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Revealing the Empty Promises of the U.S. "Development Package"

1. USTR 'pledges" on development package amount to nothing more than promises to ask the U.S. Congress to allow tariffs cuts or provide additional 'aid for trade' funds. At best, Congress' approval is highly uncertain.

- First, the U.S. (and the EU other developed nations) promised an 'early harvest' of a development package that included aid and duty free treatment as a 'down payment' on the Doha Round, until it was revealed that neither USTR nor even the U.S. President has authority to deliver tariff cuts nor cash for aid as both are in the exclusive constitutional authority of the U.S. Congress. Now USTR says that the 'development package' will only be implemented as part of a final congressional Fast Track vote on a Doha Round, if a Doha Round is ever agreed. Regardless of the timing, the fact is that USTR's 'pledges' must be understood only as a promise to ask Congress. None of USTR's tariff cut or funding pledges can be implemented without congressional approval. Time and again, in trade and other negotiations, what U.S. negotiators 'promise' is later rejected by Congress, which has the final say.

2. USTR product exceptions to duty-free status will leave U.S. tariff peaks in place.

- According to a WTO Discussion paper on countries' tariff peaks, the share of U.S. bound tariff lines on industrial products excluding petroleum with duties more than three times the average is only 7.5 percent, while the share of tariff lines with duties above 15 percent for the same category of goods is just 3.5 percent. Thus, because the U.S. has such low tariffs on most products already, if the U.S. offer only includes duty-free treatment on 95 percent of products, it means that it will be possible to exclude the few products that currently have high tariffs.

3. Duty-free status: USTR cannot deliver on zero tariff-quota for least developed countries' goods without congressional approval, and Congress opposes allowing duty free treatment for all LDC products.

- Neither the USTR nor even the US President has authority to implement tariff cuts regarding any import sensitive agriculture goods (which include 500 listed items) except in the context of completed WTO negotiations.[1] The 2002 Fast Track bill restricted the 'tariff proclamation' authority on import sensitive agricultural products, taking away authority that in the past the USTR

[1] Trade Promotion Authority 2002; Trade Act of 2002, Section 2103(a)(5). Import sensitive is defined to mean "an agricultural product-- (A) with respect to which, as a result of the Uruguay Round Agreements the rate of duty was the subject of tariff reductions by the United States and, pursuant to such Agreements, was reduced on January 1, 1995, to a rate that was not less than 97.5 percent of the rate of duty that applied to such article on December 31, 1994; or (B) which was subject to a tariff-rate quota on the date of the enactment of this Act." Trade Act of 2002, Section 2113 (10).

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has used to implement U.S. pledges to cut tariffs. Under the 2002 Fast Track, such tariff cuts must be brought to Congress for approval.

- Neither USTR nor even the US President can implement duty free status on non-agriculture products. This would require an amendment to the U.S. GSP statute and the U.S. Congress will NOT grant duty-free status for textile imports in GSP. GSP is up for reauthorization in Congress imminently. However, the business coalition that supports GSP and will fight for its reauthorization OPPOSES the zero tariff LDC proposal because they believe trying to make this change – and allow tariff-free treatment on all LDC products including textiles and apparel from Cambodia and Bangladesh – would sink the entire GSP bill in Congress, destroying the benefits they obtain from the existing program.[2]

- Key members of the U.S. Congress have said explicitly that they oppose the "zero tariff" or 'everything but arms' proposal.[3]

4. 'Aid for Trade' Funds: USTR cannot deliver the money promise, which as USTR's own briefing papers notes, are "subject to the President's budget request being approved" and on developing countries' agreeing to liberalize their trade.

- The claim that the US will double its aid for trade funding is "subject to the President's budget request being approved," which will not happen. The U.S. is in a deep budget crisis. The likelihood ANY increase in foreign aid of any form will be approved by the U.S. Congress is at best highly uncertain. Indeed, Congress remains in session a month after it was to adjourn because it cannot agree on a budget, in part because of the massive and growing costs of the Iraq war (already $226.7 billion).[4] Worse, massive tax cuts enacted this month would cut U.S. government revenues over $90 billion by 2010.[5] Amidst this fiscal strain, popular U.S. domestic social programs are being gutted, and increased foreign aid is highly unlikely in this climate. Even the most internationalist-minded members of Congress cannot support more foreign aid at a time when they are being attacked by voters at home for domestic budget cuts that throw the elderly off health care and cut education spending. Among the cuts in the most recent version of the budget: $30 billion cut from Medicaid, the largest source of health services for the poor, which will limit services for 17 million and throw more than 100,000 people off the system altogether. Higher education spending was slashed by $10 billion.[6]

- The Bush Administration already previously announced as "new" its intention to ask Congress to increase aid for trade funding. What USTR is doubling in its announcement that it will seek an increase aid for trade funding levels to $2.7 billion by 2010 is its press coverage, not its funding levels. Already at the G-8 summit, the U.S. announced -- and got press attention – for a promising a significant share of the 'aid for trade' funds it is again announcing in Hong Kong that it will request from Congress.

