

## **United States Employment Impact Review of the United States-Peru Trade Promotion Agreement**

Pursuant to section 2102(c)(5) of the Trade Act of 2002, the United States Trade Representative, in consultation with the Secretary of Labor, provides the following United States Employment Impact Review of the United States-Peru Trade Promotion Agreement. The report was prepared by the U.S. Department of Labor.

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## Executive Summary

This U.S. employment impact review was prepared pursuant to section 2102(c)(5) of the Trade Act of 2002. Section 2102(c)(5) requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review describes the contents of the United States-Peru Trade Promotion Agreement (PTPA), including a summary of the labor provisions of the PTPA, and assesses the potential economic and employment effects of the PTPA.

The major finding of this review is that the PTPA is expected to have a negligible effect on employment in the United States. This finding is attributable to, among other factors, the relatively small volume of bilateral trade between the two countries, the fact that 98.2 percent of all U.S. imports from Peru already enter the United States duty-free, provisions in the PTPA for the gradual removal of U.S. tariffs on import-sensitive goods from Peru over an extended period, and safeguards contained in the PTPA to attenuate the effects of certain increases in imports.

When the PTPA enters into force, 80 percent of U.S. industrial and consumer goods currently traded with Peru will gain immediate duty-free access to Peru's markets and tariffs on all remaining goods will be eliminated within ten years. Also, more than two-thirds of current U.S. farm exports to Peru will become duty-free immediately, with all remaining tariffs being phased out within 17 years. U.S. service providers will also gain greater market access. As U.S. goods and service-producing industries become more competitive in Peruvian markets, it is expected that U.S. merchandise and services exports to Peru will increase. This especially should be the case for the current leading U.S. merchandise exports to Peru such as petroleum refinery products, construction machinery, resin and synthetic rubbers, and computer equipment. New U.S. export opportunities may also arise in manufacturing, services, and agriculture as the Peruvian market – though small – becomes more open.

## **I. Introduction: Overview of the United States Employment Impact Review Process**

### **A. Scope and Outline of the United States Employment Review**

This employment impact review consists of an introduction and three additional parts. Part II discusses the background and setting of the United States-Peru Trade Promotion Agreement (PTPA), including the bilateral economic setting, current barriers to bilateral trade, and the major elements of the PTPA. Part III considers the potential economic and employment effects in the United States of the PTPA. Part IV describes the Labor Chapter of the PTPA.

### **B. Legislative Mandate**

This review of the employment impact of the PTPA is conducted pursuant to section 2102(c)(5) of the Trade Act of 2002 (“Trade Act”) (Pub. L. No. 107-210). Section 2102(c)(5) provides that the President shall:

review the impact of future trade agreements on United States employment, including labor markets, modeled after Executive Order 13141 to the extent appropriate in establishing procedures and criteria, report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on such review, and make that report available to the public.

The President, by Executive Order 13277 (67 Fed. Reg. 70305 (Nov. 21, 2002)), assigned the responsibility for conducting reviews under section 2102(c)(5) to the United States Trade Representative (USTR), who delegated such responsibility to the Secretary of Labor with the requirement that reviews be coordinated through the Trade Policy Staff Committee (67 Fed. Reg. 71606 (Dec. 2, 2002)).

The employment impact review is modeled, to the extent appropriate, on the environmental review of trade agreements mandated by Executive Order 13141 (64 Fed. Reg. 63169 (Nov. 18, 1999)); the guidelines developed for the implementation of that order have been adapted for use in this employment impact review.<sup>1</sup>

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<sup>1</sup> Executive Order 13141, on Environmental Review of Trade Agreements, was signed on November 16, 1999. The Order commits the U.S. government to a policy of careful assessment and consideration of the environmental impacts of trade agreements, including factoring environmental considerations into the development of its trade negotiating objectives. The Order requires written environmental impact reviews of free trade agreements and that such reviews be made available to the public in final form. Also, the Order directs USTR and the Council on Environmental Quality (CEQ) to oversee the implementation of the Order, including the development of procedures or guidelines pursuant to the Order. In December 2000, USTR and CEQ published *Guidelines for Implementation of Executive Order 13141: Environmental Review of Trade Agreements*. The Order and Guidelines are available on the USTR Web site at: [http://www.ustr.gov/Trade\\_Sectors/Environment/Guidelines\\_for\\_Environmental\\_Reviews/Section\\_Index.html](http://www.ustr.gov/Trade_Sectors/Environment/Guidelines_for_Environmental_Reviews/Section_Index.html). USTR and CEQ jointly oversee implementation of the Order and Guidelines, while USTR, through the Trade Policy Staff Committee (TPSC), is responsible for conducting individual environmental reviews.

## C. Public Outreach and Comments

### 1. Responses to Federal Register Notice

The U.S. Department of Labor and USTR jointly issued a notice on May 14, 2004, in the *Federal Register* announcing the initiation of a review of the potential impact on U.S. employment of the proposed free trade agreement with Colombia, Ecuador and Peru,<sup>2</sup> including the effects on domestic labor markets, and requesting written public comment on the review and provision of information on potentially significant sectoral or regional employment impacts (both positive and negative) in the United States, as well as other likely labor market effects of the free trade agreement.

Four submissions were received in response to the notice.

- The American Dehydrated Onion and Garlic Association (ADOGA) opposed any tariff reduction on U.S. imports of dehydrated onion and garlic under the agreement; ADOGA has reiterated the same concerns in each of their submissions on the U.S. employment impact of free trade agreements with Singapore, Morocco, Australia, the Central American countries and the Dominican Republic, Bahrain, and Oman. ADOGA argued that duty-free treatment of dehydrated onion and garlic from the Andean countries would have a negative impact on their industry, its 4,000 employees, their families, and the economically distressed small rural Western communities in which they operate with few alternative employment opportunities.
- The Government of the Commonwealth of Puerto Rico (the Commonwealth) supported the agreement, but noted that the agreement needs to take into account the import-sensitivity of products of particular importance to Puerto Rico and other U.S. insular economies. Of particular concern were low-value rum, canned tuna, and coffee shipments into Puerto Rico. The Commonwealth argued that the elimination of duties on these items would have severe employment impacts in key sectors of Puerto Rico's economy.
- The Government of the U.S. Virgin Islands (GVI) opposed any tariff reduction on imports of low-value rum. The Virgin Islands' rum industry sells almost exclusively in the low-value sector of the market. They argued that duty-free or reduced duty treatment for low-value rum from low-cost and resource-rich Andean countries would have potentially devastating impacts on the Virgin Islands' rum industry. It would also threaten the congressionally mandated

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<sup>2</sup> See 69 Fed. Reg. 26917-26918 (May 14, 2004). At the time of the publication of the notice in the Federal Register, the United States entered into free trade negotiations with Colombia, Ecuador, and Peru (with Bolivia participating as an observer). The United States concluded negotiations with Peru on December 7, 2005, and the United States and Peru signed the PTPA on April 12, 2006. The United States concluded negotiations with Colombia on February 27, 2006, and the United States and Colombia signed the United States-Colombia Trade Promotion Agreement (CTPA) on November 22, 2006. The United States signed protocols of amendments to the PTPA and CTPA with Peru and Colombia respectively on June 25, 2007 (PTPA) and June 28, 2007 (CTPA).

program to finance the development needs of the Virgin Islands through the return of excise taxes on rum to the GVI treasury.

