



<http://finance.senate.gov>
Press_Office@finance-rep.senate.gov

Floor Statement of Senator Chuck Grassley
Trade Relations with Latin America
Tuesday, January 30, 2007

Mr. President, I rise to speak on the U.S. trade agenda. There are a number of important items on this year's trade agenda, including reauthorization of Trade Promotion Authority for the President and reauthorizing our Trade Adjustment Assistance programs for workers who are displaced by trade. I will speak on those priorities another day.

Today I want to focus on our trade relations with our neighbors in Central and South America. During my chairmanship of the Finance Committee, Congress passed implementing bills for trade agreements covering twelve countries. Out of these twelve countries, over half – seven – are located in Latin America. I'm pleased that Congress acted to strengthen our economic relations with Chile, the Dominican Republic, Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica, by implementing our trade agreements with these neighbors to the south. And I think we should all be pleased that these seven countries made it a priority to develop closer economic ties with us and to further commit themselves to transparency and the rule of law.

I hope that the current Congress will continue working to strengthen economic relations between the United States and Latin America. Fortunately, we already have a roadmap for doing so. We've concluded free trade agreements with Peru and Colombia, and we're about to sign an agreement with Panama. It's up to this Congress to pass implementing legislation for these agreements. Failure to do so would only damage our relations with these important allies and embolden other southern neighbors who are increasingly hostile to the United States.

Moreover, by implementing our trade agreements with Peru, Colombia, and Panama, we would provide an important boost for U.S. exporters. During my time in the Senate, I've heard many of my colleagues complain that the global trade situation reflects an uneven playing field. To some extent, I agree. In too many cases, the duties imposed on U.S. exports by our trading partners are much higher than our duties. That's certainly the situation with Peru, Colombia, and Panama. Right now, almost all imports from those three countries enter the United States duty-free. 90 percent of the value of our imports from Colombia enter duty-free. With respect to Panama it's over 95 percent, and with respect to Peru it's 97 percent.

On the other hand, our exports to these countries face significant duties. Colombia's tariffs generally

range from 10 to 20 percent, while those of Peru range from 12 to 25 percent. After Panama acceded to the World Trade Organization in 1997 its tariffs averaged 8 percent, but since then Panama has raised tariffs on certain agricultural products. For example, Panama's tariff on pork – a major Iowa product – is currently 74 percent, while its tariff on chicken imports is 273 percent. Now that's what I call a one-way street.

This imbalance is largely the result of unilateral trade benefits that we extend to these nations. Panama gets duty-free access to our markets under the Caribbean Basin Initiative, while Peru and Colombia are eligible under the Andean Trade Preference Act. And all three are eligible under our Generalized System of Preferences.

The non-partisan U.S. International Trade Commission (ITC) analyzed our trade agreements with Peru and Colombia. The ITC concluded that these agreements will help to level the playing field that is currently tilted against U.S. exporters.

Here's what the ITC has to say about our trade promotion agreement with Peru: "Given the substantially larger tariffs faced by U.S. exporters to Peru than Peruvian exporters to the United States, the TPA is likely to result in a much larger increase in U.S. exports than in U.S. imports." The ITC goes on to state that the agreement will likely increase U.S. exports to Peru by 25 percent, while Peruvian exports to the United States will grow by 8 percent.

The ITC's analysis of our trade promotion agreement with Colombia draws similar conclusions. The ITC report states that: "Colombian exporters generally face substantially lower tariffs in the U.S. market than do U.S. exporters in the Colombian market. . . . The TPA is likely to result in a much larger increase in U.S. exports to Colombia than in U.S. imports from Colombia."

The ITC predicts that after implementing the agreement, U.S. exports to Colombia will be \$1.1 billion higher than today, and U.S. imports from Colombia will be \$487 million higher.

The ITC has not yet completed its analysis of our trade agreement with Panama. But given the disparity in tariff levels between the United States and Panama, I think it's safe to assume that the ITC will reach similar conclusions regarding the likely economic impact of that agreement as well. And the benefits of these three trade agreements will be spread across all major sectors of our economy. U.S. agricultural producers, manufacturers, and service providers all stand to gain.