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[2] See e.g. *Inside U.S. Trade*, Nov. 18, p1. See also, *Inside U.S. Trade* Dec. 12, 2005, " Portman Says U.S. Needs Textile Flexibility In LDC Initiative" "Portman said this (excluding certain products) was necessary not only because of problems the U.S. has with domestic constituencies and the textile industry, but also because additional competition in textiles and apparel could hurt countries that have preferential access under the African Growth and Opportunity Act…. Including textiles in the GSP program is a controversial proposal among U.S. importers and retailers who fear that the fight likely to erupt over this could derail the reauthorization of the program."

[3] See eg. "Congress May Reject WTO Duty-free Plan", Reuters, December 6, 2005.

[4] National Priorities Project, Cost of War Calculator, NPP website, accessed Dec. 15, 2005.

[5] Joel Friedman, "More House Tax Cuts, Total to Exceed $90 billion," Center on Budget & Policy Priorities Rpt, 12-7-05.

[6] Cody Brumfeld, "Chairman of Key House Committee Assures Lenders of his Support in Speech," American Association of Collegiate Registrars and Admission Officers, Dec. 12, 2005.

- ‘Aid for trade’ funding is in itself a dangerous concept in which short term quantitative offers are made to ‘buy’ permanent qualitative policy changes on trade that may not be in the long term interest of poor countries involved. **“Trade capacity building is a tool for opening markets…”** admitted U.S. Secretary of Agriculture Mike Johanns in a moment of candor.”[7] The USTR fact sheet on the aid for trade announcement in Hong Kong explicitly states that funding is conditioned on poor countries prioritizing trade liberalization at home.

- Even USTR’s claim that U.S. aid for trade now is at $1.3 billion is based on “funny maths.” While USTR talks about the current funding level being $1.3 billion, in fact the actual appropriation in the budget for aid for trade facilitation is $522 million.[8] The U.S. Trade Representative’s estimate of $1.3 billion in 2005 is based on data provided by the U.S. AID’s Trade Capacity Building Database. This project makes U.S. government contributions to trade capacity building appear larger than the amounts actually appropriated for that purpose by Congress, as the database expands the definition of “trade capacity building” and includes funds expended by various government bureaucracies that *self-report* that certain activities they undertook could be said to be linked to trade – whether or not the funds involved actually were spent in other countries or granted out.[9] What makes this aid-inflation claim yet more cynical is that in the context of overall U.S. spending, even an honest $3.7 billion in grants would be a relatively small amount. It is less than half what the U.S. government spent on a single contract with Lockheed Martin to develop a satellite system (a contract which is still not near completed after nine years of work)[10] and about half what the U.S. is spending on a one pit facility for nuclear weapons.[11]

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[7] Secretary of Agriculture Mike Johanns, “Johanns Urges EU To Match Ambitious U.S. Farm Proposal,” U.S. Agricultural Trade Coalition Conference WTO Ministerial, Hong Kong, Dec. 15, 2005.

[8] *Sec. 570. Trade Capacity Building:* “The conference agreement includes a provision proposed by the House (section 570) which makes not less than $522,000,000 available for trade capacity building assistance from several accounts in title II of this Act and $20,000,000 from ESF for labor and environmental capacity building activities relating to the Central America Free Trade Agreement. The Senate did not address this issue.” ESF is a Title II program. In the section on Development Assistance, also in Title II, the conference report reads, “The conference agreement includes $214,000,000 for trade capacity building under this heading, of which at least $20,000,000 shall be made available for labor and environmental capacity building related to the free trade agreement with the countries of Central America and the Dominican Republic. Trade capacity building is further addressed in section 570 of the general provisions.” *See* “Making Appropriations For Foreign Operations, Export Financing, And Related Programs For The Fiscal Year Ending September 30, 2006, And For Other Purposes,” House-Senate Conference Report 109-265, Nov. 2, 2005.

[9] *See* U.S. AID, Trade Capacity Building Database, available online at http://qesdb.cdie.org/tcb/method.html; accessed Dec. 15, 2005.

[10] Taxpayers for Common Sense, “Outerspace Waste,” *WasteBasket: A Weekly Bulletin on Government Waste*, Vol. X No. 28, Aug. 18, 2005.

[11] Taxpayers for Common Sense, “The Modern Pit Facility: A $4 Billion Boondoggle Being Sold on Alarmist Rhetoric and Dated Data,” TCS Press Release, May 2, 2005.