- The Rubber and Plastic Footwear Manufacturers Association (RPFMA), representing domestic manufacturers of fabric-upper, rubber-soled footwear and protective footwear, urged the exclusion of the seventeen core products of the domestic rubber footwear industry from the agreement on the grounds that the agreement would pose a threat to the industry and set a precedent for the rest of Latin America. These seventeen products were excluded from the Andean Trade Preference Act and the Andean Trade Promotion and Drug Eradication Act.

2. *Reports of the Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) and Other Advisory Committees*

Section 2104(e) of the Trade Act requires that trade advisory committees provide the President, USTR, and Congress with reports under section 135(e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement. The advisory committee reports all were submitted by February 15, 2006, and are available on the USTR Web site.<sup>3</sup>

The Advisory Committee on Trade Policy and Negotiations (ACTPN) and virtually all of the other trade advisory committees expressed the view that the PTPA is in the economic interest of the United States and stated their support for it. The unanimous finding of the ACTPN was that the PTPA is “strongly in the economic interest of the United States” and “should be enacted into law as soon as possible.”

The Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) argued that the PTPA would lead to a deteriorating U.S. trade balance and the loss of U.S. jobs, citing its views of the economic effects of the NAFTA. The LAC noted that “it is possible that the agreement will result in a deteriorating trade balance in some sectors, including sensitive sectors such as apparel, which constituted our largest import from Peru in 2004 (knitted or crocheted items).” Reiterating concerns raised regarding other free trade agreements with Chile, Singapore, Australia, Morocco, the Central American countries and the Dominican Republic, Bahrain, and Oman, the LAC expressed concerns that the PTPA’s labor provisions only commit the Parties to enforce their own labor laws.<sup>4</sup> The LAC argued that the PTPA’s dispute resolution procedures provide for capped penalties lower than those for other violations of the PTPA, with little punitive or deterrent effect for violations of the Labor Chapter. The LAC also opined that the PTPA’s rules of origin and safeguard provisions would invite circumvention by producers and fail to protect workers from import surges that may result, and that the PTPA provisions on procurement and services would constrain the ability of the U.S. Government to regulate in the public interest and provide public services.

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<sup>3</sup> See [http://www.ustr.gov/Trade\\_Agreements/Bilateral/Peru\\_TPA/Reports/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Bilateral/Peru_TPA/Reports/Section_Index.html).

<sup>4</sup> The LAC’s comments pertain to the PTPA prior to a protocol of amendment signed by the United States and Peru on June 25, 2007. See Section IV of this report for a summary of the PTPA Labor Chapter that includes modifications made pursuant to the protocol of amendment.

## II. Background and Contents of the PTPA

Peru, a lower-middle-income country,<sup>5</sup> is geographically the third largest country in South America. It is located on the western coast of South America on the South Pacific Ocean, and borders Ecuador, Colombia, Brazil, Bolivia, and Chile. Peru is economically dependent on primary goods, particularly minerals and metals, which have volatile world prices. In 2005, 48.5 percent of all exports from Peru were fuels and mining products.<sup>6</sup>

The PTPA will not only strengthen bilateral ties, but also build upon and solidify the preferences extended to Peru under the Andean Trade Preference Act (ATPA) and the Andean Trade Promotion and Drug Eradication Act (ATPDEA). The ATPA was enacted on December 4, 1991 (Pub. L. No. 102-182, Title II) as part of a larger Andean Initiative that was launched by the United States in 1991. The primary goal of the Initiative was to expand private sector opportunities and investment in nontraditional sectors of the Andean countries as an alternative to production of illegal drugs and to help them diversify their economies and expand their exports. ATPA preferential duty treatment expired on December 4, 2001, but was renewed retroactively by the ATPDEA as part of the Trade Act of 2002 (Pub. L. No. 107-210, Title XXXI) on August 6, 2002. The ATPDEA significantly expanded the product coverage of the ATPA program. The ATPA, as amended and expanded by the ATPDEA, was scheduled to expire on December 31, 2006. Prior to its expiry, on December 20, 2006, the program was extended for six months and, on June 28, 2007, it was extended for an additional eight months through February 2008.

The other major U.S. trade preference program now available to Peru is the U.S. Generalized System of Preferences (GSP) which is not as comprehensive as the ATPA/ATPDEA. Benefits under the GSP program were scheduled to expire December 31, 2006, but the program was extended through December 31, 2008, by legislation signed by President Bush on December 20, 2006.

While the overall effects of the PTPA on the U.S. economy are expected to be negligible, the PTPA should serve, over time, to reinforce the process of economic reform and development in Peru. The agreement will make permanent the preferences currently granted to Peru through the ATPA/ATPDEA and GSP, allowing businesses and investors to make decisions with more certainty and in a more stable environment.

The PTPA should create some new opportunities for U.S. workers, farmers, businesses, and consumers by eliminating current barriers to trade with Peru. Eighty percent of current bilateral trade in consumer and industrial products will become duty-free

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<sup>5</sup> As classified by the World Bank. Country classification and methodology is available at <http://www.worldbank.org/data/countryclass/countryclass.html>.

<sup>6</sup> See World Trade Organization (WTO) Country Profile for Peru, [http://stat.wto.org/CountryProfiles/PE\\_e.htm](http://stat.wto.org/CountryProfiles/PE_e.htm).



immediately upon entry into force of the PTPA. As U.S. goods and service-producing industries become more competitive in Peruvian markets, it is expected that U.S. merchandise and services exports to Peru will increase. This especially should be the case for the current leading U.S. merchandise exports to Peru such as petroleum refinery products, construction machinery, resin and synthetic rubbers, and computer equipment. When the PTPA enters into force, U.S. service providers will also gain greater access to the Peruvian market.

## **A. Bilateral Economic Setting**

### *1. Population and the Economy*

Peru's population in 2005 was 28.0 million (or 9.4 percent of that of the United States).<sup>7</sup> Peru has a land area slightly smaller than Alaska. Peru's gross domestic product (GDP) was \$78.4 billion in 2005, approximately 0.6 percent of U.S. GDP of \$12.5 trillion. Peru's economy is comparable in size to Mississippi, which had a gross state product of \$81.3 billion in 2005. Peru's gross national income (GNI) per capita in 2005 was \$2,610, approximately 6.0 percent of U.S. per capita GNI of \$43,740.

### *2. Labor Force*

#### *a. U.S. Labor Force*

In 2006, the civilian U.S. labor force totaled 151 million workers; about 46 percent (70 million) of the labor force was female.<sup>8</sup> The civilian labor force consists of employed and unemployed persons<sup>9</sup> in the civilian non-institutional population age 16 and older.

In 2006, a total of 144 million workers were employed in the United States. Service-producing industries are the major source of U.S. employment. In 2006, service-producing industries accounted for 79 percent of total U.S. employment. Other major sectors of employment include manufacturing, which accounted for 11 percent of total U.S. employment, mining and construction, which together accounted for about 9 percent, and agriculture and related industries, which accounted for about 2 percent. On an occupational basis, about 35 percent of all the employed persons were in either management, business, and financial operations professions (15 percent of total employment) or professional and related occupations (20 percent of total employment); other major occupational categories of U.S. employment included sales and office occupations (25 percent of total employment) and service occupations (16 percent of total employment).

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<sup>7</sup> See World Bank, World Development Indicators database, available at: <http://devdata.worldbank.org/data-query/>.

<sup>8</sup> All data on the U.S. labor force are from the Current Population Survey and are available on the Bureau of Labor Statistics' Web site at: <http://www.bls.gov/cps/home.htm#tables>.

<sup>9</sup> Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work.

