U.S. SENATE COMMITTEE ON

Finance

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Statement of Senator Chuck Grassley
Senate Agriculture Committee Hearing on
The Status of World Trade Organization Negotiations on Agriculture
September 21, 2005

I'm pleased to submit this statement for today's hearing on agricultural negotiations at the World Trade Organization (WTO). As a senator from Iowa, and as a member of the Committee on Agriculture, I have a major interest in seeing that the Doha Development Agenda (Doha Round) negotiations of the WTO benefit the U.S. agricultural sector. Moreover, as Chairman of the Committee on Finance, the Senate committee with jurisdiction over trade legislation, I'm actively involved in trade issues affecting agriculture.

I'd like to begin by emphasizing the importance of international trade to the health of rural America. Approximately one-third of U.S. acres are planted for export. Agricultural exports constitute about one-fourth of U.S. farm cash receipts. U.S. farmers and ranchers clearly gain from international trade.

But we can do better than the present. High tariffs imposed by other countries significantly impede market access abroad for U.S. agricultural products. At the same time, U.S. tariffs on agricultural imports are among the lowest in the world. The levels of subsidies provided by some of our major trading partners are significantly higher than those of the United States. In addition, some WTO members – unlike the United States – extensively use export subsidies.

The Doha Round offers a once in a generation opportunity to change this situation. The outcome of the Doha talks could lead to the removal of artificial distortions in the international marketplace that harm U.S. farmers. For this reason, it's important that the United States remain focused on achieving results in the upcoming WTO ministerial in Hong Kong that will lead to a successful conclusion of the Doha Round by 2007.

But not just any Doha Round agreement will be acceptable to the United States. Such an agreement must result in real gains for U.S. agriculture. Most importantly, any new agreement must provide increased market access abroad for U.S. farm products. In addition, any new agreement must follow through with the goals of harmonizing levels of domestic support and eliminating export subsidies by a date-certain as provided in the WTO framework of August 2004.

Market Access

The single greatest goal of the United States in the Doha Round agricultural negotiations must be to obtain substantial improvements in market access for U.S. farm products. Any agreement that does not fulfill this objective must be rejected.

U.S. tariffs on imports of agricultural products are significantly lower than those of almost all of our trading partners. This is true of our developed country trading partners. According to a 2005 World Bank report, the average U.S. trade-weighted *applied* agricultural tariff is 2.7 percent. In contrast, the average trade-weighted applied agricultural tariff for the European Union is 11.8 percent, for Japan is 34.6 percent, and for Korea is 93.9 percent. Accordingly, the average applied tariff of the United States is more than four times lower than that of the European Union, over twelve times lower than that of Japan, and over thirty-four times lower than that of Korea.

Likewise, the average trade-weighted *bound* agricultural tariff of the United States – 6.2 percent – is much lower than that of most of our developed country trading partners. The average such tariff for the European Union is 20.5 percent, for Japan is 62.1 percent, and for Korea is 103.5 percent.

The disparity between tariffs of the United States and its developing country trading partners is pronounced as well. According to another 2005 World Bank report, the U.S. trade-weighted average applied tariff for agricultural and food products is 2.4 percent (slightly lower than in the other World Bank report noted above). The average such tariff for Brazil is 5 percent, for Indonesia is 5 percent, for Argentina is 7.1 percent, for South Africa is 8.8 percent, for Mexico is 11.6 percent, for Thailand is 29.7 percent, and for India is 50.3 percent. Significantly, all of these countries are members of the G-20, a negotiating group in the WTO talks that is calling for increased access to the U.S. market. The average applied agricultural and food tariff of Brazil, a leader of the G-20, is over twice as high as that of the United States. India, another G-20 leader, applies tariffs to agricultural and food products that are *over twenty times higher* than those of the United States. Before the United States commits to even further liberalize its agricultural market, we need strong assurances that these developing countries will provide greater access for U.S. agricultural products.

In order to ensure improved market access for U.S. producers, the number of products designated in the market access negotiations as "sensitive" or "special" should be kept low. Tariff peaks should be eliminated, thus leading to more harmonized agricultural tariffs.

Unfortunately, even if tariffs are cut significantly through the Doha Round, exports of certain major Iowa and U.S. agricultural products will not necessarily increase into all markets. For example, the European Union remains essentially closed to imports of U.S. beef, corn, and pork due to scientifically unfounded safety concerns. In the case of beef, the European Union maintains its ban despite a 1998 WTO ruling that this ban violates the European Union's WTO commitments, and the United States is currently challenging the European Union's moratorium on the approval of agricultural biotech products, a policy that in effect blocks exports of U.S. corn. Japan continues to ban imports of U.S. beef although this product is scientifically proven as safe. The United States must continue to work aggressively to see that non-tariff barriers to U.S. agricultural exports are removed. Otherwise, gains in market access for some products in certain countries will be largely illusory.

