. side is the U.S. Trade Representative (USTR). In between ministerials, the FTAA negotiations are overseen by the vice ministerial-level Trade Negotiations Committee (TNC). The FTAA Administrative Secretariat, located in Puebla, Mexico, is the entity responsible for providing logistical and administrative support to the FTAA.

The Quito FTAA ministerial meeting took place during an uncertain economic and political period for the region. Countering perceived threats to U.S. security became a central focus of the Bush presidency in the wake of the terrorist attacks of September 11, 2001. The U.S. economy had already slowed by the time the terrorist attacks occurred and has performed unevenly since then. As for Latin America, it faces poor economic conditions and political instability (see fig. 2). Moreover, the International Monetary Fund expected regional output to fall in 2002 by 0.6 percent, in part due to the economic crisis in Argentina. In addition, several countries elected new leaders in 2002, and the leaders have placed a priority on confronting domestic issues such as rising poverty. Finally, political instability in countries such as Venezuela, and ongoing violence in Colombia continued. This uncertainty has caused some hemispheric leaders to question the economic and social impacts of market-oriented reform. On the other hand, the need to increase exports has become even more imperative to Latin American countries' growth and development.

**Figure 2: Political and Economic Events in South America, December 2001–April 2003**



Source: GAO.

Although the single most important goal for most FTAA participants is improving market access to other nations' markets, achieving substantial liberalization will be difficult. Barriers to trade remain high: The tariffs of many FTAA participants are generally twice as high as the average U.S. tariff of 4.8 percent. Moreover, several indicators suggest trade within the region is lower than it could be. Intraregional trade within several regional subgroups remains relatively low (7.1 percent of total trade in CARICOM

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and 10 percent in the Andean Community<sup>10</sup> versus 46.9 percent in NAFTA). Certain nations, such as Brazil, export significantly less as a share of national income than other nations with similar-sized economies (13 percent versus 28 percent in Mexico). In addition, tariff revenue is an important source of government income for many FTAA nations (56 percent of total government revenue in the Bahamas and 43 percent in the Dominican Republic, versus just 1 percent in the United States and Canada).

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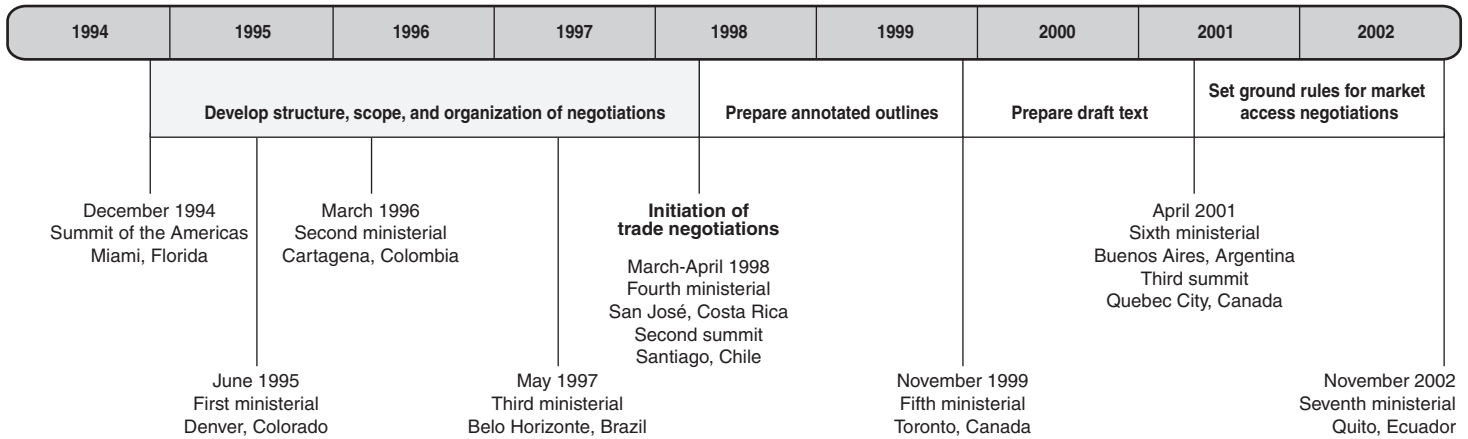
## Progress Achieved in Certain Areas Before and After Quito, but Extent and Pace of Movement on Substantive Issues a Concern to Some Participants

Before the Quito ministerial, FTAA participants had succeeded in laying a technical foundation for an eventual FTAA agreement by making progress in defining the remaining negotiating timetable, consolidating the draft text, and establishing the ground rules for liberalizing market access. (See fig. 3.) At Quito, negotiators achieved a number of positive procedural and political outcomes, such as confirming the schedule for upcoming market access negotiations and other negotiating meetings; reaffirming the political willingness to go forward; and launching a program to help developing nations negotiate, implement, and benefit from an FTAA. However, procedural progress on market access was not generally matched by substantive agreement on text-related issues, and some key deadlines were missed or only met by postponing or avoiding difficult decisions.

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<sup>10</sup>The Andean Community is a subregional organization endowed with an international legal status. The community consists of Bolivia, Colombia, Ecuador, Peru, and Venezuela. The Andean Community is also a free trade area.

**Figure 3: History of the FTAA Negotiations, 1994–2002**



Source: GAO.

## Progress Made on Defining Timetable and Text

Since the formal launch of FTAA negotiations in 1998, the 34 participating countries have laid a technical foundation for concluding an FTAA agreement by setting a final deadline for completing the FTAA as well as establishing interim milestones to ensure steady progress toward that goal. By November 1999, the nine negotiating groups had prepared annotated outlines of chapters of an agreement. By April 2001, the negotiating groups had produced a draft text containing proposed trade rules on diverse subjects ranging from agriculture to competition policy. This draft was 435 pages long, and it contained a compilation and consolidation of proposals for legal text received from FTAA participants. Participants described its production as marking important progress, because the draft laid the necessary groundwork and participants have agreed to use the draft as the basis from which negotiations will proceed. In addition, in publicly releasing the text, ministers responded to public calls for greater transparency (openness) and sought to build public understanding of and support for the FTAA.

In the 18 months leading to the Quito ministerial, the nine FTAA negotiating groups made progress in consolidating the draft text. Decision-makers clarified their policy choices by removing redundant language and consolidating similar proposals. For example, they shortened the intellectual property rights chapter from 106 pages to 53 pages. Moreover, the Technical Committee on Institutional issues, a special drafting

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committee created by the TNC for that purpose, submitted a draft text on general institutional issues. This draft text covers such topics as the purposes, objectives, and principles of the FTAA agreement as a whole; the scope and coverage of the FTAA's obligations; and the institutional bodies that will provide political, administrative, and technical oversight for an FTAA. However, much of the text in the draft chapters remains within "brackets," denoting lack of agreement among participants. 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. Resolving these disagreements will require considerable work and hard bargaining to turn the accumulation of proposals currently on the table into a mutually agreed-upon, legally binding document. As we noted in our March 2001 report, the sheer scope and complexity of the trade rules contemplated will make this work difficult.<sup>11</sup>

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## Ground Rules for Liberalizing Market Access Established

A key goal of the Quito phase of FTAA negotiations was to set the ground rules ("modalities") that would apply to negotiations on opening markets among FTAA members. These negotiations will be conducted in five of the nine FTAA negotiating groups: Agriculture, Government Procurement, Investment, Market Access, and Services. For example, FTAA nations needed to establish the starting point from which reduction of tariffs would begin (base tariff rates) and the time periods that would be used to progressively eliminate tariffs (phaseout periods). In order to speed the pace of liberalization, the United States sought to attain agreement to negotiate tariffs downward from existing (that is, currently applied) rates, rather than the higher rates that the WTO allows. Ministers set an April 1, 2002, deadline for the five groups negotiating market opening to finalize recommendations on ground rules. Although most of those groups met this deadline, several presented the TNC with multiple options for consideration, rather than recommending one. For example, in the area of tariffs, the market access group noted that several options for base tariff rates had been proposed, including use of currently applied rates and use of WTO bound rates. (Bound rates are legal limits on tariff rates, and WTO members have agreed not to apply tariffs that exceed these rates. These rates are generally higher than currently applied rates).

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<sup>11</sup>See [GAO-01-552](#).

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With so many options to choose from, attaining consensus on the ground rules by the vice-ministerial-level TNC proved difficult. With a May 15, 2002, deadline for launching negotiations on market access looming, an April meeting of the Trade Negotiations Committee was unsuccessful in finalizing agreement on ground rules. The meeting was reconvened on May 12-13, 2002, and resulted in issuance of some of the required decisions, including the following on tariffs:

- All tariffs are subject to negotiation.
- Tariffs will be phased out over four time periods—immediate, no more than 5 years, no more than 10 years, and more than 10 years. Tariffs with shorter phaseouts will decline more rapidly, whereas tariffs placed in longer phaseout categories will be reduced at a slower pace.
- Tariff reductions will generally be linear. This means that tariffs will be lowered in equal amounts per year until they reach zero.
- The base tariff will be notified by October 15, 2002. (CARICOM was given until December 14, 2002).

Regarding nontariff issues, for services, the United States secured agreement that FTAA market access offers should be based on current laws and regulations and on international obligations or existing or improved opportunities. This means that offers will start from the status quo in terms of market access. For investment, the United States secured agreement that only exceptions to liberalization would be negotiated (known as a “negative” list approach).

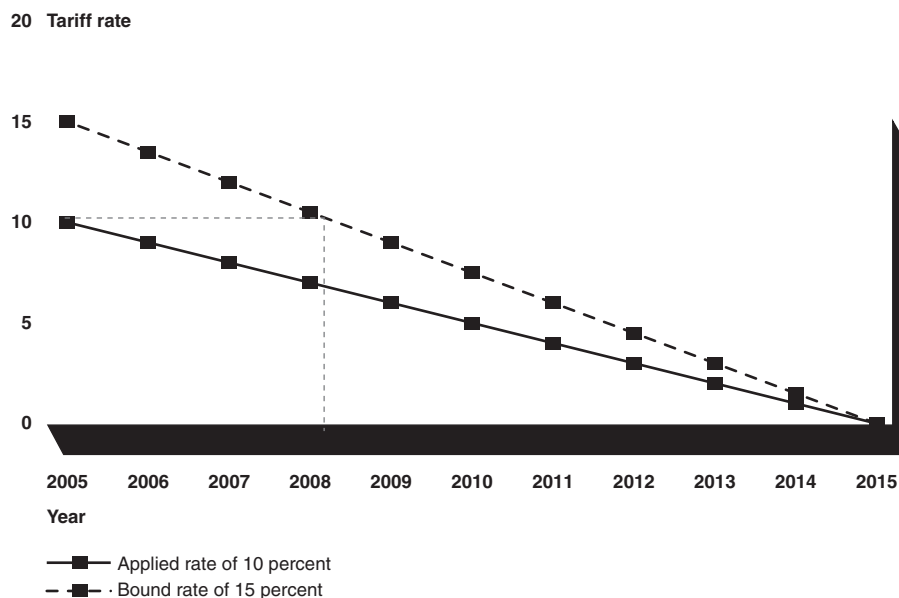
However, the modalities package could not be finalized because of a disagreement over base tariff rates. In particular, CARICOM members argued that they could not agree to use current tariff rates as the base from which liberalization would begin, citing their dependence on tariff revenues and the vulnerability of their economies’ undiversified agriculture sectors to imports. Because FTAA negotiations decisions require all 34 participating nations to agree, the effect of the CARICOM objection was to defer a decision on base tariff rates.