The unemployment rate in the United States was 4.6 percent in 2006. Nearly half of the unemployed in 2006 were job losers and those who had completed temporary jobs (47 percent). Reentrants to the labor force made up 32 percent of the unemployed in 2006; job leavers accounted for 12 percent; and new entrants represented 9 percent of the unemployed.

b. Peru's Labor Force

In 2001, Peru's urban labor force consisted of approximately 8.3 million persons, of whom 7.6 million were employed.<sup>10</sup> Female workers made up about 44.5 percent (3.4 million) of total employment in urban areas. The major sectors of employment in urban areas of Peru in 2001 were: wholesale and retail trade<sup>11</sup> (27.9 percent); manufacturing (12.6 percent); and transport, storage, and communications (8.4 percent). The leading occupations of employment in urban areas in 2001 were: elementary occupations<sup>12</sup> (34.5 percent); service and sales workers (16.5 percent); and craft and craft-related workers (10.7 percent). On the industrial basis used for cross-country analysis, employment in Metropolitan Lima in 2001 was distributed across industrial sectors as follows: agriculture (8.8 percent), industry (17.9 percent), and services (73.3 percent).<sup>13</sup>

Peru's unemployment rate in urban areas was 7.9 percent in 2001. The principal sectors in which the urban unemployed formerly worked included wholesale and retail trade (21.7 percent), manufacturing (13.3 percent), and construction (11.1 percent). The top three occupational groups among unemployed and employed workers in urban areas of Peru were the same. A total of 30.7 percent of the unemployed were previously employed in elementary occupations, 16.1 percent were formerly service and sales workers, and 12.0 percent were craft and craft-related workers. Nearly 6.7 percent of the unemployed in urban areas of Peru were workers seeking their first job.

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<sup>10</sup> The most recent year for which national data are available is 2001; statistics describe Peru's urban labor markets only. According to the World Bank, 72 percent of Peru's population resided in urban areas in 2001. Unless noted otherwise, the labor statistics reported in this section come from the International Labor Office labor statistics database, LABORSTA, which is available from <http://laborsta.ilo.org/>. According to the International Labor Office, these statistics describe the third-quarter 2001 labor force situation for workers in urban areas who are at least 14 years old. The statistics were compiled using data from Peru's *Encuesta Especializada de Niveles de Empleo*.

<sup>11</sup> This category also includes the repair of motor vehicles, motorcycles and personal and household goods.

<sup>12</sup> This category includes street vendors and related workers; shoe cleaning and other street services; domestic and related helpers, cleaners and launderers; building caretakers, window and related cleaners; messengers, porters, doorkeepers and related workers; garbage collectors and related laborers; agricultural, fishery and related laborers; and laborers in mining, construction, manufacturing and transport.

<sup>13</sup> The World Bank, World Development Indicators database, available at: <http://devdata.worldbank.org/data-query/>. The World Bank applies the following sector definitions. *Agriculture* includes agriculture, forestry, hunting and fishing. *Industry* includes manufacturing, mining and quarrying (including oil production), construction, and public utilities (electricity, gas, and water). *Services* includes wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services.

### 3. *International Trade in Goods*

#### a. Global and Bilateral Merchandise Trade

Total U.S. merchandise trade with the world amounted to \$2.6 trillion (\$904.4 billion in merchandise exports and \$1,732.4 billion in merchandise imports) in 2005.<sup>14</sup> Based on available statistics from the World Trade Organization (WTO), the United States was the world's second largest merchandise exporter (behind Germany) and the number one merchandise importer in 2005.<sup>15</sup>

Peru's total merchandise trade with the world amounted to \$29.7 billion (\$17.2 billion in merchandise exports and \$12.5 billion in merchandise imports) in 2005. Peru's major exports included gold, copper, fishmeal, petroleum, zinc, textiles, apparel, asparagus, and coffee, while its major imports included machinery, vehicles, processed food, petroleum, and steel. Peru's primary export partners were the United States, the European Union, China, Chile, and Japan; and its major import partners were the United States, the European Union, Colombia, China, and Brazil.

Based on statistics from the U.S. Department of Commerce, U.S. bilateral trade with Peru represents a very small share of total U.S. trade and accounted for 0.29 percent (\$2.7 billion) of all U.S. domestic merchandise exports to the world and 0.32 percent (\$5.9 billion) of all U.S. merchandise imports for consumption from the world in 2006. Peru ranked as the 43<sup>rd</sup> largest U.S. domestic export market and the 42<sup>nd</sup> largest source for U.S. imports for consumption in 2006.

#### b. U.S. Merchandise Exports to Peru

U.S. domestic merchandise exports to Peru amounted to \$2.7 billion in 2006, up from \$2.0 billion in 2005.<sup>16</sup> Over the past five years, 86 percent of U.S. merchandise exports to Peru have been from the manufacturing sector. In 2006, the leading ten five-digit North American Industry Classification System (NAICS) industries, which accounted for 53 percent of total U.S. exports to Peru, were petroleum refinery products; construction machinery; resin and synthetic rubbers; computer equipment; other basic organic chemicals; mining and oil and gas field machinery; radio and television broadcasting and wireless communications equipment; articles under special classification provisions;<sup>17</sup> other general purpose machinery; and engines, turbines, and power transmission equipment (see Table II.1).

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<sup>14</sup> Data for this and the next paragraph are from the WTO and are based on total merchandise trade.

<sup>15</sup> Trade rankings are compiled by the WTO; see *International Trade Statistics 2006* (Geneva: World Trade Organization, 2006), Tables I.5, p. 17. Available online at: [http://www.wto.org/english/res\\_e/statis\\_e/its2006\\_e/its06\\_toc\\_e.htm](http://www.wto.org/english/res_e/statis_e/its2006_e/its06_toc_e.htm).

<sup>16</sup> All trade data are in nominal terms.

<sup>17</sup> Primarily exports of low-value shipments, articles imported for repairs, returned goods, and articles donated to charity.

c. U.S. Merchandise Imports from Peru

U.S. merchandise imports for consumption from Peru amounted to \$5.9 billion in 2006, up from \$5.1 billion in 2005. In 2006, the leading ten five-digit import-based NAICS industries were nonferrous metal smelting and refining; petroleum refining products; women's and girls' apparel; men's and boys' apparel; noncitrus fruits and tree nuts; fresh or chilled vegetables and melons; copper, nickel, lead, and zinc; prepared or processed fruits and vegetables; jewelry and silverware; and oil and gas (see Table II.2). Combined, these ten industries accounted for 87 percent of all imports from Peru in 2006.

4. *International Trade in Services*

The United States was the world's number one commercial services exporter (\$354.0 billion) and number one commercial services importer (\$281.2 billion) in 2005, based on data from the WTO.<sup>18</sup> By comparison, Peru's exports of commercial services to the world amounted to \$2.1 billion and its imports of commercial services from the world totaled \$3.0 billion in 2005.<sup>19</sup>

The United States does not keep statistics on bilateral services trade with Peru.

5. *Foreign Direct Investment (FDI)*

U.S. foreign direct investment (FDI) in Peru was \$3.9 billion (on a historical-cost basis) in 2005, up from \$3.4 billion in 2004. Data on Peruvian foreign direct investment in the United States are not publicly available.<sup>20</sup>

In 2005, Peru's inward stock of FDI was estimated to be \$15.9 billion and its outward stock of FDI was estimated to be \$1.0 billion.<sup>21</sup>

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<sup>18</sup> Trade rankings, which are based on a balance of payments definition, are compiled by the WTO; see *International Trade Statistics 2006*, Table I.7 (Geneva: World Trade Organization, 2004), p. 19. Available online at: [http://www.wto.org/english/res\\_e/statis\\_e/its2006\\_e/its06\\_toc\\_e.htm](http://www.wto.org/english/res_e/statis_e/its2006_e/its06_toc_e.htm).

