BACKGROUND BRIEFING
with senior USTR officials

on

AGRICULTURAL AND NON-AGRICULTURAL MARKET ACCESS TALKS

Thursday, June 29, 2006

U.S. Mission to the United Nations in Geneva
11, route de Pregny
Chambesy

Senior USTR Official #1: Thanks. Thanks to you all for coming up there. It's good to see you on this sunny day here in Geneva.

We got into town on Tuesday and began having some background, having some meetings here to prepare for the ministerial function at the end of the week. It's been a useful couple of days. We've been meeting with different countries individually, we've been meeting with some small groups of countries, we're talking about the meetings ahead this week, talking about how to use them productively, how can we achieve the promises that we all laid out back lo those many years ago in Doha to substantially open markets, to substantially reform the trading system and deliver real new trade flows that are going to drive economic growth.

So I've been pleased with the meetings we've had because in the countries we've talked to there continues to be a strong interest in delivering on those promises of an ambitious outcome here. There's this ongoing debate over real cuts versus paper cuts, and ambition versus non-ambition. Certainly not everybody, but most of the folks that we've talked to are sticking to their promises about having substantial reform in this round.

So that's our task ahead in the coming days, is to translate these commitments we've made and this interest in a big round into something concrete here over the next couple of days.

As you know on agriculture we are very ambitious. Our tariff cutting formulas, our domestic support cutting formulas, export subsidy elimination is ambitious across the board and our hope on agriculture is really to see where other countries are, what are they going to be putting on the table concretely in specific terms to fulfill the mandate and to create a balanced package. So that's clearly going to be the big focus for us.

Do you want to add something?

Senior USTR Official #2: I think it's fair to say that we've been equally ambitious from the outcome in the NAMA area. We called, if you recall, in 2002 for total elimination of all industrial tariffs by everyone. And we were serious about that. We remain very, very ambitious at this stage of the negotiations.

We're here for a real deal, but we want real cuts for real cuts, and that means that we need some significant access to advanced developing country markets that's not just cuts in the water, the high tariffs that are bound, but cuts into real applied rates where business can really truly benefit from the liberalization. So we'll be measuring the results of the discussions on those terms, on real new market access terms.

We would say that Commissioner Lamy's suggestion of a Magic 20 formula certainly doesn't work for us in NAMA. It doesn't work for us in other areas either, but in NAMA a 20, a Swiss 20 doesn't bring you anything for business. Every single point above a coefficient of 15 exponentially diminishes the amount of liberalization that even developing countries would get on products of interest to them in other developing country markets. So it is not a good result for development.

And market access is important for development. We don't think that market access is something that is anti-development. It is indeed very pro-development, a very important part of bringing development to developing markets.

We're certainly prepared to do our part. The Swiss 10 that we have proposed for developed countries would bring our average tariff down to 2.1 percent. We would have a maximum tariff of 8.5 percent on only three lines, three tariff lines. Everything else would be below that. So that's substantial access to our market.

In contrast, rates in developing countries would be seven times greater in India, five times in Venezuela, four times in Brazil and Egypt. These are dramatic differences.

We recognize, and have from the beginning, that we need to accommodate the concerns of developing countries. We've done that in a myriad of ways. If you look at the NAMA text we recognize that by any measure at the end of the day we will be doing more than developing countries, but we remain ambitious for everyone because we think that's the right approach for development.

Senior USTR Official #1: That's just a brief overview. We're happy to take questions.

Question: A question for both of you on market access. On NAMA, would a Swiss formula with a 20 coefficient actually lead to new trade flows in developing countries? I understand it's not as much as 15, but would it actually cut into applied rates in some key developing country markets?

And on agricultural market access, if a 54 percent average cut in EU became the norm for developed countries, do you think that would lead to a formula that would result in new trade flows for agricultural goods in developing countries?

