



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Statement of Senator Charles E. Grassley
Senate Finance Subcommittee on International Trade Hearing on
The Status of World Trade Organization Negotiations
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Today's hearing on the status of World Trade Organization negotiations provides an important opportunity to examine the status and direction of the Doha Round. This is a particularly auspicious time to review these negotiations -- in just over six weeks trade ministers from around the world will converge in Hong Kong, China, for the Sixth WTO Ministerial Conference. Most participants agree that this Ministerial meeting presents a "make or break" opportunity for the success of the Doha Round. If sufficient progress can be made in Hong Kong on agriculture, services, and non-agricultural market access, there is a strong possibility that the Doha Round of trade negotiations can conclude before Trade Promotion Authority (TPA) effectively expires in early 2007. If progress is not made, I am afraid that any real hope of concluding the round within the time frame set by TPA will be lost. Should this occur, the world may well have squandered a once in a generation opportunity to expand trade, open new markets, and improve the standard of living for millions of people around the world.

The stakes are high. The World Bank estimates that the elimination of global trade barriers could lift 300 to 500 million people out of poverty over the next 15 years, with a large percentage of that gain going to developing countries. Elimination of global barriers to trade in goods and services could increase annual incomes for the average U.S. family of four by \$7,800. But, these gains will not be achieved without an ambitious agreement, one that entails real market liberalization for developed and developing countries alike. Given events over the past few weeks, I can't say that I am optimistic.

Earlier this month Ambassador Portman made a bold and meaningful offer to our trading partners in an effort to jump-start the agriculture negotiations--open your markets to our agricultural exports and we will substantially reduce our trade distorting domestic support. The initial reaction to this good faith offer was underwhelming. Some of our trading partners, particularly the European Union, complained that the proposal to cut domestic support was too ambitious. The European Union also joined others, such as Japan and India, in complaining that our market access proposal went much too far, indicating that they have little zeal for true market opening. And some, who had been holding out on making offers in non-agricultural market access and services until we demonstrated good faith in reducing our trade distorting domestic support, have yet to make any meaningful offers. And, the clock is ticking. With just a few weeks until the Ministerial meeting in Hong Kong, we need to see progress very soon. If progress is not made, I would seriously question whether our trading partners have the desire or political will to achieve a meaningful round of negotiations.

During the 5th Ministerial in Cancun, Mexico, I laid out detailed goals for what I expect these

negotiations to achieve. Two years later our goals are much the same. In agriculture, we must achieve substantial improvements in market access. Today, the average bound tariff in the WTO for the United States is 12 percent compared with an average bound tariff of 62 percent for the world as a whole. Some countries, such as India, have bound agriculture tariffs of 114 percent.

A similar pattern is found when we look at applied agricultural tariffs. According to a 2005 World Bank report, the U.S. trade-weighted average applied tariff for agriculture and food products is 2.4 percent. The average applied tariff for Brazil is 5 percent, for South Africa is 8.8 percent, for Europe and Mexico is over 11 percent, for Thailand is 29.7 percent, for Japan is 34.6 percent, for India is 50.3 percent, and for Korea is 93.9 percent. These disparities must be addressed. At the end of the day, there must be real cuts in both bound and applied agricultural tariffs. Any proposed agreement that does not fulfill this objective will not be supported by the U.S. Congress.

Negotiators must also make it a top priority to reduce and harmonize domestic levels of support. The United States is currently at a significant disadvantage in this area compared with many other nations. The European Union is currently able to provide over \$60 billion annually in trade-distorting domestic support. This amount is over three times the \$19 billion limit of the United States. Japan also maintains much higher levels of trade-distorting domestic support than we do. To correct this imbalance, countries with higher levels of trade-distorting domestic support must make larger cuts in their subsidies compared to other countries. We also need to reduce, and ultimately eliminate, all forms of export subsidies.

To date, agriculture negotiations in the WTO have focused on the necessary contributions that developed countries must make to achieve success in the round. But, as I said before, the success of this round is a shared responsibility. Thus, all nations, developed and developing alike, must make significant and meaningful contributions to global market liberalization. In fact, I believe some developing nations, especially those with highly sophisticated agricultural sectors like Brazil, should contribute more than others. The fact is, Brazil's producers of commodities can and do compete effectively on 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. Providing the same degree of special and differential treatment in agriculture to developing countries with first-rate, internationally competitive agricultural sectors like those found in Brazil is unwarranted. To do so would be unfair to the large number of other lesser developed countries whose farmers truly merit special and differential treatment.

On non-agricultural market access, we need an ambitious formula, one that will lead to real cuts in both bound and applied tariffs. Like in agriculture, the disparities between the United States and the rest of the world are glaring. The average U.S. bound tariff is 3 percent. The average worldwide WTO bound tariff is 30 percent. Again, these disparities must be eliminated. I also expect the final agreement to contain a strong sectoral component, so our workers can begin to reap the benefits of liberalization quickly. Finally, we need to address the elimination of non-tariff barriers to ensure that the gains achieved by tariff elimination are not undermined.

Trade in services is an increasingly important factor in the world economy. In the United States, over 40 million jobs have been added in the services sector over the past twenty years. And, with sufficient worldwide liberalization in services, more opportunities will abound for U.S. workers. Some researchers estimate that the world would realize a \$1.4 trillion gain in income if service barriers were eliminated. To date, negotiations have been fundamentally stalled, primarily due to

the unwillingness of our trading partners to make any meaningful offers. It would not take much to show progress here if countries would only commit to bind their current level of market openness. While this is not enough in and of itself to proclaim success, it would be a significant improvement over where we are today.

I hope our trading partners will take advantage of U.S. leadership and put forth meaningful offers in agriculture, non-agricultural market access, and services soon. If not, I fear that this round of negotiations will be near death and very difficult to resurrect in the future. The fact is, the Trade Promotion Authority timetable gives us a limited window to make progress in the Doha Round. If it appears that the negotiations are fruitless, we will pursue our bilateral trade negotiating opportunities vigorously to ensure that we use Trade Promotion Authority to its fullest. Should this round fail, we will all lose. But, the biggest losers will be literally millions of poor people, who will remain locked out of the economic opportunities that a successful Doha Round could bring.

Our challenges today are great, but no greater than those faced by our forefathers. They seized upon their challenges as opportunities. In doing so, they created a global framework to facilitate international trade that helped raise numerous nations out of the ruin and devastation of World War II. I don't think it's too much to say that hundreds of millions, if not billions, of people benefitted from that framework over the last 60 years in terms of a higher standard of living, increased economic opportunities, and greater security against the threat of armed conflict. We face a similar challenge in tackling global poverty today, hence the focus of this round of negotiations on development. But development will not occur in a vacuum. In the absence of meaningful trade liberalization among all nations, developed and developing alike, the goal of fueling increased rates of economic development among poorer nations will be stifled, if not extinguished. And, we are running out of time. The next few weeks will tell whether or not the next generation will be able to look back upon the work of today's global leaders and say that we, too, successfully seized upon our challenges as opportunities. We must do our part to ensure that we fare well in that comparison.