<sup>19</sup> See *International Trade Statistics 2006*, Tables A8 and A9 (Geneva: World Trade Organization, 2006), p. 203 and p. 206.

<sup>20</sup> See *Survey of Current Business* (Sept. 2006), pp. 80 and 122. Available online at: <http://www.bea.gov/scb/toc/0906cont.htm>. Data on Peruvian FDI in the United States have not been made public by the Bureau of Economic Analysis for confidentiality reasons to avoid disclosure of the data of individual companies.

<sup>21</sup> United Nations Conference on Trade and Development, *World Investment Report 2006* (New York and Geneva: United Nations, 2006), p. 304. Available online at: [http://www.unctad.org/en/docs/wir2006annexes\\_en.pdf](http://www.unctad.org/en/docs/wir2006annexes_en.pdf).

## B. Barriers to Bilateral Trade Prior to the PTPA

### 1. Trade in Goods

Peru applies tariffs to virtually all goods imported from the United States, although these rates have been consistently lowered since the early 1990s.<sup>22</sup> Peru's average applied tariff rate is approximately 10 percent. The government also maintains a five percent "temporary" tariff surcharge on many agricultural goods to protect local production and domestic investment in the sector. Certain sensitive agricultural products, including corn, rice, sugar, and powdered milk, are subject to a Peru-specific "price band" that fluctuates to ensure that the import prices of such products equal a predetermined minimum import price.

The Government of Peru has eliminated many non-tariff barriers. However, Peru currently bans imports of certain used goods, including used clothing and shoes (except charitable donations), used tires, cars over five years old, heavy trucks over eight years old, and U.S. remanufactured goods.

Peru is not a signatory to the WTO Agreement on Government Procurement. In 2002, Peru began adding 20 points (on its rating scale of 100) to bids by Peruvian firms on government procurement contracts.

The United States maintains a transparent and largely open trade regime, although in a few important areas it maintains some market access barriers and other distorting measures.<sup>23</sup> The WTO Agreement obligates the United States to accord "most favored nation/normal trade relations" (MFN/NTR) tariff treatment to WTO members.<sup>24</sup> Most imports either enter the United States duty-free or at low tariffs; all tariff lines except two are subject to tariff bindings. In 2004, the average MFN/NTR applied tariff was 4.9 percent although the average for agricultural products (based on the WTO definition) was nearly twice as high. "Sensitive" products, including tobacco, whey, certain dairy products, peanuts, and footwear, receive tariff protection in the 50 to 350 percent range.<sup>25</sup>

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<sup>22</sup> The discussion on Peru is based upon *Foreign Trade Barriers: Peru* (Office of the U.S. Trade Representative, 2007), pp. 461-465. Available online at: [http://www.ustr.gov/Document\\_Library/Reports\\_Publications/2007/2007\\_NTE\\_Report/Section\\_Index.html](http://www.ustr.gov/Document_Library/Reports_Publications/2007/2007_NTE_Report/Section_Index.html)

<sup>23</sup> World Trade Organization, *Trade Policy Review United States, Report by the Secretariat*, WT/TPR/S/160 (Geneva, February 2006), paragraph 1, p. vii.

<sup>24</sup> U.S. law uses the term "normal trade relations" (NTR) instead of the term "most favored nation" (MFN) to describe the principle of nondiscriminatory treatment of trading partners. The WTO Agreement uses the term MFN.

<sup>25</sup> World Trade Organization, *Trade Policy Review United States, Report by the Secretariat*, WT/TPR/S/160 (Geneva, February 2006), paragraph 9, p. viii.

## 2. Trade in Services

Except as otherwise provided in specific laws, national treatment<sup>26</sup> of foreign investors is guaranteed under Peru's 1993 Constitution.<sup>27</sup> There are no limitations on the repatriation of capital or profits. Peruvian law restricts majority ownership of broadcast media to Peruvian citizens. Foreigners are also restricted from owning land or investing in natural resources within 50 kilometers of a border, but they can operate within those areas with special authorization. Under current law, foreign employees may not comprise more than 20 percent of the total number of employees of a local company or more than 30 percent of the total company payroll.

The U.S. services and investment regimes are generally open,<sup>28</sup> with some exceptions. In the maritime sector, cabotage laws reserve domestic routes to U.S. operators and provide government support for U.S.-flag vessels. The United States restricts foreign ownership and control of U.S. air transport carriers, and the provision of domestic air service is restricted to U.S. carriers. The United States also restricts foreign investment in certain telecommunications services, radio broadcast, atomic energy, and energy pipelines. Finally, under the Exon-Florio Amendment to the Defense Production Act, the President has the authority to suspend or prohibit foreign mergers, acquisitions, and takeovers, where there is credible information of a threat to national security.

### C. Major Elements of the PTPA

The PTPA consists of a Preamble, twenty-three chapters and various annexes. There are also several letters and joint statements signed in conjunction with the PTPA. The chapters are: Initial Provisions and General Definitions; National Treatment and Market Access for Goods; Textiles and Apparel; Rules of Origin and Origin Procedures; Customs Administration and Trade Facilitation; Sanitary and Phytosanitary Measures; Technical Barriers to Trade; Trade Remedies; Government Procurement; Investment; Cross-Border Trade in Services; Financial Services; Competition Policy, Designated Monopolies, and State Enterprises; Telecommunications; Electronic Commerce; Intellectual Property Rights; Labor; Environment; Transparency; Administration of the Agreement and Trade Capacity Building; Dispute Settlement; Exceptions; and Final Provisions. There are three annexes that specify non-conforming measures in services, investment, and financial services. The complete text of the PTPA and summary fact sheets are available on USTR's Web site.<sup>29</sup>

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<sup>26</sup> National treatment requires that foreign investors not be treated differently from domestic investors.

<sup>27</sup> The discussion on Peru is based upon *Foreign Trade Barriers: Peru* (Office of the U.S. Trade Representative, 2007), pp.461-465. Available online at:

[http://www.ustr.gov/Document\\_Library/Reports\\_Publications/2007/2007\\_NTE\\_Report/Section\\_Index.html](http://www.ustr.gov/Document_Library/Reports_Publications/2007/2007_NTE_Report/Section_Index.html)

<sup>28</sup> See World Trade Organization, *Trade Policy Review United States, Report by the Secretariat*, WT/TPR/S/160 (Geneva, February 2006) and *Statement on Foreign Direct Investment Policy* (U.S. Department of Treasury, December 26, 1991).

<sup>29</sup> See [http://www.ustr.gov/Trade\\_Agreements/Bilateral/Peru\\_TPA/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Bilateral/Peru_TPA/Section_Index.html).

### III. Potential Economic and Employment Effects of the PTPA

The focus of this review is on the potential impact of the PTPA on U.S. employment and labor markets. It is based on a qualitative assessment of the likely economic effects of removing barriers to trade between the Parties, given the current structure and volume of United States-Peru trade. This analysis is supported by an economic modeling study by the U.S. International Trade Commission (USITC) of the impact of the PTPA on U.S. economy and employment.<sup>30</sup> The results of this study are summarized in the Appendix of this review. A review of the economic literature failed to reveal any additional publicly available quantitative economic impact assessments or modeling efforts of the overall economic and employment impacts on the United States of the PTPA.

