



Opening Statement of Senator Chuck Grassley
Senate Finance Committee Hearing
“Climate Change Legislation: International Trade Considerations”
Wednesday, July 8, 2009

Today’s hearing will explore the international trade implications of possible carbon emissions legislation, also known as “cap-and-trade” legislation. The House has passed a bill, and the Senate is about to begin its legislative process as well. So, it’s important that the Finance Committee explore these issues, because Congress could be setting our manufacturers up for a lot of trouble if we don’t. I’ve said many times that we ought to approach this issue through a worldwide, international agreement. That’s the only way to ensure that China and India and other major carbon emitting countries are involved. Otherwise, our industry is going to be left very uncompetitive. We’re going to see more manufacturing move overseas where less efficient plants produce far more pollution than our American industries, and nobody should want to do that.

Some in Congress think the answer to that problem is to include some type of border measure in any legislation that Congress passes. At least that’s the view of the House of Representatives. But I’m skeptical of that approach. I think it would be difficult to design such an approach that would be consistent with the rules of the World Trade Organization. If we do something that’s inconsistent with the rules of the World Trade Organization, we’re opening ourselves up to trade sanctions that could dwarf any sanctions we’ve seen in the past.

And then we’ll have hurt our manufacturers twice. We’ll have raised their costs by imposing cap and trade in the first place. And then we’ll compound the problem by giving foreign countries a license to hit us with sanctions. That wouldn’t be good for us, and it wouldn’t be good for the international trading system either.

And it could get even worse. Other countries could follow our lead and impose their own border measures against our exporters. We could find ourselves defending our measures at the World Trade Organization and challenging other countries’ measures at the same time.

I understand that the World Trade Organization would prefer to avoid that scenario and not have this issue thrust into its lap. The Director-General of the World Trade Organization, Pascal Lamy, stated recently that the WTO membership does not want to decide what is or isn’t allowed from a trade perspective. He indicated that the World Trade Organization would much rather have the trade issues addressed as part of whatever comes out of the meetings scheduled to take place in Copenhagen later this year.

That makes sense. If the United States unilaterally imposes a border measure, we'll make it that much harder to reach an international agreement. Other countries aren't going to want to negotiate with us if they think we're dictating a specific outcome. Border measures aren't the only approach that has been suggested for addressing the competitiveness issue.

Another suggestion is to give free emissions allowances to domestic industries that are deemed to be trade sensitive. That's the approach that the European Union took. I have some questions about that approach too. I'm not convinced that giving away free allowances would be consistent with the subsidy rules of the World Trade Organization. At a minimum, there would be a risk of other countries arguing that free emission permits are subsidies that cause "adverse effects" to their industries. If we lost a subsidy case, we'd have the same risk of trade sanctions that I mentioned earlier. So for this reason too, we'd be better off waiting for an international agreement instead of pushing ahead unilaterally. I look forward to exploring these issues in further detail with our witnesses, and I thank each of them for appearing here today.