IRET Congressional Advisory

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PASS PERU TRADE PROMOTION AGREEMENT *NOW*

Important business faces the lame duck Congress. One key item is ratification of a trade promotion agreement with a prominent hemispheric trading partner, Peru, which is ready for Congressional action. (Another agreement, with Colombia, has just been signed, and should be considered as soon as the Congress has examined its contents. The two agreements are on different time tracks because Peru closed months ahead of Colombia.)

Peru had the courage to conclude an agreement with the United States, despite trying domestic and hemispheric political conditions. For the good of both countries, the U.S. Congress should act now on that agreement, despite post-election turmoil.

Our current trade relationship with Peru (and Colombia) is based on the Andean Trade Preferences (ATPDEA), which is also up for renewal. ATPDEA gives the Andean group special access to U.S. markets, but does not give U.S. exporters the same access to Andean markets. It is a one-way preference program. By contrast, the Peru Trade Promotion Agreement (PTPA) opens Peru's markets to U.S. goods and services. Renewing Andean Trade Preferences (ATPDEA) is important. Adopting reciprocal free trade with Peru is vital. Both merit prompt action, with ATPDEA renewal making the bridge to full and prompt implementation of PTPA.

Former Peruvian President Alejandro Toledo was a staunch U.S. ally on trade issues. He huddled with Mercosur presidents in Mar del Plata last year during a tendentious 12-hour negotiation, rare at Head of State level. Toledo struggled to persuade them to continue support for the Free Trade Area of the Americas (FTAA). Although his father lay critically ill, President Toledo stayed on in Argentina pressing for a trade agreement throughout the Americas. The FTAA had been in trouble for more than two years, since a Brazilian push to cut back the scope of the FTAA, and despite U.S. attempts to bridge those differences. Even worse, Argentina was working to produce a 2005 Summit ignoring the FTAA altogether.

While President Toledo fought for an agreement among all of the Americas, he enthusiastically embraced another avenue for freer trade with the United States, involving bilateral and regional efforts. The U.S. opened that avenue at the 2003 Miami Trade Ministerial (which is also where 34 trade ministers ratified a compromise approach to the FTAA). There, the U.S. announced a series of negotiations for bilateral and regional Free Trade Agreements (FTAs) – with beneficiaries of our Andean trade preference program and with Panama. The concept – as with the CAFTA/Dominican Republic agreement – was to convert time-limited one way trade preference programs (giving access to U.S. markets, but no trade access for U.S. products to markets in those countries) into permanent reciprocal trade agreements. This would open new markets to U.S. goods, while assuring continued duty free access for our partners to U.S. markets.

Given the impasse over creating a real FTAA, the United States negotiated FTAs with Peru, Colombia, Ecuador, and Panama. Of the four, Peru showed the greatest drive to conclude a win/win agreement with the United States. A Peruvian President, whose popularity with the public dropped into single digits at times and rarely rose above 20%, had the vision and courage to fight for his country's future as a free trader. He knew that granting reciprocal access for U.S. products to Peruvian markets while gaining permanent Peruvian access to U.S. markets was the path out of poverty for thousands of Peruvians.

From the start, Toledo always had his eye on the 2006 electoral deadlines in Peru and the United States, and to the political realities of bringing the conclusions of these negotiations to the U.S. Congress and to his own. By December 2005, having fewer difficult issues left to resolve than the other Andean countries, and a strong desire to sign the agreement during President Toledo's tenure in office, Peru took the initiative and became the first Andean country to complete negotiations with the United States.

The Peruvian and U.S. governments signed the agreement on April 12, when President Toledo traveled to Washington for a ceremony at the Organization of American States. Before the Peruvian Congress took up the agreement, Peru elected a new President. By then, Peru had a lame duck Congress and a lame duck President. President Toledo led a spirited campaign to leave a legacy of trade liberalization to the incoming administration. The Peruvian Congress delivered: it passed the U.S.-Peru Trade Promotion Agreement by a vote of 78 to 14. Peru's lame duck Congress acted decisively. It is time for ours to do the same. Peru's new President, Alan Garcia, though of a different party and philosophy than Toledo, has embraced the trade agreement. President Garcia's administration has continued to press forward on health and sanitary issues and on labor reforms.

During the summer, the Senate Finance and House Ways and Means Committees held hearings and mock mark-ups on the U.S.-Peru Trade Promotion Agreement. Although Congress was loath to approve a new trade agreement before our election, it is now incumbent upon them to do so. (The United States and Colombia completed their negotiations, and signed an agreement on November 22. The Committees should schedule hearings and submit the Colombia agreement for a vote as soon as possible in the new year.)

It was the U.S. that initiated the Andean negotiations as a way to break the FTAA impasse, convert a preference program to reciprocal free trade, and advance free trade among those willing to undertake it. We will be seen to have acted in bad faith should we not approve the results of the negotiations we initiated. President Garcia has stepped forward as a pragmatic alternative to Hugo Chavez. Approval of this trade agreement will have a tremendous demonstration effect. To disapprove it would have serious political consequences for U.S. credibility as well as for Peru.

The benefits of the agreement are positive for both countries:

- The U.S. gains immediate market access to Peru for 90 per cent of agricultural products, and for 80 per cent of consumer and industrial products.
- The ITC estimates that the agreement is likely to result in a larger increase in U.S. exports to Peru ($1.1 billion a year) than in Peru's exports to the U.S. ($439 million), because of the lower tariffs Peru's exporters already enjoy under ATPDEA.
- According to the American Farm Bureau Federation, farm exports alone could increase by $705 million a year.
- Total U.S. GDP may rise by $2.1 billion or more annually under the agreement according to the ITC.
- Four thousand U.S. small companies who export to Peru will benefit from the Agreement.
- Peru will maintain duty free market access to the U.S. for goods that support 400,000 jobs in Peru.
- At one Peruvian General Mills supplier alone, duty free access to U.S. markets – for asparagus – has boosted employment from 80 to 5,000 over the past 15 years.
- These Peruvian jobs, created by the opening of U.S. markets under our trade preference program, will be sustained only if we keep our markets open. Peru worked hard to complete its trade agreement in time to establish two way free trade with U.S. before the preferences expire December 31.

The United States Congress should work in this lame duck session for an accord that is good for both countries. Peru has done its heavy lifting. It is now our turn.

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Note: Nothing here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before the Congress.