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Report to the Chairman, Committee on Ways and Means, House of Representatives

April 2006

WORLD TRADE ORGANIZATION

Limited Progress at Hong Kong Ministerial Clouds Prospects for Doha Agreement

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Highlights

Highlights of GAO-06-596, a report to the Chairman, House Committee on Ways and Means

Why GAO Did This Study

U.S. officials often call the World Trade Organization's (WTO) Doha Development Agenda or "Round" of global trade talks, launched in Doha, Qatar, in November 2001, a "once in a generation opportunity" to expand trade. President Bush has identified their success as his administration's top trade priority. Due to various U.S. notification and consultation requirements, concluding the negotiations in 2006 is essential for a Doha agreement to qualify for congressional consideration under U.S. Trade Promotion Authority (TPA), which expires July 1, 2007. A ministerial meeting among the WTO's 149 members was held on December 13-18, 2005, in Hong Kong, China, to make decisions needed to advance the talks.

Given the importance of the WTO Doha Round to the United States, GAO was asked to provide an update on the status of the negotiations. In this report, the latest in a series on the negotiations, we (1) provide the status of the Doha negotiations on the eve of the Hong Kong ministerial, (2) review the outcome of the Hong Kong ministerial, and (3) discuss the prospects for concluding the Doha Round before TPA expires in July 2007.

www.gao.gov/cgi-bin/getrpt?GAO-06-596.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov.

WORLD TRADE ORGANIZATION

Limited Progress at Hong Kong Ministerial Clouds Prospects for Doha Agreement

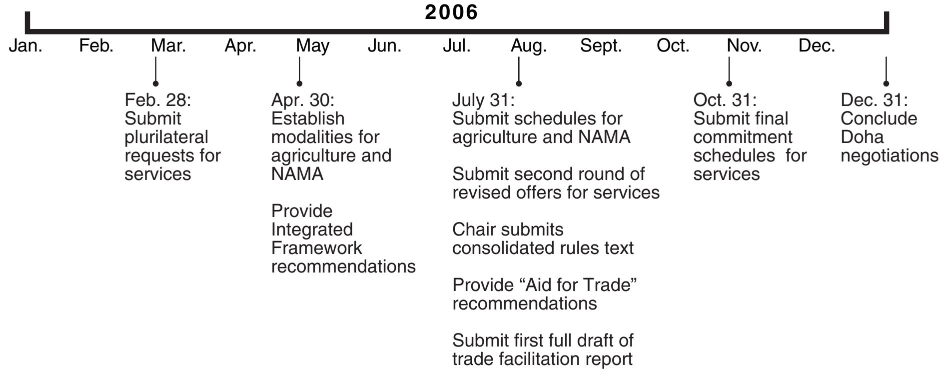
What GAO Found

WTO members made little progress in 2005 toward their goal of completing the steps needed to set the stage for finalizing the Doha Round of global trade talks. The key milestones for progress through July were missed. Despite new proposals on agricultural subsidy and tariff cuts submitted in October 2005, it was clear by November that key players were too far apart to achieve the major decisions planned for the December ministerial. To avoid a failure, members agreed to lower expectations for the meeting.

The Hong Kong ministerial resulted in modest agreements on a narrow range of agricultural and development issues. Ministers made little progress on the broader Doha negotiating agenda, including two other U.S. priorities—services and nonagricultural market access. Nevertheless, WTO members renewed their resolve to successfully conclude the Doha Round by the end of 2006 and set new interim deadlines under a compressed schedule to meet that goal. Critical decisions that will determine each member's cuts in tariffs and other barriers were due April 30 and July 31, 2006, but the April 30 deadline will be missed.

WTO members continue to profess commitment to accomplish the ambitious agenda set at Doha. However, with nearly all tough decisions put off, the tension between members' original high ambitions and the U.S. TPA timeframe has become acute. Since the Hong Kong ministerial, members have taken concrete steps to help build consensus. Yet, the ongoing impasse on core areas such as agriculture, and the difficult political decisions needed to resolve it, cause many experts to be skeptical. As illustrated below, numerous time-consuming steps still must be completed in the little more than a year left before TPA expires. While holding out hope for an agreement that lives up to Doha's promise, experts say outright collapse, substantial delay, or modest results are all possible outcomes.

Key Selected Deadlines in 2006 for Doha Negotiations



NAMA: Nonagricultural market access

Source: GAO, based on WTO documents.

Contents

Abbreviations

ACP	African, Caribbean, and Pacific Group of States
C-4	Cotton Four countries
EU	European Union
GATT	General Agreement on Tariffs and Trade
G-4	Group of 4
G-5	Group of 5
G-6	Group of 6
G-10	Group of 10
G-20	Group of 20
G-90	Group of 90
ITC	International Trade Commission
LDC	Least developed countries
NAMA	Nonagricultural market access
TPA	Trade Promotion Authority
USTR	Office of the United States Trade Representative
WTO	World Trade Organization

United States Government Accountability Office
Washington, D.C. 20548

April 26, 2006

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

Trade ministers from members of the World Trade Organization (WTO) gathered in Hong Kong, China, in December 2005, for a meeting that was originally expected to yield agreements considered critical for concluding the Doha Round negotiations by the end of 2006.[1] Launched in November 2001 in Doha, Qatar, these negotiations involve 149 nations and encompass a far-reaching, ambitious agenda for liberalizing trade ranging from reducing tariffs and eliminating subsidies, to bolstering economic development in poor countries. Because the Doha Round is considered a "package deal"—or single undertaking in WTO parlance—simultaneous agreement by all members on all issues is required to finalize an agreement. U.S. and WTO officials acknowledge that concluding the negotiations in 2006 is essential for a Doha agreement to qualify for the streamlined congressional approval procedures of the U.S. Trade Promotion Authority (TPA), which expires July 1, 2007.[2] President Bush has identified the success of the Doha Round negotiations as his administration's top trade priority.

Given the importance of the WTO Doha Round to the United States, you asked us to provide an update on the status of these negotiations. In this

[1]The negotiations are formally called the Doha Development Agenda but are commonly referred to as the "Doha Round."

[2]Title XXI of the Trade Promotion Authority (TPA) Act of 2002 (P.L. 107-210) gives the president the authority to conclude trade deals around the world and to submit legislation approving and implementing the agreement subject to an up or down vote by Congress using expedited procedures within a set time period. To qualify, any agreement resulting from the Doha negotiations must be entered into by the president before July 1, 2007. Expedited consideration is also contingent on the president's compliance with requirements for consultations with and notices and reports to Congress before, during, and after negotiation of the agreement. In negotiating the Doha Round on behalf of the United States, the Office of the United States Trade Representative is guided by the goals outlined by TPA, including overall and principal objectives and promotion of certain priorities.

report, the latest in a series,[3] we (1) provide the status of the Doha negotiations on the eve of the Hong Kong ministerial, (2) review the outcome of the Hong Kong ministerial, and (3) discuss the prospects for concluding the Doha Round before TPA expires in July 2007.

To address these objectives, we met with, and reviewed documents from a range of WTO, U.S., and foreign government officials, as well as academic experts and private sector groups (including business associations, law firms, and civil society groups) in Washington, D.C.; Geneva, Switzerland; and Brussels, Belgium. We also attended the sixth WTO ministerial conference in Hong Kong, China. To assess the prospects for success, we relied on the views of selected participants and experts representing a range of institutional perspectives (government, academia, "think tanks," nongovernmental organizations, business groups, and other trade policy observers), as well as our own analysis. We conducted our work from May 2005 through March 2006 in accordance with generally accepted government auditing standards.

Results in Brief

Between mid-2004 and the eve of the WTO's Hong Kong ministerial conference in December 2005, WTO members made little progress toward their goal of making the major decisions in six core areas that would be needed to set the stage for final negotiations in 2006: (1) agriculture, (2) nonagricultural (or industrial) market access, (3) services, (4) trade facilitation (simplification of customs procedures), (5) development issues, and (6) WTO rules (including antidumping and subsidies). During this period, trade facilitation negotiations got off to a good start and some progress on technical issues was achieved in most other areas of the negotiations, although this generally took longer and proved more contentious than expected. Key milestones were missed, including the May 2005 deadline for submitting new and revised offers in the services negotiations, which was not met by most members. Despite significant proposals on cutting agricultural subsidies and tariffs submitted in October 2005, it was clear to members by November that the negotiating positions

[3] GAO, *World Trade Organization: Global Trade Talks Back on Track, but Considerable Work Needed to Fulfill Ambitious Objectives*, GAO-05-538 (Washington, D.C.: May 31, 2005); GAO, *World Trade Organization: Cancún Ministerial Fails to Move Global Trade Negotiations Forward; Next Steps Uncertain*, GAO-04-250 (Washington, D.C.: Jan. 15, 2004); GAO, *World Trade Organization: Early Decisions Are Vital to Progress in Ongoing Negotiations*, GAO-02-879 (Washington, D.C.: Sept. 4, 2002).

of key players were too far apart to achieve major agreements at the December ministerial. To avoid a potentially disastrous collapse at Hong Kong, the new WTO Director-General steered members toward lowered expectations for the meeting. As a result, they shifted the focus to narrower initiatives primarily intended to lock in progress to date and benefit least-developed country members.

The Hong Kong ministerial resulted in modest agreements on a narrow range of agricultural and development issues, but postponed decisions on how much to cut tariffs and other barriers. Notably, WTO members conditionally agreed to eliminate agricultural export subsidies by 2013 and to provide least-developed countries duty-free and quota-free access to developed-country markets for at least 97 percent of their products. However, little progress was made on other core areas of the broader Doha negotiating agenda, including two of the United States' priorities—services and nonagricultural market access. Despite its modest achievements, the Hong Kong ministerial declaration formally committed members to conclude an overall agreement on the Doha Round by the end of 2006 and set a series of interim deadlines to meet that goal. For example, April 30, 2006, was the new date for establishing "modalities"—broad guidance on the extent of each country's reductions in tariffs, subsidies, and other trade barriers—for agricultural and nonagricultural goods. Members' schedules, reflecting how they propose to apply these modalities in their national commitments, are due July 31, 2006, and will be the basis for the final phase of negotiations.

WTO members and observers recognize that achieving an agreement within the time remaining in 2006 will be challenging, given the limited progress to date and the scope and difficulty of the work outstanding. Members continue to profess high ambitions, however, and most view expiration of TPA on July 1, 2007, as a hard deadline that drives the need to conclude negotiations in 2006. Since Hong Kong, some steps toward achieving their agreed-upon goals have been taken, such as gaining agreement among key members to use simulations of the impact of proposed cuts in subsidies and tariffs as a basis for discussions. Nevertheless, factors such as the failure to meet most prior deadlines, the ongoing impasse on core areas such as agriculture, and the difficult political decisions needed to resolve them, cause experts to be skeptical. In particular, the trade-offs required to finalize the agreement will need to be made when political events such as elections are taking place, which will constrain key countries. Moreover, even if a breakthrough is achieved, many difficult and time-consuming steps must be completed before entering an agreement. Thus, the ability to meet the 2006 deadlines with an ambitious outcome—one that would result in a strengthened and measurably freer global trade environment—is in doubt. While holding out some hope for a satisfactory outcome, several experts in fact warn that outright collapse, substantial delay, or a minimal outcome are possible.

We solicited comments on a draft of this report from the Office of the U.S. Trade Representative (USTR), and the Departments of Agriculture, Commerce, and State; these agencies generally agreed with our substantive findings and offered a few minor technical corrections, which we incorporated.

