U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Statement of U.S. Senator Chuck Grassley of Iowa
Chairman of the Committee on Finance
Goals for the WTO Ministerial Conference in Hong Kong, China, December 2005

Introduction

The Hong Kong Ministerial presents an important opportunity for the United States and our trading partners to determine whether or not an agreement on meaningful trade liberalization can occur within the short time frame presented by Trade Promotion Authority.

It is important to remember that these negotiations are taking place at a unique moment in the economic history of the United States. In the United States, the authority over international trade lies with the U.S. Congress. But, with the passage of the Trade Act of 2002, the U.S. Congress authorized the President of the United States to negotiate a trade agreement under the auspices of the World Trade Organization. Under the Trade Promotion Authority (TPA) procedures established by the Trade Act of 2002, any WTO agreement that meets the goals outlined in the Act will be considered by the U.S. Congress quickly and without amendment. Ambassador Portman travels to Hong Kong with the support of the U.S. Congress and the authority to negotiate a WTO agreement on behalf of the United States.

An appreciation by our trading partners of the unique situation we are in is absolutely critical. TPA procedures are critical to the implementation of trade agreements in Congress. TPA vastly improves the prospects for getting a WTO agreement approved by the U.S. Congress. Without TPA, any agreement submitted to the Congress can be delayed in the Senate to the point where it may never be considered at all. And, without TPA, the agreement can be amended should it ever come to full debate. Because it can be amended, there is no guarantee that Congress won't renegotiate the agreement through the implementation process.

No Extension of Trade Promotion Authority

U.S. Trade Representative Rob Portman has emphasized in recent days that the Doha Round negotiations must be finalized in 2006. I join him in stressing the need to move these negotiations forward, and to conclude them, quickly. WTO negotiators face a de facto deadline due to TPA, which provides expedited legislative procedures for trade agreements entered into by the United States before July 1, 2007.

Representatives of some WTO member states assume that the U.S. Congress will, if WTO negotiations drag on past 2006, simply vote in 2007 to extend TPA for the limited purpose of concluding the Doha Round.

This is a very risky proposition.

As co-author of the 2002 TPA legislation in the Senate, and Chairman of the Committee which would be responsible for extending TPA, I can tell you that it would be extremely difficult to extend TPA in 2007 to accommodate delays in completing the Doha Round. This is a political reality given the inherent controversy of TPA legislation. Fast-track negotiating authority, the predecessor to TPA, expired in 1994, and this authority lapsed until the passage of TPA in 2002. During those intervening eight years, several legislative proposals were made to reauthorize fast-track negotiating authority, yet none of those bills passed the Congress. When TPA finally did pass into law in 2002, the vote was particularly close. What's more, it's important to note that any legislation to extend TPA would be subject to amendment, so such legislation could result in changes in the U.S. negotiating objectives for the Doha Round going forward, a development that could further complicate the WTO negotiations. Therefore, expectations that Congress will reauthorize TPA legislation in 2007, even for the express purpose of accommodating the conclusion of the WTO negotiations, are highly unrealistic.

In addition, the following year, 2008, is a presidential election year in the United States, and I highly doubt that controversial TPA legislation would come before Congress at that time. Following 2008, the United States will have a new president and a new Congress, so the prospects of passing another TPA bill in 2009 or the years beyond are very unpredictable. Therefore, once again, it's imperative that we wrap up the WTO negotiations during 2006.

So, the bottom line is that TPA sets a deadline for these negotiations in the United States. WTO members that don't work actively to move the negotiations forward to meet this deadline are, knowingly or unknowingly, dooming the Doha Round to failure.

Agriculture

Fully aware of the need to conclude the agriculture negotiations quickly, the United States is working actively to move them forward. The commitment of the United States to liberalize trade through these negotiations is amply demonstrated in the proposal of the United States on WTO agriculture negotiations that was offered on October 10, 2005. In this proposal, the United States responded to its trading partners who were calling for cuts in U.S. domestic support. The United States made clear that it is willing to make major reductions in its domestic support, but only if other WTO members -- developed as well as developing countries -- significantly lower tariffs that restrict the entry of U.S. products to their markets. The U.S. offer also calls for changes in export competition, such as the elimination of export subsidies by 2010.

Market Access

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

The current obstacles to market access for U.S. agricultural products are readily apparent. 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 4 times lower than that of the European Union, over 12 times lower than that of Japan, and over 34 times lower than that of Korea.

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 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 20 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.

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.

Given that cuts in agricultural tariffs in the Doha Round will be from bound rates, which are often much higher than applied rates, it's imperative that tariff cuts be deep enough to reach down to, and lead to real reductions in, applied rates.

