Deputy USTR Peter Allgeier's Remarks to the
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Introduction

The United States and Colombia face an historic opportunity. We have heard from President Uribe about his country's economic reforms as well as new initiatives planned to expand on them. In 2003 President Uribe proposed that the United States and Colombia transform our trade and investment ties through the negotiation of a free trade agreement (FTA). We are working very closely with Minister Botero and his team in Colombia and Ambassador Moreno and his term here in Washington. In May 2004 the talks began in Cartagena, Colombia. Peru and Ecuador have joined in this enterprise, and we hope to include Bolivia in the agreement at an appropriate stage, to expand the zone of free trade in the Andean region. We are simultaneously engaged with Colombia and all members of the World Trade Organization to improve the multilateral trade rules, but the level of ambition to open our respective markets is far greater in our Colombian FTA negotiation than in the global talks.

I would like to use my remarks today to address some questions that you in the U.S. business community – potential investors as well as exporters -- may have about the FTA negotiations. I will speak to three questions in particular: (1) Why is Colombia and the Andean region as a whole important to the United States? (2) What are the benefits the United States hopes to achieve from an FTA with Colombia and the other Andean countries? and (3) Why negotiate such an agreement now?

1. Why is Colombia and the Andean region important to the United States?

One reason is simply the region's size and economic scale. Colombia, Peru, Ecuador and Bolivia have a combined population of about 93 million people, which is about a third of that of the United States, and a combined gross domestic product, on a purchasing power parity basis, of nearly ½ trillion dollars. That represents an economy larger than Argentina.

The United States already has significant economic ties to the region. Our exports totaled $7 billion in 2003 and our imports $11.7 billion. The United States supplies about 38 percent of Colombia's imports. Colombia alone is the largest market for U.S. agricultural exports in South America, where our leading exports are coarse grains, wheat, cotton and soybeans. Other leading U.S. exports to Colombia are machinery, chemicals and plastics. Our major imports from Colombia include mineral fuel, precious stones, coffee, cut flowers and woven apparel. Energy supplies from Colombia help reduce our dependence on Middle East oil. The United States has about $2.8 billion of foreign direct investment in Colombia, primarily concentrated in the manufacturing, information and finance sectors.

But our ties are not just economic. We have also joined with Colombia in a common struggle against transnational threats: narcotrafficking and terrorism. The Andean region supplies most of the cocaine and heroin that enters the United States. Much of that illicit trade is used to finance insurgents and paramilitaries that represent a threat to democracy and rule of law in the region.

The U.S. Congress and successive Administrations have recognized the particular significance of Colombia and the Andean region and our stake in its success. In 1991 the U.S. Congress enacted the Andean Trade Preference Act, or ATPA, to expand the opportunities for legitimate trade with the United States as part of our overall efforts to combat narcotrafficking. In 2002 Congress renewed and expanded the program to provide duty free access for previously excluded products.

The original ATPA program created an estimated 123,000 jobs over a ten year period, and the expanded program is expected to create an additional 150,000 jobs, according to the Colombian Government. In 2003, the first year the new benefits were in place, Colombia's exports to the United States increased by about $3/4 of a billion, and the percent of Colombian exports to the United States that were able to utilize the program grew from 14 percent to 40 percent. Colombia's exports of apparel to the United States grew 48 percent in 2003 and an additional 16 percent in 2004.

We are also at a unique time in the Americas. Today, the vast majority of Americans, north and south, have elected governments with their eyes on the future. Our peace and our prosperity depend on the freedom and prosperity of our neighbors. Free trade agreements with democratically-elected reformers are a way to foster hope and reform while building peace and prosperity.

2. <u>What are the benefits U.S. exporters and investors hope to achieve from an Andean FTA?</u>

The United States stands to gain substantially from a lowering of barriers in the markets of the Andean countries. While I mentioned earlier that the United States exports about $7 billion a year to the four Andean countries, that compares to $14 billion to the four Mercosur countries (Brazil, Argentina, Uruguay and Paraguay) and $15 billion to the countries of Central America and the Dominican Republic.

There is much unrealized potential for U.S. exports to the region. Colombia's average applied tariff is several times higher than that of the United States. Colombia's protection of its markets is particularly strong on a range of agricultural products, and it takes many forms, including variable levies known as price bands, discretionary licenses, and preferential tariff access contingent on local purchase commitments. We are addressing all these issues in the FTA negotiation, to the benefit of U.S. companies, workers and farmers.

We are also seeking market access for U.S. companies that wish to bid on government procurement contracts in the region; for a wide range of potential suppliers of services, including express delivery, financial services and telecommunications; and for those wishing to invest in the region.

These are the direct commercial gains from an FTA. But the far reaching FTAs the United States negotiates go beyond strict market access. They enshrine practices of due process and transparency that, combined with other reforms, can have a transforming effect on our FTA partners and the way in which business is done. The World Bank just yesterday came out with their annual development report and they highlighted the importance of transparency issues, due process, and good governance as issues essential for developing countries to attract investment.

U.S. exports of financial and telecommunications services, business practices and increasing competition will not only create jobs in the United States, but by creating a more open and dynamic economy in the Andean nations, Colombia and its neighbors will become more appealing sites for investment. Indeed, the World Bank found that open service markets are such a force-multiplier for economic growth that developing countries with open telecommunication and financial services markets grew annually 1.5 percentage points faster than countries where those two markets remained closed.