The major finding of this review is that the PTPA is expected to have a negligible effect on employment in the United States. This finding is attributable to, among other factors, the relatively small volume of bilateral trade between the two countries, the fact that 98.2 percent of all U.S. imports from Peru already enter the United States duty-free, provisions in the PTPA for the gradual removal of U.S. tariffs on import-sensitive goods from Peru over an extended period of time, and safeguards contained in the PTPA to attenuate the effects of certain increases in imports.

Among the factors considered in this U.S. employment impact review of the PTPA were:

- *The Current Volume and Industrial Structure of U.S.-Peru Trade*

Over the last five years, U.S. domestic merchandise exports to Peru have averaged about 0.26 percent of all U.S. domestic exports to the world. In 2006, they amounted to \$2.7 billion. Though small in volume, U.S. merchandise exports have been concentrated in a few industrial subsectors: machinery, except electrical; chemicals; computer and electronic products; petroleum and coal products; agricultural products; and transportation equipment (see Table III.1).

Over the last five years, U.S. merchandise imports for consumption from Peru have averaged about 0.26 percent of all U.S. imports for consumption from the world. In 2006, they amounted to \$5.9 billion. U.S. merchandise imports for consumption from Peru have been concentrated in the following subsectors: primary metal manufacturing; apparel and accessories; petroleum and coal products; and agricultural products (see Table III.2).

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<sup>30</sup> United States International Trade Commission. *U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*. Investigation No.TA-2104-20. May 2006. Available online at: <http://hotdocs.usitc.gov/docs/pubs/2104F/pub3855.pdf>.

- *The Potential Effects of Removing Current Barriers to Trade*

The immediate effects of the PTPA will come from the removal of tariffs on bilateral merchandise trade. Eighty percent of U.S. exports of consumer and industrial products to Peru will become duty-free immediately, with remaining tariffs phased out over 10 years. More than two-thirds of current U.S. farm exports will become duty-free immediately, with the remaining tariffs being phased out over 15 or 17 years. In the long term, the PTPA may also lead to increased U.S. FDI in Peru due to the more secure and predictable legal framework the PTPA creates for U.S. investors operating in Peru.

Most U.S. merchandise exports to Peru now face an average applied import tariff of approximately 10 percent. The removal of tariffs on imported U.S. goods should marginally boost the competitiveness of U.S. products in Peru, especially for agriculture and construction equipment, auto parts, information technology equipment, medical and scientific equipment, and forest products. The PTPA will provide for fair, non-discriminatory, and transparent opportunities for U.S. companies to bid on Peruvian government procurement contracts.

The PTPA will also open more fully Peru's services market to U.S. service providers. Under the PTPA, Peru will commit to provide non-discriminatory treatment and market access in almost all services sectors.

U.S. imports from Peru qualified for duty-free entry under two U.S. trade preference programs and special import programs, the Andean Trade Preference Act (ATPA/ATPDEA) and GSP, as well as certain special import programs.<sup>31</sup> In 2006, U.S. imports for consumption from Peru under these programs amounted to \$3.4 billion, or 57 percent of all U.S. imports for consumption from Peru. U.S. imports for consumption from Peru that entered duty-free under the provisions of the ATPA/ATPDEA amounted to \$3.2 billion in 2006 and consisted primarily of primary metal manufacturing (32 percent), apparel and accessories (26 percent), and petroleum and coal products (23 percent).<sup>32</sup> U.S. imports from Peru that entered duty-free under the GSP program amounted to \$179.4 million in 2006 and consisted primarily of primary metal manufacturing (32 percent), food manufacturing (25 percent), agricultural products (12 percent), and nonmetallic mineral products (12 percent).

Only 1.8 percent of all U.S. merchandise imports for consumption from Peru, or \$103.3 million, were subject to U.S. import duties in 2006. An estimated \$4.9 million in duties

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<sup>31</sup> In 2006, a small amount of imports from Peru entered duty-free under the Agreement on Trade in Civil Aircraft (\$36,585). In 2005, a small amount of imports from Peru entered duty-free under the Agreement on Trade in Civil Aircraft (\$11,941) and the Agreement on Trade in Pharmaceutical Products (\$2,400).

<sup>32</sup> Section 207 of the ATPA directs the Secretary of Labor to undertake a continuing review and analysis of the impact of the agreement on U.S. employment and submit a summary report of such analysis annually to the Congress. To date, there have been 13 of these reports. These reports, which focus on the aggregate impact of all four ATPA beneficiary countries, have consistently found that that the ATPA/ATPDEA does not appear to have had an adverse impact on, or to have constituted a significant threat to, U.S. employment. The reports are available online at: <http://www.dol.gov/ILAB/programs/oiea/fercontx.htm>.



were paid at an average ad valorem rate of 4.7 percent.<sup>33</sup> Only eight tariff lines had calculated duties of more than \$100,000. These eight tariff lines combined accounted for 19 percent of the dutiable value, and resulted in 55 percent of the calculated duties on all U.S. imports for consumption from Peru in 2006. Six of these tariff lines were textile and apparel articles, and the other was a class of edible artificial mixtures of animal and vegetable fats and oils not elsewhere specified. U.S. import NAICS-based subsectors in which imports from Peru faced averages of U.S. duties over seven percent in 2006 were apparel and accessories (17.1 percent), leather and allied products (12.7 percent), food manufacturing (8.0 percent), and textiles and fabrics (7.4 percent) (see Table III.3).

In 2006, the leading ten U.S. imports for consumption from Peru (on an eight-digit HTS tariff line basis) accounted for 73 percent of all U.S. imports for consumption from Peru. The United States granted three of these leading ten imports – non-monetary gold bullion and dore, unwrought tin (other than alloy), and silver bullion and dore – MFN/NTR duty-free treatment. These three items accounted for \$1.8 billion or 30 percent of all U.S. imports for consumption from Peru in 2006. Four of these leading ten imports – refined copper cathodes, naphthas, distillate and residual fuel oil, and fresh or chilled asparagus – were eligible for duty-free entry under the ATPA/ATPDEA program. The remaining three top-ten imports were apparel items – cotton sweaters and pullovers, men’s and boys’ cotton t-shirts, and cotton t-shirts, singlets, and tank tops – and mostly entered duty-free under the ATPA/ATPDEA program due to meeting content requirements (less than 2 percent of these items were subject to duties).

The immediate removal of U.S. tariffs on the small volume of goods imported from Peru does not appear to pose a threat to U.S. producers of like or similar products. While it is difficult to assess whether any increased imports from Peru as the result of the PTPA will displace U.S. production or replace imports from other foreign suppliers, it is more likely that any increased amounts would come at the expense of suppliers from other countries, especially in apparel, where there are already numerous other low-wage developing country suppliers to the highly competitive U.S. market.

- *The Dynamic Nature of the U.S. Labor Market*

The degree to which U.S. workers may face new employment opportunities or job dislocations due to the PTPA depends, only in part, on the magnitude and significance of the change in industry employment resulting from the PTPA. The predicted impact of the PTPA on U.S. employment in all sectors is likely to be very small in relation to the ordinary turnover of workers. For example, in 2006 the average monthly hires rate was 3.6 percent (or a total of 59.4 million workers for 2006) and the average monthly total separation rate was 3.4 percent (or a total of 55.4 million workers for 2006). Equally large rates of hires and separations existed at specific industry levels in 2006.<sup>34</sup> Since the

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<sup>33</sup> Based on the dutiable value and calculated duties of U.S. imports from Peru, compiled from the official statistics of the U.S. Department of Commerce, Bureau of the Census.