Senior USTR Official #2: Just to give you some examples, up to half the applied tariffs in Brazil and India would go completely untouched by a Swiss 20, and where they do make cuts the cuts would average only around ten percent. So you would have spent five years, hopefully just five years, producing a result of 10 percent in key developing country markets which are growing very rapidly, so that's not a result that we think is a substantial result by any means.

Senior USTR Official #1: On the ag side, we have some serious reservations about this talk of the G20 proposal on market access. There are two components to that.

First on the developed country side, this average 54 percent cut is arrived with relatively weak cuts in the tiers – a 45 percent cut only for the small tariffs and the high tariffs only cut by 75 percent.

So think of, for example, Japan's rice tariff. That thing is up there around 750 percent. If you cut that even by 75 percent you're going to have a triple digit tariff. Now some people may be able to compete in Japan under those terms. Our high quality rice, no doubt we'd do well. But is that really going to be an open market?

So we've got some concerns on that end. But it's even worse on the developing country side. When you look at what the G20 has proposed there, the tariff cuts are going to be quite minimal.

A good example is if you look at some G20 members, for example India, their average allowed agriculture tariff is 114 percent. Their average applied tariff in agriculture is down there at 30 percent. Under the G20 formula their average allowed tariff would still be up at 70 percent. I think only 14 percent of their tariff lines would be cut down to the applied levels under G20.

It's not just India. You look at Indonesia, only three percent of their tariff lines in agriculture are cut to the applied level under that G20 proposal.

So G20 certainly puts something on developed countries stronger than what the EU has got out there, stronger than what Japan has got out there, the two big traders on the developed side. So it's better than that. But does it actually deliver the real cuts? It's hard to see it at all on developing countries, and only in certain circumstances on the developed side. And that's even before we talk about the sensitive products and the weak TRQs that are out there.

So that's why when we're here talking to folks we're saying remember the Doha ambition. Substantial improvement, market access that for us means trade flows, so that means it's got to be quite a bit stronger than that.

Senior USTR Official #2: Can I just come back on this point? He has reminded me that I really didn't mention a key part of the market access. Even with the Swiss 20, countries like India could retain peaks of three digits. It's very much like in agriculture where even if India were to do a 50 percent reduction in some of their lines it would still be three digits, and we don't know where those are, where those cuts would be. So we have really no certainty. But every single thing we do, everyone knows exactly what we're going to do.

Question: Two questions. First today, the round of press conferences one has attended already, the focus seems to be clearly on the US domestic support measures. Marion

Fischer Boel very clearly gave a very strong indication, and yesterday Pascal Lamy has [inaudible] 20 billion. I'm sure you must be very happy with it.

What exactly is the US doing on domestic support, because there is considerable doubt about whether you can actually move sure flexibility in the domestic support which you have not shown until now.

Secondly, coming back to the NAMA issue, I just calculated what a coefficient of 20 would mean and what a coefficient of 15 would mean.

Could you tell where the US is on the textile issue that Turkey is raising? You give silent support for it but publicly we don't know whether you approve it or you disapprove it.

Senior USTR Official #1: Thanks, Ravi, those were kind questions.

We have seen some comments about domestic support out there and I think there are a couple of reactions to that. One is that what people are asking is, are we going to see real reform in the US proposal? And they ask in terms of cuts. Are we going to actually see cuts that matter? As I went through with you all before, that certainly in each of our components of our support we're seeing real reform.

Now countries have come back and said we want more. Who can blame them? There are greedy trade negotiators. What's going to stop them? But that's really not the question here. Really the question here is how can we pull together a package that is balanced and allows everybody to contribute so we can all deliver. So from our perspective we think it's misguided to focus this question on domestic support because there is a very strong proposal on the table. The challenge that the members have this week is to bring the market access level up to compare with the domestic support. And that's really the question here. If there's market access we have a chance for a deal. If there's no market access, we don't. I don't hear anybody out there saying there's real market access on the table. I think that's where it is.

Pascal Lamy did mention 20 the other day and --

Question: Yesterday.

