

United States - Peru Trade Promotion Agreement

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Before the Committee on Ways and Means
United States House of Representatives
July 12, 2006**

As Prepared For Delivery

Chairman Thomas, Chairman Shaw, Ranking Member Rangel, Members of this distinguished committee, thank you for the opportunity today to discuss the economic and political benefits of our free trade agreement with Peru.

I appreciate the views and guidance received from members of this Committee on the U.S.-Peru Trade Promotion Agreement over the last two years. I look forward to working with you and your colleagues as we seek congressional approval of this historic agreement.

The United States -Peru Trade Promotion Agreement marks the beginning of a new chapter in our commercial partnership with Peru. The agreement sets out fair and reciprocal trade rules which will promote economic growth and prosperity in both countries. It eliminates unfair barriers to U.S. exporters, opening a market of 28 million consumers to U.S. manufacturers, farmers, ranchers, and service providers. In 2005, exports of U.S. goods to Peru reached \$2.3 billion and through the implementation of this Agreement we expect our exports to rise significantly. While the benefits of this Agreement will accrue for a broad range of U.S. exporters across the country, states with the largest volume of exports to Peru –Texas, Florida, California, Louisiana, and Illinois – will gain even more export opportunities through the implementation of the Agreement. In fact, according to the International Trade Commission, our industrial and agricultural exports to Peru are expected to increase annually by as much as \$1.1 billion once the Agreement is fully implemented. To date, it is the best agricultural deal we have ever negotiated in terms of access for U.S. farmers and ranchers to other markets.

In exchange, the Agreement makes permanent the trade benefits Congress first authorized for Peru in 1991 under the Andean Trade Preference Act and enhanced significantly in 2002. By helping to create favorable conditions and incentives, the U.S.-Peru TPA will aid in sustaining real growth, creating more jobs, and attracting investment in Peru. This agreement will also support and enhance the democratic and economic reforms undertaken by Peru's leaders in recent years.

An Emerging Partnership

I would like to put this Agreement in context. In 1991, the U.S. Congress with strong bipartisan support voted to authorize duty-free benefits to Peru through the Andean Trade Preference Act, or ATPA. ATPA was designed to help expand economic opportunities in the Andean region and encourage our Andean neighbors to move away from the production, processing and shipment of illegal drugs and to move toward legitimate products. Peru has benefited significantly from the program, steadily increasing its exports to the United States since 1993. Imports from Peru to

the United States totaled \$5.1 billion in 2005, of which \$2.3 billion benefited from ATPA preferences.

In 2002, two events occurred which helped lay the economic and political foundation for this Agreement. First, Congress enacted the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which renewed and enhanced trade preferences under the ATPA. Second, Peru's President, Alejandro Toledo instituted a series of political and economic reforms which have helped lift many Peruvians out of poverty and have solidified Peru's democratic institutions. These reforms have included: (1) restoring democratic practices, best illustrated through the free and fair presidential elections held this year; (2) increasing expenditures for health and social infrastructure programs; (3) undertaking initiatives in the area of labor rights, particularly to protect the rights of labor unions and children; (4) enhancing respect for the freedom of the press; and (5) improving Peru's investment climate. The entire region took note when the people of Peru reaffirmed their support for these positive reforms in June 2006, by electing a president in June of 2006 committed to continuing to pursue democratic and free-market principles.

The results have been impressive. Since 2003, Peru's real GDP has grown at an annual average rate of five percent. In 2005, Peru's GDP at market exchange rates totaled \$78 billion. Two-way trade between Peru and the United States increased from \$3.4 billion in 2001 to \$7.4 billion in 2005, a growth of 118 percent over four years. This economic expansion has reached all levels of society. Even as Peru's population expanded by 1.6 million between 2001 and 2005, the number of people living in poverty declined. According to Peru's National Institute of Statistics and Information (INEI) and the Ministry of Economy and Finance during those four years, nearly 500,000 people were lifted out of poverty, and more than 1.3 million escaped extreme poverty.

On June 28, the Peruvian Congress approved the United States-Peru Trade Promotion Agreement by a wide margin of support with 79 votes in favor and 14 against. The Agreement received full support from members of President-elect Alan Garcia's APRA party. Meanwhile, our trade preference program with Peru (ATPA) will expire at the end of this year. To ensure that these positive trends I have outlined continue, the time for Congress to act on this Agreement is now.

