



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Prepared Remarks of Sen. Chuck Grassley to the Agribusiness Club of Washington
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Thank you for inviting me. I like to remind people that food doesn't come from a grocery store. But I don't have to remind anyone here of that fact. You represent agriculture from "field to fork." I represent agriculture from "production to policy." Like many of your members, I'm a working farmer -- the only one in the Senate. As an Iowa senator, I have a strong interest in agricultural policy. As a family farmer with a grandson who wants to farm, I want to do all that I can to help U.S. agriculture prosper. I'm a member of the Agriculture Committee. I'm also chairman of the Finance Committee, with jurisdiction over taxes and international trade.

It's hard to overemphasize the importance of trade to U.S. agriculture. About one-third of U.S. acres are planted for export. Agricultural exports constitute about one-fourth of U.S. farm cash receipts. Trade is a foundation not only of the economic health of rural America, but also of the entire U.S. economy.

This is a critical time in the negotiations of the Doha Round of the World Trade Organization. At the WTO Ministerial in Hong Kong last December, the member countries set a deadline of the end of April 2006 for reaching agreement on how to proceed on agricultural and non-agricultural market access. Agreeing on this road map is meant to get us to the end of the Doha Round negotiations. Well, it now looks obvious that this April 30 deadline won't be reached. This is disappointing. The failure to meet this deadline will make it more difficult to get the Doha Round done in 2006. That's not to say that we should throw in the towel on these negotiations. Given the importance of the Doha Round to U.S. agriculture and the world economy, we need to keep pushing until the very end.

But we can't keep pushing forever. If a breakthrough doesn't happen -- and very soon -- I just don't see any way of getting the Doha Round done in 2006. The Doha Round negotiations have to be done by the end of 2006 to meet the deadline of Trade Promotion Authority, which expires in July 2007. I'd like to see Trade Promotion Authority extended. But given protectionist views in Congress, I doubt we'll be able to extend it past July 2007. And before the passage of Trade Promotion Authority in 2002, this authority had lapsed for eight years. I understand that, given the obstacles to reaching the outline for a comprehensive agreement, some negotiators are expressing interest in a "Doha light" agreement. Under such a scenario, negotiators would back away from a comprehensive agreement. Instead, they'd agree upon token -- largely cosmetic -- changes in the international trading system, and then declare victory. A minimalist agreement might appear to some to be politically expedient. Negotiators could say that they've done their job. But a minimalist agreement would be a bad agreement. I wouldn't support it. And I'd work to defeat any implementing legislation.

A Doha light agreement would just continue the status quo. The American farmer doesn't want that. The American farmer wants and deserves a comprehensive agreement with real reforms. Market access is the place to start. The average bound world agricultural tariff is 62 percent. The average U.S. bound agricultural tariff is only 12 percent. The average applied agricultural and food tariff of Brazil – a leader of the G-20 – is 5 percent. That's more than twice as high as the average applied agricultural tariff of the United States. India, another G-20 leader, applies tariffs to agricultural and food products that are more than 20 times higher than those of the United States. The United States proposed big cuts in agricultural tariffs in our offer last October. We proposed to cap tariffs of developed countries at 75 percent. We'd limit the number of products designated as "sensitive" – and thus subject to lesser tariff cuts – to 1 percent of tariff lines. Unfortunately, however, the market access offers of other WTO members haven't matched our ambition. Both the EU and the G-20 have proposed tariff caps of 100 percent for developed countries and 150 percent for developing countries. The G-10 countries, including Japan, have rejected capping agricultural tariffs altogether. The EU proposal would result in the designation of up to 8 percent of tariff lines as "sensitive products," and thus subject to lesser tariff cuts. The EU's broad designation of sensitive products could let WTO members shield large numbers of their agricultural commodities from any real tariff cuts. Japan and other G-10 countries have gone even further than the EU and have proposed to designate up to 15 percent of tariff lines as sensitive.

Our trading partners' offers just don't go far enough. The U.S. Congress will reject any agreement that doesn't result in major improvements in market access for U.S. agriculture. I'd lead the charge to defeat implementing legislation for such a deal. At its most basic, any deal reached in the Doha Round has to significantly limit the number of products designated as "sensitive" or "special" products. These designations would give these products a pass on real tariff cuts. And a deal needs to get rid of tariff peaks and lead to more harmonized agricultural tariffs. Any deal that goes just beyond the 36 percent average tariff reduction of the Uruguay Round just won't be acceptable.