Senior USTR Official #1: Yesterday. Good, we're topical.

When I think of 20 I think of the Uruguay round 20 years ago, and here we are again. We don't have many chances here so let's not be small minded in our ambitions because it takes 20 years to get one of these things going. I think his ambitions are not as high as ours.

I think of the domestic support cut in the Uruguay round. Do you guys remember what that was?

Question: I know, but let's hear your answer first. I have a question on that.

Senior USTR Official: It was 20 percent.

Question: Okay.

Senior USTR Official #1: So we think we've got a very ambitious proposal out there. We're waiting to see the market access that comes along with it.

That's really where the discussion is going to start this week. You know in the meetings it's going to start on market access, it's going to be asking countries what's on the table, and that's what's going to determine success or failure here.

Senior USTR Official #2: On the textile side I think the challenge we all face, everyone in the room faces, is what's the answer that gets everyone to yes? What's the approach to textiles? We have people with concerns from just about every dimension. Concerns from the preference erosion countries, very serious ambition; concerns from the small exporters' side, perfectly legitimate; concern from the large exporters' side and concern from the importers' side.

At this point the views are all over the place on what should be done with the sector which has traditionally had some kind of special treatment. We reintegrated this in the Uruguay round, but people are still adjusting to it. So what is the answer that gets everyone to yes? We don't have a formal position on any one answer. We just know that we don't have a solution that everybody yet can agree to and we need to keep working, keep talking, find the solution that will get everybody to yes.

Question: Coming back to your answer, what was the US commitment in the Uruguay round on the domestic subsidies? We are given to understand it's about nine billion. If you look up the entire commitment of the US in domestic support across all the AMS, Blue, as well as de minimus, what is the figure? Is it nine billion, is that correct?

Senior USTR Official #1: This is great. This was not a set up question, but thanks for asking.

In the Uruguay round countries capped their level of trade distorting support under what we call the Amber Box, the AMS, and they reduced it by 20 percent. In the Uruguay round countries agreed to a Blue Box that had no cap at all. In the Uruguay round countries agreed to a cap on de minimus spending at five percent of the value of production. The US has put forward a proposal that says instead of a 20 percent cut in the Amber Box we propose a 60 percent cut. The US has put forward a proposal that says instead of having an uncapped Blue Box, let's put a cap at $5 billion for the US, 2.5 percent of the value production. The US has put forward a proposal that would cut in half the allowance of this de minimus support.

In the Uruguay round we took a commitment that brought our ceiling down to $19.1 billion in the Amber Box, now we're saying $7.6. So this is a very aggressive proposal on domestic support. This is what's generated interest in this round, and that's why you have people coming to Geneva now to see how can we bring home these kinds of reforms by seeing what else is on the table?

So it's a strong position. It's something we're quite proud of and it's one that we want to see the rest of the world raise their game and see what they can put on the table as well.

Question: My question is what you realistically expect to achieve this week? The message from Congress and the US farm groups is very much this is a week in which the US should do nothing, that it's time for everybody else to start talking and it's our turn to just listen. And on the other side you have comments like that of the Japanese Agriculture Minister accusing you of faking it in terms of your comments about being flexible. So how do you square that circle?

Senior USTR Official #1: It's a right-on question. Our perspective in the US is that we put a very strong proposal out there, one that comports with the requirements of the Doha agenda. We are looking for the rest of the world to come to the table here. So complaints that the US is faking it just are completely unfounded. In fact the bigger concern is that when you have a major trading partner putting out a proposal that would allow it to maintain tariffs of above 400 percent on basic grains that would have a sensitive product category where no tariff cut at all is required, is really pretending to negotiate.

What we need to see here is people come to the table with real, concrete offers that expand trade by opening their markets. Without that none of this comes together. I think our Congress has been very clear about that, our ag groups have been similar, that we're prepared to do a deal if others are prepared to come to the table.

