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Opening Statement of Senator Chuck Grassley
Senate Finance Committee Hearing
Oversight of U.S. Trade Preference Programs
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For some time now, I've been thinking about the function of our preference programs and their relation to U.S. trade policy objectives. I welcome the witnesses who are here today to assist the Committee in exploring these issues. Our trade preferences merit fundamental reconsideration on three levels. First, what is their purpose? Second, how effective are they in achieving their purpose? Can their operation be improved, and if so, how? And third, do U.S. trade preferences undermine our broader trade policy objectives to any extent? If so, how can the two be reconciled? This reconsideration of our preference programs is needed because the answers to at least some of these questions may have changed over time. And those changes may have consequences for how we utilize our trade agenda to advance our national economic and foreign policy interests in the globalized economy of the 21st century.

On the first point, if we accept that our preference programs are primarily intended to help facilitate sustainable economic development in the beneficiary countries, it's natural then to ask how well are they achieving that objective. According to recent study of 2006 data by the Government Accountability Office, the distribution of benefits appears limited. Our broadest preference program is the Generalized System of Preferences (GSP), which has been in place since 1975. Of 131 beneficiary countries, the top 10 account for over three quarters of our imports under the GSP program. Similarly, if you consider all our preference programs together, the top 4 beneficiary countries account for over half of our imports under those programs, while the top 25 account for over 95 percent of such imports. A threshold concern then is how to spread those benefits more broadly.

The composition of our imports raises another concern. Fuel accounts for about 60 percent of our imports under preference programs. How can we utilize our preferences to better facilitate vertically-integrated business development in beneficiary countries outside of the energy sector? That's an issue we've been grappling with under the African Growth and Opportunity Act, for example.

On the other hand, we also need to consider the point at which it becomes appropriate to limit or withdraw benefits under our preference programs. The GSP program does contain limitations on the amount of preferential treatment a beneficiary country may receive, but those limitations can be

waived. Congress took a first step in reforming this waiver framework in 2006, by providing for the review and revocation of such waivers if they've been in place for 5 consecutive years and the volume of imports reflects that such imports have become super-competitive. We need to further review the conditionality that attaches to our various preference programs and assess whether the operation and administration of that conditionality can be improved.

We must also guard against complacency. Trade preferences should not be taken for granted. That goes for U.S. importers as well as foreign governments. I'm concerned that we're seeing evidence of complacency from some of the advanced developing countries in the ongoing Doha Round negotiations in the World Trade Organization. If trade preferences become an obstacle to achieving broad multilateral market liberalization, then we need to rethink the construct of our preference programs.

Finally, we need to consider what are the limitations of preference programs. Other factors such as civil strife, conflict, inadequate infrastructure, an inefficient transportation network, poorly developed capital markets, and corruption, may play a large role in impeding sustainable economic development. So, I put it to our witnesses—how should we utilize our preference programs to better facilitate sustainable economic development—and, as developing countries prosper, how do we transition to a more mature, reciprocal, trading relationship? I look forward to hearing your responses.