<sup>34</sup> The hire rate is the number of persons hired during the month divided by employment. Likewise, the separation rate is the total number of separations during the month divided by employment. Total separations include voluntary, involuntary, and other separations (e.g. retirement). U.S. Department of

PTPA is expected to have a very small effect on bilateral trade flows, it is reasonable to expect that the employment change at the industry level will be negligible and indistinguishable from normal labor market turnover. This conclusion is bolstered by the results of recent U.S. employment impact reviews of the U.S. free trade agreements with Australia, a larger and more diverse high-income industrialized country, and Morocco, a lower middle-income agrarian-based developing country, which found that those agreements would have a negligible effect on U.S. employment.

- *Features in the PTPA to Ease the Adjustment Process*

While the PTPA is expected to have little effect on U.S. employment, it contains provisions to help ensure that only goods that meet the PTPA's rules of origin will benefit from the PTPA and mechanisms to help ease the adjustment process to bilateral free trade with Peru. These include strict rules of origin, rules to protect against transshipment of goods (e.g., a third country using Peru as an export platform to the United States), and the gradual phase-out of U.S. tariffs on sensitive goods that are not now imported from Peru. In addition, the PTPA contains a general safeguard mechanism to address certain increases in imports that are a substantial cause of serious injury to a domestic industry. Furthermore, the PTPA also contains special agricultural and textile safeguard mechanisms.

#### **IV. The Labor Chapter of the PTPA and Related Provisions**

The Labor Chapter of the PTPA fully meets the relevant provisions of the Trade Act of 2002. It also reflects an agreement reached by the Administration and the bipartisan leadership of Congress on May 10, 2007. The Chapter reaffirms the Parties' obligations as members of the International Labor Organization (ILO) and commits each Party to adopt and maintain in its statutes and regulations, and practice thereunder, fundamental labor rights as stated in the 1998 ILO Declaration on Fundamental Principles and Rights at Work,<sup>35</sup> including for purposes of the Chapter a prohibition on the worst forms of child labor. To establish a violation of this obligation a Party must demonstrate that the other Party has failed to comply with its terms in a manner affecting bilateral trade or investment. The Chapter further provides that neither Party will waive or otherwise derogate from the statutes and regulations that implement this obligation nor fail to effectively enforce its labor laws in a manner affecting trade or investment between the Parties. All obligations in the Chapter are subject to the same dispute settlement procedures and enforcement mechanisms as commercial obligations in the PTPA.

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Labor, Bureau of Labor Statistics, *Job Openings and Labor Turnover: March 2007*, News release, USDL 07-0373, Washington D.C., March 13, 2007.

<sup>35</sup> The ILO Declaration states that all ILO members have an obligation "to respect, to promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of those Conventions, namely: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation."

In addition, the Chapter obligates each Party to provide detailed procedural guarantees for enforcement of its labor laws, including access to labor tribunals, proceedings that comply with due process of law and are open to the public, and remedies to ensure enforcement of labor laws. These provisions should contribute to the effectiveness of labor law enforcement. The Chapter also establishes a labor cooperation and capacity building mechanism to improve labor standards and advance common commitments regarding labor matters.

#### **A. Summary of the Labor Chapter**

The Labor Chapter consists of eight Articles and an Annex as follows:

In Article 17.1, “[t]he Parties reaffirm their obligations as members of the International Labor Organization (ILO).”

Under Article 17.2, each party agrees to “adopt and maintain in its statutes and regulations, and practices thereunder, the following rights, as stated in the ILO Declaration: (a) freedom of association; (b) the effective recognition of the right to collective bargaining; (c) the elimination of all forms of forced or compulsory labor; (d) the effective abolition of child labor and, for purposes of this Agreement, a prohibition on the worst forms of child labor; and (e) the elimination of discrimination in respect of employment and occupation.” Further, under Article 17.2, the Parties agree to not waive or otherwise derogate from these statutes or regulations in a manner affecting trade or investment between the Parties, where the waiver or derogation would be inconsistent with the rights listed in the article.

Under Article 17.3, the Parties agree that each Party “shall not fail to effectively enforce its labor laws, including those it adopts or maintains in accordance with Article 17.2.1, through a sustained or recurring course of action or inaction, in a manner affecting trade or investment between the Parties....” The article states that a Party’s decision “on the distribution of enforcement resources shall not be a reason for not complying with the provisions of [the] Chapter.” The article recognizes that each Party retains the right to the reasonable exercise of discretion and to *bona fide* decisions regarding the allocation of resources to labor enforcement activities among the fundamental labor rights enumerated in Article 17.2.1, as long as such discretion and decisions are not inconsistent with the Chapter.

Article 17.4 provides for procedural guarantees and the promotion of public awareness of labor laws. Under Article 17.4, each Party agrees to ensure that persons with a legally recognized interest have access to impartial and independent tribunals for the enforcement of the Party’s labor laws and that such persons may seek remedies to ensure enforcement of their rights. The Parties further agree to ensure that proceedings are fair, equitable, and transparent, and to this end, that such proceedings comply with due process of law, are open to the public (except where the administration of justice otherwise requires), provide an opportunity to defend respective positions, and do not entail unwarranted delays. Each Party also agrees to provide final decisions in such

proceedings in writing, make such decisions available to the parties to the proceedings and, consistent with its law, to the public, and base such decisions on evidence in respect of which the parties to the proceeding were offered the opportunity to be heard. Each Party also commits to promote public awareness of its labor laws, including by ensuring the availability of information and encouraging education of its public regarding its labor laws.

In Article 17.5, the Parties establish a Labor Affairs Council (“the Council”) that shall oversee the implementation of and review progress under the Chapter, including the activities of the Labor Cooperation and Capacity Building Mechanism established under Article 17.6. The article also requires each Party to designate an office within its labor ministry to serve as a contact point with the other Party and the public. The contact points must provide for receipt and consideration of communications from persons of a Party on matters related to implementation of the Chapter.

Article 17.6 establishes a Labor Cooperation and Capacity Building Mechanism. The Labor Cooperation and Capacity Building Mechanism is set out in Annex 17.6 (see below).

Article 17.7 establishes a mechanism for consultations between the Parties concerning any matter that may arise under the Chapter. If the Parties are unable to resolve a matter, either Party may request that the Council be convened to consider the matter. If after 60 days, the consulting Parties have failed to resolve the matter, the complaining Party may request consultations under Article 21.4 (Consultations) or a meeting of the Commission under Article 21.5 (Intervention of the Commission), and thereafter have recourse to other provisions of Chapter 21 (Dispute Settlement).

Article 17.8 defines “labor laws” as those directly related to the following internationally recognized labor rights: (a) freedom of association; (b) the effective recognition of the right to collective bargaining; (c) the elimination of all forms of forced or compulsory labor; (d) the effective abolition of child labor, a prohibition on the worst forms of child labor, and other labor protections for children and minors; (e) the elimination of discrimination in respect of employment and occupation; and (f) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

## **B. Labor Cooperation**

Under Article 17.6, the Parties recognize that cooperation on labor issues plays an important role in advancing development in the territory of the Parties and enhancing opportunities to improve labor standards, and to further advance common commitments regarding labor matters, including the principles embodied in the ILO Declaration and *ILO Convention 182 Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour* (“ILO Convention 182”) and establish a Labor Cooperation and Capacity Building Mechanism. This Mechanism shall operate in a manner that respects each Party’s laws and sovereignty. The contact point designated

in accordance with Article 17.5 will also serve as a contact point for the Labor Cooperation and Capacity Building Mechanism.