After considerable efforts to cajole Caribbean nations into agreement, in late August 2002 the TNC finally agreed that, as a rule, the base tariff would



be the current tariff rates.<sup>12</sup> The implication of this decision is that the actual lowering of most tariffs should begin immediately upon implementation of an eventual FTAA, rather than being delayed, as illustrated in figure 4. This is a significant change from the way tariff negotiations are negotiated in the WTO and should result in meaningful increases in market access as soon as the FTAA agreement is implemented.

**Figure 4: Tariff Reduction Schedule under Different Base Tariff Scenarios, 2005–2015**



Source: GAO.

Note: As the dotted line indicates, if tariffs were being phased out over 10 years for a product currently subject to a 15-percent bound rate and a 10-percent applied rate, and the 15-percent bound rate were used as the basis for phasing out that tariff under the FTAA, no tariff reduction would occur for the first 3 years after the agreement entered into force. The tariff rate also would be higher under the 15-percent bound rate in years 4-10 than it would have been if a base rate of 10 percent had been used.

<sup>12</sup>Specifically, the TNC agreed that the base rate from which tariff liberalization will be negotiated is the most-favored-nation applied rate as of October 15, 2002. Regional subgroupings, such as Mercosur, that apply common external tariffs, were given until December 14, 2002, to present their base tariffs and until April 15, 2003, to adjust these tariffs; the base rate was set at the applied tariff rate as of January 1, 2004.

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However, CARICOM was granted an exception to using the current tariff rates, which will allow it to use the higher WTO bound rate for a limited list of mainly agricultural goods.

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### Some Progress Made on Other Issues

In addition, during the months leading to the Quito ministerial, negotiators made some progress on other issues. Specifically, the negotiators agreed to hold regional outreach seminars for private interests such as environmental, consumer, and business. The first regional seminar for such “civil society” groups was for North America and was held in Mexico. (Other regional seminars for Mercosur and the Andean countries were scheduled but have been postponed due to regional economic crises and funding constraints, respectively.) Recognizing their responsibility to take the needs of smaller economies into account during the negotiating process, FTAA governments also adopted guidelines that direct participants to assess their needs on a case-by-case basis. Also, the United States began required consultation and advice procedures, including those required by Trade Promotion Authority (TPA) legislation.<sup>13</sup>

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### Some Substantive Goals Not Fully Realized

Despite technical progress in consolidating the bracketed text and setting ground rules, the Quito phase of FTAA negotiations did not result in major movement in terms of substantive trade-offs. Much of the text remains in brackets, signifying lack of consensus. Negotiators made little real progress in resolving the many substantive differences among FTAA participants that we identified in our September 2001 report.<sup>14</sup> In addition, although FTAA ministers set a goal to begin market access negotiations on May 15, 2002, negotiations on specific market access commitment schedules did not begin at all during the phase ending at Quito on November 1, 2002.<sup>15</sup>

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<sup>13</sup>Specifically, USTR solicited public input, requested advice from the U.S. International Trade Commission, conducted a public hearing, notified Congress of objectives for an FTAA agreement, and continued its environmental assessment of the FTAA.

<sup>14</sup>See [GAO-01-1027](#).

<sup>15</sup>Most countries were required to notify their base tariff rates by October 15, 2002, and did so.

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Instead, market access negotiations are now anticipated to begin in earnest after the presentations of initial offers in early 2003.<sup>16</sup>

Finally, the ground rules that were established for negotiations on topics such as services, investment, and government procurement leave important questions unanswered. For example, the services negotiating group had recommended that the TNC decide whether negotiations on services would proceed from a top-down or negative-list approach (whereby only exceptions to liberalization are negotiated) or, alternatively, from a bottom-up or positive-list approach (whereby only specifically negotiated items would actually be liberalized). However, the TNC decision on modalities is silent on this matter. Subsequent guidance indicates that FTAA nations can present offers in either manner. This lack of a uniform approach is expected to complicate the process of preparing and comparing offers and could thereby slow down future negotiations.

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### Some Positive Outcomes Achieved at Quito Ministerial

Ministers achieved most of their goals at the Quito ministerial. For example, ministers agreed upon specific timetables and instructions for FTAA negotiating bodies. Moreover, ministers reiterated their political commitment to continue FTAA negotiations and took steps to address concerns that civil society and smaller economies raised.

### Procedural Basis Set

The Quito ministerial meeting settled certain procedural matters and set goals and directions for the next 12 months of negotiations. Specifically, the ministers

- set the schedule for negotiating group meetings for the first 2 months of the negotiating cycle;
- agreed to hold future ministerial meetings in the fourth quarter of 2003 (in the United States) and in 2004 (Brazil);
- agreed that there will be at least three TNC meetings before the 2003 ministerial meeting;

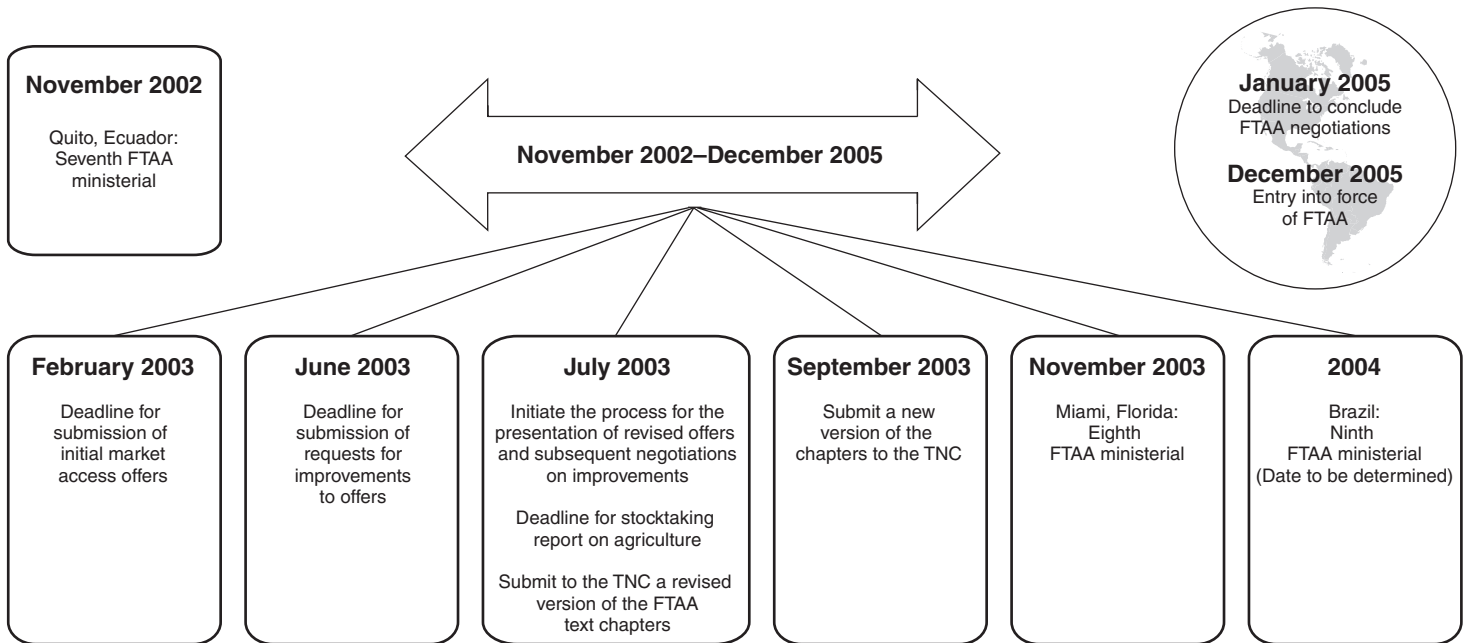
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<sup>16</sup>The deadline for presenting initial offers was February 15, 2003. For a discussion on the status of the presentation of offers, see Market Access Offers Important for Momentum, but Substantial Liberalization Difficult section below.

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- named a slate of chairs for negotiating group committees that is considered strong by U.S. negotiators; and
  - provided other directions, such as requesting that the TNC develop a stocktaking report of overall progress made in the FTAA negotiations before the next ministerial meeting occurs.

On substantive matters, ministers set two key goals for the coming year. First, they confirmed that market access bargaining will begin with the putting forth of initial offers between December 15, 2002, and February 15, 2003. They also set deadlines for initial requests and revised market access offers for June 15 and July 15, 2003, respectively. Second, negotiators were charged with “achieving consensus on the greatest possible number of issues” in the draft chapters containing the text of FTAA rules and institutional provisions. They also have responsibility for producing a revised version of the draft text chapters no later than 8 weeks before the next ministerial meeting in late 2003. The overall timetable for FTAA negotiations and key milestones for the current phase are depicted in figure 5.

**Figure 5: 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. The TNC is also responsible for ensuring the full participation of all the countries in the FTAA process, and transparency (openness) in the negotiations, as well as overseeing the Administrative Secretariat and overseeing the identification and implementation of business facilitation measures.

**Political Willingness to Go Forward Restated**

As we stated in our May 2001 report,<sup>17</sup> the ultimate success or failure of efforts to establish the FTAA rests on meeting several long-term challenges, notably summoning the political will of participants to conclude a deal. On the political level, with the exception of Venezuela, at Quito all 34 FTAA nations restated their political will to move forward with an FTAA and to conclude it by January 2005.<sup>18</sup> This political impetus was particularly noteworthy, given that it occurred at a time of economic uncertainty and

<sup>17</sup>See [GAO-01-706](#).

<sup>18</sup>Venezuela reserved its position on the question of concluding FTAA negotiations by 2005, reiterating a reservation taken at the conclusion of the April 20-22, 2001, Summit of the Americas.

