

**PREPARED TESTIMONY
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UNITED STATES SENATE COMMITTEE ON FINANCE
HEARING ON THE U.S.-PERU TRADE PROMOTION AGREEMENT**

September 11, 2007

Thank you, Mr. Chairman, for inviting me to participate in today's hearing. I am truly pleased that Congress is moving forward with its consideration of the U.S.-Peru Trade Promotion Agreement. I congratulate the Chairman, the Chairman of the House Ways and Means Committee, and the Administration for working together and reaching agreement on enforceable protections for labor and the environment so that this agreement will move U.S. trade policy forward in a positive manner.

Mr. Chairman, I have long been a supporter of an open and rules-based global trading system as an important means of promoting and securing U.S. economic interests and enhancing development outside of the United States. Unfortunately, credibility and support for an open and rules-based trading system is increasingly at risk. Mr. Chairman, the fears brought about by interdependence, driven by technology and globalization, are real and continue to have a profound effect on our future. Interdependence and globalization have dramatically increased the pace of change. More and more skills can be outsourced, new competition for our industries has arisen, and people are rightly concerned. It is wrong to think that we can stop the forces of globalization, but I contend that we can shape them to our benefit by relying on three principles:

- Invoking strong leadership to promote and advocate the advantages we gain through engaging in globalization and molding our policies to take

advantage of this phenomenon, with the goal of raising standards of living in the United States and around the world;

- Reaching common sense trade deals that address a broad array of American interests, advancing the interests of American workers and their families, and that are consistent with our values; and
- Ensuring vigorous enforcement of our trade laws and agreements to build confidence that we are beneficiaries of what we were promised and that our partners are playing by the rules. At this time USTR is not organized or funded sufficiently to enforce a policy of this magnitude. This will necessitate building an enhanced capability in a new unit at USTR dedicated to the effective monitoring and enforcement of our trade laws and agreements, much like you have suggested, Mr. Chairman.

Mr. Chairman, in order to rebuild consensus for the kind of open and rules-based trading system that we need to be pursuing, the Administration must convince the American people that their government will not “give away the store.” We need to see greater leadership from the Administration in all three areas I mentioned above. But that alone is not enough. Without a greater commitment to education, research and development, and twenty-first century infrastructure, even the best trade deals will not be enough to sustain our economy, ensure our competitiveness, and fairly distribute the benefits of globalization.

In my view, the U.S.-Peru Trade Promotion Agreement is now the kind of trade agreement that is worthy of the support of Congress and the American people. The agreement reached by the leaders of the Democratic party in Congress and the

Administration have created a supportable TPA. This is a comprehensive agreement that will provide economic benefits to both the United States and Peru. Tariffs on goods and agriculture products will be eliminated on both sides. U.S. duties on a majority of imports from Peru are already zero under the Andean Trade Preference Program. Now our exports from the U.S. to Peru will enjoy the same treatment, providing new opportunity for U.S. farmers and manufacturers.

The U.S.-Peru TPA is helpful to U.S. service suppliers, provides access to government procurements, has realistic protection for intellectual property, and necessary protections for investments. Peru's market, although small by our standards, is increasingly open and rapidly growing, which means more demand for goods, services and investment. Beyond the commercial benefits, the Peru Trade Promotion Agreement will help to strengthen freedom and democracy in Peru and will broaden and deepen ties between the United States and a regional ally. The benefits of this agreement are real, but are limited given the size of the Peruvian economy. However, given the strong support for this agreement by the Peruvian government, it is in our strategic interest to be squarely behind their commitment.

But no trade agreement is a "common sense" agreement without enforceable labor and environmental provisions. What helps distinguish the Peru TPA from others in the recent past is the inclusion of strong and enforceable provisions on labor and the environment. This agreement establishes a critical precedent. In my view, we should not conclude trade agreements -- whether bilateral, regional, or multilateral -- without provisions of this nature. The American people are not afraid of competition, but they also know when it's not a fair fight. Labor and environmental provisions are essential to

trade agreements for a number of reasons that are good common sense. The recent commitment by the leadership of the Peruvian government has helped to ensure that these provisions will be real and have a solid impact.