The contact points are to carry out the work of the Labor Cooperation and Capacity Building Mechanism by developing and pursuing bilateral or regional cooperation activities on labor issues, including the fundamental rights at work and their effective application and the elimination of the worst forms of child labor.

The Parties may carry out cooperation activities through any form they consider appropriate, including technical assistance programs; exchanges of official delegations, professionals, and specialists; and exchanges of information on standards, regulations, procedures, and best practices.

In identifying areas for labor cooperation and capacity building and in carrying out cooperative activities, each Party is to consider views of its respective worker and employer representatives as well as those of other members of the public.

### **C. Administration of the Agreement**

Chapter 20 of the PTPA establishes a Free Trade Commission of cabinet-level representatives from each of the Parties to supervise the implementation of the PTPA and consider all types of matters raised under it. The Chapter includes additional provisions on the administration of dispute settlement proceedings that require designation by each Party of an office to assist the Free Trade Commission. The Chapter also provides for the establishment of a Committee on Trade Capacity Building to help encourage “reforms and investments necessary to foster trade-driven economic growth, poverty reduction, and adjustment to liberalized trade.”

### **D. Dispute Settlement**

The PTPA’s Dispute Settlement Chapter (Chapter 21) establishes detailed procedures for the settlement of disputes between the Parties over compliance with obligations under the PTPA. These procedures call for among other things public hearings; public access to documents; and opportunities for nongovernmental entities located in the Parties to submit views.

The Dispute Settlement Chapter provides that if the Free Trade Commission is unable to resolve the matter at issue, any Party participating in, or requesting, a meeting of the Free Trade Commission, may request the establishment of an arbitral panel to consider the matter. An arbitral panel shall be established upon receipt of the request.

Where an arbitral panel has found a Party be in breach of an obligation under the Agreement, the Parties must seek to agree on a resolution to the dispute. If they cannot agree on a resolution, or if the complaining Party believes the defending Party has failed to implement an agreed resolution, the complaining Party may provide notice that it intends to suspend trade benefits equivalent in effect to those it considers were impaired, or may be impaired, as a result of the matter in dispute. The complaining Party cannot

suspend benefits, however, if the defending Party provides notice that it will pay an annual monetary assessment to the other Party. The Parties must seek to agree on the amount of the assessment. If they cannot, the assessment will be set at 50 percent of the level of trade concessions the complaining Party was authorized to suspend.

## Appendix

The U.S. International Trade Commission (USITC) published a study of the economic effects of the PTPA in May 2006.<sup>36</sup> The USITC used a computable general equilibrium (CGE) model<sup>37</sup> to simulate the possible impact on U.S. imports, exports, production, and employment of the elimination of tariff and quota restraints on bilateral merchandise trade under the PTPA. The simulation compares the world in equilibrium without the PTPA and the world in equilibrium with the PTPA. Two simulations were run: one that assumes that ATPA preferences for Bolivia, Colombia, and Ecuador will continue after the PTPA enters into force, and one that assumes that ATPA preferences will expire when the PTPA enters into force. In the case where ATPA preferences continue, the USITC estimates that U.S. GDP would increase by \$2.1 billion (or 0.02 percent) and U.S. welfare would increase by \$345.7 million. In the case where ATPA preferences expire, U.S. GDP would increase by \$2.8 billion (or 0.02 percent) and U.S. welfare would increase by \$440.2 million.<sup>38</sup>

Since U.S. exports to Peru currently face much higher tariffs than Peruvian exports to the United States, U.S. exports to Peru are expected to increase more than Peruvian exports to the United States. Under the scenario where ATPA preferences continue, the USITC estimates that U.S. exports to Peru would increase by 25.3 percent and U.S. imports from Peru would increase by 8.3 percent. The USITC finds the largest increases in U.S. exports would be in machinery and equipment; chemical, rubber, and plastic products; electronic equipment; textiles; paper products; wheat; and motor vehicle and parts. The largest increase of imports from Peru would be in metals not elsewhere classified (mainly gold, copper, and aluminum) which accounts for nearly 60 percent of the estimated total increase in imports from Peru.

The USITC finds “there may be minimal to no effect on output or employment for most sectors of the economy”. Since the model used by the USITC keeps total labor supply constant, expanding industries that are expected to have increases in jobs, must be balanced by job losses in other industries without consideration of an expanded workforce or unemployment. They find (under the scenario where ATPA preferences continue) declines in employment of greater than one-half of one percent in metals not elsewhere classified (-0.16 percent), unprocessed paddy rice (-0.12 percent), crops not elsewhere classified (-0.09 percent) and vegetables, fruits, and nuts (-0.06 percent). They find employment increases of 1.0 percent in wheat, and smaller than one-half of one percent increases in other industries.

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<sup>36</sup> United States International Trade Commission. *U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*. Investigation No.TA-2104-20. May 2006. Available online at: <http://hotdocs.usitc.gov/docs/pubs/2104F/pub3855.pdf>.

<sup>37</sup> A CGE model is a type of economic model that uses actual economic data to estimate how an economy might react to certain changes.

<sup>38</sup> For details on the USITC measurement of welfare, please see United States International Trade Commission. *U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*. Investigation No.TA-2104-20. May 2006, p. 2-14.

## **Tables**



**Table II.1: Leading 5-Digit NAICS-based U.S. Industry Exports to Peru in 2006**  
(sorted by 2006 value)

U.S. Export Industry	NAICS Code	Value of U.S. Exports to Peru (millions of dollars)					Percent of	
		2002	2003	2004	2005	2006	Total U.S. Industry Exports in 2006	All U.S. Exports to Peru in 2006
Total U.S. Exports to Peru.....	--	1,441.1	1,551.6	1,857.9	2,038.0	2,655.2	0.29	100.00
<u>The leading NAICS-based industries in 2006 were:</u>								
Petroleum Refinery Products.....	32411	54.3	88.4	164.1	219.8	282.1	1.10	10.63
Construction Machinery.....	33312	68.6	91.3	136.0	148.0	213.5	1.71	8.04
Resin & Synthetic Rubbers.....	32521	87.6	96.3	155.4	138.6	162.7	0.64	6.13
Computer Equipment.....	33411	71.2	81.4	76.0	97.0	162.0	0.54	6.10
Other Basic Organic Chemicals.....	32519	61.1	73.5	94.7	103.5	135.2	0.43	5.09
Mining & Oil & Gas & Field Machinery.....	33313	39.8	58.0	60.0	60.1	103.2	0.97	3.89
Radio & Television Broadcasting and Wireless.....	33422	74.9	78.9	70.4	59.1	100.0	1.59	3.77
Special Classification Provisions <sup>1</sup> .....	99000	53.3	61.7	65.6	67.1	92.1	0.29	3.47
Other General Purpose Machinery.....	33399	56.3	48.6	34.3	44.4	87.8	0.45	3.31
Engines, Turbines & Power Transmission Equipment.....	33361	26.0	37.4	33.9	50.3	81.7	0.47	3.08
Fertilizers.....	32531	22.0	24.7	36.4	37.2	61.9	2.03	2.33
Aerospace Products & Parts.....	33641	36.8	21.8	27.7	41.3	53.4	0.07	2.01

<sup>(1)</sup> Primarily exports of low-value shipments, articles imported for repairs, returned goods, and articles donated to charity.

