

January 11, 2004

Dear Minister:

New Year's greetings! I hope this letter finds you well.

I am writing to share with you some common sense reflections on where we stand on the Doha Agenda and ideas on how we might advance it together. My thoughts are not intended to launch breakthrough proposals. And I recognize that these views will be affected by my own perspectives, but I hope they nevertheless will offer a sense of how we might move ahead.

Over the past few months I have been discussing with many of you and the Director General the outlook for the Doha negotiations. I read closely the exchanges of our Ambassadors at the December 15 meeting of the General Council in Geneva, including Chairman Perez del Castillo's thoughtful and useful report.

Here is my frank assessment: there is a general interest in advancing the Doha Development Agenda, and even a sense that our struggles at Cancun may have laid some useful foundations. Yet there is uncertainty about how to reengage productively so that we can make the necessary decisions.

I do not want 2004 to be a lost year for the WTO negotiations.

A Suggested Focus: The Market Access Agenda

At the most fundamental level, I think we are most likely to succeed if we focus our work on the core market access topics: agriculture; goods; and services. These areas offer the most significant gains both for the world economy and our individual economies. Improved market access is particularly critical for meeting the needs of the developing countries. These topics also involve enough diversity to permit economic synergies and balanced results. Most of us are generally familiar with the issues -- although not yet the solutions!

In addressing these topics, we will of course need to incorporate special and differential treatment, recognizing that developing countries face varying circumstances, additional challenges from global competition, and particularly sensitive adjustment problems.

Agriculture: The Essential Topic and Catalyst

From the start of our preparations for Doha, it has been clear that an ambitious result in agriculture is essential for this negotiation to proceed and succeed. The Uruguay Round only began the process of disciplining and lowering barriers to trade in agriculture. As our Doha mandate stressed, to foster development and growth in agriculture we need to

address effectively the three interconnected topics: export competition; domestic support; and market access. As some colleagues will remind the rest of us, they also want to consider non-trade concerns, although others will rejoin that by taking this into account, we should not further distort markets and create new protectionist barriers.

Recognizing the critical role of agriculture in these negotiations, the United States proposed sharp cuts in subsidies, tariffs, and other barriers. Later, the United States tried to work with the European Commission to capitalize on changes in the EU Common Agricultural Policy (CAP) to offer a framework for negotiating significant openings for global agricultural trade. Some Members of the WTO found that framework, including subsequent variations, to be insufficient or too uncertain; others believed it demanded too much.

So here is where I think we stand.

I believe that we will not be able to solve the puzzle of the DDA unless we have an agreement to eliminate export subsidies by a date certain. Export subsidies distort trade more than any other measure. The final elimination of these subsidies would underscore our common commitment, especially for developing economies. So we need to set an end date. I prefer an early date, but recognize that may not be realistic for some, given the sensitivity of the topic. I also am committed to eliminating the subsidy component of export credit programs; we also need meaningful disciplines on the special privileges of State Trading Enterprises. As a practical matter, to move the negotiations forward, I believe we should seek an understanding that there will be elimination of export subsidies by a date certain, with the exact date not set until there is a better sense of the overall package, including non-agricultural components.

As for reductions in domestic support, I remain committed to an ambitious result, which I believe can be achieved. As Chairman Perez del Castillo suggested, I urge that we focus on the most trade-distorting support. The Uruguay Round established caps on amber box support. We should now lower those caps substantially. For the United States, the degree of ambition is linked to two essential elements: a significant narrowing of the differential between those with higher caps (along with a currently uncapped blue box), and a substantial increase in real market access opportunities both in developed and major developing country markets. In addition to substantial cuts in amber box support, we need disciplining caps on blue box support, where there are none today.

Chairman Perez del Castillo suggested that the DDA also points to a second stage for agricultural liberalization, which I would be pleased to support if it refers to all distortions in agricultural trade. Indeed, the United States stands by its 2002 proposal to set a goal of total elimination of trade-distorting subsidies and barriers to market access.