It has been said that capital is a coward. It has a lot of choices in the world and is less likely to go where it perceives a significant degree of uncertainty. But uncertainty does not just come in the form of the market access barriers I mentioned earlier. It also comes:

- from a lack of guaranteed recourse to international dispute settlement for investors,
- from the lack of transparency in government procedures and decision-making,
- from the inconsistent application of the rule of law,
- from opaque procedures for government procurement,
- from cumbersome customs procedures,
- from lax enforcement of intellectual property protection, and
- from barriers to competition in services.

The free trade agreements the United States negotiates are very comprehensive. They go far beyond simply requiring the elimination of tariffs on trade in goods, to include provisions on all of the areas I just mentioned.

Investors want to have confidence that, if they bring technology, know-how and cutting edge products to a country, their intellectual property will be effectively protected. So, in our FTAs we include provisions on the protection of intellectual property rights that commit our partners to enforce the international commitments which they have already made. We also include provisions that strengthen the protection and enforcement of intellectual property appropriate for technological advances such as digital content and which help meet the challenges of combating piracy in the digital age (for example, establishing ISP liability rules to combat online piracy) .

Investors also want to know that their rights as investors will be protected. Our FTAs include a variety of provisions to accomplish this. First, we ensure that our investors are treated as favorably as investors from the host government or from any third country. The FTAs also provide protection for the full life of an investment: from establishment or acquisition, through management, operation and expansion, to its disposition. Finally, our FTAs create a mechanism for resolving disputes between an investor and the host government that is neutral and does not rely on the host government's courts for redress.

In the government procurement area we seek to open opportunities for our suppliers to compete on a level playing field for government contracts and to be ensured a transparent, non-discriminating and predictable procurement process. One way we do this is by getting our partners to agree that all notices related to procurement opportunities will be published and generally available with criteria for selection clearly stated up front, and that all tender opportunities will be held open for at least a minimum amount of time.

Our FTAs provide market opening commitments in telecommunications, express delivery, financial services, and other professional services such legal and accounting services, which will help lower the operating costs of our investors.

We seek guarantees for our investors that the host government will use transparent and efficient customs procedures so that they can employ just-in-time manufacturing. Not that many years ago in one Andean country the phrase “to customs” someone became slang for shaking them down for a bribe. The efficient, transparent customs procedures we negotiate remove opportunities for requiring bribes. For example, automation requirements, such as the electronic processing of goods before they reach the ports, provide greater transparency and accountability to the customs process and eliminate the opportunity for an individual to demand a bribe to clear goods through customs.

The NAFTA agreement transformed the Mexican economy. The reforms the NAFTA engendered led to 300 percent increase in investment in Mexico, if you compare the six years before the agreement went into effect to the six years after. What changed dramatically were not U.S. tariffs on Mexican exports, since they were already very low. What changed was the increased confidence investors had in Mexico as a place to do business and generate jobs as a result of the agreement.

Experiences such as Mexico’s have shown that the reforms stimulate economic activity and attract investment - of domestic capital that might otherwise leave the country, as well as from U.S. companies and investors from Europe and Asia. This new investment, combined with the stimulus of a lowering of tariffs and accompanying economic reform -- which after all represent a regressive tax on imports and which harm competitiveness -- leads to an increase in economic growth. Rising incomes in Colombia will, in turn, make it even a better customer for U.S. exports.

But as I noted earlier, U.S. interests in Colombia go beyond economics. The expanded trade and increased investment an FTA would bring Colombia would strengthen its ability to face our common security and narcotrafficking threats.

3. <u>Why negotiate such an agreement now?</u>

When Congress extended the ATPA, it did so only through December 2006, in the expectation that the hemispheric free trade negotiation, known as the Free Trade Area of the Americas, would be in place by then. The Congress envisioned that by the end of 2006 our relationship with the region could transform from one of unilateral preferences to a partnership of mutual obligations. However, the FTAA negotiations have slowed, and the trade preferences that have brought major benefits to the region are soon to expire.

Colombia is also facing other competitive challenges. It sees that Chile to the south and the Central Americans and Dominican Republic to the north have concluded FTA arrangements with the United States, and that Panama is intensively negotiating one as well. It sees the Multifiber Arrangement expiring in 2005, leading to increased competition from Asian suppliers in textiles and apparel.

The United States is facing timing issues as well. President Uribe has demonstrated his commitment to the challenge of reforming the Colombia economy, facing down political resistance and vested interests. We should seize the opportunity to work with such courageous, right-minded leader to significantly deepen our trade and investment ties.

Finally, we also need to bear in mind the time limits of our Trade Promotion Authority, the procedure that allows our trade deals to be voted on by Congress in an up or down vote, without the risk of them being picked apart by amendments. The initial grant of authority under TPA expires on June 30 of next year. While the authority can be extended for two years if Congress does not object, we cannot count on that happening. So to be conservative, to be sure that TPA is available, we have set a goal of concluding the talks by early 2005. This would allow time for the TPA requirements to be met by June 30.

Conclusion

We have a lot of work ahead to make free trade between the United States and Colombia a reality. We will look to you in the business community to advise us as to your objectives for the negotiation and to actively support us in these efforts by spreading the word about the benefits of expanded free trade. Thank you for your interest in our work with Colombia and for your partnership in this very worthy endeavor.