The political and economic benefits of the United States-Peru Trade Promotion Agreement for the United States are significant (notwithstanding the small size of Peru's economy). This agreement makes trade between us a two-way street. Today, ninety-eight percent of imports from Peru enter the United States duty-free as a result of our unilateral preference programs or our most favored nation (MFN) duty-free rates. Meanwhile, less than two percent of U.S. agricultural exports and four percent of U.S. industrial exports can enter Peru duty-free. This is attributed to the fact that Peru applies duty-free treatment to very few products on a MFN basis.

The Agreement makes our trade relationship more reciprocal and more equitable. On the day the Agreement takes effect, 80 percent of our industrial products will be able to enter Peru duty-free. Within five years, an additional six percent of our industrial products will become duty-free and another four percent within seven years. Duties on the remaining 10 percent of industrial products will be phased-out over ten years. This will mean significant new opportunities for American manufacturers of technology products, mining, agricultural and construction equipment, medical and scientific equipment, auto parts, paper products and chemicals. Peru

also agreed to join the WTO Information Technology Agreement, considered the “gold standard” of liberalization in high tech products.

In agriculture we see a similar story. While Peruvian agricultural exports face few if any duties when they enter the United States, U.S. agricultural exports face Peruvian tariffs as high as 25 percent on most products and much higher tariffs for some others such as rice. Under Peru’s current WTO commitments, these tariffs can legally be set as high as 30 to 68 percent *ad valorem*. Additionally, Peru applies variable tariffs based on price bands on more than 40 products, including corn, rice, dairy, and sugar.

The United States-Peru Trade Promotion Agreement eliminates the tariff disparity that currently exists between the United States and Peru. It lowers tariffs, turning our one-way preference program into a trade partnership, and assures that our exporters will not face higher tariffs in the future. On the day the Agreement takes effect, almost 90 percent of our current agricultural trade with Peru will enter the Peruvian market duty-free, providing opportunities to expand our current 20 percent share of Peru’s agricultural market. In addition, Peru will immediately eliminate its price band system on trade with the United States. Tariffs on other agriculture products will be eliminated gradually, most within five to fifteen years. Within 17 years, all of our agriculture exports will be duty-free.

In addition, the agreement will afford U.S. exporters preferential treatment that will position them favorably vis-à-vis exporters in third countries competing for the Peruvian market. These include strong agricultural producers, including Brazil, Argentina, and Chile, with which Peru has entered into preferential trade agreements over the past several years. The United States-Peru Trade Promotion Agreement also will give U.S. agriculture exporters a competitive edge over countries such as China, which are gaining market presence in Peru, but do not enjoy preferential access.

Here are a few examples of how the Agreement will help boost our agricultural exports to Peru.

U.S. beef and beef products currently face applied tariffs ranging from 0 to 25 percent in Peru, with “bound” (*i.e.* WTO ceiling) rates set at 30 percent. Under the Agreement, the tariffs on top priority products for the U.S. beef industry -- high quality beef -- will drop to zero immediately upon entry into force of the Agreement. This will enable our beef industry to compete on equal or better terms with beef products from Argentina and Brazil that currently enjoy preferential access to Peru’s market.

Tariffs on most U.S. pork products, currently set as high as 25 percent, will be eliminated immediately or within five years after the Agreement enters into force. The U.S. pork industry will then be in a position to compete on an equal or more favorable basis with pork products from Chile that currently enjoy preferential access to Peru.

The U.S. poultry industry is another clear winner. The Agreement provides immediate duty-free treatment for a 12,000-ton tariff rate quota for chicken leg quarters, and the quota will grow at an annual compound rate of eight percent.

Other U.S. agricultural exports such as wheat, cotton, fruits, tree nuts, vegetables and vegetables products, are all expected to increase significantly as the Agreement will immediately eliminate

Peru's tariffs on these products, which range from 0 up to 25 percent. Even for sensitive products for which tariffs are phased-out over longer time periods (e.g. rice and dairy), Peru will establish tariff rate quotas that will provide immediate duty-free access for certain quantities that grow as the tariffs are phased-out.

In sum, this Agreement will substantially benefit U.S. agriculture.

The Agreement benefits U.S. exports by going beyond tariff reductions. It eliminates non-tariff barriers that currently limit U.S. products and services from competing in Peru's market. Under the Agreement, Peru will become the first Andean country to lift its import restriction on remanufactured goods. This is a significant achievement, creating a new export market for U.S. remanufactured products such as computers, cell phones, construction and medical equipment, heavy machinery, and auto parts. The Agreement also establishes state-of-the-art customs procedures to expedite the movement of goods between our markets.

