

7-1-1993

"From the Uruguay Round to the Green Round", Center for National Policy

Max S. Baucus

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MONTH/YEAR of Records*: **July-1993**

(Example: JANUARY-2003)

(1) Subject*: **Center for National Policy-From the Uruguay Round to the Green Round**

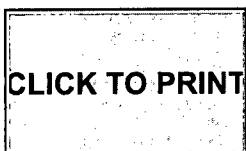
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DOCUMENT DATE*: **07/01/1993**

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* "required information"



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"From the Uruguay Round to the Green Round"

Remarks of
Senator Max Baucus

to the
Center for National Policy

July 1, 1993

Today I want to talk about the prospects for GATT, both in the Uruguay Round and in a Green Round afterward. I particularly want to talk about GATT and the global environment. We are coming to recognize that economic issues cannot be separated from environmental issues. And Judge Richey's decision yesterday, requiring the Administration to complete an Environmental Impact Statement before submitting the NAFTA to Congress, brought that home in a very spectacular way.

I have argued for years that trade agreements have significant environmental implications. Trade negotiators have historically been blind to the environmental impact of the agreements they negotiate. Whatever happens in this particular case -- and whatever it means for the GATT -- this decision will make them much more sensitive to that issue in the future.

A speech on the GATT is always a challenge. In fact, the GATT may be the most challenging issue any speaker ever tackles. William Safire sums it up when he calls the GATT a "MEGO" issue. That stands for "my eyes glaze over." But I'll do my best.

THE G-7 MEETING

The G-7 meeting is a week away, and many are pessimistic about its chance to move GATT forward. Much of that is due to problems in Japan. Clearly Prime Minister

Miyazawa and the emerging Japanese leadership do have a challenge this week. But there are always domestic problems somewhere. The real problem is that the G-7 simply has a weak record on the GATT.

The last three G-7 communiqués seemed to be written before the meetings started. They even had identical language calling for "an Uruguay Round agreement by the end of the year." I chair the Environment Committee. And I know recycling when I see it.

This year can be different. The meeting could reach an accord among industrial nations to cut tariffs and open markets. And that could put a Uruguay Round agreement in our grasp this year. It could yield the U.S. economy \$65 billion a year after ten years, and \$130 billion a year after twenty years.

I am optimistic for two reasons. Last year brought movement in the most difficult area -- agriculture. Enough changed to let us pay more attention to market access and other sectors. And at home, President Clinton asked for a short-term extension of fast-track authority, giving us until December 15th to reach an agreement. That shows he wants a deal, not a debating society.

MARKET ACCESS AND OTHER GATT ISSUES

A market access agreement must have strong benefits for manufacturing. It must cut European tariffs on semiconductor chips and non-ferrous metals, and Japanese tariffs on wood products. It must remove the EC Broadcast Directive's limits on U.S. television programming. And it must move us toward similar agreements with developing nations.

Our trade representative, Mickey Kantor, has worked hard as this meeting approaches. Japan apparently agreed to cut tariffs on construction machinery, medicine, paper and aluminum. And if we can get beyond our differences with Europe on textile tariffs, we can make even more progress. A deal is in sight.

This is a first step toward a good Uruguay Round agreement. But the Round must measure up in other areas: protecting intellectual property, opening farm markets and reducing farm subsidies, retaining our trade remedy laws and our environmental standards. Thus, we need changes in the existing Dunkel draft. This need not happen at the G-7 meeting, but it must happen soon.

On intellectual property, the provisions should be as strong as the NAFTA. At present, the Dunkel text is unacceptably weak in two areas.

First, it gives countries with weak or nonexistent pharmaceutical patent laws an unjustifiably long phase-in period for changing them. It would leave high-value American products open to piracy for up to two decades. And it does not require protection for pharmaceuticals in the "pipeline" stage -- that is, medicines not yet

approved for public use. The long phase-in would bar us from using the GATT for many years to come. At the same time, it would eliminate Special 301 and the Generalized System of Preferences as ways to win stronger protection.

Second, it does not ensure national treatment for films and television programs. This would legitimize the provisions in the European Community's Broadcast Directive which discriminate against American films and television programs.

We also need more on farm subsidies. We began the Round hoping to eliminate all export subsidies for agricultural products; replace some with income supports; and lower the total level of world subsidies. We are far from that today.

The EC's Common Agricultural Policy is the worst offender. It piles up mountains of wheat and fills valleys with milk. It and dumps excess commodities all over the world. It robs European taxpayers and impoverishes farmers in America, Asia, Africa and Eastern Europe.

This is unsustainable. Last year the EC decided to reduce it by 21% for budgetary reasons. But the Blair House agreement gave us only a 24% cut. It remains to be seen whether that, with a "tariffication" agreement, will be something our farmers can support. An agreement American farmers cannot support will be one I cannot accept.

