12-3-1992

Trade Agreements and the Transition

Max S. Baucus
Senator * or Department*: BAUCUS

Instructions:
Prepare one form for insertion at the beginning of each record series.
Prepare and insert additional forms at points that you want to index.
For example: at the beginning of a new folder, briefing book, topic, project, or date sequence.

Record Type*: Speeches & Remarks

MONTH/YEAR of Records*: December-1992
(Example: JANUARY-2003)

(1) Subject*: Trade
(select subject from controlled vocabulary, if your office has one)

(2) Subject* Trade Agreements and the Transition

DOCUMENT DATE*: 12/03/1992
(Example: 01/12/1966)

* "required information"
United States Senate  
WASHINGTON, DC 20510-2602

TRADE AGREEMENTS AND THE TRANSITION  
Senator Max Baucus  
December 3, 1992

To those of us who follow trade policy issues it seems like the Uruguay Round of GATT negotiations and the North American Free Trade Agreement negotiations have been going on forever.

They Uruguay Round negotiations have drug on for six years making little progress. The NAFTA talks only formally started about 18 months ago. But the issue has been around for much longer than that and, despite announcements by the Bush Administration, it is not clear that the negotiations are truly over.

Against that backdrop, it is certainly understandable that many -- most especially the negotiators -- would be anxious to see these negotiations brought to a conclusion.

I am certainly anxious to see a successful conclusion. I think these agreements -- if done properly -- could cement critical trade ties with trading partners in Europe, Asia, and North America. Sound trade agreements could lay a foundation for American economic growth and world economic growth into the next century.

But we must all remember that we started both of these negotiations to achieve certain objectives. We wanted to open markets, cut subsidies, and protect intellectual property.

No matter how long it takes to achieve those objectives, we should continue to strive for them.

At no juncture should we allow motives like political expediency, personal gain, or simple boredom to force us to bring these trade negotiations prematurely to a conclusion.

Agreements should be concluded when they meet the objectives we set out to achieve. In no case, should we conclude a trade agreement just for the sake of concluding an agreement. Though the negotiations may be seemingly interminable, no agreement is still better than a bad agreement.

With those thoughts firmly in mind, I would like to speak today about the future prospects for both the NAFTA and the Uruguay Round.
NAFTA

Probably because all parties involved really want a successful agreement, the NAFTA negotiations have moved along at a good pace.

A preliminary text was negotiated this fall. And though President-elect Clinton will seek to negotiate side agreements before sending the NAFTA to Congress, the NAFTA will likely be considered by Congress next year.

THE CASE FOR THE NAFTA

Though a good deal of the press attention has appropriately focused on some of the problems with the NAFTA, the positive case for the NAFTA is quite strong.

Simply put, the promise of unfettered access for U.S. business to a market of 360 million consumers is overwhelming. As a single market the U.S., Canada, and Mexico would form a $6 trillion trading bloc -- the largest in the world. This large home market should provide a significant advantage for U.S. business compared to its competitors in Japan and Europe.

NAFTA NOT LIKE OTHER FTAs

But despite these strong positives, we must recognize that the NAFTA is not like the U.S.-Canada FTA or the U.S.-Israeli FTA.

Mexico has made dramatic progress in recent years. But it still remains a developing country with all the attendant problems of poverty, pollution, and corruption. And Mexico is a very large developing country with a population of 80 million and a median age of only about 18.

Mexican manufacturing wages average about one-tenth the level of U.S. wages.

Mexico has a good set of environmental laws on the books, but enforcement has been woefully inadequate.

Simply put, the gap in development between Mexico and the U.S. raises a series of challenges not raised in previous FTAs. In fact, the NAFTA would be the first ever free trade agreement between a developed nation and a developing nation.

RUSH TO COMPLETE

Unfortunately, the final timing of the NAFTA was driven largely by a political timetable of the Bush Administration. A successful agreement was announced at the White House in time for the Republican convention, even though negotiations continued for weeks.
Not surprisingly, this politically driven timetable did not allow time to fully address issues like worker displacement and environmental protection.