Moreover, tariff peaks should be eliminated, leading to more harmonized agricultural tariffs. 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. The European Union's agricultural proposal of October 28 calls for 8 percent of EU tariff lines to be designated as "sensitive," and as a result subject to lesser disciplines. The ability of the European Union to shield 8 percent of its tariff lines from effective liberalization would severely limit the ability of farmers in the United States and other countries to improve their access to the European market. According to one calculation, a much lower limit -- of only 2 percent -- would exclude 80 percent of tariff lines of products that are traded in significant amounts from regular tariff cuts.

Domestic Support

The United States understands that, in order to obtain better agricultural market access abroad, its WTO trading partners expect it to give in other areas, and in particular in the area of domestic support. The U.S. agricultural proposal of October 10 does indeed propose significant cuts in U.S. domestic support, cuts that are, once again, contingent upon receiving markedly improved market access for our exports. With major proposed reductions in the U.S. aggregate measure of support (AMS), the overall U.S. levels of trade-distorting report, and in the de minimis allowance for trade-distorting domestic support, the United States is working to move the Doha Round negotiations forward.

The U.S. proposal comports with the WTO framework agreement of August 2004, which provides that there will be a "strong element of harmonization" in cuts in domestic support, and that "higher levels of permitted trade-distorting domestic support will be subject to deeper cuts." Accordingly, the United States proposes that WTO members with higher levels of domestic support, such as the European Union and Japan, make deeper cuts in their subsidies. Most notably, with the European Union currently able to provide over $60 billion annually in trade-distorting domestic support -- an amount that is over three times the $19 billion limit of the United States -- it's essential that the European Union move forward with deep cuts in its subsidies in order to achieve a harmonizing result at the end of the negotiations. Moreover, the European Union, unlike the United States, uses blue box subsidies, which can be provided in unlimited amounts.

With regard to the blue box, from what I understand the United States -- prior to the reaching of the 2004 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. The U.S. agricultural offer of October goes beyond the framework and proposes to reduce the amount available for use in the new blue box from the framework's 5 percent to 2.5 percent of the total value of agricultural production of a WTO member.

Export Competition

Export subsidies are the most trade-distorting of all support measures. 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.

The framework agreement provides that export subsidies will be eliminated by a date-certain, and I fully support the U.S. proposal on WTO agriculture negotiations that calls for their complete elimination by 2010. I'm disappointed, though, that the decision on the date on which to terminate export subsidies has been put off until after the Hong Kong ministerial. This delay, like others, threatens to push the conclusion of these negotiations even further into the future, and we don't have much time left.

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.

Cotton

A number of WTO members would like to see major reductions in cotton subsidies through the Doha Round. Some have called for the United States to make concessions prior to the completion of comprehensive Doha negotiations. Such proposals are politically naive and rooted in fantasy.

Politically, the United States cannot implement cotton reform without corresponding concessions from our trading partners. Thus, in reality, roads on cotton reform go through the European Union. If Europe steps up to the plate and makes a more ambitious offer on agriculture, the current negotiations stalemate can be broken. And, the sooner the stalemate is broken, the sooner we will reach a comprehensive agreement, including cotton reform. In short, cotton can't be addressed without a successful Doha Round, and without an agreement on agriculture, this round won't close.

Non-Agricultural Market Access

It is important to remember the United States' agriculture offer is inextricably linked to a robust non-agricultural market access (NAMA) agreement as well as good agriculture and services offers. A robust NAMA agreement is one that calls for an ambitious formula that will lead to real cuts in both bound and applied tariffs. Brazil's recent statements in support of a simple Swiss formula are encouraging and represent the type of leadership that we need to see from the developing world if the round is ever to move forward. While we need to get more official detail from Brazil as well as an agreement on ambitious coefficients, I appreciate these positive signals from Brazil.

In the manufacturing sector, there is a glaring disparity between the U.S. tariff levels and tariff levels in the rest of the world for industrial products. For example, the average U.S. bound tariff is 3 percent. The average worldwide WTO bound tariff is 30 percent. This disparity must be significantly reduced before the U.S. Congress will approve the final Doha Round text. I also expect the final agreement to contain a strong sectoral component, so that our workers can begin to reap the benefits of liberalization quickly. We also need to address the elimination of non-tariff barriers to ensure that the gains achieved by tariff elimination are not undermined.

While the NAMA negotiations are integral to the growth of the U.S. economy, other members need to understand that their economies stand to benefit from the success of the negotiations as well. Currently, 70 percent of the tariffs paid by developing countries are paid to developing countries. Therefore developing countries need to be active participants in the Hong Kong negotiations in order to attain benefits from other developing countries.

Services

Service sector liberalization will greatly benefit developing and developed countries alike. Ready access to efficient providers of financial, telecommunication, distribution, and transportation services, to name a few, is essential to the competitive production and sale of both manufactured and agricultural goods. Information technology services create an essential infrastructure for economies of the future. The availability and utilization of such services is key to a country's ability to grow its economy and increase its participation in international trade.