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heightened political tensions, and with a new Brazilian administration. The Brazilian people elected this administration on October 27, 2002, 5 days before the Quito ministerial. However, numerous ministerial participants stressed the need for balanced progress and an equitable outcome. In particular, numerous participants used the forum provided by the Quito ministerial to say that the FTAA will go nowhere without meaningful agricultural liberalization and disciplines (rules) on subsidies and other practices that distort agricultural trade.

For its part, the United States made clear the importance it places on expanded hemispheric trade as a means of fueling growth, creating jobs and opportunity, and alleviating poverty. The USTR noted that it is already moving toward that goal bilaterally with Chile and five Central American nations as part of a U.S. strategy to foster competition in trade liberalization. Furthermore, the USTR stated that the United States is also prepared to move step by step toward hemispheric free trade if others turn back or simply are not ready. At Quito, the USTR urged all participants to consider how they can contribute to progress as FTAA negotiations enter a particularly serious phase. The USTR also urged other ministers to foster greater understanding and democratic debate on the FTAA.

Our March 2001 report identified securing greater public support as a key issue for FTAA negotiators, and at Quito, FTAA ministers signaled greater interest in doing so by taking several steps.<sup>19</sup> To address concerns over transparency and to provide the public with a clear view of the proposals under discussion, the draft text of the FTAA agreement was publicly released in all four FTAA languages (English, French, Portuguese, and Spanish) immediately after the Quito ministerial's conclusion. Moreover, the opening and closing sessions of the Quito ministerial were open to the public for the first time. Ministers also instructed the TNC to ensure a substantial increase in the quality of information provided to the public as negotiations progress and to identify and foster the use of best practices for outreach and consultation with civil society.

In addition, participants attempted to intensify and make more interactive ministers' input from civil society. As host of the Quito meetings, Ecuador supported cooperative efforts by two Ecuadorian environmental groups to prepare constructive recommendations by organizing a 2-day forum. Ecuador also hosted a meeting at which those and other civil society

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<sup>19</sup>See [GAO-01-552](#).

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representatives could present their recommendations directly to ministers. However, the breakdown in order at that meeting showed that civil society's involvement in the FTAA is still a "work in progress." Identifying civil society representatives and creating an atmosphere for constructive input and meaningful dialogue between civil society and the FTAA ministers are challenges the United States will face at the 2003 FTAA ministerial in Miami.

### Hemispheric Cooperation Program Launched

In March 2001, we reported that the FTAA faced a challenge in dealing with the varying resource capacity among participants.<sup>20</sup> To deal with this challenge, the Quito ministerial announced and launched a Hemispheric Cooperation Program (HCP). This program will provide technical assistance to smaller economies for negotiating, implementing, and benefiting from an FTAA. It is intended to allay the concerns of the less-developed FTAA economies over the impacts of trade liberalization. Several trade experts see this move as an important confidence-building measure for many FTAA participants. The purpose of the HCP is to create a framework for planning, prioritizing, and funding technical assistance in a more coordinated fashion. Countries such as Brazil have also expressed interest in providing in-kind support on such topics as conducting trade analysis. The next step is the development of national strategies to identify and prioritize capacity-building needs. According to USTR, each of the Central American countries engaged in bilateral negotiations with the United States has already prepared national strategies for capacity building.

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### Key Challenges Exist for the Current Negotiating Phase

Despite progress made at Quito, current negotiations for an FTAA face three short-term challenges. First, there is a risk that lack of progress in negotiations at the WTO, particularly on agriculture, could cause a deadlock in FTAA talks. Second, an unambiguous demonstration of participants' good faith through making meaningful offers to liberalize access to their markets is viewed by negotiators as critical to giving momentum to all aspects of the FTAA talks. However, this element may be difficult to achieve. Finally, there are concerns about the ability of the United States and Brazil to muster the political commitment necessary to see the FTAA process through to completion.

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<sup>20</sup>See [GAO-01-552](#).

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## Agriculture Progress Depends on WTO

The treatment of subsidies and other support for agriculture is a critical part of the FTAA trade agenda. A key issue is that of domestic support—payments made to farmers that raise prices or guarantee income. Progress on this issue depends on the WTO negotiations, but there is concern that these talks are bogging down. Any delay at the WTO could make it difficult to achieve progress in the FTAA and ultimately imperil its conclusion by January 2005.

## Agriculture Crucial to FTAA Negotiations

Agriculture is an important issue to all FTAA participants. As a major component of income in some Latin American countries such as Dominica, Guatemala, and Haiti, agriculture constituted approximately 17, 23, and 28 percent, respectively, of the gross domestic product in 2000. Other FTAA participants such as Argentina, Brazil, and the United States are major world producers of commodities such as coffee, oilseeds, sugar, soy, and beef, making agriculture an important item in their national trade agenda as well. Because of their interest in agriculture, many nations of the hemisphere were strong proponents of the new round of global trade talks launched in November 2001 that aim to achieve comprehensive agricultural reform at the WTO.

Agriculture is also an important component of an overall FTAA package. Several foreign officials with whom we spoke emphasized that the entire FTAA negotiations rested on making progress in agriculture negotiations. Furthermore, officials informed us that Latin American leaders do not want their constituents to perceive them as giving ground on issues of importance to the United States such as intellectual property rights and services without obtaining key concessions on priority issues for their countries, such as agriculture.

Among the agriculture issues on the FTAA trade agenda, domestic support<sup>21</sup> — and U.S. domestic agriculture support in particular— seems to be a source of concern for many FTAA participants. In 1999, the United States provided \$16.9 billion of trade-distorting domestic support,

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<sup>21</sup>The WTO agriculture agreement classifies agricultural domestic support into three categories identified by “boxes”: green (permitted), amber (trade-distorting subsidies that must be reduced), and blue (production-limiting programs). For the WTO, most of the domestic support measures considered to distort production and trade fall into the amber box. Thirty WTO members, eight of whom are FTAA participants (Argentina, Brazil, Canada, Colombia, Costa Rica, Mexico, the United States, and Venezuela), have commitments to reduce their trade-distorting amber box supports. One proposal within the FTAA draft text would eliminate some of these supports.



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according to the most recent WTO member notifications. To put this in context, Antigua, Barbados, the Bahamas, and Jamaica all had national incomes (gross domestic products) of less than \$8 billion in 1999. Furthermore, other large FTAA countries such as Brazil, Canada, and Mexico all spend considerably less in trade-distorting domestic support. Finally, with the passage of the U.S. Farm Bill in 2002,<sup>22</sup> which covers farm spending until the end of 2007, U.S. domestic support for agriculture is projected to increase.

Many FTAA participants believe that domestic agriculture support needs to be placed under stricter rules to ameliorate the U.S. advantage. Accordingly, certain countries are insisting that domestic agriculture subsidies be addressed in both the FTAA and the WTO negotiations. The current draft FTAA chapter on agriculture also includes a proposal to require countries that provide trade-distorting domestic support to eliminate it.

The United States, by contrast, argues that the WTO is the appropriate forum to negotiate domestic support because, unlike tariffs, it is not possible to reduce domestic support on solely a regional basis. The U.S. rationale for relying on the outcome of WTO negotiations is that two primary users of domestic support in agriculture, the European Union (EU) and Japan, are not FTAA participants. Therefore, domestic support reform must take place in a forum like the WTO, where the EU and Japan are present, to avoid putting FTAA countries that subsidize farmers at a disadvantage in world markets. With such WTO negotiations now ongoing, the official U.S. position is that although all agricultural issues are still on the table for the FTAA negotiations, the FTAA countries must not do anything now that will prejudice their respective positions in these important global talks with extra-hemispheric trading partners. Canada also concurs with the U.S. position.

The Quito ministerial declaration highlights the link between FTAA and WTO negotiations and underscores the importance of making progress in all areas of the agriculture agenda. The Quito ministerial declaration also recognized the divergent positions among FTAA participants in

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<sup>22</sup>The Farm Security and Rural Investment Act of 2002 (P.L. 107-171, May 13, 2002).

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agriculture.<sup>23</sup> In the declaration, ministers accepted the U.S. positions that (1) markets are global, (2) significant results in the WTO are necessary, and (3) third-country practices<sup>24</sup> that distort trade must be taken into account. Ministers also recognized other countries' positions that progress in FTAA agricultural market access negotiations depends on progress on domestic support, export subsidies, and other nontariff barriers.

However, the declaration also set a date to revisit overall progress in FTAA agriculture negotiations. Specifically, to ensure balanced progress and a timely conclusion of FTAA negotiations, ministers charged the FTAA Negotiating Group on Agriculture with preparing a report on progress achieved on all subjects on the FTAA's agricultural negotiating agenda for presentation before the TNC's fourteenth meeting. This meeting is scheduled for early July 2003.

#### Outcome of WTO Negotiations Uncertain

The timing of the WTO negotiations represents a dilemma for FTAA negotiators because there is concern that WTO negotiations are behind schedule. Although interim deadlines were set to keep WTO negotiations on track, the December 2002 deadlines for agreeing on access to medicines and special and differential treatment for developing countries were missed. Moreover, a March 31, 2003, deadline to establish modalities, or the rules and guidelines for the negotiations on agricultural liberalization, was missed. The deadline was important, because participants were to have submitted comprehensive draft commitments for agriculture at the fifth WTO ministerial in Cancun, Mexico, in September 2003 based on the rules and guidelines established in March. Additionally, we noted in a September 2002 report on the WTO<sup>25</sup> that meeting the deadline for establishing

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<sup>23</sup>Specifically, 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.

<sup>24</sup>Those practices by countries that are not FTAA signatories, yet distort intrahemispheric trade. For example, if a good exported from Japan to Brazil with the benefit of export subsidies caused U.S. exports to Brazil of the same good to decline, that transaction would be a trade-distorting practice by a third party.

<sup>25</sup>See U.S. General Accounting Office, *World Trade Organization: Early Decisions Are Vital to Progress in Ongoing Negotiations*, [GAO-02-879](#) (Washington, D.C.: Sept. 4, 2002).

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agriculture modalities was a crucial indicator of the likelihood of success in the overall negotiations. USTR officials have noted that they and other countries' delegations are currently working to minimize any negative impact missing the modality establishment deadline has on the overall negotiations.

A key factor hindering progress in the WTO agricultural negotiations is the pace and extent of reform of the EU's Common Agricultural Policy (CAP).<sup>26</sup> Current arrangements of the CAP are set to expire at the end of 2006, and the concern is that the European Commission<sup>27</sup> will not have the flexibility to establish modalities without significant reform of the CAP. The Commission has recently unveiled a reform proposal for the European Council to consider that calls for decoupling subsidies from production to make them less trade distorting. However, opinions among EU members over CAP reform are divided, with countries such as Great Britain supporting ambitious reform and countries such as France vigorously opposing substantive changes.