Question: The French Agriculture Minister just said that what he called a large majority of the EU member states have put down the line to the Commission saying there will be no movement from the October 28th proposal on market access. If that is the case, what chances really are there of any success this week in the agriculture negotiations? And how seriously do you take those messages from the EU member states? [Inaudible] negotiate? Or of you've been through this before as I've just [inaudible]?

Senior USTR Official #1: I'm a lot younger than I look, Dan. [Laughter].

I think if the European Union comes here not prepared to move at all we will not conclude the negotiations. That's evident. Now we still have several days here so we can test that out and see who is prepared to improve their market access offers. We'll see that. And we'll have a chance to explain to the rest of the world what's at stake here. We've got a good proposal on the table. It will only be delivered if others step up to the plate and it's a good chance for us to communicate that. Of course we'd like to see them step forward so we can actually engage in real negotiation, but it takes two to get this done. I'm not expert enough to comment on --

Question: Can I just follow up on that? When you say it's up to them to step forward, they have stepped forward today. Mandelson said they would go close to a G20 effort. Does that not count for you as stepping forward? What is stepping forward?

Senior USTR Official #1: I haven't seen a proposal. In our ag negotiations it's awfully complex. We've got tiers and cuts and sensitive products and all of these things work together.

If someone came to me and said look, I'll do an 80 percent average tariff cut, oh, but by the way I need to have 10 percent sensitive products and for those sensitive products the TRQ's going to be two percent of consumption, that's not a very serious offer.

Now if they say they can do an 80 percent cut and they're prepared to provide real quotas for sensitive products, that's another thing.

So I think general hints are hard for us to evaluate. But certainly we do know that coming close to or doing the G20 is not going to deliver the kind of trade flows that Ian was asking about. That's not going to break enough new market access to generate the economic growth that this round is supposed to be about.

Question: I wondered if you could tell us a bit more about what USTR Schwab meant by extending thinking beyond this weekend? Is there any sort of timeline that you can perhaps lay out for us? What is her thinking on time now, given the quite well reported deadlines that are looming?

I also wondered on the question of Susan Schwab whether you could lay out for us what her appearances will be over coming days. Give us an idea about whether she'll be giving press conferences, whether she may be joining some of her compatriots down at WTO headquarters to speak either with Mr. Mandelson or Mr. Amorim? Are there any events that are planned, or is it all going to be entirely spontaneous?

And thirdly, if I may, is it tough to negotiate with an EU which doesn't appear particularly unified? The splits were wide open this morning between France and Mandelson.

Moderator: We'll keep you posted on the public appearances by USTR Schwab.

Senior USTR Official #1: On the timing, I'm sure she'll have a chance to answer that as well. My own sense of this has been that the real deadline for us is TPA. That means we've got to get something signed, sealed and packaged up in a nice little bundle by the end of the year. Then you work back all the details that are going to be required and it's awfully hard to see that coming together without a breakthrough on the modalities this summer. I think that's as precise as you can get because we can work faster or slower, but at some point we run out of time. So that's how I've always looked at the time, that this next couple of months here are the key ones to try and bring something along.

Senior USTR Official #2: I think the reality of doing a trade negotiation is you don't just push a button. There are many complex areas at each of these issues. For example in the NAMA area we have a formula, but we also have developing countries who have to figure out where they're going to take their exceptions; we have a sectoral component that we have to conclude to try to really ensure that we get real access going, including I think in products where there are highly globalized trading patterns. We have non-tariff barriers we need to address, so we're going to need some time this Fall to actually negotiate something. It takes some time to put together an offer. So time is really already tight, and so we'll be looking to try to get these modalities settled as soon as we possibly can.

Question: Are there advantages, perhaps, or opportunities even if your main negotiating partner is not seeing entirely eye to eye? Is that necessarily an obstacle over the next few days?

Senior USTR Official #1: I guess the ideal negotiating partner is one that is prepared to say yes when you give them a good deal, so that's what we're looking for.

Question: [Inaudible]?

