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From the Uruguay Round to the Green Round, Washington Council on International Trade

Max S. Baucus

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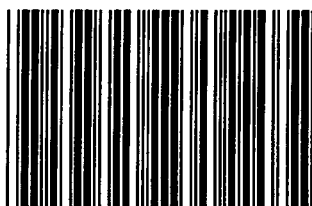
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BAUCUS

United States Senate

WASHINGTON, DC 20510

"From the Uruguay Round to the Green Round"

Senator Max Baucus
Washington Council on International Trade
January 12, 1994

Thank you all very much. It is a great pleasure to visit the real Washington -- and a city which, as the principal port for Montana's exports, is crucial to world trade.

We have all had a busy year. In a way, 1993 was the year America caught up with the world -- when trade became as important an issue here as it has always been in Europe and Japan. I think that is here to stay, and the Washington Council helped make it happen. You hosted the APEC summit last November; and you contributed to the NAFTA debate and to the GATT.

So there is a lot to talk about. I will speak today on the GATT and its future; and afterwards I would like to hear from you on that issue and on others.

RESULTS OF THE URUGUAY ROUND

The Uruguay Round defied many predictions -- including a few of mine -- and emerged as a sound agreement I think will pass.

When we opened the Round almost eight years ago, we hoped to bring trade in services and farm products under GATT; cut agricultural export subsidies; require GATT members to protect intellectual property rights; and continue cutting tariffs and opening markets on a fair, reciprocal basis. And while we did not meet all our goals, we met most of them.

Within ten years, the Round will raise world economic production by \$270 billion a year. It can mean \$65 billion a year for the United States.

Worldwide, it will cut tariffs by about 33%. There are areas -- like wood products, on which Japan remains intransigent -- where we can and must do more. Japan's present offer to cut tariffs by 50% does little to change the status quo, which promotes imports of raw logs and blocks major imports of finished goods. But the cuts we did achieve in paper, pharmaceuticals, construction equipment, medical equipment, semiconductors, and other competitive American goods will increase our exports and strengthen our economy.

The Round extends coverage and opens markets to American service industries like banks, insurers and professionals.

In agriculture, over six years the Round will cut tariffs by an average of 36%. It opens previously closed Asian markets to our beef, rice, apples and other products. It also cuts the amount of subsidized exports by 21%. Not as much as I had hoped, but still 21% better than what we have today.

The Round establishes, for the first time, rules under which its contracting parties must protect works of intellectual property like the software programs Microsoft engineers write a few miles away.

It cuts production subsidies for Airbus, the European folly that hasn't brought in a dollar of profit yet but threatens thousands of jobs at Boeing and McDonnell-Douglas, by a third. Aviation is a critical industry. And we cannot let foreign subsidies take it away from us.

And on environmental issues, it will stop countries from using unscientific inspection standards to block imports while making sure we have the right to use good science to protect the public health. Peter Sutherland, the GATT Director General, promises we will do still more before everything is finished.

RETAIN RIGHTS TO USE NATIONAL TRADE LAW

Equally important is something the Round does not do. That is, it does not eliminate our right to use trade laws like Section 301 and Special 301 in areas which remain outside GATT.

While I view this agreement as basically sound, it is not an agreement which will solve every problem. There are still many issues where we have serious differences with our GATT partners, and on which we must be ready to use our national laws.

Japan's collusive business practices, of course, were outside the Uruguay Round's scope from the start. GATT is not equipped to address their impact on products like semiconductors. We still need bilateral talks to solve them, and in those talks we need the leverage Super 301 provides.

Another example, which I had hoped the Uruguay Round would solve, is the European Union's Broadcast Directive. It sets up a regime of quotas for foreign television broadcasts and subsidies for French movie studios. It is a complicated system, with a simple goal -- keeping out imports.

The European negotiators presented the issue in a somewhat unusual way. An old lawyer's rule says when the law is with you, cite the law; when the facts are with

you, cite the facts; when you've got nothing, pound the table and hope for the best.

They took the third option. They got up on the ramparts of Fortress Europe and in tones reminiscent of General de Gaulle -- or maybe more like the French knight in "Monty Python and the Holy Grail" -- called it a battle for the "survival of European culture."

The reality is rather different. French television is not exactly a steady diet of Proust and Moliere and Truffaut. And if you want to know the awful truth, I commend to you a very good article in the Washington Post last month.

As the Post somewhat indelicately put it, French TV "has begun to resemble a low-grade peep show." Much of this article is not quite fit for a G-rated speech. But at the risk of getting a PG-13, I'll report that the "European culture" the Broadcast Directive purports to defend is really a disgraceful parade of lurid shows with names like "Lesson of Love," "Beware of Blondes" and "Sexy Dingo."

In fact, the French network TF-1 recently canceled a show, described as a "poker-faced presentation of men showing their buttocks" because the network considered it -- and this is a quote from the TF-1 press secretary -- "too educational." It was too good.

This shows why we still need national trade laws. Talk about "cultural survival" is a fraud. There's no other word for it. European studios refuse to compete in a fair and open market. European negotiators refuse to compromise. And so GATT does not cover movies and TV. But because they are not under GATT, they remain subject to our Special 301 law. We should not hesitate to use it.

NEXT STEPS FOR THE GATT

All that said, I consider this Round to be on balance a success. But I also believe that even with a successful Uruguay Round, GATT cannot stand still if it is to remain relevant.

-- The GATT must continue to expand its scope. In the 1950s it dealt largely with tariffs. Later it grew to cover other trade-related issues like quotas; import licenses; subsidies and intellectual property laws. It must now begin to cover other important factors in trade, and I view the environment as a particularly urgent one.