Because both the FTAA and WTO agreements are to be concluded as single undertakings, failure to conclude agreement in January 2005, in any of the areas of the WTO, could imperil the timely conclusion of an FTAA. In addition, the failure of WTO negotiators to establish agricultural modalities in March 2003 could have a large impact on the agricultural agenda assessment that the FTAA Negotiating Group on Agriculture expects to conduct in July 2003. At the FTAA Miami ministerial in November 2003, countries of the hemisphere will have a chance to evaluate the progress in agriculture made at the September 2003 WTO ministerial to determine if sufficient progress has been achieved. If progress is insufficient, key FTAA nations may be unwilling to move forward in other areas of the FTAA agreement. U.S. officials report that they are working to avoid this outcome. (See fig. 6 for an illustration of the linkage between the FTAA and the WTO agriculture negotiations.)

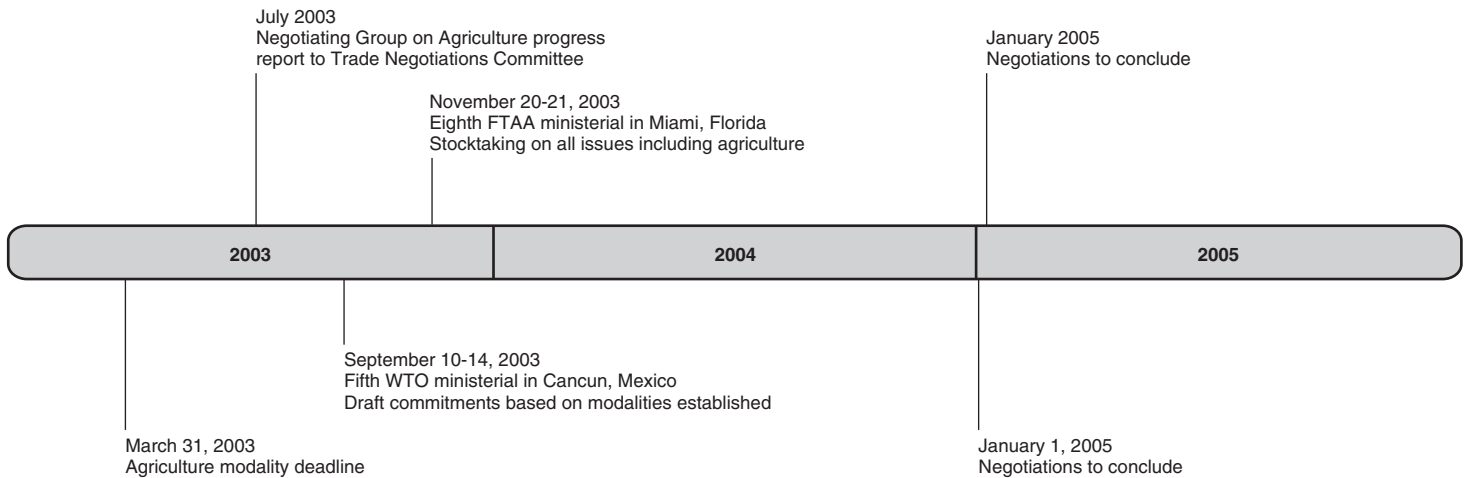
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<sup>26</sup>The CAP is a set of rules and regulations governing agricultural production in the EU. CAP rules cover most aspects of agricultural activity, including support to farmers, production methods, marketing, and controls over quantities of food that different agriculture sectors can produce.

<sup>27</sup>The European Commission is the EU's executive body. It is responsible for implementing the European legislation (directives, regulations, decisions), budget, and programs adopted by Parliament and the European Council. The Commission negotiates international agreements on behalf of the EU and has the right to propose legislation to the European Council and the Parliament, the primary decision-making bodies.

**Figure 6: Relationship Between FTAA and WTO Agriculture Negotiations**

**FTAA deadlines**



**WTO deadlines**

Source: GAO.

**Market Access Offers Important for Momentum, but Substantial Liberalization Difficult**

Now that the ground rules for negotiating market access have been set, the current phase of FTAA negotiations will formally launch the exchange of liberalizing offers and requests. Many view this give-and-take as the true start of real negotiations. Initial offers, which negotiators presented in February 2003, will set the tone for this phase, and maintaining or increasing momentum is seen as critical to making progress.

Several hemispheric opinion leaders had expressed hope that the United States would make a good faith gesture, by presenting a significant offer, to give momentum to FTAA talks. The United States is the largest trading partner for virtually all of the countries in the FTAA. Preparing the U.S. offer involved developing tariff lists by the executive branch, in consultation with Congress and the private sector.

The U.S. offer was announced on February 11, 2003. The USTR believes that the U.S.'s initial market access offers are bold and provide a strong incentive for other countries to be equally ambitious. According to the USTR, about 65 percent of U.S. imports of consumer and industrial goods

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from the hemisphere (not already covered by NAFTA) would be duty free immediately under the U.S. offer. U.S. imports of textiles and apparel would be duty free in 5 years, so long as other countries reciprocate. To further encourage reciprocal liberalization, the United States offered immediate elimination of tariffs on a reciprocal basis in key sectors such as chemicals, paper, steel, and wood. Although certain agricultural products such as sugar were placed in the longest phaseout category, the USTR emphasized that these products remain on the table for negotiation. Indeed, all U.S. tariff lines were included in the U.S. offer.

The U.S. market access offers differentiate among FTAA participants, meaning that the United States would apply different rates of duty to different FTAA partners during the transition to free trade. The bottom line is that some FTAA nations would be allowed quicker phaseouts of U.S. tariffs than others. The United States argues that this approach would allow it to accord smaller economies better treatment, a goal agreed to in principle by other FTAA nations, as well as provide greater leverage to negotiate market-opening concessions in large, lucrative markets. Others, notably Brazil, oppose this idea. Brazil's concerns include the belief that Brazil would be placed in a relatively worse bargaining position compared with the United States under a strictly bilateral negotiating approach and that, at the end of the day, it would suffer disadvantageous treatment of its products with respect to other FTAA partners. Indeed, the initial U.S. offer would provide CARICOM with immediate duty-free access for 91 percent of its exports, versus 58 percent for Mercosur, the trading bloc that includes Brazil. Others have expressed concerns about potential losses of regional and subregional synergies in production, administrative complexity, and lack of transparency. On the other hand, nations that currently benefit from U.S. preference programs<sup>28</sup> want to retain their preferential access to U.S. markets and thus welcome differential treatment.

All of the 33 other FTAA countries also met the February 15, 2003, deadline for submitting initial offers on industrial and agricultural market access. A USTR official welcomed the universal completion of this first step as important progress. However, he expressed hope that, with the U.S. offer on the table, others would be more forthcoming in the months ahead. Many FTAA countries made conservative initial market access offers. For example, contrary to the U.S. offer, several placed sizeable shares of their

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<sup>28</sup>These preference programs provide preferential duty-free entry into the United States for certain products.

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Questions of Commitment to FTAA by the United States and Brazil Remain

trade into the longest phaseout category or excluded some key items from liberalization. In addition, Mercosur and CARICOM nations indicated that they were not yet ready to present offers on government procurement and services. Regarding investment, Mercosur members Uruguay and Paraguay made offers, but Brazil and Argentina did not.

Critical to the successful completion of this phase of negotiations is a clear political commitment to achieving an FTAA. During the course of our work on the FTAA, a number of participants have stressed that an FTAA agreement could be successfully concluded if the key Western Hemisphere leaders demonstrate that they have the political will to finalize the agreement. However, some observers have concerns about how competing priorities will affect key FTAA countries, notably the United States and Brazil.

**Interpretation of U.S. Actions Is Mixed**

While the United States has taken some steps widely viewed in the hemisphere as positive, other actions have been perceived as inconsistent with FTAA goals. In our May 2001 report, we noted that President Bush said at the April 2001 Summit of the Americas that he would seek to complete three concrete steps by the end of 2001 to demonstrate the U.S.'s political commitment to the FTAA: (1) secure Trade Promotion Authority, (2) finalize a Free Trade Agreement with Chile, and (3) renew the Andean Trade Preference Act (ATPA).<sup>29</sup> All three things have now been accomplished, although somewhat later than President Bush anticipated.

Other FTAA nations viewed the passage of TPA by the 107<sup>th</sup> Congress in August 2002 as a very positive development. Under this authority, the executive branch is required to consult regularly with Congress, and solicit advice from advisory committees and the public, as trade agreements are being negotiated. In return, Congress agrees not to amend legislation implementing trade agreements, voting up or down on these agreements. In addition, the law sets out parameters for negotiations dealing with such issues as agriculture, antidumping, labor, the environment, and investment. In some cases, the law places formal limits on the President's flexibility to negotiate. However, none of these issues, which were already sensitive

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<sup>29</sup>The Andean Trade Preference Act (ATPA) is a program providing for the duty-free entry of merchandise from designated beneficiary countries. ATPA was first enacted into law by the United States on December 4, 1991.

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domestically and are relevant to the FTAA, were taken off the table for negotiation. In some cases, such as investment, the guidance TPA provided has actually made it easier for the United States to negotiate, U.S. officials report.

Since TPA was secured, the United States has pushed forward on multilateral, regional, and bilateral fronts, including trade negotiations to establish a U.S.-Central American Free Trade Agreement (CAFTA). In December 2002, the United States announced the substantive conclusion of free trade area agreements with Singapore and Chile as well. These agreements contain important breakthroughs in such areas as intellectual property rights and services. In addition, President Bush signed a presidential proclamation restoring and expanding benefits under the Andean Trade Preference Act.

While this renewed U.S. engagement in trade liberalization efforts is generally seen as energizing FTAA talks, and is viewed by USTR as complementary, there is some concern that such other considerations may affect U.S. leadership within the FTAA. First, some FTAA nations have complained about other U.S. trade actions taken in 2002, notably imposition of restrictions on steel imports and passage of a new farm bill (P. L. 107-171) that substantially increases subsidies to American farmers through 2007. Second, some FTAA participants view the many bilateral negotiations the United States has engaged in, both within and outside the hemisphere, as indicative of a lack of U.S. commitment to the FTAA itself.

### **Brazil's Commitment Unclear**

FTAA participants are also looking to Brazil to affirm its political commitment to FTAA negotiations. Even before Brazil's recent presidential election, concerns existed about Brazil's commitment to the FTAA process. Although Brazil has actively participated in the negotiations, observers say that Brazil has appeared reticent to decisively embrace an FTAA. Brazilian officials admit that Brazil has held back during the negotiations because they believe the United States is not ready to negotiate on issues of greatest interest to Brazil, such as high tariffs on key Brazilian exports and trade remedies. Moreover, according to press reports, before his election as President of Brazil in October 2002, Luiz Inacio Lula da Silva made this comment about the FTAA: "As it is being proposed by the United States, the FTAA is not an integration proposal, it is annexation politics, and our country won't be enclosed." Since being elected, however, the new Brazilian administration has pledged to continue to negotiate in good faith to conclude a mutually beneficial FTAA and has

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promised to honor all commitments made. Nevertheless, perhaps because of the newness of the administration, Brazilian participation in the FTAA process has slowed down, and Brazil has announced that it needs additional time to prepare market access offers on services, investment, and government procurement.