Background

The WTO was established as a result of the Uruguay "Round" on January 1, 1995, as the successor to the General Agreement on Tariffs and Trade (GATT). Based in Geneva, Switzerland, the WTO administers agreed-upon rules for international trade, provides a mechanism for settling disputes, and serves as a forum for conducting trade negotiations. WTO membership has increased since 1995, and there are currently 149 WTO member nations and customs territories that are diverse in terms of economic development; these members negotiate individually or as a member of a group of countries (see table 1 for some of the major country groupings). While the WTO has no formal definition of a "developing country," the World Bank classifies 105 current WTO members—or approximately 72 percent—as developing countries; 32 of these members are officially designated as "least-developed countries" (LDCs).[4] USTR negotiates on behalf of the United States in WTO negotiations.

[4]The WTO recognizes as least-developed countries those countries that have been designated as such by the United Nations. Since 1971, the United Nations has denominated LDCs "a category of States that are deemed highly disadvantaged in their development process... facing more than other countries the risk of failing to come out of poverty." In its 2003 review of LDCs, the United Nations identified LDCs as countries with a 3-year average estimate of gross national income per capita under $900, among other criteria.

Table 1: Major Negotiating Groups in the World Trade Organization

Country group	Countries	Interest
Groups of 4, 5, and 6 (G-4, G-5, G-6)	United States, EU, Brazil, and India (plus Australia in G-5; Japan in G-6)	The G-5 helped negotiate the July 2004 framework agreement on agriculture and variants of this group are now a key negotiating group for the Doha Round
European Union (EU) (currently has 25 members)	Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Poland, Slovak Republic, Slovenia, Spain, Sweden, and United Kingdom	Political union that negotiates as a group in the Doha Round
Group of 20 (G-20) (currently has 21 members)	Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, Zimbabwe	Developing countries united on agriculture negotiations
Group of 10 (G-10)	Bulgaria, Iceland, Israel, Japan, Liechtenstein, Mauritius, Norway, South Korea, Switzerland, and Chinese Taipei	Net food importers and subsidizers
Group of 90 (G-90)	Members of the African Union; the LDCs; and the African, Caribbean, and Pacific (ACP) Group[a]	Coalition of the poorest and least-developed countries in the WTO
Cotton Four (C-4)	Benin, Burkina Faso, Chad, and Mali	West African cotton-producing countries advocating a WTO initiative to assist their cotton farmers

Source: GAO analysis of WTO documents.

[a]The African, Caribbean, and Pacific Group of States (ACP) is an organization created in 1975. It is composed of African, Caribbean, and Pacific states that are signatories to the partnership agreement between the ACP and the EU, now officially called the "Cotonou Agreement."

The WTO ministerial conference held in Hong Kong, China, from December 13–18, 2005, was the sixth since the establishment of the WTO in 1995. These ministerial conferences, convened at least every 2 years, bring together trade ministers from all WTO members. The outcome of a ministerial conference is reflected in a fully agreed-upon ministerial declaration. The substance of these declarations guides future work by outlining an agenda and deadlines for the WTO until the next ministerial conference. Decisions in the WTO are made by consensus—or absence of dissent—among all members, rather than by a simple majority. Periodic "mini-ministerials," or informal meetings among small groups of selected WTO members, are often used to advance dialogue on issues.

At the Hong Kong conference, ministers sought to make progress in the ongoing multilateral trade negotiations, officially known as the Doha Development Agenda. Formally launched at the fourth WTO ministerial conference in Doha, Qatar, in November 2001, the negotiations are the latest in a series of global trade talks (negotiating rounds) dating back nearly six decades.[5] They are intended to reduce trade barriers and facilitate the free flow of commerce throughout the world. A major objective of the Doha negotiations is development—that is, to help developing countries realize the economic benefits of trade and enable them to take advantage of trading opportunities.

The Doha ministerial declaration established a work program with a number of negotiating areas and set the goal for concluding the negotiations by January 1, 2005.[6] Of the 16 current negotiating areas, market access in agriculture, services, and nonagricultural (industrial) products (NAMA) are the three U.S. priorities. WTO members set specific goals for each area and set up various negotiating groups to achieve them. In agriculture, the Doha work program commits countries to lower barriers in world agricultural markets and sets forth three pillars for agricultural trade reform: export competition (subsidies), domestic support (subsidies and other assistance to farmers), and market access (tariffs). Agriculture remains the top issue for many participants and has been described as the lynchpin of the Doha negotiations. Lack of progress in liberalizing agriculture is partly due to the fact that it was first added to the trading system in the last (Uruguay) round, which left high subsidies and tariff barriers in place. Doha negotiations in services aim to ensure increased transparency and predictability of rules and regulations governing services and to promote liberalization of service markets. The goal of the NAMA negotiations is to reduce or eliminate tariffs and non-tariff barriers. The

[5]The Doha Round is the ninth round of trade liberalizing negotiations under the auspices of the GATT/WTO since 1947. For additional information on the fourth ministerial conference and the Doha Development Agenda, see GAO-02-879.

[6]There are currently 16 negotiating areas in the Doha work program. These 16 areas are implementation-related issues and concerns; agriculture; services; market access for nonagricultural products; trade-related aspects of intellectual property rights; trade facilitation; WTO rules; dispute settlement understanding; trade and environment; electronic commerce; small economies; trade, debt, and finance; trade and transfer of technology; technical cooperation and capacity building; least-developed countries; and special and differential treatment. Originally, the Doha declaration set forth three other negotiating areas: transparency of government procurement, interaction between trade and competition policy, and relationship between trade and investment. Members agreed to drop these three areas in the July 2004 framework agreement.

agriculture and NAMA negotiations involve first reaching agreement on "modalities"—the formulas, thresholds, dates, and other numerical benchmarks that members will commit to meet when they revise their WTO schedules of subsidy and tariff commitments. This guidance then is translated into national tariff schedules specifying what tariff will be charged on each product. Members are then "bound" not to exceed these.

Concluding the round will require simultaneous agreement on all issues, because WTO members have agreed it will be a package deal (or "single undertaking" in WTO parlance). As a result, trade-offs are expected to occur among issues to accomplish an overall balance satisfactory to all members. When it is final, the trade agreement will impose legally binding international obligations on WTO members governing the trade barriers they are allowed to maintain (such as tariffs) and the trade rules by which they must abide. Failure to comply is subject to binding dispute settlement and possible trade retaliation.

To date, the negotiations have progressed fitfully. Our January 2004 report explained the factors that caused the September 2003 Cancún ministerial to collapse in acrimony and confusion, including sharp North-South (developed-developing country) divisions on key issues. For example, developing countries rejected the proposed U.S. and EU reductions in agricultural subsidies as inadequate, but the United States and the EU felt developing countries were not contributing to reform by agreeing to open their markets. Moreover, many developing countries remained dissatisfied with proposed responses to their demands for special treatment and for relief from difficulties they were still experiencing in implementing existing WTO obligations. In 2004, the Doha Round negotiations started again on an uncertain note; however, political leadership, intensified dialogue, and a series of conciliatory gestures resulted in WTO members adopting an agreement on key issues in the negotiations known as the "July framework agreement," which is credited with achieving sufficient progress on agriculture to put the global trade talks back on track and reopen discussion of other issues. The main features of the framework agreement were to establish key principles for each aspect of global agricultural trade reform; identify the key elements of negotiations to improve nonagricultural market access; stress the importance of liberalizing access to services markets and addressing outstanding development concerns; and launch negotiations to clarify and improve WTO rules on customs procedures (trade facilitation).[7] WTO members also agreed to hold their next ministerial in Hong Kong in December 2005. However, our last report[8] noted that, despite the improved negotiating atmosphere, the negotiations were effectively 2 years behind schedule and considerable work remained on the numerous issues that would constitute a final agreement. Pursuant to the Trade Act of 2002, in March 2005, the president requested a 2-year extension of TPA, and the extension went into effect.

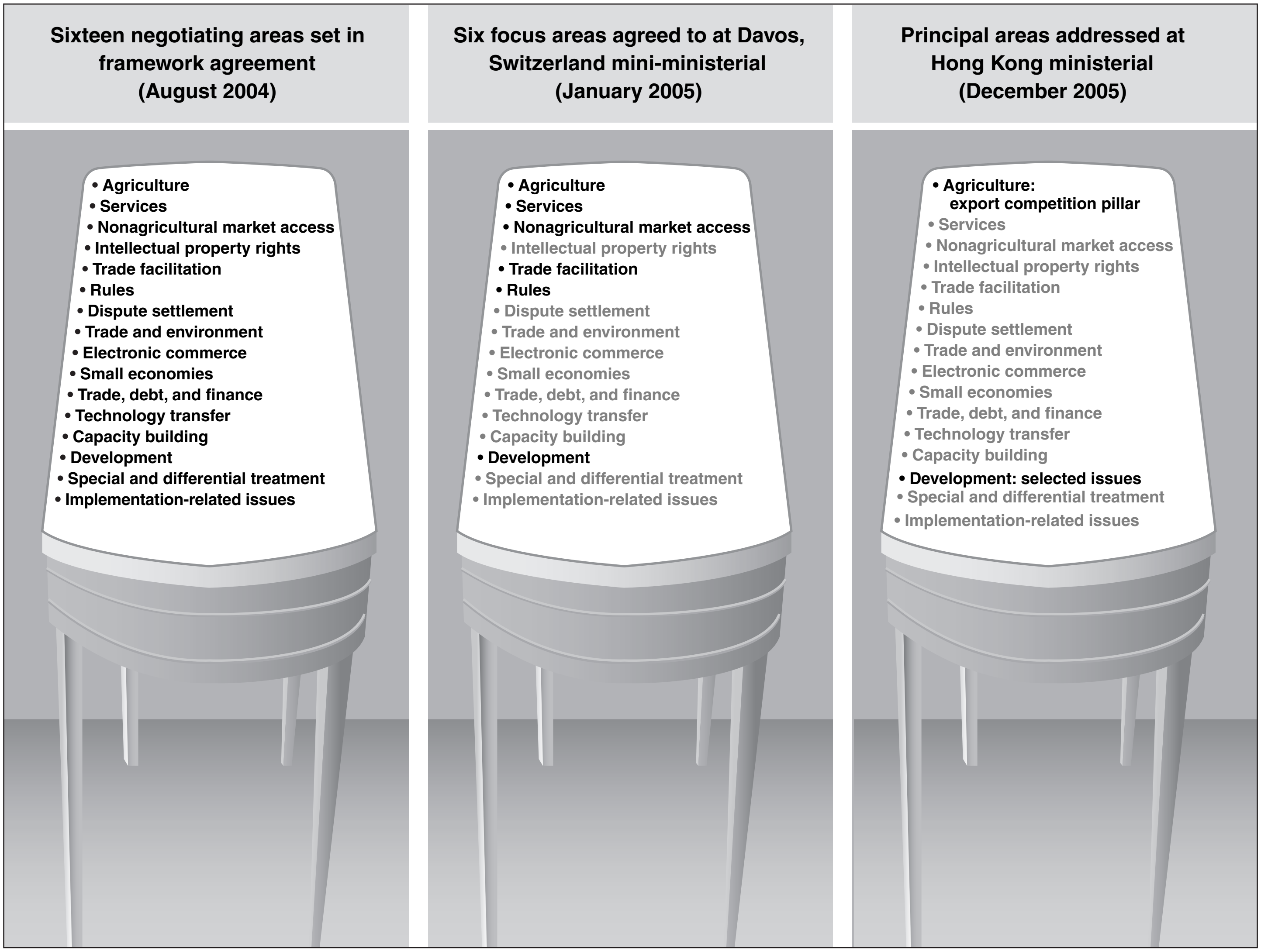
Limited Progress Since Mid-2004 Causes WTO Members to Recalibrate Goals for Hong Kong

Despite the impetus provided by the framework agreement, the Doha negotiations moved slowly throughout 2005. As we reported last year, WTO negotiators began 2005 with a resolve to complete the round in 2006 and set the stage by agreeing to make progress in 6 of the 16 Doha negotiating areas by the end of 2005—agriculture, NAMA, services, trade facilitation, development issues, and WTO rules. However, limited progress was made before the Hong Kong ministerial, as the talks stalled in fall 2005 amid stalemate over fundamental issues on agriculture and NAMA. To avoid another failed meeting, such as at the last ministerial in Cancún, Mexico, expectations for the Hong Kong ministerial were lowered. The agenda for the meeting shifted from making key decisions on the six core areas to focusing on narrower initiatives, particularly in agriculture and development, that could help the talks move forward, if only marginally (see fig. 1).

