



U.S. SENATE COMMITTEE ON

Finance

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Opening Statement of U.S. Senator Chuck Grassley, of Iowa
Chairman, Senate Committee on Finance
Hearing on International Competitiveness: The View Within Tax Policy and Its Effect
on the Domestic and International Competitiveness of U.S.-Based Operations
Tuesday, July 8, 2003

Today, we convene the first of two hearings on international competitiveness and U.S. tax policy. When we speak of international competitiveness, we usually think of the international tax rules affecting the foreign activities of U.S. companies. However, there is another side to international competitiveness. It concerns the ability of U.S.-based businesses to compete in foreign markets and against foreign competition here on U.S. soil. Today's hearing is about the competitiveness of U.S.-based businesses. Next Tuesday we will hold a separate hearing on the competitiveness of U.S. foreign activities.

Our review of international competitiveness has, in large part, been driven by the recent WTO ruling on our FSC-ETI tax regime. The FSC-ETI regime in effect lowers the rate of income tax imposed on goods that are manufactured here in the U.S. and exported for sale in foreign markets. The purpose of FSC-ETI is to allow U.S. manufacturers to compete with European manufacturers who do not pay EU VAT taxes on their exports.

The WTO has ruled that FSC-ETI is an illegal export subsidy, and has authorized the EU to impose up to \$4 billion a year in sanctions on U.S. exports. This morning, we will receive an update from USTR on which products could be hit and when those sanctions could start. We are faced with several choices. We can leave FSC-ETI in place and absorb the sanctions, but that could have a devastating effect on the U.S. economy. Though I may not agree with every decision of the WTO, I think it is important that we continue to adhere to a rules-based trading system. After all, if we want other nations to comply with WTO rulings that benefit us, it is only fitting to comply with rulings against us.

I believe we should honor our WTO obligations and repeal FSC-ETI. But the next question is what we should do with the \$50 billion raised by FSC-ETI repeal. Some have suggested that we use the proceeds to reform the international tax rules affecting the foreign operations of U.S. companies. They claim that this is the best way to shore up the U.S. economy, grow U.S. jobs, and enhance our international competitiveness. But others have sounded a sober warning that repealing FSC-ETI will be a \$50 billion tax increase on U.S. manufacturing and the U.S. jobs base, at a time when manufacturing can least afford it. They believe the proceeds are better spent on tax relief here at home, rather than abroad. Proponents of international tax reform say this claim is overstated, that FSC-ETI benefits very few companies and even fewer jobs, and that FSC-ETI is not significant in redressing the problems facing the U.S. manufacturing sector.

Given these opposing views, the first panel in today's hearing will explore the problems facing American manufacturing, manufacturing's significance to our overall economy, and what is happening to employment in the manufacturing sector. We will then assess what role, if any, the FSC-ETI regime plays in all this, whether the regime should be replaced, and if so, what should replace it. Our second panel will focus on the ability of U.S.-based businesses to compete against foreign competition here on U.S. soil.