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## Gaps in U.S. Preparations for Co-chairmanship and Hosting of Miami Ministerial May Pose Risks

The United States faces several risks as it takes on the responsibility, together with Brazil, of guiding the FTAA process forward to a successful conclusion. These risks include (1) handling an increased workload as co-chair with the pace of negotiations intensifying, and without a commensurate increase in resources; (2) serving as co-chair with Brazil, a novel situation; and (3) hosting a November 2003 ministerial meeting for all the trade ministers of the hemisphere and their delegations, which requires expertise, planning, funding, and security preparations.

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## Workload and Negotiating Pace to Increase, but Resources Not Commensurate

As the USTR assumes the co-chairmanship of the FTAA negotiations, it faces a heavy expansion of its workload. At the same time, its resources, in particular the staff dedicated to the co-chairmanship, are not expected to increase commensurately. Some past chairs have warned that this situation may lead to a slowdown in the FTAA process.

## Workload and Negotiating Pace to Increase

A major challenge for the USTR as it assumes responsibility as co-chair of the FTAA process will be handling the increased workload without an increase in staff. Demands on USTR's resources will be particularly high in the fall of 2003, when USTR's responsibilities as co-chair of the negotiations and host of the ministerial will intensify. The co-chair's formal tasks are considerable. They include

- coordinating with Brazil on a daily basis;
- providing guidance and management coordination to the FTAA Administrative Secretariat;
- providing guidance to the negotiating groups and committees;
- co-chairing TNC meetings;
- co-chairing the TNC Subcommittee on Administration and Budget, including setting the calendar of meetings; and



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- vice-chairing the Technical Committee on Institutional Issues.

In addition to the roles and responsibilities of the co-chair, another factor placing additional demands on the USTR is the intensifying pace of the negotiations during the final phase of negotiations. The goals for this final phase are ambitious. In order to meet FTAA completion time frames, participants aim to conclude negotiations in all nine trade negotiating groups. However, initial market access offers are just starting. FTAA participants must also agree on all issues currently under brackets in the draft text. The U.S.'s goal is to have a largely clean text by the end of 2003. To reach these goals, negotiations have been scheduled for practically every day during the next 6 months.

Competing negotiating priorities, and their commensurate resource needs, may also affect the USTR's resources. Several U.S. negotiators told us that what they primarily require to conclude an FTAA successfully is to be able to focus on it with single-minded energy and determination. But other negotiations are competing for their time and attention. For example, the USTR has notified Congress of its intent to pursue Free Trade Agreements (FTA) with Central America, Australia, the South African Customs Union,<sup>30</sup> and Morocco and 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 September 2003 WTO ministerial. This ministerial is to be held in Cancun, Mexico, only 2 months before the FTAA ministerial in Miami. Some of the same USTR staff are involved in these concurrent negotiations. In addition, negotiations with Chile and Singapore officially concluded at the end of 2002, but the agreements must still be finalized and undergo congressional approval.

#### Resources May Not Be Adequate

In terms of resources, the U.S. team negotiating the FTAA—though perceived as highly capable—is small and stretched thin. Other nations we have contacted have had eight or more staff working to fulfill FTAA chairmanship responsibilities. These staff handle such demands as drafting negotiating schedules and documents and providing regular coordination with other FTAA nations, negotiating groups, and the FTAA Administrative Secretariat. According to a USTR official, Brazil currently has six staff dedicated to the co-chair function and plans to hire an additional three in early 2003. Ecuador had eight people working on substantive issues and

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<sup>30</sup>A customs union including South Africa, Lesotho, Botswana, Namibia, and Swaziland.

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additional people working on logistics. Canada had eight people, with access to others for special projects. Like past chairs, USTR has dedicated some staff specifically to the co-chair function, while other USTR staff work on advancing the U.S. position in the negotiations. Presently, USTR has two staff working full-time on the day-to-day FTAA co-chairmanship tasks. Two other staff members currently devote some of their time to the co-chair function. USTR has been given an additional slot for an FTAA director and plans to fill it with a permanent staff member working full-time on the co-chairmanship soon. In terms of support by other agencies, the USTR presently is receiving little direct or indirect assistance in fulfilling the U.S.'s co-chair responsibilities, although a Justice Department detailee (person on loan to USTR) is one of the two part-time co-chair staff and also helps with leading the U.S. delegation, and a Department of State economic officer in Brazil has been made available to assist in coordinating with Brazil on FTAA co-chairmanship issues. As well, the Department of Commerce is temporarily staffing one of the two full-time co-chair USTR positions.

With respect to overall personnel, USTR as a whole is relatively small—having been set up to coordinate policy among and draw expertise from executive branch agencies such as the Departments of State, Commerce, Agriculture, and the Treasury. As past negotiations have become more intense, other agencies have often provided staff on a nonreimbursable “detail” (on loan) basis to augment USTR staff quickly. For example, according to a USTR official, at the height of the Uruguay Round of WTO negotiations, 45 staff from other agencies were detailed to USTR, versus 30 staff on detail now. These agencies have also given other support, such as assigning staff to handle major aspects of USTR negotiations while residing at their own agencies. USTR is hoping to resume the practice of using such support and has begun seeking additional details from other agencies. In mid-March, USTR announced that a senior Department of State official will be loaned to the agency effective June 23, 2003, and will advance U.S. positions in the negotiations as head of the U.S. delegation to the FTAA's TNC. Another State detailee is expected to be provided this summer, to work full-time in the co-chair function. However, caps on their funding and other concerns may make other agencies reluctant to detail additional people to USTR on a nonreimbursable basis. These agencies also need lead time to make arrangements and identify staff with the requisite expertise.

In discussions with us, several past FTAA chairs have warned that the consequence of U.S. failure to adequately staff the co-chairmanship could

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be a slowdown of FTAA negotiations, which are, with the launch of market access talks on February 15, 2003, reaching a critical juncture. Any slowdown could make it difficult to achieve substantial results by the November 2003 Miami ministerial.

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## Co-chairing with Brazil Is Novel Situation

Many officials and trade experts view the idea of the United States serving as co-chair with Brazil as a bold and useful way of providing the leadership and commitment needed from two of the most important players at a crucial time in the FTAA negotiations. At the same time, however, co-chairing is expected to be more difficult than chairing by a single country. All decisions, both mundane and substantive, will have to be agreed to by both countries. The co-chairmanship arrangement is novel because up until now, only individual countries have acted as chairman of the FTAA process. Officials at USTR told us that the operating vision is that the co-chairmanship will be a true partnership, with both countries making decisions based on achieving consensus on every aspect of the process throughout the 2 remaining years of negotiations. Such a true U.S.-Brazil co-chairmanship may have certain advantages. For example, the fact that Brazil and the United States will be guiding the process simultaneously as co-chairs during the final phase of negotiations could facilitate consensus building. If either the United States or Brazil had singly undertaken this responsibility, some members might not have perceived their stewardship as balanced.

Some FTAA participants told us, however, that co-chairing will be more difficult than chairing by a single country. One foreign official speculated that if all decisions require consensus, the co-chair structure would double the work and the time necessary to reach decisions or perform tasks. A USTR official confirmed this view and stated that even every letter has to be signed by both countries. Former FTAA chairs told us that the two countries have very different interests in the FTAA and, if such political considerations play a role in decision-making, stalemates or further delays could result. Another foreign official told us that differences in governmental structures and bureaucratic systems in which the USTR and Brazil's foreign ministry operate may also create difficulties.

In addition to the operating difficulties, U.S. working relations with Brazil are still uncertain. Brazil had been unwilling to discuss anything more than the technicalities of the co-chairmanship until its new President took office in January 2003. More recently, however, there have been several working meetings in an effort to clarify Brazil's views and solidify working relations.

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Moreover, the U.S. and Brazil co-chairs have taken steps to provide active leadership and coordination of the negotiating process by, for example, meeting with the chairmen of each FTAA negotiating group well in advance of the April TNC meeting to identify issues requiring decisions or guidance.

In meeting its responsibilities as co-chair for moving the process forward, the United States will need to keep separate the interests of the 34 countries, or the process as a whole, from those of the United States as negotiator. Brazil, for its part, will have three roles to keep in mind — its own negotiating positions, those of Mercosur, and that of the FTAA.

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### Risks to Successfully Hosting November 2003 Miami Ministerial Have Not Been Fully Mitigated

The United States will host the Eighth FTAA Trade Ministerial in Miami in November 2003, just 7 months from now, a considerable responsibility. This ministerial is particularly significant because it occurs just a year before the slated conclusion of FTAA and WTO negotiations. The responsibilities of an FTAA host are numerous and include several elements critical for a successful event. Preparations for the ministerial are at an early stage, however, and, if left unfilled, gaps in the current U.S. plans for hosting the ministerial pose risks to achieving a successful event. Risks that the USTR has not yet fully mitigated include its inexperience in hosting a major ministerial meeting, working with plans that have not been fully defined, counting on funding that has not been secured, and arranging security for numerous participants and protesters. Failure to address any of these risks could undermine the success of the meeting. These same kinds of risks also contributed to serious problems at the last major trade ministerial that the United States hosted, the 1999 Seattle WTO ministerial. USTR and the Miami organizers recognize that intense U.S. efforts will be necessary to fill these gaps.

To evaluate USTR's readiness to perform as host, we undertook a three-part analysis. First, we obtained information about the formal responsibilities of FTAA host countries from USTR. We also obtained official documents of the FTAA and held conversations with past FTAA hosts, the results of which are reported in the first section below. Second, we solicited advice from persons with experience in planning and conducting such meetings, including responsible officials of past FTAA host nations, former USTR officials involved in planning the Seattle WTO ministerial, and officials at the State Department's Office of International Conference Planning and Economics Bureau. These officials had been involved in planning past trade ministerials hosted or attended by the United States, as well as other international conferences. Through these interviews with "cognizant

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officials,” we identified factors critical for success as well as suggestions for steps USTR could take to adequately prepare for its responsibilities as host of the November FTAA ministerial. Third, we obtained information about the state of USTR preparations for the November FTAA ministerial through interviews with responsible officials and reviews of available documentation from USTR and Miami concerning timelines, plans, budgets, guidance, and organization. In addition, as it became clear that USTR was relying heavily on the Miami organizing group for fulfilling key requirements, we discussed the status of their efforts with both the executive director and the chairman of the board of that group, as well as with officials of Florida FTAA. This information on the actual status of U.S. FTAA ministerial plans follows our initial discussion of responsibilities and requirements for hosting the ministerial.