[7] The full framework (WTO, "Doha Work Program: Decision Adopted by the General Council on 1 August 2004," WT/L/579, Aug. 2, 2004) is available at http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm (downloaded April 19, 2006).

[8] GAO-05-538.

Figure 1: Agenda for Hong Kong Focused on Only 2 of the 16 Doha Negotiating Areas



Source: GAO, based on WTO information.

Some Technical Progress Achieved but Key Milestones Missed

In early 2005, at a mini-ministerial meeting in Davos, Switzerland, and subsequently at a February meeting among all WTO members, WTO members agreed that the goal of the Hong Kong ministerial was to set the stage for the final phase of the Doha negotiations, which would enable the round to conclude in 2006. To that end, they agreed to seek to finalize modalities for both the agriculture and NAMA negotiations at Hong Kong, and to make significant progress in four other core areas—services, trade facilitation, development issues, and WTO rules (which covers subjects such as subsidies, antidumping measures, and regional trade agreements). Deliverables in these six areas are critical in determining how ambitious the Doha Round will be in terms of cuts in tariffs, subsidies, and other barriers to trade, as well as the ultimate balance across member interests and issues.

Despite these ambitious goals, the overall pace of the negotiations was slow throughout most of 2005, and even progress on technical issues was difficult to achieve. For example, in the agriculture and NAMA talks, negotiators were able to agree on a preliminary basis to methodologies for converting specific tariffs into *ad valorem* equivalents (tariffs based on a percentage of value), a necessary step before potential tariff reductions could be calculated and considered.[9] However, reaching this agreement for agriculture proved to be contentious and occupied the negotiators' time through early May, delaying the discussion of more central issues such as how to make tariff and subsidy cuts. On many issues, negotiators made incremental progress by narrowing the number of options under consideration or fleshing out principles or methods without coming to full agreement. On NAMA, for example, a list of products to be covered by the negotiations was compiled, but there was disagreement about including some items, and no agreement on whether the list should be considered definitive or just a guideline.

In 2005, WTO members missed the key milestones they had set to keep the talks on schedule for completion at the end of 2006 (see fig. 2). In the services negotiations, many WTO members failed to submit offers for opening their markets to foreign services-providers by a May 2005 deadline. Just before the ministerial, the services negotiating group chair reported having 69 initial and 30 revised offers, but 23 members had not yet submitted any offer.[10] In addition, the chair described many of the offers as disappointing, because they did not provide new market access or bind

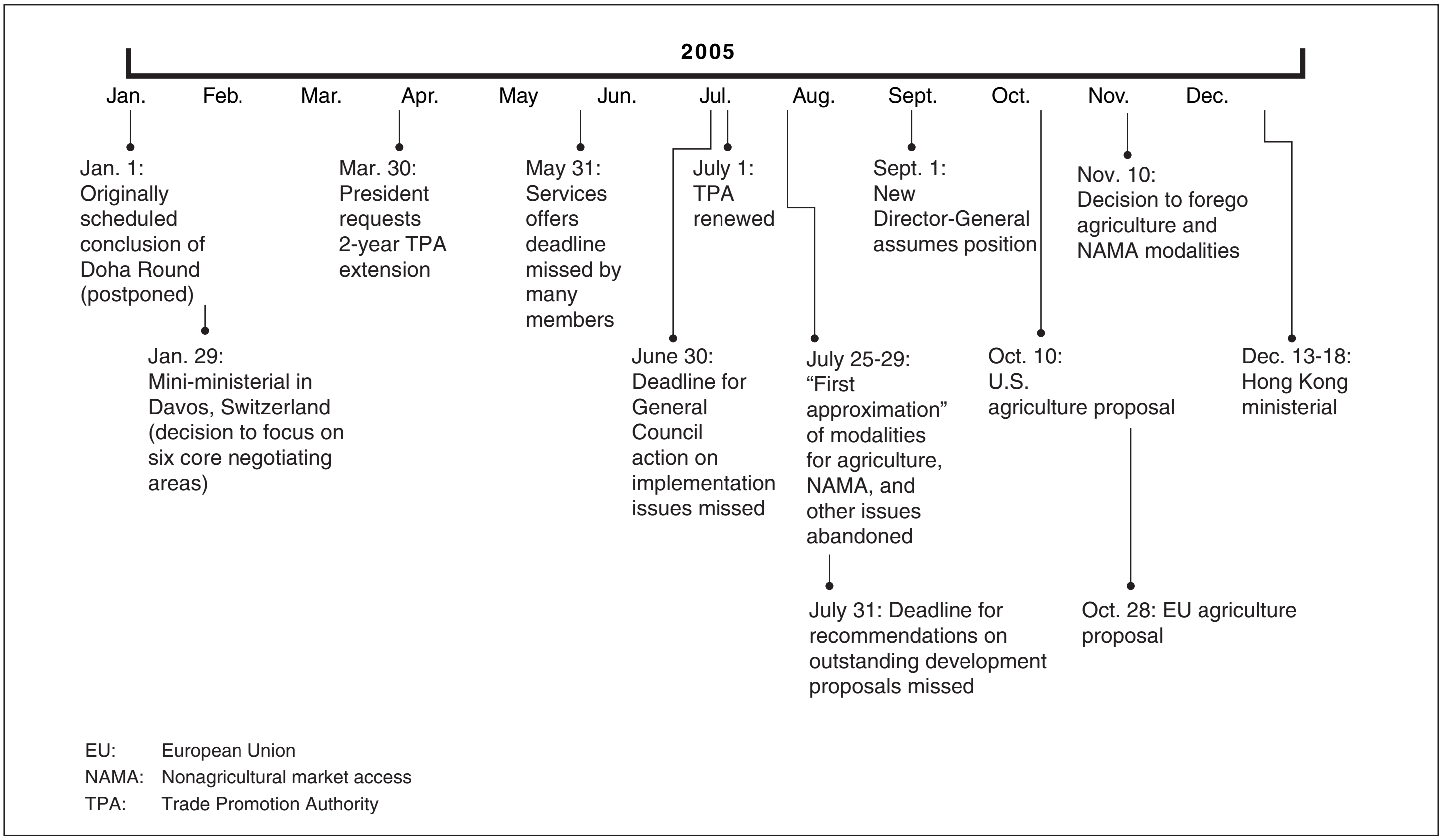
[9]The Department of Agriculture reports that agreement on *ad valorem* equivalents has not yet been fully completed. Isolated products remain to be confirmed, some WTO members have only recently responded to questions in discussions on this point, and members are not fully agreed on the process for verification.

[10]This number excludes least-developed countries, which were not required to prepare services offers.

access at existing levels. In development, the negotiating group made little progress toward a July 2005 deadline to prepare recommendations to improve special and differential treatment.[11] WTO members also missed an informal but important milestone to reach agreement in July 2005 on a "first approximation" of the modalities for agriculture, NAMA, and other issues, which negotiators had hoped to finalize at the Hong Kong ministerial. As deadlines were missed during the spring and summer of 2005, WTO's then-Director-General warned negotiators that the talks were not moving fast enough to reach this goal. In early July, the Director-General stated flatly that "these negotiations are in trouble," adding that WTO members faced "a crisis of immobility" that threatened their ability to deliver decisions at the Hong Kong ministerial.

[11]"Special and differential treatment" refers to specific provisions that provide more time or leniency, greater market access, or other more favorable terms to developing and least-developed countries in implementing WTO agreements.

Figure 2: Key Milestones and Deadlines Missed in the WTO Negotiations in 2005



Source: GAO, based on WTO, USTR, and other information.

We noted in our last report that U.S. and EU leadership has been essential to making progress in the WTO trade negotiations and that relations between their newly appointed trade principals could influence success at Hong Kong. However, a number of events made the leadership transition and U.S.–EU relations more difficult in 2005. A gap of several months occurred between the time when then-current U.S. Trade Representative Robert Zoellick was nominated Deputy Secretary of State in early January 2005 and when his replacement, Rob Portman, was confirmed in late April by the Senate as the new Trade Representative. At that time, a U.S.–EU aircraft dispute was flaring, and influential U.S. congressmen took umbrage at comments by the new EU Trade Commissioner, Peter Mandelson, directed at U.S. policies on cotton subsidies. In addition, some U.S.

negotiators were also occupied with finalizing the Dominican Republic–Central America–United States Free Trade Agreement and ensuring its approval by Congress, which was finally secured on July 28, 2005.

Countries Still Divided over Toughest Issues in Fall 2005

Fundamental divisions among WTO members became very clear in the fall of 2005 when members found themselves deadlocked over conflicting market access goals. In October, key members and country coalitions put forth detailed agriculture proposals that were intended to re-energize the negotiations and resolve key issues before the Hong Kong ministerial. The United States; the EU; the Group of 20 (G-20) coalition of developing countries; and the Group of 10 (G-10)—a coalition of primarily developed countries that import most of their food—laid out their positions on cutting agricultural subsidies and tariffs and what they expected in return from trading partners.[12] The differences among these parties' positions were particularly evident in their approaches to market access (see table 2). The U.S. proposal centered on an offer to cut U.S. domestic farm subsidies substantially, along with aggressive tariff cuts ranging from 55 to 90 percent for all developed countries. However, the offer was contingent on higher subsidy cuts and "ambitious" market access improvements by other countries, particularly the EU and the G-20. Many WTO members received the proposal as a significant effort to unblock the negotiation, but some countries were doubtful that the proposed subsidy cuts were as substantial as billed. The EU proposed smaller agricultural tariff cuts, with more exemptions for protecting "sensitive" products from competition from imports. This offer was contingent on certain concessions from other members, notably substantial market opening in NAMA and services from the more advanced developing countries of the G-20, especially Brazil and India. The G-20 proposal on agricultural market access, submitted earlier in the year, was presented as a middle ground, as the suggested tariff cuts for developed countries fell between the U.S. and EU proposals.[13]

[12]For a detailed comparison of the agriculture proposals by the United States, the Group of 20, the EU, and the Group of 10, see Charles Hanrahan and Randy Schnepf, *WTO Doha Round: The Agricultural Negotiations*, Congressional Research Service, RL33144 (Washington, D.C.: Jan. 12, 2006).