Senior USTR Official #1: That's absolutely us. We are here, we're ready for a good deal, we're waiting for folks to give us a good offer.

Senior USTR Official #2: And I would say that on the NAMA side the US and EU are really pretty much in lockstep. We have a very common position. We both need real access and I think it's been a very good relationship.

Question: When you began you said that most of them seem to be coming up with some optimistic proposals and all that, right?

Senior USTR Official #1: Ambitious.

Question: Yeah, ambitious. But there is nothing meaty about it in the sense that you said the EU hasn't really come forward with a proposal. So what is the basis of your initial statement?

Senior USTR Official #1: When we've met with our other trading partners, and by all means, not with everyone. We've only been here a couple of days. But when we sit down with some of the key leading countries we say well, what are you guys hoping to achieve here? They say well we want to see an ambitious result, we want to see real trade flows, we want to have access for our exports, and if we get that we've got a package we can sell at home. What we're hearing also is we don't want to bring home some lukewarm, half-baked, day old Doha light. We want to bring home a substantial agreement.

Now when we get into the specifics, we talk about well what do you think that means for tariff cuts? Absolutely, that means deep tariff cuts, that means very stringent rules on sensitive products, that means very few loopholes for SPs and SSMs. That's what a number of the key players see as important. Not all of them. There are some countries out here who don't want to bring that along.

So we can get into the cuts and the tiers and so forth, but I think just in terms of the general sentiment, when we look back at what was promised in Doha, when we look back at what we'll deliver – trade flows and economic gains and what has a political saleability, it's the big package.

Question: So the countries that said they are going to come up with these great offers, they have not put anything on the table, right?

Senior USTR Official #1: Yes, isn't that sad? [Laughter].

But again, we're not negotiating in the press. We have negotiating forums here and that's a chance for Japan to stop hiding behind the EU here. It's a chance for them to say – They've got a 45 percent cut in their top tier. Come on, you know? That 700 percent tariff doesn't even get cut in half? It's time for the state traders – Australia and Canada – to come forward and give up the ghost there on the monopoly. It's time for the G20 to put forward a good developing country proposal. So that's what's needed out here. The Europeans, of course.

Question: A question on the linkage between agriculture and NAMA and the difference between cutting [defined] rates or just bound rates.

The US is consistently arguing that it needs to get much deeper reductions in actual applied rates on tariffs on agriculture and on industrial goods from developing countries, but it doesn't really seem like the US proposal on domestic support would really result in reductions in actual US spending. According to Bob Stallman yesterday, the overall, the ceiling on overall trade distorting support would only have been exceeded in two out of the last ten years. So generally that doesn't sound like huge cuts to actual spending right now, but according to your answer on the Swiss NAMA formula with a coefficient of 20, half of all developing country applied tariffs would be reduced and ten percent, that sounds about as minimal I guess as --

Senior USTR Official #2: The ones you trade in are not.

Question: Maybe I should focus the question by asking why is the US, is there some kind of a problem with the focus on reductions to applied rates when people don't really think that the domestic support proposal is reducing that much from an applied rate. And when traditionally the WTO is cut from bound [inaudible] and that's been the standard.

Senior USTR Official #1: I guess a couple of things on that. It stands to reason that applied rates are a good indicator of are you creating new opportunities? If your current tariff that your exporter is facing is ten percent and the round only brings that tariff down to 15 percent, how can you really demonstrate new trade flows? How can you demonstrate new economic opportunity? So I think it's completely reasonable to use that as a standard. Even if we make the calculations from the bound rates.

So it is fair for you to then also ask where is that on domestic support? Here, Ian, you've got to be careful. Don't believe the hype. Remember what we're talking about here. We're talking about several different categories of support and the key category in the Uruguay round and for our most important programs, both most popular, largest spending, and most distorting, is that Amber Box program. It's going to fall under our proposal from 19 to 7.6, and there's nowhere to hide those programs in any other box.