#### Responsibilities of the Host of an FTAA Ministerial Are Numerous

Executing the many responsibilities of an FTAA ministerial host is critical, given the importance of ministerial meetings in the negotiations. These meetings of trade ministers from the 34 FTAA member countries provide political guidance and impetus to the negotiating process. The November meeting in Miami is particularly important, because it is the last ministerial before the talks’ conclusion and will occur just 13 months before the January 2005 deadline set for FTAA nations to conclude the talks. At the Miami ministerial, the range of issues facing ministers may be complex, requiring political guidance from the ministers in order to move forward. Furthermore, because issues that are important to key FTAA participants, such as agriculture, are tied up in WTO talks, the extent of progress at the WTO ministerial in September 2003 may result in an overall reassessment of the FTAA’s scope and timeline.

The host of an FTAA ministerial has numerous complex responsibilities. These responsibilities are detailed in a 29-page, single-spaced document that the FTAA Administrative Secretariat prepared. The host is generally responsible for providing facilities, transportation, and security for both the ministerial and the Trade Negotiations Committee meeting, a meeting of vice ministers that precedes the ministerial. In addition, a separate forum for the business community typically accompanies FTAA ministerials. Civil society groups also held a forum at the Quito ministerial. Each of these events involves hundreds of people, including many high-level officials requiring appropriate protocol and special security measures. Further, hosts are required to provide simultaneous translation during all of the negotiations and the other meetings, including immediate distribution of written documents to delegates.

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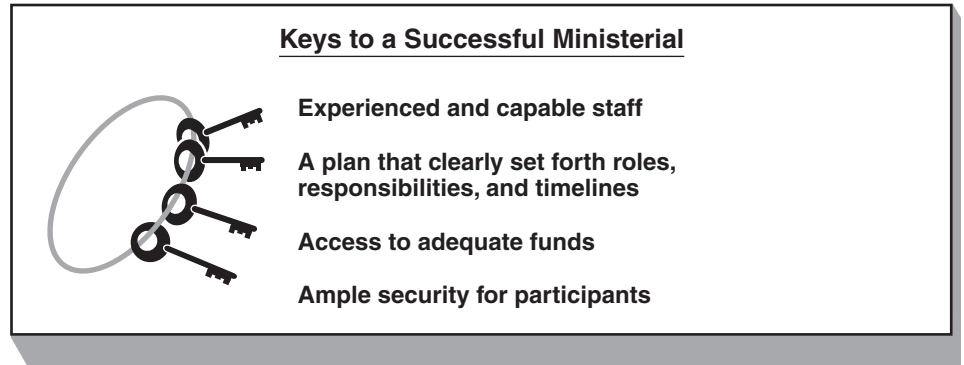
Coordination and security during all these activities is complex. For example, the business community and civil society groups were given the opportunity to provide input to the ministers at Quito. However, managing the participation of the business community and civil society groups and ensuring consideration of their views remain challenges. For example, at the Quito ministerial, both the business community and civil society groups prepared recommendations to be presented to the ministers. The structure and length of the business community presentation, however, made it difficult for ministers to take in all the input that the business community had prepared. Nevertheless, compared with the business community's presentation, the civil society groups' presentations were chaotic. Protesters in the audience disrupted the presentation, and serious security concerns arose, as many protesters were very vocal and, in one case, threatened a presenter. In fact, the final presenter was unable to speak over the noise, and the presentation ended with an unceremonious exit of the ministers out a side door. A key goal of the Miami organizers is to make the presentations at this November's separate business and civil society forums more targeted, timely, and orderly so they can be factored into ministerial deliberations.

The task of the United States as host is especially complex, because it is now standard practice to rely on host cities to supply most of the resources associated with conducting international meetings held here, according to a Department of State official. As a result, USTR must coordinate actively with local officials and oversee host city preparations to ensure they are satisfactory. It is also essential to begin planning early for the ministerial, according to officials with experience in planning similar events.

**Several Factors Critical to Success; Certain Steps Recommended**

Our discussions with cognizant officials suggest that hosts must have several basic factors in place to fulfill the responsibilities outlined above (see fig. 7). Particularly important is having (1) experienced staff capable of bringing together all the different components including logistics, budgeting, and procurement; (2) a plan that clearly sets forth roles, responsibilities, and timelines; (3) access to funds to pay for expenses; and (4) assurance of adequate security. This latter item must be paramount, given the antiglobalization protests that have accompanied past FTAA and other trade ministerials, and the heightened concerns over terrorism.

**Figure 7: Keys to a Successful Ministerial**



Source: GAO.

The U.S. Department of State does not have written guidance on how to plan such events, according to a State official. However, in discussing the November FTAA meeting, cognizant officials with experience in planning similar meetings, including former USTR officials, have offered the following suggestions for hosting a successful event. Essential to such an event would be

- consulting previous FTAA hosts in order to define requirements and responsibilities;
- clearly defining the roles and responsibilities of the host city and the federal government, preferably through a memorandum of understanding;
- creating a budget for the event;
- assuring that adequate funding is available through monitoring of host city fund-raising and requesting agency appropriations if necessary; and
- getting assistance from the Department of State, other federal agencies, and/or a management firm with experience in planning major events.

**Gaps in USTR Preparations Pose Risks**

Successful U.S. execution of the November 2003 FTAA ministerial requires intense preparations to fill remaining gaps in current U.S. preparations in the areas of expertise, planning, funding, and security. While USTR has lead responsibility for the ministerial, USTR has little experience in planning

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trade ministerials, and it is receiving limited assistance from other agencies with expertise in planning major international diplomatic events, due to resource constraints. Funding has not been secured: As of March 27, a final budget for the event does not exist, local fund-raising has just begun, and no federal agencies have received funding for the FTAA ministerial meeting in Miami. As well, security will be critical because the estimated number of protesters ranges from 20,000 to 100,000 people. Although the USTR's current plans for hosting the ministerial address several of these challenges, they do not fully mitigate the risks we identify.

### **USTR Lacks Experience, but Miami Organizers Have Track Record as Host**

USTR has never had sole responsibility for planning a major trade ministerial hosted by the United States. The last trade ministerial that the United States hosted was the Seattle WTO ministerial in 1999. There, USTR received substantial assistance from Department of State officials with past experience in planning major international meetings as well as from the WTO's Conference Services Department. Even so, financial and security concerns not fully mitigated before the event caused serious logistical and security problems and higher-than-expected costs. These problems included bitter disagreements with the host city over roles and responsibilities, jeopardizing key logistical arrangements such as transportation and build-out of the convention center; costs that far exceeded initial estimates; and security lapses that delayed sessions, put delegates at risk of physical harm, and caused extensive property damage.

Furthermore, the agency has relatively little experience in this area. Currently, USTR has four permanent staff working part-time on planning the FTAA ministerial, with others at USTR assisting. One of these staff has significant experience in logistics, security, and administration, and that person has been put in charge of these areas for the Miami FTAA ministerial. Although other USTR staff have been involved in arranging U.S. participation in trade ministerials held abroad, hosting a trade ministerial is much more complicated than arranging U.S. participation. The host is responsible for all aspects of the meeting, not just its own delegation.

Furthermore, this gap in experience is not being overcome by receiving assistance from other agencies with the necessary expertise, according to USTR officials. The USTR has requested State's assistance in planning the Miami ministerial, and discussions on specific assistance State can provide are ongoing. The State Department reports that it is trying to respond



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positively to assistance requests where possible, given its own budgetary constraints. One of the reasons for State's reluctance to help is that its budget for participation in international conferences has been cut. In fiscal year 1995, State was receiving \$6 million for participation in international conferences. By fiscal year 1999, this appropriation had been discontinued, with no commensurate increase to USTR's budget for trade meetings. The Department of State has suggested that USTR consider hiring a management firm, but USTR has not budgeted for that expense and does not believe that hiring an outside firm would provide cost benefits for the agency.

With little assistance from State or elsewhere,<sup>31</sup> and limited experience in hosting major events, USTR plans to rely heavily on Miami's expertise to carry out the November 2003 meeting. Miami has considerable expertise in hosting major events. The city has hosted numerous major sporting events such as Super Bowls and Orange Bowls. Importantly, Miami hosted the 1994 Summit of the Americas, which involved 34 heads of state and started the process of creating a Free Trade Area of the Americas. According to the Miami organizing group, the summit was successful. The organizers of that meeting used an arrangement similar to that of the upcoming Miami ministerial, where a combination of private and public funds paid for the summit and local organizers took the lead in making logistical arrangements. The person responsible for planning the Summit of the Americas is the same one who is leading the Miami organizing group for the November FTAA ministerial. This individual also coordinated U.S. participation in the April 2001 Summit of the Americas in Quebec City. He is familiar with FTAA events by virtue of attendance at several of the FTAA ministerials that have been held thus far as well as the associated Americas Business Forums. He recently held a 2-day meeting in Miami with all seven previous FTAA/Americas Business Forum hosts to obtain information and advice, and these past hosts have also agreed to provide the Miami organizers with ongoing advice. Moreover, Miami also has the necessary infrastructure in place to host major events, according to the organizing group. In addition to having experienced staff, Miami also served as the site of FTAA negotiations from 1998 to 2001. However, this experience was not entirely positive, and lessons learned from this experience have been

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<sup>31</sup>The State Department has committed to providing one administrative officer for 2 weeks prior to the conference and to provide an administrative officer to assist during the ministerial meeting. It has also agreed to providing advice and guidance to USTR and to share lessons learned from past experience.

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incorporated into the planning for the Miami ministerial, according to USTR.

While Miami does have expertise, an official from the Miami organizers informed us that they would like a full-time staff person from the federal government to be detailed to Miami in a liaison capacity as soon as possible to work with the Miami organizers (as had been done for the Summit of the Americas). The liaison would, among other things, formalize the shared responsibility for the event and augment coordination between federal and local authorities. The desire for a locally based federal liaison was based on the assumption that the workload, and hence need for intense coordination, would increase as the ministerial drew closer.

#### Plans for Ministerial in Early Stages

Both the federal government's and Miami's plans for hosting the November 2003 ministerial are in early stages as of March 1, 2003. To get a sense of the general timeline to keep in mind when planning the November FTAA meeting in Miami, we interviewed cognizant officials who served as former hosts at FTAA ministerial meetings, officials at State, and former USTR officials. These officials indicated that planning for a November ministerial usually begins in January. Implementation of the plan should begin in March, with an acceleration of plans in October shortly before the ministerial. USTR officials responsible for planning the FTAA ministerial agreed on this general timeline, and, citing specific areas of progress, believe they are "on track" as of March 26, 2003.