[13]Although this debate centered on the extent of market access in the EU and other developed countries, the proposals also offered schemes for reducing developing countries' agriculture tariffs, though to a lesser extent than in developed countries.

Table 2: Agriculture Market Access Proposals Revealed Wide Differences among Key Players in Expectations for Developed Countries

	U.S.	G-20	EU[a]	G-10[b]
Tariff rate reduction goals	55–90%	45–75%	20–60%	27–45%
Maximum tariff rate (cap)	75%	100%	100% (no cap on sensitive products)	None
Sensitive products, as a percentage of all agricultural products	1%	1%	Up to 8%	15%

Sources: U.S., G-20, EU, and G-10 proposals.

[a]These terms are from the EU's second proposal of Oct. 28, 2005; the 20% tariff reduction minimum takes into account the "pivot" concept.

[b]The G-10 proposal included two approaches to tariff reductions—"linear" and "flexible." This table presents the G-10's linear approach to facilitate comparison with the other members' proposals that are also based on the linear approach.

The EU's market access offer became the focus of criticism before the ministerial, as neither the United States nor the G-20 considered it acceptable. They demanded that the EU cut its tariffs further and reduce the number of sensitive products that would be exempted from the standard tariff cuts. USTR noted that the EU's proposal would allow for tariff cuts of as little as 20 percent on about four-fifths of EU tariff lines.[14] Also, according to USTR, the EU could effectively limit competition from imports, due to the large number of sensitive products it had proposed to shield from liberalization (about 142 tariff lines). Although the EU revised its offer at the end of October 2005, it was again quickly rejected as insufficient.

The EU held the stance in the Doha Round that its chief gains were to be found in the industrial and services sectors underpinning its economy. Specifically, the EU wanted countries such as India and Brazil to offer real

[14]A tariff line is a single item or product in a country's schedule or list of tariffs, associated with a particular tariff rate.

improvements in access to their industrial and services markets.[15] EU members had already agreed to reform the EU's domestic support programs and to eliminate export subsidies as part of the framework agreement and believed they had gotten little in return. In internal consultations in late October, France warned the EU negotiating team that it should not overstep its mandate, which in its view was strictly tied to existing agricultural subsidy spending and the 2003 reform of the EU's Common Agricultural Policy, by making concessions in the negotiations that would not be acceptable to EU member states.

The stand-off continued, as Brazil and India refused to make improved NAMA or services offers until the EU made a better agricultural market access offer. As leaders of the G-20, Brazil and India complained that the EU wanted developing countries to accept much lower tariffs in NAMA than it was willing to offer in agriculture—an export area where many developing countries have a competitive advantage. They insisted that developed countries' market access offers in agriculture be proportional to the market access demanded of developing countries in NAMA and services. However, the EU said its offer was not only final, but conditional, and would be withdrawn if demanders persisted in seeking "something for nothing"—or in the EU Trade Commissioner's words, "real cuts by Europe, paper cuts by others."

Despite the intense focus on agriculture, negotiations continued on industrial goods and services trade, but the knotty conflicts we reported last year continued to impede their progress. On NAMA, negotiators circled around the problem of what tariff reduction formula to use, with signs of potential agreement on a "Swiss" formula that would even out tariff levels

[15]The EU has stated that real improvements on market access would require reductions in their applied, as opposed to bound, tariff rates. An applied tariff is the actual tariff rate levied for a product, while a bound tariff is the maximum allowed tariff rate for a product, which a country has agreed at the WTO not to go above. Many developing countries' bound tariff rates are considerably higher than the tariffs they currently apply. For example, Brazil had an average bound tariff of 31 percent and a 12 percent average applied rate in 2004, according to WTO country statistics.

by cutting higher tariffs more than lower ones.[16] However, negotiators could not agree on the type of Swiss formula to use and the selection of coefficients that would determine the reductions for developed and developing countries. In addition, the treatment of unbound tariffs[17] was not settled, and the degree to which developing countries would have the flexibility to deviate or exempt products from the formula was controversial. On services, negotiators were stalled over proposals to alter the bilateral negotiating format, speed the pace of the negotiations, and encourage greater participation and better market access offers by more countries. Suggestions included the use of numerical targets, with members covering a certain percentage of service sectors in their offers, and a plurilateral negotiating approach whereby groups of countries collectively present “requests” to other groups of countries for market access improvements and then the recipient countries reply with market access “offers” to the demanding countries. However, developing countries criticized these suggestions as overly prescriptive, and a constraint on their freedom to opt out of services liberalization or selectively liberalize sectors.

The trade facilitation negotiations made good progress throughout the year, as did the negotiations on rules, but remained at the stage of exploring proposals versus bridging gaps in positions.[18] Trade facilitation negotiators put forward a large number of proposals for expediting the movement of traded goods, and developing countries participated actively. Negotiations on various trade “rules” intensified, with the debate focusing on the divide between the traditional and new users of trade remedy laws (measures used to counter unfairly priced and subsidized imports)—including the United States—and non-users that have called for significant change in users’ antidumping and countervailing duty regimes. Rules negotiators conducted in-depth discussions of such proposed changes and narrowed

[16]The Swiss formula is a nonlinear mathematical formula that (1) produces a narrow range of final tariff rates from a wider set of initial tariffs and (2) specifies a maximum final rate, no matter how high the original tariff. A key feature is a number (the coefficient) that is negotiated and plugged into the formula to determine the maximum final tariff rate. This formula was first proposed by Switzerland in the 1970s in the Tokyo Round of trade negotiations.

[17]An unbound tariff is one that a country can raise to any level because it has made no commitment to keep the tariff rate below a maximum allowed (bound) level.

[18]The WTO rules negotiations address provisions concerning antidumping measures, subsidies and countervailing measures (including fishery subsidies), and regional trade agreements.

the list of issues somewhat, according to U.S. officials. While proposals aimed at U.S. practice remain a concern, U.S. officials report that proponents had difficulty justifying or gaining consensus for their more radical proposals. Rules negotiators also considered U.S. proposals to improve transparency and due process in trade remedy proceedings and made progress on developing new disciplines on subsidies (including fish subsidies) and transparency for regional trade agreements.[19]

Goals Lowered for December 2005 Hong Kong Ministerial

The flurry of activity in October gave way to the realization in November that the gaps between key negotiating positions were still too wide for negotiators to reach any major decisions by December, and the agenda for Hong Kong was scaled back. New WTO Director-General Pascal Lamy, whom members had installed that fall with hopes that his energetic style might bring negotiators to decisions more quickly, had begun his term by declaring that his goal for Hong Kong was to take the Doha negotiations "two thirds of the way" to conclusion. By early November 2005, Lamy concluded that members had not bridged their differences enough to draft texts with specifics on modalities in the core negotiating areas and urged members to "recalibrate" their expectations for the ministerial. He suggested that members focus on what could reasonably be achieved, rather than risk a failure reminiscent of previous ministerials in Cancún and Seattle. The text for a Hong Kong ministerial declaration should thus try to capture progress or any decisions made since the framework agreement and provide a range of numbers (or "outer parameters") to indicate how other decisions had been clarified, if not narrowed down. Members recognized that no one would be served by presenting the ministers with an overly full and unresolved agenda. They agreed to focus on what was achievable, while stressing they remained committed to an ambitious outcome for the round.

The agenda for Hong Kong quickly changed to reflect these scaled-back expectations and focus on several development issues. Lamy called for the

[19]On antidumping, the negotiating group's chair reported in November 2005 that in-depth debate over proposals had progressed to the point that work was being carried out almost exclusively on the basis of specific legal texts. The chair also indicated he sensed a broad agreement on three principles: (1) avoiding unwarranted use of antidumping measures, while preserving the basic concepts, principles, and effectiveness of the instrument and its objectives where such measures are warranted; (2) limiting the costs and complexity of proceedings for interested parties and the investigating authorities; and (3) strengthening the transparency and predictability of proceedings.

ministerial to deliver on several narrow measures to benefit the 32 LDCs that are WTO members. In addition, the EU and certain developing countries voiced the view that an "early harvest" on development issues was important symbolically. Immediately before the ministerial, the Group of 90 (G-90)—a coalition of the African Union; the LDCs; and the African, Caribbean, and Pacific Group—issued a statement reminding WTO members that the Doha ministerial declaration had placed the needs and interests of developing countries at the heart of the Doha Round and that they expected concrete benefits from Hong Kong. India and other developing-country coalitions made similar statements. The EU Trade Commissioner emphasized the importance of making a "down payment" on the trade agreement to the poorest countries at Hong Kong. He stated that the Doha negotiations were a development round and "not an agricultural exporters' round," leading the U.S. Trade Representative and key members of Congress to question whether the EU's efforts to shift the focus to development were somewhat self-serving.

The draft declaration text, as transmitted in early December for consideration at the ministerial, contained few provisions for new agreements to be made at Hong Kong. The provisions included calling on ministers to adopt decisions on five LDC proposals and to set new deadlines for completing modalities and other aspects of the negotiations. Annexes to the draft text on the six core negotiating areas represented full agreement by WTO members in only one area—trade facilitation. The annexes on the five other core areas simply summarized the members' positions at that point in time, and postponed key decisions that would be necessary before member-to-member bargaining over each nation's schedules of commitments could begin.

Hong Kong Resulted in Several Limited New Commitments, but Postponed Key Decisions on Cutting Tariffs and Other Barriers

WTO members arrived in Hong Kong intent on avoiding a stalemate and ensuring continued progress in the negotiations. The ministerial declaration that was adopted reflects commitment to complete the Doha negotiations in 2006 and agreement on a narrow set of issues. Agriculture, of critical concern for many members, continued to occupy much of the negotiators' attention at the ministerial. Economic development issues also were featured prominently at Hong Kong, with nearly round-the-clock negotiations finally yielding several concrete steps to alleviate some concerns of the WTO's poorest members. Other U.S. priorities, however—notably services and NAMA—made little progress at the ministerial.

Members Formally Commit to Conclude Negotiations by 2006

Negotiators at Hong Kong succeeded in avoiding deadlock and meeting—or even exceeding—the lowered expectations for the ministerial. Having failed to meet many of the important milestones they had set for themselves in 2005, and aware of the difficult ground still to be bridged, in Hong Kong members reaffirmed their commitment to a successful and timely completion of the round. In doing so, they agreed to a new deadline for completing the round by the end of 2006 and interim deadlines under a compressed schedule by which to reach agreement on the difficult issues that had eluded them thus far. For example, they set April 30, 2006, as the deadline for WTO members to agree on modalities for cutting tariffs and subsidies for agricultural and nonagricultural goods. The next key deadline is July 31, 2006, when countries will be expected to submit national schedules of commitments embodying the modalities for agriculture and NAMA, and to present revised offers for liberalizing trade in services.

Ministers Focused on Export Competition Issues and Cotton, but Made Little Progress on Other Aspects of Agricultural Negotiations

In Hong Kong, negotiators focused primarily on three agricultural issues: elimination of export subsidies, in-kind food aid, and the demands of a group of African countries on cotton. However, they did not address the underlying differences on agricultural market access and made little progress on other areas in the agriculture negotiations.