According to the American Farm Bureau Federation, our trade agreement with Peru could increase U.S. agricultural exports by over \$705 million annually. With respect to Colombia, the Farm Bureau predicts that full implementation of our trade agreement will have an annual net benefit of over \$660 million for the U.S. agricultural sector. The Farm Bureau hasn't finished its analysis of the impact of our trade agreement with Panama, but I'm confident that it will find major benefits for U.S. farmers.

Our manufacturers stand to gain as well. According to the International Trade Commission, U.S. producers of machinery, chemicals, rubber, and plastic products will be among the biggest beneficiaries of these agreements. And Panama will eliminate tariffs on manufactured products within ten years of implementing our trade agreement.

U.S. service providers will also gain from increased trade with Peru, Colombia, and Panama. Under their respective agreements, each of those countries agree to exceed the commitments they made on services in the World Trade Organization.

In addition, Panama is scheduled to initiate a \$5.25 billion expansion project for the Panama Canal in 2008. Our trade agreement with Panama will help ensure market access for U.S. service providers for this major project.

So, to those of my colleagues who complain that the current world trading situation is unfair, here's a chance to help fix the problem. By implementing trade agreements with Peru, Colombia, and Panama, Congress will level the playing field for U.S. farmers, manufacturers, and service providers in these important markets. These agreements will boost U.S. exports and help create jobs. I think it's ironic that some of my colleagues oppose these free trade agreements and yet at the same time complain the loudest about the trade deficit and how the deck is stacked against U.S. exporters.

These agreements level the playing field. It's beyond me as to how someone could oppose that. Now, I understand that there's rising protectionism in Congress. But let's look at the facts. Take as an example the Dominican Republic-Central America Free Trade Agreement, otherwise known as CAFTA.

According to the U.S. Department of Commerce, our exports to the CAFTA countries were up 17 percent in the period January through November 2006, while our imports from the CAFTA countries were up 3 percent. As a result, our trade balance swung from a \$1.2 billion deficit two years ago to an annualized surplus of \$1 billion last year. That's what happens when you level the playing field.

And we're not the only ones who stand to benefit. Peru, Colombia, and Panama will also benefit from implementing our trade agreements. The leaders of these countries are to be commended. By pursuing trade agreements with the United States they've demonstrated a commitment to locking in economic reforms, increasing economic freedoms, and enhancing transparency and respect for the rule of law.

That leadership and foresight will be rewarded once our trade agreements are implemented. I read recently in the Wall Street Journal of a joint study conducted by the Journal and the Heritage Foundation. According to the article, their study found that "economically free countries enjoy significantly greater prosperity than those burdened by heavy government intervention."

We certainly see examples of heavy-handed government intervention in some other Latin American countries. Instead of fostering individual and economic liberty, these governments are embracing the failed policy of statism. Chief among them is the government of Venezuela.

President Chavez has announced plans to turn Venezuela into a "socialist republic." To that end, he announced this month that he plans to nationalize Venezuela's telecommunications and electricity industries. That decision will directly impact U.S. companies with investments in those sectors of the Venezuelan economy.

President Chavez also might nationalize Venezuela's mining sector, and he intends to increase state

control over the oil industry as well. Significantly, President Chavez is demonstrating that those who withdraw economic rights often seek to withdraw political rights, and that those who centralize economic power tend to centralize political power. For example, he's stated that he plans to pull the broadcasting license of one of Venezuela's oldest television broadcasters, which also happens to be one of his major critics. President Chavez is also proposing changes in Venezuelan laws that will enable him to rule by decree for eighteen months, permit his indefinite reelection as president, and reduce the power of state governors and mayors.

Unfortunately, President Chavez is not alone. Two other countries in the region are moving toward increased state control of their economies. Bolivia and Ecuador each currently enjoy duty-free access to the U.S. market under the Andean Trade Preference Act. Yet last year Bolivia undertook a *de facto* nationalization of its natural gas industries, forcing companies to renegotiate their contracts with the state. Bolivian President Morales is also considering nationalizing the country's mining, electricity, and telecommunications sectors. In the case of Ecuador, last year the government revoked the operating license of a U.S. oil company and seized \$1 billion of the company's assets.