DEFEND TRADE REMEDY LAWS

We need market access, stronger intellectual property standards and agricultural subsidy cuts. We also need to avoid proposals that would weaken our trade and environmental laws.

We must reserve the right to use our trade laws when multilateral methods fail or are inapplicable, because even a successful Uruguay Round will not address some of our most serious market access problems. Examples are Japan's keiretsu networks and discriminatory distribution system. Only American laws like Super 301 would help us in those areas.

Thus, I will not support a GATT agreement that renders our trade remedy laws inoperable. Antidumping laws; Section 301 and Special 301 of the 1988 Trade Act; and Super 301, which I hope to renew this year, must remain crucial parts of our trade policy.

Finally, we should ensure that the Uruguay Round takes environmental issues into account.

The NAFTA contains important advances in environmental trade issues. It is strong on sanitary and phytosanitary standards, making sure we can continue to block imports of unsafe fruit, vegetables and meats. A GATT agreement should parallel these provisions.

And just as it must not threaten our trade remedy laws, it should not threaten our environmental standards.

So we have hard work ahead. But for the first time in years I think that on all sides the will is there to finish the job.

THE POLLUTION SUBSIDY

The question of sanitary and phytosanitary standards shows why we must begin to link trade with environmental policy. If trade agreements make us lower our environmental standards, more Americans will get sick.

Even if we leave out the human suffering that causes -- and I don't -- it means more preventable illness, more absences from work, and higher health insurance costs, which can wipe out the economic gains of freer trade.

Many people resist such linkage. We still hear that growth and environmental protection are natural enemies. Year in and year out, I'm told environmental protection raises business costs and hurts competitiveness.

Well, in principle I don't accept that. In many cases, improving environmental standards makes firms more competitive.

Last year, for example, the EPA's "ENERGY-STAR" program helped American computer firms develop low-energy desk-top computers. They are competitively priced and their low use of power will save customers money on the electric bill every month. When they come into wide use, they will save as much energy as it takes to run Maine, New Hampshire and Vermont every year. And they are top quality -- one of the first models, an IBM desktop, was "Best in Show" at a global computer exhibition in Tokyo.

But there is also no question that law-abiding firms get hurt when competitors cut costs by polluting. Less responsible firms can benefit from what I call the "pollution subsidy."

A Washington Post story last week showed how this works. Two plants are going up on the Mexico side of the border with Texas, right by the Big Bend National Park. When the wind blows north, they blow smog into the park. Their smokestacks have no scrubbers. That means the owners save over \$200 million in fixed costs. This is a pollution subsidy which lets them sell at lower prices than law-abiding American competitors.

Taxpayers and other businesses pay for the pollution subsidy just as they pay for any subsidy. When toxic chemicals enter the environment, people get sick. Businesses, not just polluters, lose money because more of their employees miss work and their health insurance rates rise.

Taxpayers also lose money because their governments have to pay for environmental cleanup. The pollution subsidy hurts everyone, not just competing companies.

Today, we have no way to fight the pollution subsidy. We do not even consider it an unfair trade practice. But that's just what it is. That is why the next Round of GATT must be a Green Round.

UNIQUE OPPORTUNITY FOR TRADE AND ENVIRONMENT

This Green Round could not come at a better time. Russia, China, Ukraine and the post-communist countries of Eastern Europe are all new entrants into the world trade system. They make up nearly a quarter of the world's population. They want to enter the GATT. And they have environmental problems with huge consequences for the whole world.

Chernobyl made large parts of Russia, Belarus and Ukraine uninhabitable. Vice President Gore writes vividly about the evaporation of the Aral Sea in Central Asia, and the salt dust it deposits on once-fertile parts of Kazakhstan and Uzbekistan. In Krakow, the former capital of Poland, acid fogs produced by pollution from the local steelworks eat the faces off of statues.

China has almost equally serious environmental problems. Already a huge contributor to global warming, it will become the world's largest emitter of carbon dioxide by 2010. China has well-known endangered species problems; deforestation; and very serious urban air pollution problems.

Many Chinese recognize these problems. China's government, for example, has established a Committee on the Environment in the Congress of People's Deputies. And it is not a fraud or a PR ploy. Last year, for example, a third of the deputies, who usually rubber stamp government policy, voted to kill the Three Gorges Dam, the largest water project in the world.

To make a long story short, these countries want to develop. They want to clean themselves up. And they also want to join the GATT. A Green Round can help integrate them into the world trade system and raise their environmental standards at the same time.