First and most significantly, members agreed to eliminate all forms of agricultural export subsidies on a parallel basis by 2013. Reaching consensus on this deadline proved to be difficult, however. The EU, the largest user of agricultural export subsidies, insisted on progress in developing parallel disciplines on export credit programs, state trading enterprises, and other aspects of export competition before agreeing on a deadline to end export subsidies. On the other hand, the G-20 and other major agricultural exporters, including the United States, wanted a 2010 deadline for abolishing agricultural export subsidies before turning to other export competition issues. Heated debate on an export subsidies deadline continued throughout the ministerial, with Brazil reportedly threatening to pull out of the talks at one point. The compromise adopted involved a commitment to eliminate a substantial part of the export subsidies in phases by the end of 2010 if an agreement enters into force in January 2008.

Second, negotiators devoted considerable time to discussing whether in-kind food aid distorts international commodities markets, but they failed to reach consensus on this issue. The EU maintains that in-kind food aid is trade-distorting and represents a form of export subsidy. At Hong Kong, EU negotiators sought a commitment from other members to phase out in-kind food aid and to move toward an international system of cash-only assistance that would allow countries in need to purchase food from the most convenient and commercially viable sources. The United States, however, as the main provider of in-kind food aid, resisted this move, arguing that in-kind food is often critical in emergencies such as famines and natural disasters. The ministerial declaration deferred setting disciplines on food aid until April 30, 2006, in conjunction with the adoption of overall modalities for agriculture. The ministers did agree to certain principles, including a guarantee that such disciplines would include a mechanism, called a "safe box," to ensure the availability of food for needy populations in emergency situations.

Third, negotiators in Hong Kong also addressed the demands raised by a group of four African countries,[20] known collectively as the Cotton Four (C-4). Since the Cancún ministerial, the C-4 countries have sought to bring attention to the plight of African farmers, who face falling international prices for cotton and diminishing opportunities in overseas markets. At Hong Kong, the C-4 countries, supported by others, obtained a commitment by developed countries to eliminate all forms of export subsidies for cotton in 2006. This provision, aimed primarily at the United States, coincides with existing U.S. plans to eliminate cotton export subsidies by that time.[21] The C-4 also obtained a commitment from developed countries to provide duty-free, quota-free access for cotton exports from least-developed countries when the agreements resulting from the Doha negotiations are implemented. Moreover, the C-4 secured a new commitment that the overall Doha agreement on agriculture would entail deeper and faster cuts in domestic cotton subsidies relative to cuts in domestic support for agricultural commodities in general.

The Hong Kong ministerial declaration reflects more limited progress on several other agricultural issues. On the domestic support pillar, the declaration contained a new commitment to ensure that the total of all trade-distorting domestic support to farmers must be reduced, possibly involving cuts beyond those agreed to for specific categories of farm payments—known as "boxes" in WTO parlance. The declaration also

[20]The four countries are Benin, Burkina Faso, Chad, and Mali.

[21]The United States planned to eliminate its export subsidies for cotton producers during 2006 to come into conformity with an adverse ruling from the WTO on a cotton case filed by Brazil.

adopted a framework with three levels or "bands" for reducing domestic farm subsidies, which were based on the amount of financial support provided by members. The United States would fall in the middle of these bands, along with Japan, while the EU would be in the top band, and other countries that provided domestic support to farmers would be in the lowest band. Members in the higher bands would be expected to make deeper cuts. Similarly, in the market access pillar, the declaration reflects convergence on an arrangement calling for four bands for tariff reductions, with higher cuts for higher tariffs. Finally, the Hong Kong declaration noted that developing countries will be granted additional flexibility to protect their domestic agricultural production by self-designating special products and having access to a volume- and price-based special safeguard mechanism to protect against import surges.

Several Proposals on Development Issues Were also Adopted at Hong Kong

The Hong Kong ministerial conference also devoted substantial attention to certain development issues. The prominence of these issues may have contributed to a public show of unity among some 110 developing countries at Hong Kong. Nevertheless, a number of developing-country officials expressed concerns about their different needs and priorities at the ministerial, and in private meetings in the weeks just before the conference.[22]

Formal adoption of five proposals made by LDCs was among the most significant agreements related to development at the ministerial. Among these proposals was a controversial initiative to secure duty-free, quota-free access to developed countries' markets. LDCs, supported by the EU, had sought complete duty-free, quota-free access for all of their products. However, the United States opposed this initiative for various reasons, including the fact that, as proposed, the initiative exceeded the current U.S. statutory authority, which sets conditions on preferential market access to protect U.S. commercial interests and to advance certain U.S. policy goals. U.S. Trade Representative Portman also indicated that numerous developing countries that do not qualify for LDC status had raised concerns about being disadvantaged in the U.S. market. In the end, the compromise

[22]For example, representatives of several African, Caribbean, and Pacific nations have raised questions about whether large developing countries such as Brazil and India could effectively represent the interests of small, less developed countries. At the ministerial, differences among developing countries were also evident in the opposing positions taken by Latin American and Caribbean negotiators on the EU banana import regime.

called for duty-free and quota-free access for at least 97 percent of tariff lines of developed countries' imports from LDCs, and for steps to be taken to achieve complete coverage thereafter.[23] The declaration also urged developing countries to take on the same commitment to LDCs if they were able.

Moreover, following up on 2005 work,[24] the declaration invited the creation of a WTO task force to recommend how "aid for trade" can contribute to Doha development goals by helping developing countries take advantage of new trade opportunities. The declaration also called for members to increase their financial commitments for technical assistance and capacity building to help developing countries participate in trade negotiations and implement the WTO agreements. At Hong Kong, the United States and others made new commitments outside the WTO declaration. Notably, the United States pledged it would double its "aid for trade" to developing countries to $2.7 billion a year by 2010; the EU announced it would raise its commitment to 2 billion euros per year by 2010; Japan offered to provide $10 billion from 2006 through 2008.

Little Progress Made in Other Important Areas

Little progress was made in two other areas of the Doha negotiations critical to U.S. interests—NAMA and services.

In NAMA, negotiators decided to:

- postpone reaching agreement on modalities until April 30, 2006;

[23]The exemption of up to 3 percent of tariff lines, insisted upon by developed countries, would allow these countries to shield certain sensitive products such as sugar and textiles. This provision is to take effect by 2008, or by the start of implementation of Doha agreements.

[24]Recently, the World Bank, the International Monetary Fund, WTO, and other researchers have issued papers exploring the benefits and costs of trade liberalization for developing countries and how international institutions could help them adjust. See, for example, Joint Note by the Staffs of the IMF and the World Bank, "Aid for Trade: Competitiveness and Adjustment" (Washington, D.C.: Apr. 11, 2005); WTO Committee on Trade and Development, "Developmental Aspects of the Doha Round of Negotiations" (Geneva, Switzerland: revised Nov. 22, 2005).

- call for comparable levels of ambition[25] in market access for agriculture and NAMA; and

- reaffirm the goal of reducing or eliminating tariffs in various ways, notably by adopting a Swiss formula approach that cuts high tariffs more than lower tariffs to achieve these reductions.

However, negotiators did not agree on specific numbers (coefficients) for the Swiss formula, which would determine the depth of cuts and final tariff ceilings for members. The range of cuts proposed by members prior to Hong Kong is wide. Moreover, they left unresolved the controversy over how much flexibility developing countries will retain to deviate or exempt products completely from the formula.

In services, members agreed to:

- accelerate negotiations by adopting a plurilateral approach, whereby groups of countries jointly present offers to other groups; and

- clarify that participation in plurilateral negotiations would be voluntary, as members would be able to decide whether or not to respond to the requests presented to them.

The Hong Kong declaration addressed numerous other issues, ranging from trade facilitation to rules, but they received minimal attention at the conference. On trade facilitation, for example, the declaration categorized previous proposals and endorsed drafting a text of new commitments. On rules, WTO members reaffirmed their commitment to substantial results, set several new goals, and authorized the chair of the Committee on Rules to produce a draft text embodying proposed changes to existing WTO agreements on antidumping and subsidies to serve as the basis for final negotiations.

[25] "Comparable ambition" was not defined in the ministerial declaration. Members are debating how it should be defined.

Several Factors Make Meeting 2006 Deadlines Challenging, and Have Raised Doubts about the Likelihood of an Ambitious Outcome within the TPA Time Frame

WTO members and observers recognize that achieving a balanced and ambitious outcome for global trade talks within the TPA time frame will be challenging, and the window of opportunity is quickly closing. Efforts to make progress are under way. However, a mix of motivating and constraining factors creates tension between the feasibility of meeting the 2006 deadlines and members' ambition for a far-reaching agreement. Motivating factors include a desire to reap the economic benefits that some experts forecast would result from further trade liberalization and the fact that the outlines of a "grand bargain"—or key trade-offs involved in any deal—are becoming clearer. On the other hand, factors constraining progress include the difficulty of breaking the ongoing impasse over agriculture, political constraints in key WTO member states, and the significant amount of work to be done in the time remaining. Some officials maintain that success remains possible, but emphasize that members need a greater sense of urgency and the political will to cut trade barriers from current levels. Other officials and many experts are skeptical that success is possible within the TPA timeframe. In the event that an ambitious agreement cannot be reached within the TPA timeframe, members may be forced to consider extending the talks or concluding them with more modest results.

Expiration of TPA Is Seen as a Hard Deadline

Generally seen by the United States and other WTO members as a hard deadline, the expiration of TPA on July 1, 2007, is a motivating factor to concluding the negotiations. Failure to meet that deadline would risk expiration of TPA and make U.S. approval of an agreement more difficult. The Doha Round agreement would be eligible for approval under TPA, provided it was signed by the president before July 1, 2007, when the authority lapses.[26] Continuing negotiations without TPA is possible but would jeopardize the president's ability to present a final Doha agreement to Congress for an "up or down" vote within a fixed period of time. Congress would then be in a position to avoid acting on the legislation or to demand that certain parts of the agreement be renegotiated. According to USTR, the WTO agreement would need to reach Congress by the spring of 2007 to meet the TPA deadline. As discussed later, renewing TPA is not presently contemplated. (When TPA was renewed in 2002, after an 8-year

[26]The president, however, must fulfill a number of procedural requirements and meet certain time frames established by TPA. As a result, we concluded in our last report that the Doha negotiations need to conclude by the end of 2006 to meet TPA's statutory requirements.

lapse, the legislation passed the House of Representatives by only three votes.)

Most Members Continue to Profess High Ambition and Work Has Resumed in Earnest

Most WTO members maintain that they are committed to the goal of achieving an ambitious Doha agreement. The concept of ambition refers to the scope and level of trade liberalization to which WTO members are willing to commit. A high level of ambition, for example, would result in a comprehensive agreement in which members commit to significant reductions in tariffs, subsidies, and other trade barriers across most, if not all, core issues under negotiation. Such a robust agreement should result in a strengthened and measurably freer global trade environment and added impetus for economic growth and development. An outcome with a low level of ambition, on the other hand, would result in little actual trade liberalization and create few new opportunities for growth.

WTO members and the Director-General continue to work on ways to facilitate the successful conclusion of the negotiations. Since the talks resumed in late January 2006, negotiators have been engaged in a flurry of activities designed to speed up the process and find practical ways to narrow their differences. These include holding a series of mini-ministerials among small groups of WTO members and intensified bilateral consultations, setting more interim deadlines, developing questionnaires and reference papers to advance dialogue, and conducting simulations on the effects of tariff cuts under various scenarios. In February, Director-General Lamy indicated that these activities represented a needed shift from general principles to discussion of concrete numbers and text, and were resulting in a heightened awareness of the need for movement by all players, in concert, toward a middle ground. At that time, he stated that he had no indication that agreeing on modalities would not be possible by April 30, 2006. Shortly thereafter, U.S. Trade Representative Portman reported that the United States and the EU were making progress in narrowing some differences on agriculture. In addition, the first deadline since the Hong Kong ministerial was successfully met, as members submitted plurilateral requests in the services negotiations by the agreed-to deadline of February 28, 2006. Over 14 requests for market access in sectors such as financial and express delivery services were submitted, with the United States participating in 10; more are expected.

