



Committee On Finance

Max Baucus, Chairman

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Maintaining the Momentum on Trade: Goals for the 108th Congress Remarks before the Coalition for Services Industries

It is a pleasure to be here tonight talking to such a distinguished group, a group that has been so important in advancing our trade agenda. I realize that I don't need to tell this audience the importance of services as an engine for economic growth. But I also realize that you never mind hearing it.

Even in the midst of difficult economic times, the service sector remains one of the most significant and vibrant aspects of the U.S. economy. According to some statistics I have seen, service industries account for nearly 80 percent of private sector GDP annually – 80 percent. This amounts to nearly \$7 trillion a year being pumped into the U.S. economy. And the importance of your companies is not limited to major industrial or financial centers – even in my home state of Montana, for example, 68 percent of the Gross State Product is derived from service industries.

At the international level, when we think of traditional exports, we tend to think of agricultural and manufactured products – or “goods.” But we should be thinking more about services, which also play a critical role. In fact, it is at the international level where I think the strength and importance of the service industries really becomes apparent.

In 2001, the U.S. exported \$279 billion worth of services, accounting for 27 percent of total U.S. exports. More importantly, however, the U.S. ran a trade surplus in the service sector of \$68 billion. I think it is fairly clear that the reason so many countries cling tenaciously to restrictions on their service industries is because they know they cannot compete with the United States. In areas like financial services and insurance, for example, the American service sector is the most efficient and productive in the world.

As the U.S. begins to return to a period of sustained growth, and as we push forward with trade negotiations to lower barriers and open new markets, the prospects for the U.S. service sector seem unlimited. And I'm incredibly excited to get to play a role – however small – in making sure that those prospects become a reality.

Of course, the trade agenda is not limited to new trade negotiations. Over the next two years, we in Congress and all of you in the private sector will be equally engaged not only in seeking new markets, but also in fighting old battles. And in fact, I think the trade agenda for the 108th Congress will be about evenly split between old and new issues.

Let me start with the old – and in fact, with a trade issue likely to spark considerable debate over the next year. That issue is our dispute with the Europeans over taxes on businesses operating overseas. I have said many times that Europe was wrong even to bring the FSC case. And the World Trade Organization was definitely wrong in how it decided it. But that is water under the bridge. Now we must work together toward a solution.

A couple months ago, Senator Grassley and I convened a working group on FSC, and I am confident that by working together with our colleagues in both the House and the Senate – and with the Administration – we can evaluate a number of good options and come up with solutions. But collectively, all of us in Congress and in the Administration must remain open to many possible ideas.

I have to admit I have been frustrated here. The Trade Act of 2002 makes negotiating a solution to the FSC problem a principal negotiating objective. And the legislative history of that provision makes clear that the United States needs to address this long-standing imbalance in WTO rules.

Now, this is an objective that enjoyed broad bipartisan support within Congress – and one that has the strong support of the U.S. business community. It absolutely must be given the same weight and the same attention as other negotiating objectives. Yet to date, the Administration has not even tabled a proposal on this issue, nor have they indicated how they plan to fulfill this negotiating objective. And at the same time, the Administration has inexplicably, and without consultation, shot down worthwhile proposals as, quote, “WTO inconsistent.” It is hard to reconcile these actions with a good faith effort to remain open to all options, and I would not expect them to be repeated.

Simply put, this is an issue where I hope we can all work together to find bipartisan solutions. I believe the working group that Senator Grassley and I put together is off to a good start, and I look forward to continued progress.

Now, if only the FSC case were an anomaly in WTO jurisprudence. Unfortunately, that’s not the situation at all. There is a long list of wrongly decided opinions – the Byrd Amendment, safeguard cases, softwood lumber, and the list goes on. I’ve spoken out on this issue extensively, so today I’ll limit my complaints – and instead try to offer a fix. I do have to say this, however: I think that, left unchecked, the problems associated with dispute settlement have the potential to completely undermine the WTO.

While we move aggressively ahead with new trade negotiations, including a new round of WTO negotiations, as well as with FTAA negotiations and a series of bilateral deals, we must not forget the shaky foundation on which our biggest trade agreement – the WTO – now rests.

I believe we should approach the problems in the WTO on two fronts. First, we must have an aggressive negotiating agenda. We must seek to ensure that we receive the benefit of the rules we fought so hard for in the Uruguay Round.

Second, there must be improved oversight of WTO jurisprudence. In 1994, as the Senate was approving the WTO, Senator Bob Dole proposed a commission of former U.S. judges that would review WTO decisions.

Although it did not pass at the time, it has since been championed by a number of my colleagues, including my colleague on the Finance Committee, Senator Grassley, who pushed for similar legislation in 1996. I think the fears expressed by my colleagues shortly after the United States entered the WTO – namely that the international bureaucrats in the WTO would abuse their position – are the reality we are living with in 2002. And that is why early next year, I will re-introduce legislation to create a commission that will review WTO decisions.

This is an idea that should garner wide bipartisan support – as it has in the past. And it should get the support of Members regardless of their opinion of the WTO. If the new commission finds that the WTO is acting appropriately, it will silence critics. If the commission finds that the WTO is exceeding its authority, it will provide lawmakers with the information we need to effect change.

