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Committee on Finance

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Opening Statement of Senator Chuck Grassley
Hearing, the United States-Panama Trade Promotion Agreement
Thursday, May 21, 2009

I'll begin by thanking the chairman for his leadership in scheduling today's hearing on the U.S.-Panama Trade Promotion Agreement. I also thank our witnesses for being here, and in particular, I want to extend a special welcome to Mr. Sam Carney, a pork producer from Adair, Iowa, and the president-elect of the National Pork Producers Council.

I support the timely implementation of this trade agreement, which is long overdue. Its implementation has been sidetracked by various issues. But now that the Finance Committee is taking the first step to advance a positive agenda of trade liberalization under a new Administration, I want to take a moment to address the critics who would rather we not implement any of our pending trade agreements with Panama, Colombia, and South Korea.

The chief argument I've heard is that given the magnitude of our global trade deficit, the last thing we should do is implement new trade agreements. I've even heard that argument from some of my colleagues in the Senate. The problem is, that argument is based on a false premise. It suggests that trade agreements translate into trade deficits. I dispute that.

Consider our trade agreement with the countries of Central America and the Dominican Republic. Before implementation, we ran a cumulative trade deficit. Following implementation, we enjoyed a trade surplus of about six billion dollars last year. How do you explain that shift? Well, the trade agreement required our trading partners to give our exporters the same duty-free access to their markets that their exporters already had to ours under our unilateral preference programs. In other words, we leveled the playing field for U.S. exporters.

The opponents of our trade agreements point to the large U.S. trade deficit with Mexico. They argue that our bilateral trade deficit is the result of the North American Free Trade Agreement because we had a relatively small trade surplus with Mexico before we implemented this agreement. Again, I question the validity of such a causal inference. Before NAFTA, over 51 percent of imports from Mexico entered the United States duty-free, and the average tariff on the remaining imports was about 4.2 percent, for an overall average tariff rate of just over 2 percent.

In contrast, Mexico had an average tariff of about 12 percent on imports from the United States before NAFTA. But with NAFTA, this tariff disparity no longer exists. And as a result, our exports to Mexico have increased significantly, particularly with respect to agricultural products.

If we had never implemented NAFTA, would we have substantially altered the growth of international supply chains? I doubt it. If NAFTA had not been implemented then the trade deficit we see with Mexico today would be shifted to some extent among other countries—but without the increase in exports to Mexico that our exporters enjoy today. Moreover, oil and gas imports are a big part of our recent trade deficits with Canada and Mexico, and I doubt that the absence of NAFTA would have changed that significantly.

In this time of economic downturn and uncertainty, we can ill afford to base our trade policies on false premises. Trade is more complicated than that, and the benefits of expanding trade are too important—for both us and our trading partners. U.S. exporters understand that, and we're going to hear from some of them today. Critics may question other elements of our trade agreements and economic relationships, but resting criticism on a bilateral trade deficit is a red herring.

One aspect of our economic relationship with Panama that has come under scrutiny is the absence of a Tax Information Exchange Agreement between our two countries. In 2000, the Organization for Economic Cooperation and Development identified Panama as a tax haven. Just last month, the OECD listed Panama as a jurisdiction that has committed to provide for the exchange of tax information on request without regard to bank secrecy, but has not yet substantially implemented that standard. I welcome today's report that Panama's Vice-President elect has committed Panama to negotiating with the United States this year a legally binding instrument to facilitate the exchange of tax information pursuant to Panama's OECD commitments, and I look forward to hearing the Administration's reaction to that announcement.

I fully support concluding a Tax Information Exchange Agreement with Panama as soon as possible. But I don't see why our exporters should have to pay for that agreement with lost export opportunities, which is exactly what's happening. Particularly in this time of economic downturn, export sales are more critical than ever. The expansion of the Panama Canal is moving ahead, so our exporters are losing potential opportunities every day.

I urge the Obama Administration to continue to pursue aggressively the negotiation of a Tax Information Exchange Agreement with Panama. At the same time, I urge the Administration to submit the U.S.-Panama Trade Promotion Agreement to Congress for approval next month. We can, and should, pursue both priorities simultaneously.

Thank you, Mr. Chairman.