Services are certainly an important component of the U.S. economy. In 2004, U.S. cross-border services exports by companies totaled over $323 billion, and U.S. cross-border exports exceeded imports by over $65 billion. Services accounted for about 80 percent of U.S. private sector non-farm employment and almost 60 percent of U.S. gross domestic product (GDP) that year. But the United States is not the only country that stands to benefit from liberalization of trade in services. The services sector is the largest and fastest growing sector of the world economy, accounting for more than 60 percent of GDP in many countries and an even larger share of employment.

Given the significant role of services trade in the world economy, we should strive for an equally balanced outcome in the services negotiations as compared to the agriculture and non-agricultural market access negotiations. Yet as of November 2005, out of 148 WTO members only 69 had submitted initial offers, and of those, only 30 had submitted improved revised offers. Recent proposals to complement the request-offer process with plurilateral negotiations and collective targets will hopefully spur meaningful progress in this important area. Also helpful would be real leadership from other members such as India and Brazil, not only in terms of outlining negotiating guidelines for services but also in terms of putting ambitious proposals on the table. Finally, with respect to mode 4, I'd encourage all participants to be realistic in their expectations. I support reform and improved administration of the U.S. visa system. But the fact remains, any reform in this area for the United States will be driven and shaped by many members of the U.S. Congress, and this issue is very contentious in the Congress. I also note that mode 4 accounts for less than 1 percent of global trade in services. The real benefits to be had are in liberalizing the other 3 modes of delivering services.

Developing Country Contributions

The success of the Doha Round is a shared responsibility. All countries, developed and developing alike, must make significant and meaningful contributions to global market liberalization. In fact, some developing countries that are major participants in the world economy in certain sectors -- such as Brazil in agriculture and manufacturing and India in services and manufacturing -- should contribute more in the negotiations than others.

For example, on the issue of agriculture and developing countries, providing the same degree of special and differential treatment to developing countries with first-rate, internationally competitive agricultural sectors like those found in Brazil is unwarranted. The fact is, Brazil's producers of commodities can and do compete effectively in the global market. Many Brazilian farms are between 30,000 and 200,000 acres in size, and one Brazilian farm -- at one million acres -- is 50 percent larger than the state of Rhode Island. To provide special and differential treatment to large, internationally competitive producers in Brazil and elsewhere would be unfair to the large number of farmers in lesser developed countries who truly merit such treatment.

South-South Trade

I'm concerned by the apparent unwillingness of developing countries to push for significant 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 economies. This protection limits market opportunities for 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, including high tariffs on essential products like food. By reducing trade barriers, developing countries would enhance their own competitiveness, and thus enhance their potential for income gains.

Preference Erosion

I question claims that extensive tariff cuts through the Doha Round will harm developing countries by leading to "preference erosion." First, the very lowering of tariffs, by both developed and developing countries, would provide new market opportunities for developing countries that could only benefit them. Second, evidence of harm to developing countries from preference erosion is weak. According to the International Monetary Fund, losses to the least developed countries (LDCs) resulting from most-favored nation tariff reductions by the world's major economic powers would most likely be less than 2 percent of the LDCs' exports. Recent claims by the European Union that, by maintaining its high tariffs, it will benefit developing countries and thus protect them from preference erosion, is -- at best -- curious.

The preference erosion argument against liberalization appears to presuppose that these programs will exist forever. That is not the case. The U.S. Generalized System of Preferences program and the Andean Trade Promotion and Drug Eradication Act both expire on December 31, 2006. The Caribbean Basin Trade Partnership Act expires on September 30, 2008, and our trade program for Africa, the African Growth and Opportunity Acceleration Act, expires on September 30, 2015.

As early as next year Congress will begin to reevaluate our trade preference programs. If it appears that these programs are being used as an excuse for not engaging in multilateral liberalization, I doubt very seriously that Congress will be predisposed to renew them. This is not a threat -- it is simply political reality. Those who continue to use "preference erosion" as a stumbling block to liberalization need to appreciate that without a Doha Round there may very well be no U.S. preference programs to erode.

On the other hand, if progress is being made toward a multilateral round, Congress may very well extend, deepen and even expand our trade preference programs for the poorest countries as part of implementation of our Doha Round commitments. In my mind, trade preference programs in of themselves do not lead to long-term development. Instead, they are a tool that, if used appropriately, can help countries achieve long-term development. In short, they are not an end in themselves, but instead, a means to an end. Ironically, the best way to ensure any longevity in the preference programs is to ensure that a comprehensive round succeeds.

Conclusion

I strongly support the completion of a comprehensive Doha Round of trade negotiations. There is a lot at stake, for both the developed and developing world. A study by the University of Michigan estimates that conclusion of a successful Doha Round of negotiations could enhance the world economy by $574 billion and by $144 billion in the United States. In order to reap these gains everyone must contribute to a successful outcome. Time is short, and we need to make progress now. If not, we may have lost a once-in-a-generation opportunity to spur economic growth and improve living standards around the world.