Chamber of Commerce of the United States of America

Association of American Chambers of Commerce in Latin America

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Hearing of the United States Senate Committee on Finance

on

"The U.S.–Peru Trade Promotion Agreement"
Thursday, June 29, 2006
10:00 a.m.

Dirksen Senate Office Building
Room 215

Testimony by Leon Trammel
Founder and Chairman
TRAMCO

on behalf of the

U.S. Chamber of Commerce,
Association of American Chambers of Commerce in Latin America
and the
U.S.-Peru Trade Coalition

On behalf of the U.S. Chamber of Commerce (Chamber), the Association of American Chambers of Commerce in Latin America (AACCLA), and the U.S.-Peru Trade Coalition, I would like to voice strong support for the U.S.-Peru Trade Promotion Agreement (PTPA). My name is Leon Trammel, and I am founder, President and CEO of TRAMCO, a company based in Wichita, Kansas, that employs nearly 100 full-time employees and exports to more than 50 countries. Our company has been exporting its products to Peru for 19 years.

First a word about our organizations:

- The U.S. Chamber of Commerce is the world's largest business federation, representing three million businesses of every size, sector, and region.
- The Association of American Chambers of Commerce in Latin America (AACCLA) represents 23 American Chambers of Commerce in 21 Latin American and Caribbean nations, and its 20,000 member companies represent over 80% of all U.S. investment in the region.
- The U.S.-Peru Trade Coalition is a broad-based group of U.S. companies, farmers, business organizations and other groups representing the largest and most dynamic sectors of our economy. With over 100 companies and associations taking part, this new coalition is growing very rapidly.

Our company, TRAMCO, is a leader in the design, application, engineering and manufacture of the world's most complete line of chain conveyors, enclosed belt conveyors, specially designed conveyors and conveyor conversions. TRAMCO conveyors are used to upload and unload a variety of bulk materials such as coal, food and grain, ore from mines, plastic, pulp, rubber and paper, or solid waste and recycling. Since the company's inception, over 20,000 TRAMCO conveyors have been designed and put into service all over the world. TRAMCO's production facility offers high technology in automated milling and machining equipment and robotics, all of which allows for complete "in-house" production. A year ago, I was honored to receive the President's "E" Award for excellence in exporting. Established by executive order on December 5, 1961, the "E" Award recognizes people, firms, or organizations that contribute significantly in the effort to increase U.S. exports.

My company and the business organizations I represent today believe that international trade plays a vital part in the expansion of economic opportunities for American workers, farmers and businesses. PTPA is a critical step in U.S. efforts to promote sustainable economic growth in the Western Hemisphere through trade rather than aid, and it follows in the footsteps of the successful U.S.-Chile Free Trade Agreement (FTA). Indeed, PTPA is a front-loaded, ambitious and comprehensive agreement that promises considerable benefits to both the United States and Peru.

The agreement will substantially improve market access for American farm products, industrial and other non-agricultural goods, and services in Peru. The opportunities created by lowering tariff and non-tariff barriers to U.S.-Peru trade and investment promise to expand two-way trade opportunities and lift living standards in both countries.

Beyond its purely commercial benefits, the agreement offers critical support and stronger ties to a close ally in the Andes, a region where political and economic instability poses a real threat to U.S. and regional security. The election on June 4 of Alan García to succeed Alejandro Toledo as President of Peru marks a clear victory by a candidate endorsing closer ties to the United States at a time when some countries in the region are taking a different course. At this writing, two key committees in Peru's legislature have overwhelmingly approved the agreement, and the national Congress is likely to do so this week — with President-elect García's party lending its full support.

In addition, PTPA will bolster the rule of law, investor protections, internationally recognized workers' rights, and transparency and accountability in business and government. The agreement's strong intellectual property and related enforcement provisions not only protect U.S. innovation-based industries but contribute to the fight against counterfeit and pirated products, denying an important source of funds for groups engaged in narco-trafficking and terrorism.

Looking forward, the agreement with Peru is an important step in the U.S. strategy to promote trade liberalization and economic integration with the Andean region. U.S. trade with Peru and its Andean neighbors reached nearly $30 billion in 2005. This region represents a significant potential market, with a population approaching 100 million and a collective GDP near $500 billion when measured on a purchasing power parity basis. We welcome the conclusion of negotiations for a similar trade agreement with Colombia as the next step in this important strategy.