The counter-cyclical program, which is less distorting, it's smaller, and it's also going to be subject to a real cut here. Down to five billion. We spent more than that last year. It's authorized to 7.6.

So we have this theoretical possibility of people using de minimus support, but remember, de minimus is de minimus for a reason. It's very small. It can't be co-located with Amber Box support. It's either/or. You can't have amber and de minimus. So this overall number is in fact a fictional number. It's been created in this round, was never used before, and it's an accounting identity that's out there to give us something else to negotiate on domestic support. But don't confuse form with reform here. No one is telling you that the US domestic support proposal will not force fundamental reforms. So I think it's really a distraction to focus on this overall number. That's the risk here. People use that as an excuse for failing to come to the table, then we've lost a real opportunity.

Question: The US is so strong on that, going by your logic, why is it they [inaudible] of 70 percent which the G20 and the EU are suggesting?

Senior USTR Official #1: Well, I can see Ravi you've also been commissioned as a negotiator here.

Question: Thank you. [Laughter]. But we have to overcome this.

Senior USTR Official #2: I keep telling him I'm not negotiating with him, too, you know? He doesn't get the message.

Senior USTR Official #1: It's a question our trading partners have asked. They said dig deeper, US. Dig deeper. We've got binding cuts in the Amber box. We've got binding cuts in the Blue Box. You're cutting your de minimus in half. Give us more concessions. Give us more concessions. That's what you do in a negotiation. But what you also do in a negotiation is you offer to make meaningful commitments yourself, and that's where we've come to. Where are the meaningful commitments from the other side?

Question: So [inaudible] of 70 percent is not meaningful?

Senior USTR Official #1: We are looking for an overall, a commitment from the G20, from the G10, from the EU on market access.

Question: The G-10 said this morning they were completely committed to an agreement by the end of the week, but the G20 proposal was far too ambitious for them, and that they were going to take this message, the Japanese Minister said he's going to take this message to the G6 meeting this afternoon with the aim of bridging differences, getting to a deal, but forget about the G20 average tariff cut.

What do you say to that?

Senior USTR Official #1: Well, we're looking for real market access, and if people aren't ready to deliver it there's nothing we can do to make them do it.

Question: A quick technical question. You talked about a Swiss 20 coefficient allowing some developing countries to maintain tariffs in the triple digits. I always thought the coefficient determines the maximum tariff.

Senior USTR Official #2: It' the paragraph 8. It's their ability to take the exceptions. Using the flexibilities. India has, their peak rate right now, it's an ad valorem rate, but it's 781 percent. Cutting that in half, that's still three digits any way you count it.

That's the uncertainty we face, but everything we do people know exactly what we're doing.

Question: The 781 percent, what does that mean? What product is that in India?

Senior USTR Official #2: Do you remember the line? We can get it to you. I don't remember off the top of my head which line it is.

Question: Effectively what you're saying is that Swiss coefficient 20 proposal would still leave a tariff in the triple digit range.

Senior USTR Official #2: It's not the Swiss coefficient that does that, it's the fact that under the NAMA formulation you have a possibility of retaining ten percent of your lines where you use a less than formula cut, so that would get you maybe down to 300 and something; or to not make any cuts at all in a certain number of products. In that case it could stay as high as 781 or whatever it is.

Question: Wouldn't you just negotiate that out? Surely that's --

Senior USTR Official #2: That's the hope, but the developing countries are basically saying we're not negotiating on those issues. We have a right to it and that's what we're going to do. And we have no certainty on where they're going to take those exceptions.

Question: Isn't that what the schedule negotiations are all about? Why lock the gate at this point when that's what negotiations on specific lines are all about, isn't it? Why are you locking the gate now when everyone knows the specifics that get negotiated later in the year?

Senior USTR Official #2: What we're saying is it's the uncertainty. They could conceivably still retain rates that high. Not on everything, certainly, but they have the ability to do that and that's certainly not really what we're here about.

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