Another area ripe for real reform is domestic support. The European Union is allowed to provide more than \$60 billion a year in trade-distorting domestic support. That's more than three times the \$19 billion limit of the United States. Meanwhile, the European Union – despite its higher domestic support levels – insisted last year that the WTO negotiations couldn't go forward unless the United States moved in the area of domestic support. Showing leadership, and trying to move the negotiations, the United States stepped up to the plate with our agricultural offer of last October. We'd provide major new disciplines on domestic support. Of course, our offer is contingent on substantial improvements in market access.

The response to our offer has been under-whelming. Instead of recognizing our significant offer, other countries are insisting that we go even further in cutting domestic support. At the same time, these countries haven't gotten off the dime on market access. When I was in Brazil just last month, Brazilians said the United States must move further on domestic support. But the agricultural offer of the G-20 – of which Brazil is the leader – just doesn't go far enough to improve market access for U.S. farmers. We need other WTO members to make bold moves on market access.

Export competition is one bright spot so far. The Hong Kong talks produced an agreement to eliminate export subsidies by 2013. The EU provides 85 to 90 percent of the world's total export subsidies. As the EU uses most export subsidies, and they are so trade-distorting, it's reasonable that WTO members agreed to their elimination. But the agreement to eliminate export subsidies by 2013

wasn't a complete surprise. WTO members committed in July 2004 to eliminate them by a date certain. Also, the EU was planning to eliminate its export subsidies anyway.

In another area of export competition, I continue to urge U.S. negotiators to press for the elimination of differential export taxes in the WTO negotiations. These taxes subsidize exports of processed agricultural products. And on food aid, I'm concerned with the amount of time negotiators have spent on this subject. Their time would be better spent focusing on issues that cause major distortions in the international market, like trade-distorting domestic support and high tariffs.

While my pessimism is growing due to the missed April 30 deadline, I hope negotiators are able to reach agreement, and very soon. The Doha Round is a once-in-a-generation opportunity to significantly reduce the barriers that impede agricultural trade. If it fails, I don't see the stars aligning for another multilateral trade breakthrough for agriculture for possibly years and years. A failure to reach an agreement will hurt the United States. The U.S. Department of Agriculture estimates that getting rid of market-distorting agricultural protection could increase the value of U.S. agriculture exports by at least 19 percent. We'd lose these potential benefits if the Doha Round fails.

And the failure to reach a good agreement would also be detrimental for U.S. manufacturers, service providers, and consumers. Other countries would be harmed as well. Some EU member states are aware of all of this. Some have told me they're concerned by the failure of the EU to budge on agriculture, and move the Doha Round negotiations forward. Unfortunately, it seems that French farmers are the tail wagging the dog of the EU in these trade talks. This situation isn't benefiting the EU as a whole.

A failed Doha Round also would harm developing countries. They wouldn't receive improved market access in developed and developing countries alike. I encourage the developing countries to do what it takes to move the negotiations forward. I hope that Brazil, as the leader of the G-20, will go out of its way to help move along India – with its 114 percent agricultural tariffs – to see that the negotiations conclude successfully. I also encourage Brazil not to think that it doesn't have to go further in the WTO negotiations and instead use litigation at the WTO to reach some of its goals. Litigation is costly and unpredictable. Litigation by one party tends to lead to litigation by others. The good thing about successful negotiations is that they should reduce what some countries see as a need for litigation.

In addition, the developing countries should know that a failure to reach an agreement in the Doha Round would further dampen enthusiasm in Congress for extending U.S. preference programs. First, it appears that some countries have used these programs as an excuse for not engaging in multilateral negotiations. Second, this negotiating round has highlighted that some developing countries are very competitive in the international market. Those countries don't necessarily merit preferential treatment, at least in certain sectors.

If the round fails, the United States won't give up on trade liberalization. If it fails, I'll push that we resume multilateral negotiations when the time is ripe again. Meanwhile, we'll continue negotiating regionally and bilaterally with countries that want to strengthen their economic ties with our country. Ambassador Rob Portman and his team at USTR have done a great job in leveling the playing field for U.S. agricultural exporters in recent bilateral negotiations, such as with Peru and Colombia. I'm confident that our negotiators will be successful in obtaining strong agricultural trade packages in

upcoming negotiations with Korea and Malaysia and in our ongoing negotiations with other countries.

Ambassador Portman has been a strong presence in these negotiations, and I've enjoyed working with him. I'm glad he'll remain our U.S. Trade Representative at least into May, which means that he'll stay involved in the Doha Round negotiations during the crucial days ahead.

In just the last few years, the United States has set a high bar for trade expansion, and a lot of our trading partners have matched our ambition and leadership. As we continue to aim high, it's inevitable that many others will see that expanded trade leverages their abilities to provide from field to fork. A wise Iowan said, "If you never stick your neck out, you'll never get your head above the crowd." Now I'll stop and take your questions.