Opening Markets

Above all else, PTPA further opens Peru's market to products and services made by American workers, farmers, and companies. Equally important, the agreement makes it easier for U.S. consumers to buy products made by Peru's workers, farmers and companies. Total two-way trade between U.S. and Peru has doubled over the past three years, reaching $7.4 billion in 2005. However, due to U.S. trade preference programs, growth in U.S. exports to Peru reached 38% from 2000-2005, while Peruvian exports to the U.S. grew 157% during the same time period.

The United States unilaterally opened its market to Peru and its neighbors through the Andean Trade Preference Act (ATPA) in 1990 and its successor ATPDEA. According to the U.S. International Trade Commission (USITC), fully 97% of all imports from Peru already enter the U.S. market duty-free; the report continues: "While most of Peru's average tariff rates range from 12% to 25%, most of the U.S. average tariff rates are zero, with only one (sugar, 46.3%) exceeding 3%." In other words, Peru enjoys nearly free access to our marketplace while Peru taxes the products that U.S. companies and farmers ship there.

PTPA will cut Peru's taxes on U.S. products and as a result make this trade relationship a more mutually beneficial, reciprocal partnership. The day the agreement enters into force, eighty percent of U.S. consumer and industrial products and more than two-thirds of current U.S. farm exports will enter Peru duty-free. Consider the following examples of the current imbalance in tariff treatment and the impact of PTPA on this discrepancy:

Without PTPA		Products	With PTPA	
We Pay	**They Pay**		**We Pay**	**They Pay**
12–20%	0–6%	Processed Foods	0%	0%
12%	2.5%	Automobiles	0%	0%
12%	0%	Furniture	0%	0%
12%	0%	Audiovisual products (film and DVDs)	0%	0%
12%	0%	Chemicals, Plastics, Mineral Fuels and Coal	0%	0%
12%	5%	Cotton	0%	0%
12%	0%	Metal Products (copper, zinc, gold, silver)	0%	0%
20%,12% and 4%	0%	Cereals (oats, corn, soybeans)	0%	0%
4%	0%	Other transportation equipment	0%	0%
4%	0%	Computers and related products	0%	0%

Manufacturing: PTPA offers immediate opportunities for the U.S. manufacturing sector. Manufactured goods represented 90% of U.S. merchandise exports to Peru in 2005. The fastest-growing categories among U.S. manufactured exports to Peru have been petroleum and coal products; other furniture-related products; and boilers, tanks, and shipping containers. PTPA promises to not only accelerate this growth by reducing the landed cost of U.S. goods to Peru considerably but open up opportunities in new product categories. The benefits of the agreement are significantly front-loaded. When the agreement goes into effect, 80% of U.S. exports of consumer and industrial goods will become totally duty-free. The remainder will be duty-free within ten years.

As a result of the agreement, Peru will become a full member of the World Trade Organization's Information Technology Agreement, eliminating tariffs on information technology products and providing substantial new opportunities for U.S. high-tech exporters.

Agriculture: U.S. ranchers and farmers should reap substantial benefits from PTPA. According to the Agriculture Coalition for U.S.-Peru Trade, the United States exported an annual average of $227 million in agricultural products to Peru in 2000-2004. U.S. agricultural exports to Peru include wheat ($78 million), feed grains ($20 million), cotton ($38 million), oilseeds and products ($13 million), rice ($9 million), and dairy products ($6 million).

As noted, more than two-thirds of U.S. agricultural exports to Peru will be duty free upon implementation of the agreement, and tariffs on remaining U.S. farm exports will be phased out over 15-17 years. As a result, the Agriculture Coalition estimates the agreement will bring an increase in U.S. agricultural exports to Peru of more than $700 million by the end of the implementation period. The agreement is comprehensive in its coverage, providing commercially meaningful access for U.S. agricultural priorities while taking into account both U.S. and Peruvian agricultural sensitivities. The agreement also creates a mechanism for sanitary and phytosanitary cooperation and should ease related non-tariff barriers to U.S. agricultural exports to Peru.