But, we should all be cognizant of the fact that failure to enforce these or other requirements of this agreement will only serve to disappoint those on both sides who worked so hard to implement this agreement and will further erode the confidence of the American people.

We need enforceable provisions in trade agreements to ensure that our trade partners are not using lax labor and environmental laws – or turning a blind eye to enforcement – in order to gain an unfair competitive advantage. Producers in the United States must comply with a wide array of requirements from paying a minimum wage, providing a safe workplace, to adhering to important regulations to protect the environment, all of which add significant costs to production. If we don't use our trade agreements to raise the labor and environmental standards of our trading partners to begin to equalize these differences, U.S. workers and companies will be fighting an uphill battle. Support for trade agreements has eroded largely because of our failure to fully address this reality up to now.

The United States government has a credibility problem where trade and globalization are concerned. Unless most Americans believe they will be positively impacted by trade, we will not convince the American people to support a forward-looking trade agenda. And if the American people fear that our trade partners could be “cutting to the front of the line” by failing to adopt strong protections for workers and the

environment or by failing to enforce the laws they have on the books, they will never have faith that the U.S. government is negotiating agreements that promote their interests.

Labor and environmental provisions are good common sense for our trade partners as well. We know that providing workers with basic rights and enforcing them leads to rising wages, a growing middle class, and increased pluralism, all of which help to ensure that the benefits of trade agreements are shared by a wide range of society. In addition, independent unions also help to strengthen democratic institutions and promote the rule of law.

These factors -- rising wages, a growing middle class, and stronger democratic institutions -- inevitably lead to our trade partners becoming larger and more stable markets for U.S. products. The provision and enforcement of worker rights will promote a higher standard of living and, ultimately, increased consumption. An important part of future economic growth in the United States is tied to our ability to successfully sell our products and services in foreign markets. These worker rights provisions will promote that goal.

The inclusion of the core labor standards in this agreement, and ensuring that these provisions will be enforced like any other requirement in the agreement, is consistent with, and advances, important values we support. It is fair and empowers workers, allowing them to organize, to pursue legitimate rights, and is a critical component of stable democracies.

Stronger protections for the environment benefit not only the United States and our trade partners, they benefit the global environment as well. Pollution does not know borders. As trade agreements lead to greater production of agricultural and manufactured

goods, it is common sense for these agreements to include protections to ensure that scarce natural resources are not exhausted, that our neighbors' environment is not degraded, that we are not adversely impacting global environmental issues, such as climate change, and for these protections to be enforced. It is critical that environmental provisions are included and enforced in order to avoid a race to the bottom.

Mr. Chairman, these ideas I have laid out are not new. In fact, the need for a connection between greater opportunity for trade and greater support for worker rights was first recognized 23 years ago. In 1984, Congress added a criterion to the Generalized System of Preferences program authorizing the President to withdraw benefits if countries have not made progress toward affording internationally recognized worker rights. In 1988, Congress similarly modified Section 301 provisions to make a persistent pattern of conduct to deny worker rights actionable under 301. In the 1990s, then-Governor Clinton agreed to support NAFTA, but only with the inclusion of side agreements to provide further protections on labor and environment. And in October 2000, the United States signed a free trade agreement with Jordan that contained labor and environmental provisions that were subject to the formal dispute settlement provisions of the agreement.

The U.S.-Peru Agreement at long last returns us to the standard set in the Jordan FTA. The Agreement is supportive of the interests of our economy, companies, and workers, while enhancing the dignity and future of workers in Peru. The Peru Agreement is a strong agreement with an important ally in Latin America. It is good for both economies, good for workers, and good for the environment, and I urge members of this Committee to give it your support. Thank you.