Members Further Motivated by Risks of Forfeiting Potential Economic Benefits

Also motivating the negotiations is the risk of foregoing the expected benefits from a successful Doha agreement. The economic benefits from trade liberalization occurring as a result of the Doha Round could be significant. The Organization for Economic Cooperation and Development and trade experts in general agree that only a comprehensive multilateral process of negotiation, in which political and economic trade-offs are maximized, can realize all the benefits of market opening and rules strengthening. Agricultural reform in particular has largely been kept out of regional agreements and would need to involve the present WTO protagonists to be meaningful. Some estimates, as reported in a Congressional Research Service report,[27] indicate that economic gains could be as high as $574 billion globally and $144 billion in the United States.[28] Other estimates are more modest. For example, a 2005 World Bank study projects global gains ranging from $84 billion to $287 billion annually by the year 2015,[29] while a Carnegie Endowment study predicts income gains of $40 to $60 billion from what it deems plausible outcomes of the Doha Round.[30] Although this represents a small share of global and U.S. income, some economists and development advocates argue that global trade liberalization—particularly of agricultural products and other products of interest to developing countries—could still play a role in promoting economic opportunity and alleviating poverty. For example, the additional income would equal or surpass aid flows to developing countries, and leading developing country exporters such as Brazil, India, China, Thailand, and Argentina would stand to capture sizeable gains.

[27]Congressional Research Service, *The World Trade Organization: The Hong Kong Ministerial*, RL32060, (Washington, D.C.: Jan. 20, 2006).

[28]Drusilla Brown, Alan Deardorff, and Robert Stern, "Computational Analysis of Multilateral Trade Liberalization in the Uruguay Round and Doha Development Round," University of Michigan Discussion Paper 490, Dec. 12, 2002. Available at http:/www.spp.umich.edu/rsie/workingpapers/wp.html (downloaded April 19, 2006).

[29]Thomas W. Hertel and Roman Keeney, "What is at Stake: The Relative Importance of Import Barriers, Export Subsidies and Domestic Support," in Anderson and Martin, eds., *Agricultural Trade Reform and the Doha Development Agenda* (Washington, D.C.: World Bank, 2005); and Kym Anderson, Will Martin, and Dominique van der Mensbrugghe, "Doha Merchandise Trade Reform: What's at Stake for Developing Countries," July 2005, available at http://www.worldbank.org/trade/wto (downloaded April 19, 2006). Results vary depending on the type of model (static vs. dynamic), key assumptions in the model, and the ambition of the liberalization scenario. The World Bank studies, for example, do not attempt to quantify services liberalization.

[30]Sandra Polanski, *Winners and Losers: Impact of the Doha Round on Developing Countries* (Washington, D.C.: Carnegie Endowment for International Peace, 2006).

Nevertheless, such projected overall gains can mask important differences, and several authoritative studies suggest that some groups and nations face potential losses and near-term adjustment costs that merit particular consideration in the negotiations.

Clearer Outlines of a Grand Bargain Enable Concerted Effort

Another factor that could facilitate reaching agreement in the negotiations relates to the outlines of a "grand bargain" (the necessary trade-offs, or benefits and concessions, among the players) that, according to some observers, are becoming more apparent. According to WTO Director-General Lamy, each country or group now knows what it needs to do. The United States, for example, is expected to make further reductions to its domestic agricultural subsidies and clarify how it will handle countercyclical payments to compensate farmers for low commodity prices,[31] and the EU is expected to reduce its domestic agricultural subsidies and cut agricultural tariffs. In return, large developing countries such as Brazil, India, and China are expected to lower barriers to agriculture, industrial goods, and services sufficiently to create new market opportunities. In general, other developing countries would be asked to liberalize as their capacity allows and would benefit from special treatment and trade capacity building assistance. The clarity of the trade-offs necessary for a deal—although requiring difficult reforms—could result in a concerted effort among key nations to bridge their differences and address areas of importance to their trading partners.

Impasse on Agriculture Continues to Constrain Progress

Despite indications of an outline for a "grand bargain," the negotiations to date have centered on agriculture and remain deadlocked on this issue. In mid-February, and again in late March, U.S. Trade Representative Portman remarked that the negotiations have largely lost the momentum generated by the United States' October 2005 proposal on agriculture. According to WTO Director-General Lamy, the United States, the G-20, and the Cairns Group regard the EU's market access offer as inadequate. Since Hong Kong, the EU has held firmly to its position that its October 2005 offer is serious and that others must first make concrete and commercially meaningful proposals in areas of interest to the EU before it would even

[31]U.S. countercyclical payments compensate farmers for low commodity prices. Specifically, U.S. producers of wheat, feed grains, rice, upland cotton, oilseeds, and peanuts are eligible to receive countercyclical payments whenever the effective (market) price for these commodities falls below the target price set by federal legislation.

contemplate improvements in its offer. According to the EU, these would restore needed "balance" among the key players' market access interests. However, it remains unclear whether the European Commission has the flexibility to improve its October offer.[32] In fact, a March 2006 memo to the European Commission signed by 13 of its 25 member nations stated that the EU's October 2005 offer "exhausted and may have exceeded" all the room for maneuver they had on domestic support and market access, and that even improved offers on NAMA and services would not justify an improvement. The United States also faces pressure from many WTO members to improve and clarify its agricultural offer, particularly on domestic support. Brazil and India, negotiating on behalf of the G-20, maintain that until there is more movement on agriculture, they will not negotiate reciprocal concessions on the other core issues—namely NAMA and services. They also insist that any cuts in NAMA and services must be proportional to those by developed countries on agriculture and that, in general, developed countries should cut their tariffs more than developing countries. As a result, they argue, developed-country demands for across-the-board cuts that harmonize tariff levels across countries and bring developing-country tariffs below presently applied rates are excessive. A group of 11 developing countries that includes Brazil and India recently stressed that they need flexibility to shield products from liberalization so that they can pursue industrial policies and manage structural adjustment. A March mini-ministerial among six key players—the EU, the United States, Japan, Australia, Brazil, and India—failed to yield breakthroughs. Rather than moving in concert, as they had pledged in January, players signaled little or no flexibility, according to reports. Since the meeting, U.S. Trade Representative Portman and Secretary of Agriculture Mike Johanns have said publicly they are increasingly doubtful that sufficient "political will" exists to conclude a deal in 2006.

[32]For example, on March 21, 2006, EU Trade Commissioner Mandelson stated that "certain WTO members continue to expect more from us on agricultural market access…we are ready to play a constructive role, including on agriculture… but we need to see real cuts in industrial tariffs." On March 22, Mandelson said "the members of the WTO realize that a new offer on agriculture is not on the agenda," and Commissioner for Agriculture Mariann Fischer Boel "confirmed that the EU had no intention of making new proposals."

“Political Will” to Break Deadlock Still Absent and Timing for Making Hard Political Choices Is Not Propitious

Breaking the impasse over agriculture remains key to reaching agreement on the whole of the Doha agenda. However, the political will to liberalize and make the quality of offers and concessions necessary to break the impasse is not yet evident. In addition, the political timing of elections scheduled for 2006 in several countries, including the United States, the EU, and Brazil, could make concessions at this time even more difficult.

In the United States, 2006 is a congressional election year, and Congress already seems to be divided on support for further trade liberalization. Faced with increasing trade deficits, heightened competition from China, and workers' displacement as jobs move overseas, the approval of free trade agreements has become a difficult proposition. Congressional deliberations on the Dominican Republic–Central America Free Trade Agreement in 2005 were extremely contentious, and it passed Congress by only two votes. U.S. Trade Representative Portman has attempted to rebuild bipartisan consensus on U.S. trade policy. However, some leaders in Congress have publicly stated that unless the United States gains significant market access on agriculture, NAMA, and services—particularly in the large developed and developing nations that U.S. business groups have identified as liberalization priorities—they will not agree to a deal.

Timing is sensitive for other reasons as well. For example, most provisions of the present U.S. farm bill expire in September 2007, and Congress will begin work on the legislation to reauthorize U.S. farm programs in 2006. Congressional leaders want to take into account the framework likely to emerge from the WTO negotiations when drafting a bill, in part to avoid exposing farmers to the uncertainty associated with WTO challenges to U.S. programs. However, some are skeptical that a WTO agreement will be completed in time and urge the drafting of legislation independent of WTO negotiations. Other congressional members and some farm organizations advocate the extension of the current farm bill until the outcome of the Doha negotiations is clear. In the meantime, certain members of Congress have urged the administration not to “tie their hands” in drafting a new farm bill and have asked executive branch agencies to coordinate closely with congressional committees to ensure that they can work with any result being negotiated at the WTO.

Other key players also face political constraints. The EU's current political problems range from member states' rejection of the EU constitution to violent protests by disaffected immigrants and youths. One expert recently noted that EU budget negotiations in December did not deliver an agreement to cut back on the EU's agricultural support spending, as some

EU members such as the United Kingdom had hoped.[33] Instead, only agreement to review spending in 2008-2009 was achieved. France, in particular, has been adamant in its opposition to any further EU concessions on agriculture in the WTO negotiations, but it is not alone. EU Commissioner Mandelson has recently affirmed that the EU member states are united in insisting that all main parties to the talks should be prepared to offer more to get more in the talks, while stressing that others need to offer more in areas of interest to the EU. Brazil will hold presidential elections in the fall of 2006; however, its negotiating strategy is not expected to change. In its powerful role as leader of the G-20 and as one of the nations with the most to gain from the negotiations, Brazil is likely to hold fast to its position that any movement on NAMA and services will be proportional to (and dependent on) what it achieves in agriculture. India's new government has kept its markets open to certain imports, but remains reticent about commitments to liberalize its agriculture and industrial markets further; the government's stance is attributed to the perceived benefits of retaining "policy space" for development, and concerns that its many small domestic producers would be unable to withstand heightened competition from China and other foreign nations. Several officials stated that they believe China's rise as a manufacturing and export power has made many nations wary of committing to cut tariffs at the WTO. China, in turn, has not played a visible role in pressing for liberalization in the Doha negotiations.

These political constraints have led some observers and stakeholders to propose high-level political intervention to break the impasse. Notably, some trade experts and at least two heads of state have suggested a "trade summit" at which national leaders from key countries such as the EU, the United States, Brazil, and India could meet to make the commitments necessary in the core negotiating areas and break the impasse. In early March, British Prime Minister Tony Blair and Brazilian President Luiz Inacio Lula da Silva issued a public call for such a WTO summit. On the one hand, they recognize that this action would require commitment to strengthening the world's economy and global trading system at a time when protectionist tendencies may be on the rise. Yet, they argue that the risks of letting the Doha talks fail or languish in uncertainty would be contrary to members' and the institution's best interests. U.S. officials offer mixed reactions to the idea of a "trade summit": some think a leaders'

[33]Simon Evenett, "The WTO Ministerial Conference in Hong Kong: What Next?" (University of St. Gallen and the Centre for Economic Policy Research, Jan. 18, 2006).

meeting may be desirable if the ministers' efforts fail, and others question its usefulness. U.S. Trade Representative Portman, for example, recently stated that summits between the leaders of Britain and France within the EU, rather than broader international summits, may be more productive.