Services: Service providers will also benefit significantly from the agreement. PTPA's services commitments cover both the cross-border supply of services and the right to invest and establish a local service presence and are strengthened by a set of detailed disciplines on regulatory transparency — which is fundamental to meaningful market access to services. In fact, as a result of PTPA, Peru has agreed to a series of new commitments that extend beyond Peru's existing commitments under the General Agreement on Trade in Services (GATS). Specifically, PTPA extends trade disciplines to services such as computer and related services, real estate, construction, environmental, and pipeline transport services.

While the agreement clearly levels the playing field for U.S. business and agriculture, it is a balanced one with significant benefits for Peru as well. While Peru has enjoyed virtually duty-free access to our market to their products under unilateral preference programs set-up to encourage alternatives to the drug trade, these preferences have always been subject to re-authorization by Congress with no guarantees. For example, both the ATPDEA and GSP benefits are set to expire in December 2006. Together, they represent half of all Peruvian exports that enter the United States duty-free, i.e. almost $2.45 billion, with the ATPDEA accounting for most of that sum. Without the extension of these preferential programs, Peru stands the risk of immediately losing a significant part of its exports. Moreover, most of the goods that have been exported under the ATPA/ATPDEA represent sectors that have previously not existed (e.g., fresh asparagus) and have flourished only because of these trade preferences.

Losing access to the U.S. market would mean losing millions of dollars in revenue and thousands of Peruvian jobs that depend on it. Without these jobs, many Peruvian workers will be forced to find other employment opportunities in a country that still has a very high unemployment rate and where nearly half of the population lives in poverty. However, the PTPA makes Peru's favorable access to our markets permanent and provides additional benefits in the form of improved market functioning and enhanced economic growth. In other words, PTPA will provide continuity in a long-term U.S. policy with regard to Peru — one that calls for economic development and democratic consolidation.

The Rule of Law

The agreement will strengthen protection and enforcement of U.S. trademarks, patents and copyrights, creating new opportunities for U.S. innovation-based and creative industries in Peru. In specific terms, PTPA includes strong intellectual property enforcement mechanisms and penalties provisions, including the criminalization of end-user piracy and counterfeiting and the authority to seize and destroy not only counterfeit goods but also the equipment used to produce them. The agreement also provides necessary mechanisms to fight the problem of trans-shipment of counterfeit goods with specific provisions that are aimed at goods-in-transit.

In addition, U.S. direct investors in Peru will benefit from the strong investment chapter in the agreement, particularly the sections dealing with investment protections and dispute settlement. As noted by the Advisory Committee for Trade Policy and Negotiations in its report to President Bush, PTPA goes beyond earlier agreements in this regard and sets the gold standard for future free trade agreements. Indeed, the agreement enables binding third party arbitration for investor-state disputes not only for investments concluded after the agreement goes into effect, but also for many types of investments that pre-date the agreement.

The agreement provides for rights that are consistent with U.S. law and also contains fully transparent dispute settlement procedures that are open to the public and allow interested parties to provide their input. As such, these trade agreements provide an opportunity for the partner countries to improve their investment climate by undertaking legal and judicial reforms and resolving investment disputes (e.g., the criminalization of commercial disputes).

Growth, Income, and Jobs

PTPA is a great step forward in the evolution of our trading relationship with Peru from one based on unilateral trade preferences to reciprocal market access. As such, the economic, employment, and pocketbook impact of the agreement are quite positive. Indeed, PTPA is expected make modest but nonetheless valuable contributions to economic growth, incomes, and employment opportunities in cities and towns across the country.

According to the U.S. Department of Commerce, Peru was the 43rd largest market for U.S. goods in 2005, out of a total of 228 markets. Texas and Florida were the top state exporters, with California, Louisiana, Illinois, South Carolina, New York, Georgia, Pennsylvania, Tennessee, Washington, and New Jersey also posting significant export totals to Peru in 2005.

According to the USITC's June 2006 report on economy-wide effects of PTPA, the agreement is likely to result in a much larger increase in U.S. exports than in U.S. imports given the substantially greater tariffs faced by U.S. exporters to Peru than Peruvian exporters to the United States. The USITC estimates U.S. exports to Peru will increase by $1.1 billion, while imports will only increase by $439 million. Furthermore, the USITC predicts that PTPA will add $2.1 billion per year to U.S. gross domestic product.