Domestic Support

Some countries have been calling for the United States to agree to reduce its domestic support before they agree to cut their tariffs. But we haven't seen a reciprocal willingness from them that they'll agree to the necessary tariff reductions in the negotiations. I believe that the United States should be willing to reduce its domestic support, but only if both developed and developing countries agree to provide greater market access for U.S. agricultural products.

When negotiating on domestic support, U.S. negotiators should work to see that subsidies are reduced and harmonized through the Doha Round negotiations. This would be in line with the framework agreement of August 2004, which provides that there will be a "strong element of harmonization" in cuts in domestic support, and that, specifically, "higher levels of permitted trade-distorting domestic support will be subject to deeper cuts." Accordingly, the European Union, Japan, and other countries must be willing to signal that they'll cut their support.

But interestingly, the United States is currently under attack in the WTO negotiations, especially from the European Union, over our domestic support. It strikes me as odd that the European Union is going on the offensive over U.S. subsidies. If anything, the European Union, and not the United States, must be prepared to reduce its subsidies if the round is going to have an element of harmonization. The European Union is currently able to provide over $60 billion annually in trade-distorting domestic support. This amount is *over three times* the $19 billion limit of the United States. Moreover, the European Union, unlike the United States, uses blue box subsidies, which can be provided in unlimited amounts.

Regarding the blue box, the European Union is protesting the inclusion of countercyclical payments in the "new" blue box as laid out in the framework agreement. From what I understand, the United States – prior to the reaching of the framework – was seeking to eliminate the blue box. After all, it didn't seem fair that just the European Union and six other countries have blue box subsidies. The United States dropped its demand to eliminate the blue box, however, after agreement was reached to include countercyclical payments in the new blue box. If the European Union is now calling for countercyclical payments not to be included in the new blue box, or if it is insisting that onerous conditions be placed upon them if they are included in the new blue box, I believe that the United States should revisit the issue of whether a blue box should exist at all.

Export Competition

Export subsidies are the most trade-distorting of all support measures, and I'm pleased that the framework agreement provides that they'll be eliminated by a date-certain. The European Union provides 85 to 90 percent of the world's total export subsidies. As export subsidies are used by so few countries, and as they are so trade-distorting, it only seems reasonable that WTO member countries agree to their elimination. I hope that the United States and its trading partners agree to end them at the earliest possible date.

On a similar topic, I urge U.S. negotiators to press for the elimination of differential export taxes. Differential export taxes in effect subsidize exports of processed agricultural products. I understand that three of the four WTO member countries that use differential export taxes – Argentina, Indonesia, and Paraguay – are members of the G-20 and are asking that the United States lower its tariffs to their products and provide reductions in its domestic support. I encourage the United States to negotiate with these countries for the elimination of differential export taxes.

On another topic listed under the subject of export competition, I note that I'm wary of calls by the European Union to limit food aid to cash payments. I'm concerned that cash donations would invite corruption.

Developing Countries

Developing countries are fully involved in the current WTO negotiations, and this is a good sign for the world economy. Their further integration into the international market will benefit not only their citizens, but people throughout the world.

I'm concerned, however, by the apparent unwillingness of developing countries to push for agricultural trade liberalization among themselves. Developing countries need to appreciate that the key to development is not exclusion from liberalization, but liberalization itself. As demonstrated by their high tariffs, developing countries have among the world's most protected agricultural sectors. This protection limits market opportunities for agricultural exporters in both developed and developing countries who seek to export their products to developing countries. In addition, consumers in highly protected developing country markets, such as India, are penalized by high tariffs on agricultural and food products. By reducing agricultural trade barriers, developing countries would enhance their own competitiveness, and thus enhance their potential for income gains.

I'm also concerned by continued calls from net agricultural exporting developing countries for special and differential treatment. Some developing countries have world class, highly advanced agricultural sectors that compete directly, and successfully, with their counterparts in the United States and other developed countries. Providing special and differential treatment for internationally competitive producers in these developing countries is simply unwarranted. I urge U.S. negotiators to see that these producers are not provided special and differential treatment that they do not need.

Conclusion

The Doha Round has the promise of expanding trade opportunities for U.S. farmers and benefiting rural America. In order to live up to its promise, any agreement reached through the negotiations must provide significant new market access opportunities – in both developed and developing countries – for U.S. agriculture. Negotiations on subsidies must provide for the reduction and harmonization of domestic support, and per the 2004 WTO framework agreement, U.S. negotiators should make clear that the United States expects that countercyclical payments will be included in the new blue box. In addition, as called for in the framework agreement, export subsidies should indeed be eliminated by a date-certain.

The Doha Round provides a once in a generation opportunity to promote international economic growth and prosperity through trade liberalization. The entire world will benefit if we're able to conclude these negotiations successfully.