Against Looming Deadlines, Many Difficult and Time-Consuming Steps Remain

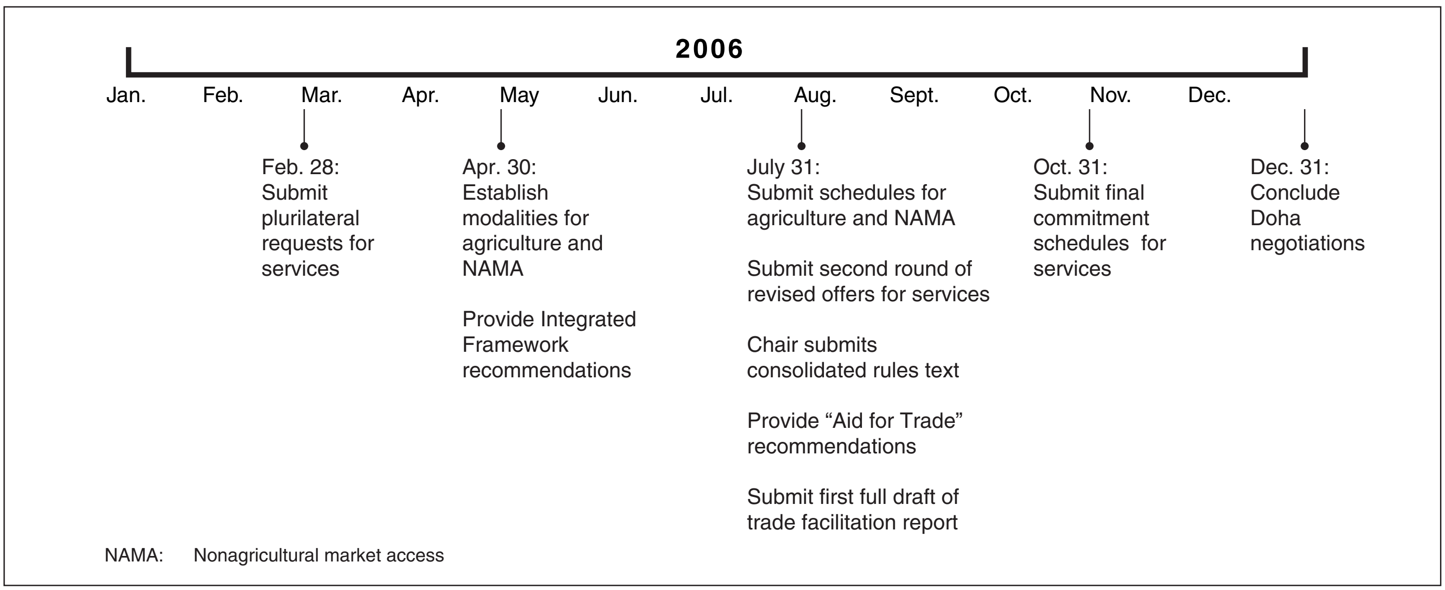
Shortly after the Hong Kong ministerial, the Director-General estimated that 40 percent of the work necessary for completing the negotiations remained; he noted that the most recent 5 percent of the work had taken nearly 17 months to complete. However, just over a year remains before the president would have to enter into a final WTO agreement to qualify for TPA consideration by Congress. Keeping to the deadlines is critical if the major issues are to be dealt with and necessary steps completed, according to U.S. and WTO officials. However, the track record for meeting deadlines in these negotiations is not promising. We noted in our last report that the talks were unlikely to conclude before December 2006, which would be 2 years after the originally established deadline of January 2005. Indeed, most interim deadlines in the negotiations have been repeatedly deferred.

Even if a political breakthrough on agriculture were to be achieved, U.S. and WTO officials agree that finalizing each country's schedule of WTO commitments on agriculture, NAMA, and services would be time-consuming, with little margin for missed deadlines (see fig. 3 for a timeline of negotiation deadlines in 2006). First, members must make up for lost time after missing the critical deadline of April 30, 2006, for agreeing to modalities in agriculture and NAMA. This means they must agree on the formulas, thresholds, dates, and other numerical benchmarks that members will be committed to meet when they revise their current WTO commitments. However, to finalize these commitments, a host of technical issues fraught with political and practical implications must be addressed. In February 2006, for example, the chairman of the negotiating group on agriculture presented a list of 70 questions that he believed would need to be addressed to complete modalities.[34] In mid-March, a U.S. official told us that WTO members had been focusing on about 15 modalities issues but had not come close to compromise on any. In NAMA, meanwhile, the

[34]These questions from the agriculture chair include, among others, (1) the range of cuts for domestic support expected in each of the three bands set in the Hong Kong ministerial declaration, (2) the number of tariff lines that developing countries will be able to designate as special products, and (3) the definition of an "emergency situation" that would qualify for in-kind food aid.

negotiating chair identified 14 issues in his March 27 report that still need work to finalize modalities—particularly the tariff reduction formula, treatment of unbound tariffs, and flexibilities for developing countries. The list did not include how to interpret the linkage between ambition in agriculture and NAMA established at Hong Kong, which has since been the topic of heated debate.

Figure 3: Key Selected Deadlines in 2006 for the Doha Negotiations



Source: GAO, based on WTO documents.

Second, once modalities are agreed to, the United States and other members must take a series of important and time-consuming steps to reach a final agreement. For example, members must draft revisions of their national tariff schedules to indicate how they intend to meet their modalities commitments for each product or tariff line. The draft commitment schedules in agriculture and NAMA are to be completed by July 31, 2006. A U.S. official told us that only when the draft schedules are submitted will other members see which products will be liberalized. Then, a process of verifying schedules, finalizing sectoral agreements, and bargaining among individual members (known as "request–offer") begins. According to U.S. officials, verification is critical because the modalities text will allow different interpretations of commitments, and only countries' national schedules are legally binding. They said that most experienced observers agree that this process is vital to achieving intended results and may require 6 to 8 months to complete. Even if the current schedule for submitting schedules is met, little time would remain in 2006 to do this work.

Third, as indicated in table 3, before and after an agreement is finally entered into, the United States must take certain steps to comply with TPA. The president must notify and solicit input from Congress and ask the International Trade Commission (ITC) for an assessment of the agreement's likely impact on the U.S. economy and specific industries before signing an agreement. The agreement itself must be entered into before July 1, 2007. Once an agreement is entered into, the U.S. administration would have to draw up an implementing package that would include implementing legislation and a plan, known as a statement of administrative action, to carry out the agreement under existing law; this is likely to be a laborious effort, according to U.S. officials. The implementation package for the Uruguay Round, for example, filled hundreds of pages. U.S. officials said the plan must specify how existing U.S. programs, regulations, and legislation will be adjusted to comply with WTO commitments. The implementing package, one official noted, must also contain a series of reports (e.g., an analysis of how the agreement serves U.S. commercial interests) and a description of how the agreement meets TPA-mandated negotiating objectives.

Table 3: Principal U.S. Government Activities to Conclude Doha Round Agreements

U.S. Government activities	Time frames
TPA requires USTR to consult closely with congressional revenue committees (i.e., the House Ways and Means and Senate Finance Committees), the Congressional Oversight Group, and other congressional committees with jurisdiction over areas affected by the WTO Doha agreement.	Throughout negotiations
Negotiate agriculture and NAMA modalities.	January–April 2006
Develop national tariff schedules and other binding commitments based on modalities for agriculture and NAMA. Prepare and submit revised services offers.	May–July 2006
Verify schedules, finalize sectoral and non-tariff barrier agreements, and engage in "request–offer" negotiations with individual WTO members or groups.	August–December 2006
TPA requires that at least 180 days before entering into a trade agreement, the president must report to congressional revenue committees on the range of proposals being negotiated that could require amendments to U.S. trade remedy laws, and how the proposals relate to the principal U.S. negotiating objectives concerning those laws.	December 31, 2006

(Continued From Previous Page)

U.S. Government activities	Time frames
TPA requires that at least 90 days before entering into an agreement, the president must notify Congress of his intent to enter into the agreement.	April 1, 2007
TPA requires that at least 90 days before entering into agreement, the president must provide the ITC with details of the agreement "as it exists at that time" and request ITC to prepare and present to the president and Congress an assessment of the agreement's likely impact on the U.S. economy and specific industry sectors. Between the time of the president's request and the ITC's submission of the assessment, the president must "keep ITC current with respect to details of the agreement."	April 1, 2007
TPA requires that no later than 30 days after the president notifies Congress of intent to enter into an agreement, private sector advisory committees must submit reports on the agreement to Congress, the president, and USTR.	May 1, 2007
The president must enter into an agreement before this date for the agreement to qualify for approval under TPA's expedited procedures.	July 1, 2007
TPA requires that within 60 days after entering into an agreement, the president must submit to Congress a description of the changes to existing law he believes would be required to bring the United States into compliance with the agreement.	August 31, 2007
TPA requires that no later than 90 days after the president enters into the agreement, the ITC must submit its impact report to the president and Congress.	September 30, 2007
The president is required by TPA to submit to Congress the final text of the agreement, together with a draft of the implementing bill, a statement of administrative action, and supporting information.	No date specified, but both houses of Congress must be in session

Source: GAO analysis of WTO milestones and TPA requirements.

Fourth, a series of other complex and difficult issues that are crucial to some members may need to be resolved before a final WTO agreement is possible; however, WTO members have largely postponed dealing with them until after the core issues are resolved. This sequential approach—putting off some issues until other issues are decided—puts further stress on the time available to conclude an agreement. For example, a variety of developing-country concerns and calls for changes to WTO rules in areas such as antidumping, trade facilitation (customs reform), and services are on the agenda; several of these issues may prove intractable. The cross-cutting issue of erosion of preferences illustrates the complexities. A number of WTO members are small developing countries with economies dependent on one or two commodity exports. Currently, some of them rely heavily on the preferential tariff treatment they receive for their exports in the EU, the United States, and other developed countries. As a result, they regard reducing worldwide tariffs as a clear threat to their economic well-being. Yet foregoing or delaying the benefits of multilateral liberalization so these countries can retain their preferred access is not acceptable to many other WTO nations. A seminar to explore options for dealing with this issue was held in April 2006.

Difficulty Foreseen in Meeting Deadline with an Ambitious Outcome Leads Experts to Float Other Options

WTO member states still say that they remain committed to the goal of concluding the Doha Round with robust results by the end of 2006. The fact that all members continue to be engaged in efforts to accomplish this task is a positive sign; if the political will can be found to accommodate each others' ambitions and produce an acceptable "grand bargain," then it would be difficult but not impossible to conclude the Doha Round successfully within the TPA timeframe. However, the limited progress to date and the significant amount of work remaining has raised questions about the feasibility of an ambitious outcome by the 2006 deadline, particularly without more active leadership from the highest levels. A January poll of negotiators, policy makers, and experts located in Geneva and key country capitals revealed that none of the Geneva respondents believe WTO members will meet their goal for completing the negotiations in 2006 and only 2 percent of all respondents believed they would meet the April 30 modalities deadline.[35] Moreover, the officials and experts we consulted believe that by July 2006, it will be clear whether the goal of completing an agreement within the TPA timeframe can be met. Backloading modalities on agriculture and NAMA to July would, however, "guarantee failure," according to WTO Director-General Lamy. These concerns have led numerous experts and observers to suggest that there may be different outcomes, including (1) no results in the round, (2) negotiations continuing beyond mid-2007 with uncertain results, or (3) conclusion of the round with modest results within the TPA timeframe.[36] Each involves trade-offs.