On the federal government side, USTR has obtained a guide that the FTAA Administrative Secretariat prepared for host countries detailing the basic logistical requirements of a ministerial. USTR is using this guide to plan the FTAA ministerial in Miami. USTR has also prepared a timeline for security, logistical, and administrative services for Miami to use in planning the event. A rough division of labor between the federal government and the host city appears to have been agreed upon, whereby the host city will take care of most logistical arrangements, and USTR staff will provide guidance and oversight of security, logistics, and administrative issues through regular contact with and visits to Miami. In addition, USTR plans to draft some guidance documents, such as the memorandums of understanding that will be signed between the host committee and the entities to be contracted with for services.

On the host city side, Miami has formed a group to organize the ministerial and the Americas Business Forum. This group became operational in February 2003 and has hired an executive director for the FTAA ministerial

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planning effort. Several staff for the organization are now on board, and more are expected. The executive director has put together a management committee to organize the meeting. The Miami organizing group reports that it has established an extensive support network of partners from both the public and the private sectors and is already receiving in-kind staff support from several municipalities. It plans to utilize contractors and volunteers to supplement these resources as appropriate. The group has also created a fund-raising committee specifically to raise funds for the Miami ministerial, according to a Miami organizer.

Some of the specific tasks identified in the FTAA guidelines have been accomplished, and more are in process. For example, in terms of accommodations for delegates and meeting space, locations have been selected and reserved, rates negotiated, and registration arrangements established. Several transportation arrangements have been made, although important details must still be ironed out.

Despite this progress, 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 parties must be finalized; meeting space configured; a security plan developed; and arrangements for providing credentials, translation, administrative support, and other services made. For example, requirements for telecommunications, computer, audiovisual, and related equipment must be finalized and needed equipment and services obtained. The FTAA Administrative Secretariat requires the United States to provide it and 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, both agree. Executing the plan and updating it as necessary will occupy officials between mid-September and November 2003.

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

Serious risks are involved in the USTR's plans to rely on the host city to assume responsibility for the majority of the costs. Although some requirements can be met through in-kind contributions, securing necessary funds generally requires considerable lead time, and expenses that require an outlay of funds are expected to be incurred within the next 2 months. No federal agency has received funding for this event. The organizing group

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does not yet have a final budget and has just begun fund-raising, although USTR and the Miami organizers anticipate that a budget will be finalized and funding responsibilities will be clarified by mid-April.

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. Miami worked with this model when it hosted the 1994 Summit of the Americas. 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. This amount is considerably higher than the December 1998 budget of \$9 million. Financial shortfalls resulted in part from inherent difficulties that USTR encountered in having a private group fund the Seattle ministerial. For example, the Seattle organizers were not permitted to sell tickets to donors or recognize contributions (similar rules will apply for the host committee in Miami). The Seattle host committee ultimately fell far short of its fund-raising goals and only paid for one-fourth of associated costs. The local, state, and federal governments paid the remainder, with the local and state governments covering the bulk of these costs, or around \$17 million. To satisfy the federal government's share, the USTR requested a \$1.3-million supplemental appropriation that was shared between USTR and the State Department. The State Department paid an additional \$1.2 million, and the city of Seattle also received a \$3.8-million partial reimbursement from the federal government to help defray its substantial costs; these costs were for security only. Thus, all told, the federal government ended up paying \$6.3 million for the Seattle WTO ministerial, an event that is admittedly larger in scale than the FTAA ministerial.

No federal agency has yet received funding for the FTAA ministerial. The USTR has only requested \$200,000 for the FTAA ministerial, but this is in the fiscal year 2004 budget 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 "control room"—an office in which U.S. delegates can work—for basic translation services, and for certain aspects of security. To minimize some expenses, USTR will utilize computers and other equipment procured for the Cancun WTO ministerial to set up control rooms at the Miami FTAA ministerial. USTR has asked the Office of Management and Budget (OMB) to submit a request

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for a \$1.3-million supplemental appropriation for this WTO-related procurement, but OMB has not yet approved this request.

Furthermore, USTR has no back-up plan in the event that its costs exceed the amount it has requested or the host city does not meet its fund-raising goals. For example, the USTR plans to ask other federal agencies participating in the ministerial to pay for their own expenses. This approach has been used in past ministerials, such as the Doha WTO ministerial, with mixed success. At Doha, for example, USTR ultimately absorbed nearly \$1 million in costs after other agencies withdrew or failed to provide pledged funding. In terms of the financial support expected from Miami, USTR has sought to forestall any possible funding difficulties through an agreement with the Miami organizers on a series of fund-raising principles and periodic status reports from Miami on the amounts of money raised. Miami will rely on its business community as well as on state and local government contributions in kind and in cash to meet its fund-raising goals. The four municipalities involved have drafted a memorandum of understanding regarding their financial support of the meeting under which they agree to provide in-kind and cash support according to a yet-to-be specified formula.<sup>32</sup> However, this agreement allows signatories to withdraw from the arrangement if they determine that they can no longer financially participate. As yet, the Miami organizing group has not finalized its fund-raising goals or begun fund-raising in earnest. However, the USTR and the Miami organizers have told us that the committee has a strategy for raising needed contributions and will meet its fund-raising goals.

Another key risk facing USTR at the Miami meeting is unclear funding responsibilities. USTR has stated that Miami will provide the vast majority of funds for the ministerial. One Miami official said that in broad terms they agree Miami will shoulder the majority of costs. However, the Miami organizers believe the federal government will also assume some financial responsibility for the ministerial because, in their view the ultimate host of the ministerial is the federal government, not the Miami organizers. One way to clarify these misunderstandings over responsibilities is through a memorandum of understanding. Department of State officials involved in the Seattle WTO ministerial and other major events emphasized the importance of documenting financial responsibilities in order to avoid disagreements over costs later on. However, USTR has decided not to sign

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<sup>32</sup>The four municipalities involved are the city of Miami, the county of Miami-Dade, the city of Coral Gables, and the city of Miami Beach.

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a memorandum of understanding with the Miami host committee assigning financial responsibilities. Instead, it plans to rely on Miami's desire to be the site of the permanent FTAA Administrative Secretariat as incentive enough to raise the necessary funds and carry out the logistical and security requirements for hosting the ministerial. The Miami organizers also do not feel that a memorandum of understanding with the federal government is necessary. Instead, both parties have agreed to use the budget development process to identify funding sources and apportion financial and logistical responsibilities. This breakdown has not been prepared but is being worked on.

### **Security Is Critical**

Another key risk the United States will face in Miami is ensuring the security of participants, given the extensive security requirements of previous trade ministerials and the protests encountered at these and other events that have attracted opponents of globalization. At Genoa, Italy, for example, a protestor was killed during antiglobalization protests. Also, at the FTAA ministerial in Quito, a child was killed during the protests. Estimates for the number of protesters expected at Miami range from 20,000 to 100,000 people, according to both the USTR and the Miami organizers. USTR expects around 6,000 participants, compared to 9,000 participants and 50,000 protesters at the Seattle WTO ministerial. In a February 2000 report on the November 1999 Seattle WTO ministerial,<sup>33</sup> we noted that protests interfered with the Seattle ministerial by causing delays and disrupting the proceedings. Protesters also threatened and in some cases assaulted delegates. Furthermore, protesters, police officers, and bystanders were injured, and property was damaged. In Seattle, the city's decision to stop providing security was a factor in forcing the meeting to close before its scheduled conclusion.

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 approximately half of the expenses incurred, in part because security had not been factored into logistical arrangements from the beginning, according to the USTR. USTR's present goal is to have a security plan

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<sup>33</sup>See U.S. General Accounting Office, *World Trade Organization: Seattle Ministerial: Outcomes and Lessons Learned*, [GAO-00-86](#) (Washington, D.C.: Feb. 10, 2000).

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finalized by May 30, 2003. However, the plan will remain flexible thereafter as it is updated to reflect the latest information. Security staffing for the event will also need to be arranged. So far, the USTR reports that local police will provide security at the event. According to the Miami organizers, police security services will be provided in kind, using existing staff and resources rather than relying on fund-raising to pay for security. Other entities involved in providing security include the U.S. Coast Guard and the Department of State's Bureau of Diplomatic Security. If certain high-level officials attend, the Secret Service and Homeland Security will need to be involved. Further, the federal government will be responsible for providing information security.

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## Conclusions

Negotiations toward achieving an FTAA face an important test in the coming year. Despite 4 years of talks and an acceleration of progress by the time of the November 2002 Quito ministerial, considerable work remains in order to culminate an initiative that the region's 34 democratically elected leaders once embraced as key to integrating their economies; improving growth and equity; and strengthening nascent democratic institutions. With a January 2005 deadline for completion, the FTAA faces numerous challenges in the current phase. These include making progress on key issues such as agriculture and starting market access negotiations in earnest. Ensuring that negotiations have sufficient political support from key players such as the United States and Brazil also remains a challenge. Our work suggests that the U.S.'s readiness to co-chair the negotiations and host a major trade ministerial in Miami 7 months from now is not assured because, to date, the plans and human and financial resources are not in place to complete the required duties and to counter likely risks. Filling these gaps is critical to success and will require intense preparations on the part of USTR and Miami organizers between now and November.

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## Recommendation for Executive Action

In order to successfully carry out the responsibilities involved in co-chairing the Free Trade Area of the Americas negotiations and hosting the November 2003 Miami ministerial, we recommend that the USTR intensify U.S. preparations and promptly and regularly evaluate whether current resources and plans are sufficient to carry out the tasks and mitigate the risks associated with these two responsibilities. The risks we have identified are (1) handling the increased workload associated with co-chairing the negotiations and hosting the Miami ministerial with limited staff at USTR, (2) resolving procedural and substantive issues through the

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co-chairmanship, (3) acquiring sufficient expertise in planning major events, (4) clarifying and further developing plans for the Miami ministerial, (5) securing sufficient funding for the ministerial, and (6) ensuring the security of participants at the ministerial. Several of these resources and plans involve allowing significant lead time, which the USTR should take into consideration.

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## Agency Comments and Our Response

We provided draft copies of this report to the Office of the U.S. Trade Representative and the Department of State and received formal comments from both agencies (see apps. I and II). They also provided technical comments, which we have incorporated in the report as appropriate.