HOW A GREEN ROUND WOULD WORK

Linking trade to the environment is not new. Frankly, the GATT already links trade to environmental policy. It just does so in the wrong way. It bars us from using environmental measures like our Marine Mammal Protection Act to stop imports of products made in environmentally unsound ways -- even when we block our own industries from using the same unsound procedures.

This offers us two unappealing alternatives. First, we can ignore unfavorable rulings and weaken the GATT. Second, we can accept the rulings and weaken our environmental laws.

The right answer is "none of the above." The Green Round would make sure GATT can no longer weaken our environmental standards. It would have three elements:

- ▶ First, if imported products, or the processes that make them, don't meet national standards -- and if they can be shown to injure law-abiding domestic producers -- countries could apply countervailing duties at a high enough rate to ensure that the polluters do not get a cost advantage from their unsound practices. That is how we get at the pollution subsidy.
- ▶ Second, when disagreements arise, a GATT dispute settlement body should settle them.
- ▶ And third, nations could ban or restrict imports produced in ways that violate international standards -- tuna caught with driftnets; products using chlorofluorocarbons in violation of the Montreal Convention; and perhaps in the future, commodities produced in ways the international community agrees are environmentally unsustainable.

DIFFICULTIES OF NEGOTIATING A GREEN ROUND

A central problem for a Green Round will be convincing developing countries to take part. Many in these countries argue that jobs and economic development are more important to them than environmental protection.

They maintain that America and Europe developed by exploiting the environment; and that they should be able to do the same thing.

This, you will recognize, is very similar to the arguments of Americans who believe environmental protection is inherently inimical to growth. And my response to it -- actually, my four responses to it -- are very similar.

First, I am not at all convinced that the reason America became a developed country was that Americans polluted big parts of it.

Did our economy really require Love Canal in order to develop its chemical industry?

Did we need to have the Exxon Valdez spill to have an energy sector?

Did we need Superfund sites and fished-out coastal shelves?

I think the answer is no -- they are terrible drags on our economy. We spend tens of billions of tax dollars every year on programs like Superfund. We spend billions more to treat the preventable illness pollution causes. We lose generations of economic opportunity when we overfish a coastal area.

I'm a runner. And when I'm in a road race, and I see someone up ahead trip over a pothole, I don't insist on running into the same pothole. I swerve a bit and go around it.

Developing countries don't have to run straight into the potholes we ran into. They need not repeat our mistakes. They can learn from them instead, and they should be happy about it.

Second, even if development was once inevitably accompanied by pollution, it is not today. We have green technology today that the world did not have fifty or a hundred years ago. Developing countries can build clean plants; recycle; save energy; and also save money for further investment.

Third, the reasons for environmental protection are as good in poor countries as in rich countries. Pollution causes cancer, disability, childhood brain damage, and unnecessary expense in Albania and Zimbabwe just as in Montana or Washington, D.C.

Fourth, the Earth simply can't take it. The added pollution burden of an Industrial Revolution sweeping up three or four or five billion people will be too much to bear.

Finally, I expect to hear some other arguments here at home. Many will argue that it would be a mistake for us to submit ourselves to international judgment of our laws on trade and the environment. Well, we are tackling this issue in the NAFTA talks. And I think our negotiators have a model that does not give away any more sovereignty than we already have given up under NAFTA. We can apply parts of it to a Green Round.

Others will say we should not link trade agreements to other issues like the environment. But, as the GATT ruling on the Marine Mammal Protection Act and Judge Richey's ruling yesterday make clear, we already do.

Trade agreements are good for the American economy and good for the world. But their environmental effects deserve far more scrutiny than they have received in the past. And laws like the National Environmental Policy Act, which Judge Richey invoked yesterday, are cornerstones of U.S. environmental policy. We should not set them aside

without serious consideration. The same holds true for the Marine Mammal Protection Act.

These critical concerns must be balanced. We must fashion a formula which allows us to understand the environmental impact of trade agreements, while still allowing us to negotiate them in a timely manner.

Even if Judge Richey hadn't made that ruling yesterday, or GATT hadn't ruled against us on tuna fishing, we already link trade to other issues. We link trade to labor standards, weapons proliferation and even immigration, through laws like the GSP, the Helms Amendment and Jackson-Vanik. The case for linking environmental policy with trade is as strong any of these, because the pollution subsidy injures environmentally responsible companies. We should understand that, and do something about it.

CONCLUSION

Obviously, all of this is still in the future. But I believe this week at the G-7, we will come much closer to that future. That is one of the best reasons to conclude a Uruguay Round agreement.

The nations of the world have common problems. We live in an era plagued by low growth and by pollution. Today, those of us who work on trade, and those of us who work on the environment, have a chance to help solve them both. It is a unique chance. It is one we cannot miss.