1. No results in the round. At Davos in late January, the EU Trade Commissioner was quoted as stating that so little was being offered by other countries that the EU would stand to lose next to nothing if the Doha negotiations failed. (His official remarks since then, however, emphasize the EU's commitment to Doha's success, while stressing the need for reciprocity.) In February, WTO Director-General Lamy indicated that without sufficiently ambitious results, there will be no Doha outcome. U.S. Trade Representative Portman has said the United States is committed to doing everything it can to bring an agreement together. Yet he added that if the Doha negotiations are not concluded by the end of 2006, "there is a real

[35]Institute for International Business, Economics and Law, *Global Trade Opinion Poll, Survey No. 12*, Jan. 2006 (Adelaide, Australia: The University of Adelaide).

[36]See, for example, Gary Clyde Hufbauer and Jeffrey J. Schott, "The Doha Round After Hong Kong," *Policy Briefs in International Economics* (Washington, D.C.; Institute for International Economics, Feb. 2006).

danger the Doha Round could drift into a long, unpredictable period of stagnation." Some analysts and business groups also warn the round has gone off course for lack of political will, and accepting various premises for avoiding liberalization; they say that a pause or collapse would be better than reaching a "bad deal." Yet a complete collapse of the Doha Round is generally seen as the least desirable outcome by observers, who believe that members will try to avoid total failure because so much is at stake. In addition to forfeiting the economic and welfare gains expected from Doha's successful conclusion, WTO Director-General Lamy and numerous observers warn that failure to achieve agreement may pose risks to the credibility of the WTO as an effective or even relevant institution. Although the WTO itself—with its extensive set of binding commitments and vast coverage in terms of country membership and world trade volume—would no doubt continue, experts caution that Doha's failure could strain the global trading system. For example, Director-General Lamy has expressed the view that developing countries, particularly the smallest and weakest, would be among the biggest losers. Others say one potential outcome of a failed round could be the proliferation of regional and bilateral trade agreements, further weakening the "most favored nation" principle—the concept of equal treatment for all members that is a pillar of the multilateral trading system. The United States has already announced its intention to move vigorously in 2006 to negotiate new bilateral and regional agreements. In fact, some in Congress have encouraged the United States to pursue bilateral free trade agreements with countries such as Korea, in part to encourage countries that are resisting liberalization at the WTO to take notice. Other WTO functions, such as the legitimacy of the dispute settlement system, also could be weakened.

2. Negotiations continue beyond mid-2007 with uncertain results. Another possible outcome would be to continue the talks in the hope of a more robust outcome at a later date. Experts note that past rounds have taken longer than originally planned, and the last round—which involved fewer countries—took 7.5 years to complete. However, because of the importance of TPA for U.S. ratification, it is unclear whether countries would choose to continue negotiations without TPA or let the negotiations pause until TPA is extended or renewed. One scenario would be to continue the negotiations without TPA, with the hope that TPA is eventually renewed, although congressional observers believe that extension or renewal of TPA is an uncertain and difficult proposition in the near term. A second scenario would be to put the negotiations on hold for an indefinite time until TPA is extended or renewed. Some experts think that renewal or extension of TPA would probably have a better chance if it were linked to an extension of the U.S. farm bill or if the Doha negotiations showed potential of concluding with an ambitious result. Because of these uncertainties, the difference between outright failure of the round and continuing or suspending the negotiations may only be clear after some years have passed.

3. Concluding the round with modest results within TPA's timeframe. This scenario would avoid the risks of outright failure and the uncertainty inherent in continuing the talks beyond mid-2007. However, a modest outcome may not be acceptable to many WTO members as it may not include sufficient gains to offset the costs; or—in trade negotiators' language—the agreement would not result in a "balanced package." EU Trade Commissioner Mandelson stated publicly early in 2006 that the EU would "reluctantly settle" for a minimalist outcome, but WTO Director-General Lamy said a "cheap round is not an option," and U.S. Trade Representative Portman quickly rejected "Doha-lite" as falling short of success and being difficult to promote domestically. In addition, a more modest package would leave countries with more ambitious goals little alternative but to pursue other avenues for liberalization, such as bilateral agreements.

Concluding Observations

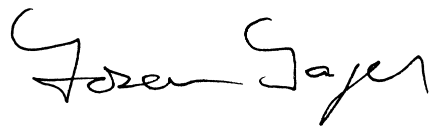
WTO members undertook an ambitious set of goals when they launched the Doha Development Agenda more than 4 years ago. Our May 2005 report ended by noting that some of the experts we had consulted were confident that an ambitious, balanced outcome of the round could be attained—if 2005 resulted in sufficient progress. Other experts warned that hard decisions were necessary and time was short if an outcome living up to Doha's promises were to be achieved. Progress in 2005 through the Hong Kong ministerial, however, was considerably less than WTO members hoped. With nearly all tough decisions put off until 2006, the tension between members' original high ambitions and the TPA time frame has become acute. This is evident in the increasing divide between the official statements of WTO members and the expectations of experts on whether the round can be completed before TPA's expiration on July 1, 2007. U.S. officials often call the Doha Round a "once in a generation opportunity" because the last global trade round took a decade to launch and complete and another decade to implement. WTO Director-General Lamy recently stressed that WTO members will soon face the "moment of truth" for the Doha Round. In part for this reason, some observers expressed dismay at the timing of the president's announcement that he was nominating U.S. Trade Representative Portman to be Director of the Office of Management and Budget. At press time, WTO Director-General Lamy had just announced the April 30 modalities deadline would be missed, necessitating a shift to continuous text-based negotiations in the coming weeks. He urged members to deal coolly and constructively with the situation, avoiding recrimination and showing fresh determination to accelerate progress. With just over a year left to produce an agreement that qualifies for TPA, it remains unclear whether the WTO can create an environment where members perceive it is in their interest to make the significant changes in their current positions, and other decisions, that cumulatively would fulfill the vision of the Doha Development Agenda.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the U.S. Trade Representative, the Secretary of Agriculture, the Secretary of Commerce, and the Secretary of State, or their designees. The Assistant U.S. Trade Representative for WTO and Multilateral Affairs indicated general agreement with the report's conclusion that the WTO Doha negotiations are not where they should be and provided us with several technical comments, which we incorporated as appropriate. The Department of Commerce's Deputy Assistant Secretary for Agreements Compliance indicated that, overall, the report fairly portrays the state of the negotiations and the key problems U.S. negotiators are facing; they provided several technical comments on rules negotiations, which we incorporated. The Department of Agriculture's Director, Multilateral Trade Negotiations Division, International Trade Policy, Foreign Agricultural Service, raised a minor point about the state of discussions on *ad valorem* equivalents, which we incorporated. The Department of State's Director of Multilateral Trade, Bureau of Economic and Business Affairs, did not raise any substantive concerns with the report.

We are sending copies of this report to interested congressional committees, the U.S. Trade Representative, the Secretary of Agriculture, the Secretary of Commerce, and the Secretary of State. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-4347 or yagerl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this reported are listed in appendix II.



Loren Yager
Director, International Affairs and Trade

Objectives, Scope, and Methodology

In this report, we (1) provide the status of the Doha negotiations on the eve of the Hong Kong ministerial, (2) review the outcome of the Hong Kong ministerial, and (3) discuss the prospects for concluding the Doha Round before U.S. Trade Promotion Authority (TPA) expires in July 2007.

We followed the same overall methodology to complete all three of our objectives. We obtained, reviewed, and analyzed documents from a variety of sources. From the World Trade Organization (WTO), we analyzed the 2001 Doha ministerial declaration; the Doha work program decision adopted by the General Council on August 1, 2004, known as the "July framework agreement"; the final and earlier versions of the December Hong Kong ministerial conference declaration; reports by the Director-General and negotiating chairs; and negotiating proposals and other documents from WTO member countries. From U.S. government agencies and foreign country officials, we obtained background information regarding negotiating proposals and positions. We also obtained information on day-to-day developments from trade publications.

To assess the status of the Doha negotiations before Hong Kong, we met with a variety of U.S. government agencies, including the Office of the U.S. Trade Representative (USTR) and the Departments of Agriculture, Commerce, and State, to obtain information on progress on the negotiations and on the issue areas and factors affecting the negotiations. We also met with representatives from Brazil in Washington, D.C. Further, we met with officials from the Mauritius Sugar Syndicate, the Food Trade Alliance, the National Farmers Union, and the National Cotton Council. In addition, we attended conferences and seminars, such as those sponsored by the American Bar Association in partnership with the Washington International Trade Association, and the Global Business Dialogue.

With the assistance of USTR and the State Department, in October 2005 we traveled to WTO headquarters in Geneva and European Union (EU) headquarters in Brussels. We met with WTO member country officials at each location, including those from the EU, Japan, Mauritius, Australia, Benin, Burkina Faso, Chad, Mali, and members of the African, Caribbean, and Pacific group. We also met with WTO officials, including the industrial (nonagricultural) market access, services, and trade facilitation negotiating group chairs. Upon returning from our trip, in November 2005, we briefed your staff on the status of the Doha negotiations prior to the Hong Kong ministerial conference.

To assess the outcome of the Hong Kong ministerial conference, we attended the Hong Kong conference in December 2005. In Hong Kong, we attended USTR congressional briefings and went to press conferences and meetings open to country delegates. We also collected the views of experts, relying primarily on (1) published articles in reputable sources such as *Foreign Affairs* and *Foreign Policy*; (2) publications put out by a range of organizations following the ministerial and Doha talks, such as the Institute for International Economics, the International Food and Agricultural Trade Policy Council, the Center for Economic Policy Research, the International Centre for Trade and Sustainable Development, the Center for Global Development, Bryan Cave, the American Society of International Law, Oxfam, and the South Centre, as well as officials at the World Bank, the Organization for Economic Cooperation and Development, the EU, and the Congressional Research Service; and (3) seminars and conferences sponsored by the Department of Agriculture and groups such as the Georgetown Law School and the American Bar Association, the Cordell Hull Institute, the American Enterprise Institute, Women in International Trade, the Washington International Trade Association, the Woodrow Wilson Center for International Scholars, the Center for Strategic and International Studies, and the Carnegie Endowment for International Peace. Though many of these seminars and conferences we attended occurred in Washington, D.C., collectively they represent a range of perspectives from “think tanks,” government, academia, business, nongovernmental organizations, and former trade officials in the United States and elsewhere. Also, we reviewed news media reports, news releases on the developments at the ministerial conference, and statements about the outcome of the ministerial conference from the WTO, U.S. and foreign governments, and other international organizations.

To assess prospects for success, we relied on the perspectives of participants and experts, as well as our own analysis. We defined success with an “ambitious outcome” as meeting WTO members’ originally agreed goals and U.S. objectives as set forth in TPA legislation and associated requirements.

We performed our work from May 2005 through March 2006 in accordance with generally accepted government auditing standards.

GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the individual named above, Kim Frankena, Assistant Director, Ann Baker, Lynn Cothern, Juan Gobel, Ernie Jackson, Venecia Rojas Kenah, and Marisela Perez made key contributions to this report.

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