-- The GATT must cover more of the world's trading nations. Russia and China, emerging as major world traders, are still not GATT members. Neither is Taiwan, our sixth-largest trading partner. We should do all we can to bring them into compliance with GATT standards and then into the system.

-- And the GATT must address what may be an unfounded fear, but is nevertheless a real fear of trade in some developed countries. Right or wrong, many people see rapid growth in Asia and Latin America as a threat rather than an opportunity. They have lost confidence that we can compete with developing nations whose wages and environmental standards are lower. This was evident in the United States during the NAFTA debate, but -- as became clear in the Uruguay Round talks - - it is strongest in Europe. I hope the results of GATT and NAFTA allay these fears, but I do not take it for granted.

Extension of GATT -- both to new issues like the environment and to new members like Russia, Taiwan and China -- is crucial. It will make the world healthier and more prosperous. But the GATT cannot go any further if Europe doesn't want it to go further.

So in the balance of my remarks, I will propose a way to tackle all three of these concerns. That is a "Green Round."

This would continue opening markets, cutting tariffs and eliminating subsidies. At the same time, it would formally recognize the links between trade and the environment. It would promote trade; raise international environmental standards; it would bring the new trading powers into the system and promote environmental protection in them; and it would show nervous Europeans that they can still win with more liberal trade.

In other words, it is time to give the GATT's bureaucrats some real green eyeshades.

GOALS OF A GREEN ROUND

This is not as much of a departure as you may think. The GATT is already deeply involved in environmental issues -- but in just the wrong way. For example, the GATT hinders us from using laws like our Marine Mammal Protection Act to stop imports of goods made in environmentally damaging ways -- even if we don't let our own industry use the same unsound procedures.

As trade grows, it has greater effects on the environment. The GATT must recognize that. Otherwise we will get more rulings like the one on the Marine Mammal Protection Act, and face two unappealing choices: ignoring the rulings and weakening the GATT, or accepting them and weakening our environmental laws. A Green Round will let us avoid both bad choices, and use GATT to build international environmental standards up instead of pulling them down. It should take on several basic issues:

-- First, the "pollution subsidy." GATT should make clear that intentionally weak environmental standards are an unfair, unacceptable trade practice which damages responsible business and ordinary citizens. Pollution subsidies cut costs of production for a polluter, underprice clean businesses, and make taxpayers pay the difference through higher health and environmental cleanup costs.

-- Second, it should make sure strong environmental standards, based on good science, do not put industry at a disadvantage. Countries should be able to require imported goods, or processes that make them, to meet environmental standards comparable to the ones they demand of domestic producers. Goods which do not meet these standards -- and which are proven to injure law-abiding domestic producers -- should be subject to countervailing duties to make sure the polluters do not get a price advantage. Among other benefits, this will make sure laws like the Marine Mammal Protection Act, which are based on good science, do not conflict with trade rules.

-- Third, it should set up a GATT dispute settlement mechanism capable of dealing with environmental questions. We may be able to do this as part of the agreement on a Multilateral Trade Organization included in the Uruguay Round itself.

-- And finally, it should address the question of goods produced in ways that violate accepted international standards -- fish caught with driftnets, products using chlorofluorocarbons in violation of the Montreal Convention, and so on.

We can take smaller steps in the interim. The environmental provisions of NAFTA are a model for future bilateral and regional trade agreements. The United States, along with Japan, Canada and the EU, should also apply a "green" standard to their duty-free programs. That is, eligibility for our GSP, Europe's Lome Convention and Canada's Caribbean program should depend in part on environmental commitments as well as the present labor and intellectual property conditions.

UNIQUE OPPORTUNITY FOR TRADE AND ENVIRONMENT

The Green Round will be particularly important for new members of GATT. Russia, China, Ukraine and the post-communist countries of Eastern Europe make up nearly a quarter of the world's population. They are all new entrants into world trade. They want to reform their economies. And they have environmental problems with huge consequences for the whole world, which a Green Round would promote can help them address.

Chernobyl made large parts of Russia, Belarus and Ukraine uninhabitable. Vice President Gore wrote vividly in his book Earth in the Balance about the evaporation of

the Aral Sea in Central Asia, caused by an irresponsible diversion of the rivers which fed it; and the salt dust which, rising from the Aral's dry bed, poisons once-fertile farmland in 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 equally serious environmental problems. In China last summer, environmental specialists and government leaders told me their country is entering an environmental crisis and cannot meet it without our help. The Governor of Guangdong Province, for example, said only six of his province's twenty largest cities have wastewater treatment plants. Chinese diplomats abroad regularly come down with respiratory diseases when they go back home, since the air in the cities is so bad.

And like the radiation from Chernobyl's Reactor #2, the problems don't stop at the border. They affect China's neighbors and the whole world. The Vice-Minister of MITI in Tokyo told me his biggest single worry wasn't trade -- it was that the hundreds of new coal-fired power plants coming on line across the Yellow Sea will cause a massive acid rain problem in Japan. Likewise, China is already a large contributor to global warming, and will become the world's largest emitter of carbon dioxide by 2010.

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

And it will offer comparable benefits to all GATT members. It will open markets. It will stimulate invention of new environmental products and clean processes. It will save money on cleaning up messes and treating preventable diseases, and put it toward education, investment and tax cuts.

And in practical political terms, it will make market opening in industrial countries easier. As it opens markets to new GATT members and developing countries, it will also guarantee to industrial countries that strong environmental standards will not hurt their industry.

CONCLUSION

This will not be an easy agenda. A Green Round will meet a lot of skepticism from some developing countries, and if last year is any guide, any Round will get a lot of resistance from Europe. And of course, it will never get started if we don't pass the Uruguay Round. So I hope you all keep trade at the top of America's policy debate, and make sure we get the job done. Thank you.