USTR and State generally agreed with our overall message. USTR stressed that it is committed to successfully concluding an FTAA by January 2005 and hosting the November 2003 ministerial and expressed belief that plans for the ministerial are at an appropriate stage of development. USTR also noted various steps it has recently taken to address the challenges ahead in the FTAA negotiations and for ministerial preparations. Accordingly, we have updated our report, citing specific progress that USTR has made in this regard. For example, we noted that the USTR is working with Brazil to provide more active leadership and coordination to the negotiating process and that venues for the ministerial and associated events have now been reserved. We also noted that the Miami organizing group has established an extensive network of partners from the public and the private sectors to provide support. Nevertheless, we maintain our basic findings and recommendation.

The Department of State addressed the issue of assistance to USTR by saying that it is trying to be as helpful as it can within the constraints of its available resources. We have noted that in our report.

In addition to formal agency comments, the Miami host committee was invited to provide comments on the report. It generally agreed with our findings and provided several clarifications, which we incorporated.

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## Scope and Methodology

To conduct our analysis of the progress made in the negotiations on creating a Free Trade Area of the Americas and the outcome of the Quito ministerial meeting, the key challenges for the current negotiating phase, and the U.S. challenges associated with co-chairing the FTAA process and



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hosting the November 2003 Miami ministerial meeting, we reviewed FTAA and executive branch documents on the FTAA negotiations and the U.S. preparations for roles as co-chair of the negotiations and host of the Miami ministerial, and budget documents from USTR for 2002 and 2003. We also reviewed academic and economic literature related to the negotiations. We conducted interviews with U.S. negotiators and with foreign government officials, including officials who have chaired the FTAA negotiations in the past. We also held discussions with multilateral institutions that provide technical assistance to the FTAA negotiations, including the Organization of American States, the Inter-American Development Bank, and the Economic Commission for Latin America and the Caribbean. We attended public hearings on the FTAA and spoke with professional scholars and other experts familiar with the negotiations. In November 2002, we traveled to Quito, Ecuador, to attend the Americas Business Forum and a civil society group meeting associated with the FTAA ministerial. This report is also based on our past work on the FTAA negotiations in the Western Hemisphere (see Related GAO Products).

We conducted our work from July 2002 through March 2003 in accordance with generally accepted government auditing standards.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to interested congressional committees, the U.S. Trade Representative, the Secretary of State, the Administrator of the U.S. Agency for International Development, the Secretary of the Treasury, the Secretary of Agriculture, and the Secretary of Commerce. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (202) 512-4347. Additional GAO contacts and staff acknowledgments are listed in appendix III.

A handwritten signature in black ink that reads "Loren Yager". The signature is written in a cursive, slightly slanted style.

Loren Yager  
Director,  
International Affairs and Trade

# Comments from the Office of the U.S. Trade Representative

EXECUTIVE OFFICE OF THE PRESIDENT  
DEPUTY UNITED STATES TRADE REPRESENTATIVE  
WASHINGTON, D.C. 20508

April 1, 2003

Susan Westin  
Managing Director, International Affairs and Trade  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Ms. Westin:

Thank you for providing the Office of the United States Trade Representative (USTR) with the opportunity to review a draft of your report to the Chairs of the Committee on Finance, U.S. Senate, and the Committee on Ways and Means, U.S. House of Representatives, on the status of the negotiation of the Free Trade Area of the Americas (FTAA) Agreement and the planning for the upcoming Trade Ministerial in Miami in November. The successful completion of the FTAA is a high priority for the Bush Administration, and a successful Ministerial in Miami will help us to achieve that goal.

Your report is wide-ranging and provides useful information regarding the status of the negotiations, the preparations for the Ministerial in Miami, and the challenges ahead with respect to each. Your report also contains important information regarding the steps that USTR is taking to address those challenges. It is in this latter area in which I believe that the snapshot provided by your report would benefit from further amplification.

The negotiation of the FTAA Agreement is progressing along a path that can get us to a successful agreement by January 2005. There are many challenges, but the participants, under the leadership of the current Co-Chairs, the United States and Brazil, continue to make significant progress in the negotiations. The continued commitment to the FTAA of the nations in the hemisphere is evidenced in many ways, including by the agreement of the countries to begin tariff reductions from current applied rates rather than much higher WTO-bound rates; by the tabling by all countries of tariff offers in a timely fashion; and by the adoption of the Hemispheric Cooperation Program in order to enable countries at lower levels of development and with smaller economies to fully participate in the FTAA and its benefits. As Co-Chairs, the United States and Brazil understand the great responsibility they share at this important stage, a recognition that is reflected in the way in which we are working together to ensure that the negotiations are a success. Among other things, we are providing more active leadership to the negotiating process and fostering greater coordination than did previous Chairs.

In recognition of the importance of our various relationships with Brazil, including as Co-Chairs of the FTAA process, Ambassador Zoellick has reached out to Brazil to cement our working relationship. He met with President-elect Lula and his team in Washington before his inauguration. Ambassador Zoellick then traveled to Brazil to attend the inauguration and have further meetings with his new counterparts. In addition,

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**Appendix I**  
**Comments from the Office of the U.S. Trade**  
**Representative**

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Ambassador Zoellick is planning meetings with his Brazilian counterparts in the coming months to focus on FTAA preparations.

Preparations for hosting the ministerial are also well underway with the support 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. Ambassador Zoellick recently met with the Governor to highlight the preparations and the schedules for the Ministerial and to draw attention to important topics that will need to be resolved in the coming months. With the help of Governor Bush, a strong team has been established to lead the efforts for organizing the Ministerial. The organizing groups efforts are being led by Ambassador Charles Cobb, former U.S. Ambassador to Iceland, and Ambassador Luis Lauredo, who is serving as the Executive Director of the organizing group. 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.

The Miami organizing group has 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. We have great confidence in their experience and dedication and in our ability to work with them in preparing for a successful Ministerial. Our confidence in this partnership has been confirmed by the 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.

We are also encouraged by the enthusiasm of the Miami community for the FTAA Ministerial. Miami has long been considered the gateway to the Americas, and they see hosting the ministerial as an opportunity to showcase both the State of Florida and why Miami is the ideal location for the home of the FTAA permanent Secretariat. Positive and deliberate steps have been taken by USTR staff and the Miami organizers to develop effective and comprehensive plans to address all aspects of preparation for the ministerial. USTR planning for the complex logistical and security preparations necessary for a successful ministerial reflects an unprecedented level of coordination and cooperation from the federal government, private sector, and State and local governments. In addition, fund-raising by the Miami organizing group has been developing since January 2003. There has been good progress in both the establishment of an effective fund raising network, and the identification of in-kind support and services from State and local governments. For example, security for the Ministerial and associated events will, in large part, be covered by in-kind donations from State and local governments. Drawing upon significant expertise within USTR and the Miami organizers, plans for the ministerial are at an appropriate stage of development given the current time line.

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**Appendix I**  
**Comments from the Office of the U.S. Trade**  
**Representative**

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USTR is committed to ensuring that the Miami Ministerial is a success and that the negotiation of the FTAA is completed by January of 2005. Your report is a valuable tool to assist in achieving those goals. We appreciate the time and attention of your auditors, and are grateful to have had the opportunity to provide input during the final drafting of this report.

Sincerely,

  
Peter F. Allgeier

# Comments from the Department of State



United States Department of State

Washington, D.C. 20520

MAR 31 2004

Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "FREE TRADE OF THE AMERICAS: Negotiations Progress, but the United States Needs to Bolster Preparations for November 2003 Ministerial," GAO-03-560, GAO Job Code 320139.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Robert Manogue, Bureau of Economic and Business Affairs, Office of Bilateral Trade Affairs at (202) 647-1997.

Sincerely,

Christopher B. Burnham  
Assistant Secretary for  
Resource Management and  
Chief Financial Officer

Enclosure:

As stated.

cc: GAO/IAT - Kim Frankena  
State/OIG - Luther Atkins  
State/EB - E. Wayne  
State/H - Paul Kelly

Ms. Susan S. Westin,  
Managing Director,  
International Affairs and Trade,  
U.S. General Accounting Office.

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**Appendix II**  
**Comments from the Department of State**

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Department of State Comments on GAO Draft Report  
**FREE TRADE AREA OF THE AMERICAS: Negotiations Progress, but**  
**United States Needs to Bolster Preparations for November**  
**2003 Ministerial, (GAO-GAO-03-560, GAO Code 320139)**

The State Department has been actively participating in the FTAA since its inception. Working with other agencies, under the USTR's able leadership, the Department has been making positive contributions in a number of areas. Senior Department officials have instructed staff to do as much as possible, bearing in mind the Department's resource constraints, to support USTR and the Administration's ambitious trade agenda. State is working with USTR on a regular basis to try and determine where State assistance is possible. Given that State has not been provided any additional funds for the Miami Ministerial, any assistance will have to come from existing resources.

Responding to an USTR request, State's Office of International Conferences has offered to provide its advice and guidance to USTR staff planning the Ministerial and share lessons learned from other international meetings. It has also agreed to fund the Department's share of control room costs during the Ministerial (Standard operating procedure is for State to fund its participation in terms of travel and per diem.) State will also provide an administrative officer to assist during the Ministerial.

State will consider additional requests from USTR on a case-by-case basis as received. For example, following an additional request from USTR, State expects to provide administrative officer support for the two weeks before the Ministerial. It is also considering how it can provide additional officers to help with foreign delegations during the Ministerial.

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Kim Frankena (202) 512-8124  
Venecia Rojas Kenah (202) 512-3433

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## Staff Acknowledgments

In addition to the individuals named above, R. Gifford Howland, Rona Mendelsohn, Kirstin Nelson, Jon Rose, and Marc Molino made key contributions to this report.



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# Related GAO Products

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*Free Trade Area of the Americas: Negotiators Move Toward Agreement That Will Have Benefits, Costs to U.S. Economy.* [GAO-01-1027](#). Washington, D.C.: September 7, 2001.

*World Trade Organization: Early Decisions on Key Issues Vital to Progress in Ongoing Negotiations.* [GAO-02-879](#). Washington, D.C.: September 4, 2002.

*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.

*Free Trade Area of the Americas: Negotiations at Key Juncture on Eve of April Meeting.* [GAO-01-552](#). Washington, D.C.: March 30, 2001.

*World Trade Organization: Progress in Agricultural Trade Negotiations May Be Slow.* [GAO/T-NSIAD-00-122](#). Washington, D.C.: March 7, 2000.

*World Trade Organization: Seattle Ministerial: Outcomes and Lessons Learned.* [GAO/T-NSIAD-00-86](#). Washington, D.C.: February 10, 2000.

*World Trade Organization: Seattle Ministerial: Outcomes and Lessons Learned.* [GAO/T-NSIAD-00-84](#). Washington, D.C.: February 8, 2000.

*Agricultural Trade: Changes Made to Market Access Program, but Questions Remain on Economic Impact.* [GAO/NSIAD-99-38](#). Washington, D.C.: April 5, 1999.

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