So Latin America is clearly divided. Some countries, led by Venezuela, are consolidating economic power in the state. President Chavez is also clearly seeking to centralize political power, and has demonstrated an active hostility to the United States.

That stands in stark contrast to our allies and trading partners, Peru, Colombia, and Panama. The governments of these three countries have gone out on a limb. They've demonstrated they want closer economic ties with the United States. They appreciate that, by working with us, by building more links between businesses in their countries and ours, they can better improve the lives of their citizens. We need to reward that leadership. We should do so by implementing our respective trade agreements as soon as possible. If we don't, we'll be turning our backs on allies in the region. We'll be sending a signal to Latin America that we don't really care about opening markets and enhancing the rule of law. Instead, we'd help build the clout of Chavez and other leaders in the region who see the failed policy of statism as Latin America's future. And we'd be shooting ourselves in the foot by giving up a chance to level the playing field. Why would we want to do that?

Before concluding, I'd like to address two other sets of issues that have arisen with respect to our trade agreements with Peru, Colombia, and Panama. First are the labor and environment chapters of the agreements, and second is the Andean Trade Preference Act.

I understand that some in Congress would like to see the labor and environment chapters of these agreements renegotiated. I disagree. I believe that the provisions on labor and the environment are strong. And I note that renegotiation would effectively preclude implementation of these agreements under the current Trade Promotion Authority, which is set to expire on July 1st.

I question whether those who would insist on renegotiation aren't really trying to kill the agreements outright. In my view, the best thing we can do to advance labor rights and environmental protections in these countries is to implement our trade agreements with them. Implementation will increase the rate of economic growth and prosperity in these countries. It will increase business activity and awareness of labor rights. It will create new bodies for more active oversight of labor and the

environment.

As important as labor and the environment are to some of my colleagues, I don't see how they can justify holding back these trade agreements that are so good for the United States. They should be embarrassed for holding them up. The sooner we implement these agreements, the sooner our farmers, manufacturers, and service providers will benefit from them. That being said, I understand that U.S. Trade Representative Susan Schwab is in discussions with some of my colleagues to explore ways to address their concerns regarding labor and the environment. I'm willing to listen to any constructive proposals that are put forward.

Separately, I note that the Andean Trade Preference Act has been extended until June 30th. That leaves Congress sufficient time to implement our trade agreements with Peru and Colombia, so that their preferential access to the U.S. market does not terminate.

But with respect to Bolivia and Ecuador, their preferential access to the U.S. market will terminate after June 30th because we don't have comprehensive trade agreements lined up with those two countries.

Some of my colleagues are already talking about extending the Andean Trade Preference Act beyond June 30th. I see no reason to do so. If Congress acts responsibly and implements our trade agreements with Peru and Colombia by June 30th, neither of those countries will need unilateral preferential trade benefits.

As far as Bolivia and Ecuador go, I see no reason to extend preferential trade benefits to them. Not only are they withholding market access from U.S. exporters, they're actively engaged in nationalizing industries and expropriating foreign assets.

It wouldn't be right to treat imports from Bolivia and Ecuador the same as products from Peru and Colombia. Why should Congress be in the business of rewarding bad behavior? So I disagree with my colleagues who favor extending the Andean Trade Preference Act past June 30th.

In sum, Mr. President, I hope that the Administration will soon be in a position to send implementing legislation for the U.S-Peru Trade Promotion Agreement to Congress. And I urge my colleagues to work with me to implement not only that agreement, but also our agreements with Colombia and Peru as soon as possible. Our agricultural producers, manufacturers, and service providers are counting on us. Our allies are counting on us. It's in our economic interest, and it's in our national interest. Now it's up to Congress. We have to execute our responsibilities without delay. We cannot let the opportunities embodied in these trade agreements slip us by.