In the area of agricultural market access, all of us have been struggling to find a compromise between those that favor an ambitious (i.e., Swiss) formula for tariff cuts and those that want to continue the modest Uruguay Round methodology. The various frameworks produced in August and September of last year suggested compromise

amalgams. We should be open to all ideas on how to develop a blend that applies fairly to all and provides meaningful market access commitments that provide real export opportunities. These should be guided by three principles. One, we need substantial openings in markets of developed and developing countries, especially those that are competitive in sectors of agriculture and with stronger economies. Two, if a blended formula still permits extremely high tariffs, we need the principle of a cap on high tariffs and significant growing access to create a basis for true access to markets over time. Three, we need a common methodology, or else the DDA and even the WTO will be driven by divergent disciplines that will undermine our ability to press forward together, even if at different speeds. Of course, a common methodology can incorporate different degrees of reduction of barriers and longer staging for developing countries that need more time to adjust. As a practical matter, I believe our ability to share a methodology depends on different treatment for a very limited number of special products for certain developing countries that are concerned about harming rural development and subsistence farmers.

Finally, although cotton is never specifically mentioned in the Doha mandate, I agree with the Chair's suggestion that we examine possibilities in this sector that are both trade- and development-related. As we affirmed in Cancun, in the Doha negotiations it is the objective of the United States to achieve substantial cuts in trade-distorting domestic support for agricultural products, including cotton; the elimination of export subsidies for cotton and all other agricultural products; and substantial improvements in market access for cotton, cotton products, and other agricultural goods. This can be combined with comprehensive economic reforms in individual countries and new technologies to offer additional opportunities for developing economies.

The United States has also proposed sectoral negotiations in agriculture -- to build on the general disciplines -- which developing countries may wish to consider pursuing for other products of interest, including coverage of value-added processing.

Market Access for Manufactured Goods: Ambition and Flexibility

My assessment is that we will need to achieve a more concrete understanding in agriculture before the negotiations on market access for manufactured goods can move ahead. When they do, I think we will need to recognize that the current technical debate over the complexities of the formula cut is obscuring a basic point: we need an ambitious formula for cutting tariffs on manufactured goods that includes sufficient flexibility so that the methodology will work for all.

If our discussions on agricultural market access succeed, we may wish to explore whether the "blended" concept would work for industrial goods, too. For less competitive developing economies, a blended methodology could give flexibility for sensitive items while enabling the WTO to proceed with an ambitious formula that significantly narrows the larger gaps in tariffs.

If we can move ahead on formula cuts, it is constructive that there already seems to be broad agreement that non-tariff barriers also need to be tackled in the negotiations.

I believe sectoral negotiations remain integral to our results as well. As we have seen with the Information Technology Agreement, an open sector with global competition and sourcing can have dynamic growth effects for developed and developing economies in regions around the world. Nevertheless, the dispute over “mandatory” sectorals suggests we need to find a balance between adequately sharing responsibilities and providing appropriate flexibility for developing countries, especially the poorer and less-developed. Perhaps we can reach a middle ground by defining an approach to “critical mass” participation for sectorals.

The United States continues to favor the total elimination of tariffs for goods, if not as we proposed, perhaps as a second-stage goal along with the second stage for agriculture. I recognize others are cautious. But I urge you -- especially my colleagues in developing economies -- to consider that the implementation of this agreement could take us 15 to 20 years ahead, by which time your countries could benefit greatly from locking in tariff-free trade in manufactured goods.

Services: Potentially Large Gains

We have not discussed the services sector much. Yet the services sector is increasingly essential for development and growth in all our economies. The DDA will run aground if we do not focus attention on this important market access component of the negotiations, so that we can build on the current 40 offers. Perhaps we could press for a near-term goal of meaningful offers from a majority of WTO Members.

To help achieve this goal, I suggest that various countries, the WTO staff, and the development banks might help developing countries in two ways. First, some countries need technical assistance to evaluate potential benefits, and to prepare offers and requests. Second, we can identify sectors that seem especially fruitful for synergies between developed and developing economies. Some services sectors provide critical infrastructure for growth and development strategies, including the international competitiveness of countries' manufacturing and agricultural sectors.

Special and Differential Treatment

Our market access agenda will need to incorporate particular designs for special and differential treatment. As we work through these challenges, we will need a reasoned discussion about the level of participation of various countries given the wide differences in current capacities to participate in the global economy. I recognize the sensitivity of this topic. Yet as we design flexibilities for countries or even types of countries or regions with special problems, we will be stymied if every provision automatically applies to some 100 or more countries -- including some that are highly competitive in a sector. Moreover, although our sensitive domestic constituencies make it hard for us to

recall, the economic gains from trade come from opening our markets as well as exporting to others!

The “Singapore” Issues: Concentrate on the Most Useful and Least Divisive

A focus on the market access agenda raises the question of what to do with the so-called “Singapore” issues.