In my opinion, the basic commercial text of the NAFTA is sound. There are a few shortcomings -- some of which I plan to address in implementing legislation, but overall it is a good agreement.

But inadequate attention was given to addressing issues like environmental protection and worker's rights that must form an integral part of the NAFTA if it is to win congressional approval.

THE CLINTON NAFTA PROGRAM

In light of these weaknesses, President-elect Clinton wisely endorsed the NAFTA during the campaign, but noted that he would conclude side agreements on these key issues before seeking congressional approval of the NAFTA.

Mr. Clinton has specifically promised to develop and fully fund a worker adjustment program for American workers that might be displaced by the NAFTA. This kind of comprehensive worker adjustment program is long overdue. It will help American workers who lose their jobs upgrade their skills, find new jobs, and share in the benefits of free trade.

Mr. Clinton has also promised to conclude side agreements on key issues related to the NAFTA -- most importantly environmental protection. As currently worded, the NAFTA could create an incentive for some unscrupulous U.S. businesses to move production facilities to Mexico to take advantage of lax environmental enforcement. That could impose a tremendous cost on the environment and cost American workers their jobs. It is simply unacceptable. Before any agreement is sent to Congress, provisions to ensure adequate environmental enforcement throughout North America must be in place.

In addition to the measures promised by Mr. Clinton, I suggest all parties to the NAFTA consider negotiating a small, temporary fee to pay for worker adjustment and environmental clean up. In tight budgetary times in both the U.S. and Mexico, such a fee could provide needed funds for these critical programs in both countries without impeding trade.

I understand that both Mexico and Canada have expressed concern about the side negotiations Mr. Clinton has suggested. I certainly understand these statements -- no good negotiator wants to tip his hand.

But I hope both Mexico and Canada also recognize that these side agreements are a political necessity in the U.S. They are so critical to congressional approval that I would recommend that Mr. Clinton not even send the NAFTA to Congress unless the side agreements -- particularly the one on the environment -- are completed.
Even with these side-agreements in hand, there will be a tough congressional battle over the NAFTA. Without the side agreements, the fight would probably be unwinnable.

THE URUGUAY ROUND

The other major trade negotiation that the U.S. is involved in is the Uruguay Round of GATT negotiations. In these negotiations with more than 100 nations, the U.S. is trying to lower agricultural subsidies, lower tariffs, protect intellectual property, and achieve other valuable objectives.

The potential benefits of a successful GATT Round are tremendous. The Bush Administration is fond of sighting a figure of $1.1 trillion of U.S. growth over ten years linked to a successful Uruguay Round agreement.

But that figure assumes a sound agreement. Conversely, a poor GATT agreement could lock in barriers that would cost the U.S. billions over the same period.

POOR AGRICULTURAL AGREEMENTS

Unfortunately, the Bush Administration seems again in a rush to conclude a trade agreement. And this time, I fear the results may not be salvageable.

In my opinion, the agriculture agreements struck with the Europeans two weeks ago are very modest agreements and bode badly for agreements in other areas.

Watching the violent protests of French farmers in recent weeks, one could get the impression that the U.S. won big in these agreements. But the reaction of French farmers is politically motivated and a great overreaction. More accurate are the statements of other European leaders quoted in the Financial Times that Europe is getting a better deal now from the Bush Administration than it could ever get at any other time.

Let’s briefly examine the two agriculture agreements that were concluded.

The agreement on oilseeds does not commit Europe to cut subsidies any more than Europe already did for its own internal budget reasons. This is after the U.S. has won two GATT decisions on the issue and negotiated for five years to eliminate the oilseed subsidies that Europe extends in violation of a 1962 GATT Agreement. The agreement also allows additional oilseeds to be planted on so-called set-aside land and has a suspect dispute settlement mechanism. All in all, not much of an achievement after five years of negotiations.

The other major agriculture agreement concluded with Europe relates to agricultural export subsidies -- the most serious problem for American farmers. The Administration negotiators throw around jargon about a "clean 22" system and suggest that the U.S. goal in
the negotiations was a 24% reduction in EC agricultural export subsidies. That is pure fiction. In fact, the 24% goal is a figure earlier suggested than renounced by the European negotiators. The U.S. goal in these negotiations was first a 100% reduction, later lowered to 90%. The U.S. ultimately settled for only a 21% reduction in agricultural export subsidies over six years -- about one-fifth of its original goal.

