U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Floor Speech on the JOBS Act and the
Effect of Trade Sanctions on the Economy
Wednesday, April 7, 2004

Mr. President, I am extremely disappointed that we have to be here debating this bill today. The fact is, with America's economic health at risk, the bipartisan JOBS Act should have been debated and voted out of the Senate last month. Instead, attempts to move this manufacturing bill are stymied. As a result, America's manufacturing is not only being deprived of the competitive boost it deserves, but U.S. exporters are stung with a six percent Euro tax.

This situation has festered for much too long. It has been several years since the World Trade Organization ruled that the FSC/ETI regime did not meet our WTO obligations. Since then we have known that, unless we changed our current tax system, sanctions against our exports were looming.

To try to avoid these sanctions, Senator Baucus and I came together over a year ago and formed a bipartisan, bicameral working group to find a real, permanent solution to this problem. The result is the bipartisan JOBS Act that we are voting on today. This bill, which passed out of my committee by a vote of 19 to 2, provides a real, permanent solution to our FSC/ETI problems in a way which complies with our WTO obligations.

The bipartisan JOBS Act helps America's manufacturing sector compete by giving an across-the-board three percent tax cut to all companies, large and small, that manufacture in the United States.

At a time when manufacturing employment is flat, this three percent tax cut can make a real difference to a company's bottom line, perhaps freeing up enough capital and spurring enough manufacturing growth to enable new hiring in the manufacturing sector, something we all want to see.

But because of political games and dilatory tactics by some in the Senate, this relief is not forthcoming.

I want the American people to understand – senators on my side of the aisle are ready, willing, and able to provide a real shot in the arm to America's manufacturing sector.

But, after working so long in a bipartisan fashion we are being blocked. We are blocked from providing relief to American manufacturing.

In effect, this bill, and the American manufacturing sector are being held hostage -- held hostage to Democratic demands to load this bipartisan legislation with a bunch of unrelated amendments.

While some of these amendments are legitimate, others amount to nothing more than a wish list -- a wish list of political message amendments that have nothing to do with this bill.

I for one am tired of watching us bide our time contemplating this wish list. American manufacturing needs solutions, not political wish lists.

We have a good, bipartisan bill here, a package that works for America's workers. But our pleas for progress are met with nothing but demands for including one more item on the political wish list.

It would be one thing if the political wish list did no harm, if it really didn't matter if the JOBS Act moved or not – but it does matter!

Delay deprives American manufacturing of a much- needed economic boost. Delay also inflicts real economic harm on innocent workers across the country.

The WTO has authorized the European Union to impose as much as four billion in sanctions in retaliation for our failure to bring the FSC/ETI regime into compliance with our WTO obligations.

Last month on March first, the European Union began implementing these sanctions by imposing an additional five percent tax on selected U.S. exports. This five percent Euro tax automatically increases by one percent for each month in which we remain out of compliance.

Thus, when members voted against cloture last month, they contributed to the twenty percent increase in sanctions that went into effect on April first. Because of delay, the Euro tax now stands at six percent.

As you can see from this chart, these sanctions will continue to climb unless we act and act fast. In May, they rise another percentage point, to seven percent, and continue increasing up to a maximum of seventeen percent by March 2005.

After that, who knows?

The European Union is not bound to cap retaliation at seventeen percent. In fact, it is scheduled to review the effectiveness of these retaliatory taxes at the end of one year. If the EU concludes that we are not in compliance, retaliation can escalate even further to a maximum of four billion dollars per year.

Let's be clear – the effect of voting against cloture last month contributed strongly to raising tariffs on our exports by twenty percent.

If cloture is not invoked this week, it is certain that sanctions will escalate another percentage point, rising to an overall level of seven percent on selected U.S. exports by May first.

The correlation should be clear – a vote against cloture is a vote for higher taxes on our exporters.

Which exporters will be hurt? All of them?

No, the European Union was very careful in drawing up the sanctions list. In many cases, it chose to impose sanctions on U.S. exports that would most significantly feel the pain of higher tariffs. Thus, highly competitive products with tight profit margins are likely to find themselves on the list.

A press release from the American Forest and Paper Association dated March second of this year proves this point. In that release, the American Forest and Paper Association says this about EU tariffs on its wood product exports:

"This is a devastating development for an industry that has already closed more than 220 mills and laid off 120,000 workers since 1997. Our industry works on such tight profit margins that even a 5 percent tariff will likely price many U.S. wood and paper products out of our vital European markets. To have this happen just as U.S. wood and paper products are beginning to recover from a decade long slump, will do irreparable harm to our industry."

The EU also chose products it could get from other countries, hoping that the high tariffs on U.S. exports will price our products out of the European market to be replaced by similar products from our foreign competitors.