From before Doha and through Cancun, a consensus on these issues has remained elusive. A number of developing countries believe the Singapore topics strain their ability to prepare and take part in the negotiations; others are anxious about where rules in new areas might lead. At Cancun, in the face of this continued impasse, some of the proponents of these topics graciously suggested they might be more flexible.

I suggest we might be able to progress by agreeing to negotiations on trade facilitation. After all, this work would generally improve old customs rules that need updating. As the 21 developing and developed economies of APEC have demonstrated, trade facilitation measures are basically an extension of market access procedures that lower transaction costs and increase timeliness of transit. These improvements will be important for all economies in a world of global sourcing, especially for smaller enterprises that all of us want to help launch in the sea of commerce. If we focus on this topic, we might also be able to target technical assistance more effectively to help developing countries improve their customs, ports and airports, information, and clearance systems.

Some feel it may also be possible to reach a consensus supporting further work on transparency in government procurement. Clear and transparent procedures -- which still may incorporate local preferences -- help counter corruption, lower the costs of government, and build trust in the rule of law. If others believe this transparency topic merits ongoing engagement, we could explore possible subsequent steps: for example, a negotiation for some or all Members, or simply encouraging more Members to join the existing WTO Government Procurement Agreement.

For the topics of investment and competition, we could either drop them -- as I would prefer, so as to concentrate our work -- or develop a plan of study.

How Might We Proceed?

I recognize that this letter covers only some of the topics we will need to address in a successful DDA negotiation. For example, we are committed to addressing the Dispute Settlement Understanding, trade rules, environmental topics, and the other elements in the Doha mandate. I would of course be pleased to discuss other topics of interest to you. My hope is that a focus on core work would enable us to determine a way to move forward.

So how might we proceed?

First, we need an active Chair of the General Council to work with the Director General to press discussions forward in Geneva. I understand there are traditions of rotating the Chair between a developing and developed economy, with developed slated next. I suggest, nevertheless, that given the importance of combining trade liberalization with development that we select a Chair from a developing economy. There are many skilled, experienced candidates -- for example, the WTO Ambassadors from Brazil, Chile, Pakistan, Singapore, and South Africa.

Second, we should urge the new Chair of the General Council to work with the Director General and the Chairs of Negotiating Groups to build upon, not repeat, the mid-December exchange. With our help, they can prod our teams in Geneva to focus on solving -- not just discussing -- problems. We need to explore -- on- and off-line -- compromises that maintain ambition while securing necessary flexibility and a balanced result for all. I would welcome your thoughts about whether the common sense agenda I am outlining -- or some variation -- could help concentrate our energies.

Third, we need a stronger engagement by capitals, particularly at senior levels, to test ideas and possible compromises. Indeed, this exploration for constructive compromises may necessitate trying out ideas in capitals and in informal consultations.

If these negotiations and explorations of solutions are making progress and narrowing differences, we can then look to the Chair of the General Council and the Director General to advise whether Ministers need to meet, in some fashion, to address part or all of the agenda.

To target productive results for 2004, I suggest we take an additional step. Since Hong Kong has offered to host the next WTO Ministerial, I propose we agree now to meet before the end of this year in Hong Kong. Let's keep our focus during 2004. We should try to agree on the frameworks for negotiations by mid-year. I understand some of you believe we need to develop precise numbers -- or at least have a good sense of them -- along with the frameworks. I suspect sequenced steps are likely to be most successful, but am willing to work with other approaches if they can help reach good results.

In closing, I want to let you know that I am seeking to explore every avenue to make 2004 not a lost year, but a year of accomplishment for the Doha Agenda and the WTO. I have tried to outline ideas that I think might help us resolve critical issues, but no doubt I have overlooked or misperceived particular interests. Therefore, I plan to visit a number of capitals around the world early this year, as well as talk with others by phone, to hear other ideas and assessments of how we can advance together. I have already benefited from conversations with some of you late in 2003, but perhaps we can refine our thinking together further so that the Doha Agenda regains momentum.

Thank you for your patience. I appreciate this is a long letter to impose upon you. Yet I am doing so because the stakes are high for our citizens, our economies, and the world

trading system. So I wanted to be open with all of you on my perspective on how to make 2004 a year that exceeds expectations and delivers for the Doha Development Agenda.

With best wishes,

Robert B. Zoellick