The Chamber has begun preparing state-specific economic impact studies in order to gauge the impact of the agreement. Our initial findings for Texas and Florida provide an idea of how the agreement will impact local economies. The studies show moderate but real gains for industrial output, household earnings, and employment for both states. In the first year, our model shows a potential increase in output across all industries of $155 million in Texas and $143 million in Florida; increased earnings for employees in all industries of $35 million in both states; and the creation of 1,055 and 931 new jobs in Texas and Florida, respectively.

Of course, the real impact of the agreement becomes clearer as we look further into the future. In nine years, our model[1] shows a potential increase in output across all industries of $829 million in Texas and $768 million in Florida; increased earnings of employees in all industries of $188 million in Texas and $186 million in Florida; and the creation of 4,141 and 4,970 jobs, respectively.

Additional Benefits

In addition to contributing strongly to the expansion of trade and economic relations between the United States and Peru, PTPA will lend a helping hand for a close ally in the Andes and will enhance U.S. efforts to strengthen democracy in the region. The embrace of democratic norms throughout the hemisphere over the past 25 years has been remarkable. But in some countries, poor economic policy and weak political parties, among other factors, have recently endangered this progress. The recent surge in populist victories, especially in South America, underscores the fact that democratic elections do not by themselves guarantee the rule of law.

While questions of the rule of law in the region may legitimately be addressed in a number of ways, we believe that the promulgation of ambitious and comprehensive free trade agreements would do more to enhance the rule of law and transparent governance in the region than any other possible step the United States could take. While the commercial benefits are substantial, they go beyond just opening overseas markets for America's workers, farmers and companies. These agreements assist in the creation of a transparent, rules-based economic environment, which is a critical element in the success of democratic institutions and market-based economic policies.

Like much of Latin America, the Andean region is struggling against corruption, which undermines growth, security, and stability. PTPA contains critical provisions to enhance transparency and accountability in governance, providing the countries with

[1] This study uses the U.S. Department of Commerce's Bureau of Economic Analysis Regional Input-Output Modeling System (RIMS II) to offer a vision of the potential impact of the Peru TPA.

important tools to fight the scourge of corruption. As an example, the agreement provides for the criminalization of bribery in government procurement, providing for more efficient procurement and a more competitive marketplace.

PTPA also promotes U.S. security interests by forging a deeper partnership with Peru through a framework for government-to-government relationships that is grounded in the tangible national interests of all parties. Such a framework is vital to enhancing cooperation in the fight against terrorism and narcotics trafficking; it also sets an example for other countries around the world as we pursue our global security goals. By promoting economic growth in Peru, PTPA will help stabilize its economy and provide its citizens with long-term alternatives to narcotics trafficking or illegal immigration.

Conclusion

In sum, it is worth noting that the commercial benefits of recent free trade agreements have surpassed all expectation. Consider the U.S.-Chile FTA, which was implemented on January 1, 2004, and immediately began to pay dividends for American businesses and farmers. U.S. exports to Chile surged by 33% in 2004, and by a blistering 85% in 2005. While the USITC had forecast total export growth of 18-52% for the first 12 years of the agreement's implementation, U.S. exports to Chile nearly doubled in just two years — a combined 91% increase over just 24 months. Given the similarities between PTPA and the U.S.-Chile FTA, we may surely expect impressive benefits from this new agreement as well.

While exports are important, it is worth reporting that imports from Chile have also increased. In the end, trade is about more than just exporting — it is about more choices at lower costs for consumers, and as a result a higher standard of living. Sometimes, as is the case with Chile, free trade is about having access fresh grapes in the winter and more crushed grapes (i.e., wine) year-round. With Peru, our consumers will benefit from more access to healthy foods and vegetables like asparagus and fish. This is especially appreciated during the winter.

We appreciate this opportunity to share our strong support for PTPA. We believe that trade expansion is an essential ingredient in any recipe for economic success in the 21st century, and PTPA is an excellent model in this regard. If U.S. companies, workers, and consumers are to thrive amidst rising competition, new trade agreements such as PTPA are critical. U.S. business is more than capable of competing in the global marketplace when trade barriers are removed and markets are open.

Thank you very much.