The Agreement will also provide important new opportunities for U.S. companies in Peru across a wide range of services sectors: telecommunications, banking, insurance, audio-visual services, transportation, engineering, computer and related services and express delivery, just to name a few. This agreement also provides comprehensive and strong protection for U.S. intellectual property interests, including copyright protection for the digital age, as well as patents, trademarks and proprietary data protections. Additionally, the Agreement provides for stronger enforcement against infringement of intellectual property. The United States-Peru Trade Promotion Agreement also includes strong anti-corruption procedures and provisions on transparency in government contracting and in other areas of trade that will help address this issue. The agreement also establishes a secure, predictable legal framework for U.S. investors in Peru.

Let me briefly address two issues that we know are of particular importance to many members of this Committee - labor and the environment. Peru has undertaken significant labor reforms in the past several years, and is committed to undertaking additional reforms in an effort to address concerns the United States has raised. Peru has ratified all eight core conventions of the International Labor Organization (ILO) and Peru's Constitution guarantees freedom of association, collective bargaining, and the right to strike. In 2003, Peru enacted a major labor reform law, strengthening labor rights and responding to ILO observations on Peru's labor law. Among the changes it made, Peru's labor reform law reduced the number of workers needed to form a union, limited the power of the labor authority to cancel the registration of a union, and eliminated provisions that prohibited unions from engaging in political activity.

The United States-Peru Trade Promotion Agreement includes a variety of tools that will help ensure that workers in Peru benefit from these reforms. First, the Agreement will require Peru to enforce its labor laws effectively. Should Peru fail to do so, the United States can invoke the Agreement's consultation and dispute settlement procedures, which could ultimately lead to the imposition of an annual monetary assessment of up to \$15 million. The Agreement also calls for Peru to provide fair, equitable and transparent domestic legal procedures through which persons can seek enforcement of Peru's labor laws. The Agreement also creates a labor cooperation and capacity building mechanism to advance cooperation on labor matters. It establishes a Labor Affairs Council, comprised of senior government officials, to oversee implementation of and review progress under the labor chapter.

The environment chapter, like the labor chapter, includes specific obligations in the core text of the Agreement. Specifically, each Party must effectively enforce its domestic environmental laws, and this obligation is subject to the Agreement's dispute settlement provisions. The environment chapter not only includes the obligation to effectively enforce domestic environmental laws, but also includes obligations on transparency, rule of law, procedural guarantees and access to the judicial, quasi-judicial and administrative proceedings and requirements for public participation in policy decisions in the area of trade and environment. The Agreement calls on the Parties to establish an independent secretariat to review and consider public submissions on environmental enforcement matters in Peru. An Environmental Affairs Council, comprised senior-level officials with environmental responsibilities, will review how the Agreement's environmental provisions are implemented. We have also included, for the first time in a U.S. free trade agreement, an article affirming both countries' commitment to protect and conserve biological diversity. Finally, in parallel with the free trade agreement, the United States and Peru concluded an Environmental Cooperation Agreement (ECA) that will promote joint cooperative efforts to protect the environment, including protection of endangered species and fragile ecosystems.

We strongly believe that the obligations set out in the environment chapter and the cooperative activities we have agreed to undertake under the ECA will help make trade and environmental protection mutually supportive for both Peru and the United States.

Mr. Chairman and Members of the Committee, the United States-Peru Trade Promotion Agreement enables us to turn our unilateral trade preference program into a trade partnership, level the playing field for U.S. exporters with respect to our competitors in Peru's market, encourage domestic political and economic reforms in Peru, and enhance protection for workers and the environment in that country. I hope that after examining the Agreement, the Members of this Committee and the U.S. Congress will agree that this is a solid agreement that is strongly in our national interest.

Let me conclude where we began. Peru is a country heading in the right direction. Peru's leaders and its people are making the right choices. Just last month, faced with the choice to continue the economic and political reforms instituted by President Toledo or to follow an alternative, anti-market and anti-democratic model promoted by others in the region, the people of Peru elected a new president with a strong mandate to promote free market principles and a stronger democracy. Today, it is our turn to choose. We can turn our back on Peru by rejecting this Agreement or we can seize this opportunity to strengthen our partnership with Peru and help promote economic growth, prosperity and political stability in Peru and throughout the Andean region. I look forward to working with you Mr. Chairman, Ranking Member Rangel, and the other Members of this Committee to achieve strong bipartisan support for this Agreement.

Again, thank you for the opportunity to testify today.