I know that many of you do not have the same direct stake in the agriculture negotiations that Montana farmers do. But I hope you can all recognize the two agriculture agreements as modest to weak agreements. I hope you will also consider that these weak agriculture agreements, could very well foretell similar weak agreements in industrial sectors or on protection of intellectual property. If the Bush Administration gives short shrift to its supposed top priority of agriculture, how will other sectors fare?

CONCERNS IN OTHER AREAS

Now, Bush Administration has suggested wrapping up at least the bulk of the GATT negotiations in the next few weeks. The plan is apparently to use the so-called Dunkel Paper tabled last year as the basis for an agreement.

The weak agriculture agreements I have just discussed already pose serious political problems for congressional approval of an agreement. But there are at least three other issues in the Dunkel paper that could further endanger an agreement.

First, the Dunkel Paper seriously circumscribes U.S. unfair trade remedies. Section 301, countervailing duty law, and anti-dumping law are American industry’s only defense against unfair trade. Those laws combat subsidies open markets and thus promote free trade. No agreement aimed at opening markets should undermine them. And any agreement that weakened unfair trade remedies would face very serious difficulties in Congress.

Second, I am concerned that the tariff negotiations are not going well. The Dunkel Paper does not address tariffs. It leaves them for later negotiations. But reducing tariffs in key industrial sectors must be a primary U.S. objective in the GATT negotiations, not a secondary concern. If they are left to last, I fear the U.S. will not have adequate leverage in the tariff negotiations.

Finally, I am concerned that the Dunkel text does not provide adequate protections for U.S. environmental laws. Legitimate environmental laws should not be challenged as trade barriers. In this regard, the draft NAFTA text is far superior to the Dunkel text.

I should also note that the U.S. pharmaceutical and film industries also have serious concerns about the proposed GATT Agreement.

POLITICAL PROSPECTS
With more than 100 new congressmen and a new President coming to Washington, it is impossible to predict the outcome of a debate on the Uruguay Round with confidence. But it is clear that an agreement based on the Dunkel text -- in addition to not being the best possible deal for the U.S. -- would face serious problems in Congress. In particular, many votes would be lost in both Houses due to concern over provisions dealing with agriculture, textiles, and unfair trade remedies.

But one thing is clear without looking into a political crystal ball. This is not the way a major agreement should be concluded: As a last minute effort by an Administration about to lose power and anxious for an achievement.

The Bush Administration must remember that to be successful trade negotiations must be a bipartisan exercise -- even after elections. If President Bush and his negotiators want to achieve a GATT agreement that is a lasting achievement and a tribute to their tenure, they must work closely with Congress and the incoming Clinton Administration.

The final decisions on any agreement struck by the Bush Administration will be made by the Clinton Administration and the Congress, not by the Bush Administration. For the sake of continuity of American policy and sound trade agreements, the Bush negotiators must take meaningful steps to work with Congress and the Clinton transition team. And that does not just mean informing them of what they have agreed to after the fact.

CONCLUSION

I suspect that everyone in this room wants to conclude good, sound trade agreements as soon as possible.

As I said, I personally believe that these agreements can provide the cornerstone of a balanced, mutually beneficial economic relationship with our trading partners in Asia, Europe, and North America.

But this is only true of good agreements, not agreements concluded for the sake of concluding an agreement. That kind of trade agreement is likely to create more problems than it solves.

No agreement is still better than a bad agreement.

But I would like to close today by speaking to the long-term, not the short-term.

For many months, I have been working with a number of politicians, academics, and others to prepare an economic action plan to help build America’s economy for the long term. I am happy to say the document is now completed and it provides a comprehensive action plan for the U.S. It lists the steps we must take in trade policy, training policy, technology policy, and tax policy to build an economy that can carry us into the next century.
I am personally quite proud of this document. It is being released at a luncheon next Monday at noon in Room 106 of the Dirksen Senate Office Building. I hope to see you there for the release. Thank you.