While the 108th Congress will certainly spend some of its time on holdover issues from the last Congress, we will also be looking ahead to a much enhanced role on trade oversight. And there is much work to be done: a new round of WTO talks, the Free Trade Agreement of the Americas, new bilateral and regional trade agreements, and new market-access initiatives.

During the last Congress, we passed the most comprehensive trade legislation in 14 years. The single most important impetus for passing that legislation, in my view, was the willingness of Congress to seek out the middle ground on controversial issues – labor and environment standards and assistance for workers displaced by trade. But at the end of the day, most fought for this legislation – and you all lobbied for this legislation – to help increase opportunities for American business and American workers. The single biggest selling point for fast track was jobs – period.

As the fast track debate dragged on, the line of countries hoping to negotiate trade agreements formed quickly. And now the United States is looking to begin negotiations with Morocco, Central America, South Africa, and Australia. I hope Taiwan will soon be on that list.

I support efforts to work rapidly to negotiate new agreements. But I have also heard complaints, particularly from some in the business community, that the U.S. approach toward new trade agreements lacks clear direction – it seems like more of a “shotgun” approach. With a full slate of negotiations ready to commence, I think we now have an opportunity to reflect about how best to move ahead.

The simple math is this: We have a limited number of trade negotiators at USTR and Commerce. If they are off negotiating an agreement with one country, that comes at the expense of negotiating with another country. I believe we need to form a common understanding on how we move forward on trade given these limited resources. Of course, the bulk of our negotiators’ efforts will focus on the WTO and, to a lesser extent, the FTAA. But there are certainly no guarantees with those negotiations. In recent WTO talks, the EU has backpedaled on agriculture, making many wonder how much we can really gain in a new round – and how long it’s going to take. And the new elections in Brazil may spell trouble for our efforts toward an FTAA.

While we surely must continue to invest tremendous effort to move these agreements forward, I think we also must act aggressively on other fronts. However, we must be strategic and thoughtful about how we approach new trade negotiations. A shotgun approach is, in my view, the wrong approach. Instead, we must have clearly defined goals and prioritize accordingly.

First, we must look at the potential economic benefits. How much do American companies, workers, and farmers stand to gain from an agreement? What is the potential for growth in the country we’re negotiating with? And how does that compare with other possibilities? In my view, the potential economic benefits should be our first consideration in choosing potential FTA partners.

Second, what are the foreign policy and national security implications? How helpful have our potential trading partners been, for example, in fighting the war on terrorism?

Third, what is the effect on other trade agreements? Look at the FTAA as one example. Prospects for that agreement may be fading as a result of the recent elections in Brazil. So we should continue to encourage Brazil by negotiating with other key countries in South America.

Finally, we must take a hard look at which countries are ready for an agreement with the United States. For example, do many market access barriers already exist? Are their laws transparent and fair? Do they have strong labor and environmental laws? Do they offer adequate protection for intellectual property?

We must always remember that there are plenty of countries who will go to great lengths to have a free trade agreement with the United States. Access to our market is a prize for which many countries are willing to make significant concessions.

Now, new trade agreements are not the only way to ensure continued growth in our export markets. We must vigilantly enforce existing agreements and U.S. fair trade laws. We must continually encourage other countries to open their markets, enforce fair and transparent laws, and to join existing international organizations and agreements. Simply put, we must create opportunity.

Let me start with enforcement of existing agreements. There was much fanfare last year when China entered the WTO. Now we must ensure that China – and all WTO Members – fulfill the commitments they have made. Particularly in the agriculture sector, China continues to pursue policies that are at odds with their WTO obligations. If progress is not made, WTO dispute settlement action is the next step for the United States to take in response.

At the same time, we must continually seek out new markets. We can and should start in our own back yard, by relaxing trade restrictions with Cuba. This is a policy that I have advocated for many years. In 1987, I introduced and brought to the Senate floor legislation to allow certain agricultural sales to Cuba.

Over the decade-and-a-half since then, we've moved in the right direction. But the political support exists to do more. At a minimum, majorities in both the House and the Senate support further easing of restrictions on agricultural and food sales. But I think we can go even farther – for example, expanding the range of products that can be sold on a cash basis.

The economics of this are pretty simple. A recent report by the U.S. International Trade Commission estimated that, in the absence of sanctions, U.S. exports to Cuba would be between \$658 million to \$1 billion annually, with agriculture products accounting for roughly half of those exports.

It seems to me that the basic case for trade with Cuba is the same as the case for trade with China. And all of the same arguments apply. If we want to see political change in Cuba, we can start by opening Cuba not only to the free flow of U.S. products, but also to the free flow of ideas. I will make this issue a priority in the next Congress, and I hope you will join me.

Let me conclude by saying this. During the last Congress, we were able to pass comprehensive trade legislation by putting away our partisan differences and working toward a middle ground. During the next Congress, we must work to do the same.

On all of the issues I've spoken of today – FSC, other ongoing trade disputes in the WTO, new market access – we can only move ahead if we work together. I hope the next Congress is as successful as the last when it comes to trade policy, and I look forward to working with all of my colleagues and the Administration to make that happen.