I think it is important for members of the Senate to understand, the effect of pricing U.S. exports out of the European market is not just temporary. Longstanding business relationships can be permanently disrupted as European buyers scramble to replace cost-prohibitive U.S. products. Once a replacement from another country is found, there is no guarantee that the European buyer will ever buy again from the U.S. producer. In the end, the lost EU export market can be lost forever.

And, if the Senate votes down cloture this month, the cancer of sanctions will not only continue, it will spread.

On May first of this year, the European Union will take in 10 more member countries. These countries will be bound by the same import/export regime as France and other nations of the European Union. Thus, U.S. exports to those ten countries will also face higher tariffs as they try to compete in these markets.

Take a look at this chart.

It shows the list of countries that will become part of the European Union starting May first 2004 – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. I hope that senators who vote against cloture today appreciate that they are voting not only to raise the Euro tax on sensitive U.S. exports, but also voting to have that tax applied by an even broader number of countries.

Some people might argue that these sanctions only hurt big companies and well, because they are big they can absorb the hit of higher tariffs. But, the fact is, approximately 90 percent of U.S. exporters in 2001 were small businesses with 100 employees or less.

These small exporters can ill-afford the sting of sanctions on their bottom line.

Products impacted include jewelry, horses, dairy, fruit and vegetables, toys and games, glass and glassware, animal feed, leather goods and handbags, textile products, carpets, footwear, soaps and candles, wood products, electric machinery -- the list goes on and on.

The American people are starting to take notice.

Allow me to read from a letter I received from the Carpet and Rug Institute headquartered in Dalton, Georgia.

The letter states in part:

"The U.S. carpet industry produces 45% of the world's carpet and is a $12 billion per year presence at the mill. The carpet industry is extremely competitive both domestically and worldwide with profit margins cut razor thin. The potential of an increased duty in the form of a punitive sanction may make the export of carpet and rug products by any U.S. manufacturer in the EU market an economic impossibility. For the sake of the collection of an excess tariff, an entire industry may be made to suffer."

And we are hearing other voices from across the country, asking for relief from the escalating Euro tax on their exports.

Let's take a look at another letter, this one signed by over eighty business and trade associations.

These organizations span the nation.

From the Northeast we have:

1. the Virginia Forestry Association
2. the Associated Industries of Massachusetts
3. the Coalition of New England Companies for Trade
4. and the Greater Providence Chamber of Commerce.

From the Upper Midwest:

5. the Detroit Regional Chamber of Commerce
6. the Minnesota Timber Producers Association
7. the Minnesota Agri-Growth Council
8. the Missouri Forest Products Association
9. and the Wisconsin Manufacturers and Commerce.

From the Pacific Northwest:

10. the Pacific Coast Council of Custom Brokers and Freight Forwarders and
11. the Softwood Export Council in the Pacific Northwest.

From the West:

12. the Utah Manufacturers Association
13. the California Manufacturers and Technology Association and
14. the California Chamber of Commerce.

From the Plains and the South:

15. the Arkansas Forestry Association
16. the Louisiana Forestry Association
17. the Mississippi Forestry Association and
18. the Texas Forestry Association.

From the Southeast:

19. the Alabama Forestry Association
20. the Puerto Rico Manufactures Association
21. the Tennessee Chamber of Commerce and Industry and the North Carolina Forestry Association.

Every region of the country is being hit by the Euro tax -- some of the nationally impacted associations include:

22. the Agriculture Retailers Association
23. the American Architectural Manufacturers Association
24. the American Cotton Shippers Council
25. the American Farm Bureau Federation
26. the American Iron and Steel Institute
27. the American Peanut Council
28. the American Soybean Association
29. the American Textile Manufactures Institute
30. the Manufacturing Jewelers and Suppliers of America
31. the National Association of Manufacturers
32. the National Corn Growers Association, and
33. the National Cotton Council, the list goes on and on.

Our businesses cry out for relief, not for delay.

Let’s be clear about what is at stake here -- American jobs and American competitiveness.

A vote against cloture is a vote against tax relief for America's beleaguered manufacturing sector.

A vote against cloture is a vote to prolong the pain all across America.

A vote against cloture is a vote to increase the Euro tax on America's exporters.

A vote against cloture is a vote to deprive America's small exporters access to the European market, access they may never regain.

If you vote against cloture you might as well be telling American manufacturing that the United States is closed for business, that if you want access to European export markets, you might as well go overseas, because members of this Congress refuse to give you the tools you need to compete.

There is an answer. Stop. Stop playing political games. Stop pushing political wish lists. Stop jeopardizing our economic recovery. Instead, start. Support cloture and start bringing this bill to closure. Support cloture and start enhancing the economic recovery of America's manufacturing sector. Support cloture and start the process to eliminate the Euro tax. The choice is clear -- vote no and you might get a few political points. Vote yes and you are guaranteed to get economic progress. Let's put aside our political games, pass this bill and help America's workers help themselves.