Note: The value of U.S. merchandise exports is the free alongside ship (FAS) value of domestic U.S. exports at the U.S. port of export. All data are in nominal terms.

Source: Official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

**Table II.2: Leading 5-Digit NAICS-based U.S. Industry Imports from Peru in 2006**  
(sorted by 2006 value)

U.S. Import Industry	NAICS Code	Value of U.S. Imports from Peru (millions of dollars)					Percent of	
		2002	2003	2004	2005	2006	Total U.S. Industry Imports in 2006	All U.S. Imports from Peru in 2006
Total U.S. Imports for Consumption from Peru ....	--	1,952.9	2,415.8	3,684.8	5,122.6	5,896.9	0.32	100.00
<u>The leading NAICS-based industries in 2006 were:</u>								
Nonferrous Metal (except Aluminum) Smelting and Refining.....	33141	729.5	1,012.9	1,847.6	2,445.2	2,837.3	10.35	48.11
Petroleum Refinery Products.....	32411	162.0	134.8	189.5	559.0	795.7	0.86	13.49
Women's and Girls' Apparel.....	31523	181.5	258.2	360.7	416.5	435.3	1.05	7.38
Men's and Boys' Apparel.....	31522	189.3	232.7	300.3	364.7	382.9	1.46	6.49
Noncitrus Fruits and Tree Nuts.....	11133	89.4	88.0	109.2	130.6	171.8	2.08	2.91
Vegetables and Melons.....	11121	82.0	101.4	124.5	147.3	162.9	3.75	2.76
Copper, Nickel, Lead and Zinc.....	21223	29.2	27.3	73.6	85.0	121.7	66.38	2.06
Fruits and Vegetables.....	31142	20.1	22.5	37.0	67.7	102.3	2.77	1.73
Jewelry and Silverware.....	33991	94.2	72.3	76.2	88.1	85.5	0.28	1.45
Oil and Gas.....	21111	36.0	102.8	25.5	113.2	62.7	0.03	1.06
Sawmill and Wood Products.....	32111	58.4	47.0	46.0	54.6	61.9	0.69	1.05
Fish, Fresh, Chilled or Frozen and Other Marine Products.....	11411	23.4	39.5	65.9	64.4	58.9	0.57	1.00
Other Metal Ores.....	21229	0.4	0.1	4.1	15.0	54.5	4.60	0.92

Note: The value of U.S. imports is the customs value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. merchandise imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones). All data are in nominal terms.

Source: U.S. Department of Labor tabulations of official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

**Table III.1: U.S. Exports to Peru by NAICS-based Sector and Subsector, 2002-2006**

NAICS-based U.S. Export Sector and Subsector	Value of U.S. Exports to Peru (millions of dollars)					Percent of	
	2002	2003	2004	2005	2006	Total U.S. Exports in 2006	All U.S. Exports to Peru in 2006
<b>Total U.S. Exports to Peru</b> .....	<b>1,441.1</b>	<b>1,551.6</b>	<b>1,857.9</b>	<b>2,038.0</b>	<b>2,655.2</b>	<b>0.29</b>	<b>100.0</b>
<b>11—Agriculture and Livestock Products</b> .....	<b>134.1</b>	<b>160.1</b>	<b>233.5</b>	<b>152.2</b>	<b>125.4</b>	<b>0.30</b>	<b>4.7</b>
111—Agricultural Products.....	132.0	158.2	229.1	146.2	119.6	0.34	4.5
112—Livestock and Livestock Products.....	1.1	0.7	1.9	4.7	4.7	0.37	0.2
113—Forestry Products.....	0.7	0.8	2.5	1.2	1.0	0.06	( <sup>3</sup> )
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products.....	0.2	0.5	0.1	( <sup>1</sup> )	0.1	( <sup>2</sup> )	( <sup>3</sup> )
<b>21—Oil, Gas, Minerals and Ores</b> .....	<b>7.3</b>	<b>4.0</b>	<b>2.2</b>	<b>3.9</b>	<b>4.3</b>	<b>0.03</b>	<b>0.2</b>
211—Oil and Gas.....	3.3	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>2</sup> )	( <sup>3</sup> )
212—Minerals and Ores.....	4.0	3.9	2.1	3.8	4.3	0.04	0.2
<b>31-33—Manufacturing</b> .....	<b>1,190.7</b>	<b>1,280.1</b>	<b>1,508.6</b>	<b>1,795.6</b>	<b>2,406.5</b>	<b>0.29</b>	<b>90.6</b>
311—Food Manufacturing.....	78.3	71.9	67.5	57.8	77.4	0.24	2.9
312—Beverages and Tobacco Products.....	1.5	1.7	1.6	1.2	1.5	0.04	0.1
313—Textiles and Fabrics.....	5.1	8.2	11.8	10.9	12.7	0.15	0.5
314—Textile Mill Products.....	4.1	3.5	5.3	5.6	6.5	0.26	0.2
315—Apparel and Accessories.....	2.1	3.6	4.8	4.0	4.0	0.10	0.1
316—Leather and Allied Products.....	2.4	2.6	1.0	1.5	1.6	0.07	0.1
321—Wood Products.....	1.4	1.5	5.2	3.0	3.0	0.06	0.1
322—Paper.....	27.1	28.8	31.9	40.6	41.6	0.23	1.6
323—Printing, Publishing and Similar Products.....	6.4	6.4	4.9	10.0	7.3	0.13	0.3
324—Petroleum and Coal Products.....	54.3	88.5	164.2	220.0	282.3	1.09	10.6
325—Chemicals.....	258.8	279.6	402.6	391.7	498.0	0.38	18.8
326—Plastics and Rubber Products.....	27.0	27.7	26.4	45.6	47.3	0.23	1.8
327—Nonmetallic Mineral Products.....	11.0	11.7	11.2	10.9	12.6	0.16	0.5
331—Primary Metal Manufacturing.....	60.9	35.6	14.6	19.9	45.4	0.12	1.7
332—Fabricated Metal Products.....	21.8	27.6	32.2	74.3	65.6	0.24	2.5
333—Machinery, Except Electrical.....	269.0	326.4	366.2	446.7	658.0	0.60	24.8
334—Computer and Electronic Products.....	217.5	223.9	217.5	238.7	369.8	0.27	13.9
335—Electrical Equipment, Appliances, and Components.....	28.0	28.8	30.8	37.8	91.3	0.29	3.4
336—Transportation Equipment.....	70.1	54.4	59.1	101.8	119.5	0.07	4.5
337—Furniture and Fixtures.....	2.6	1.6	2.7	3.0	3.1	0.10	0.1
339—Miscellaneous Manufactured Commodities.....	41.2	46.2	47.1	70.6	57.9	0.17	2.2
<b>51—Information</b> .....	( <sup>1</sup> )	<b>0.7</b>	<b>0.4</b>	<b>1.0</b>	<b>0.9</b>	<b>0.09</b>	( <sup>3</sup> )
511—Publishing Industries (except Internet).....	( <sup>1</sup> )	0.7	0.4	1.0	0.9	0.09	( <sup>3</sup> )
<b>91-99—Special Classification Provisions</b> .....	<b>109.0</b>	<b>106.7</b>	<b>113.3</b>	<b>85.5</b>	<b>118.1</b>	<b>0.23</b>	<b>4.4</b>
91—Waste and Scrap.....	3.1	12.2	44.0	15.4	19.3	0.12	0.7
92—Used or Second-hand Merchandise.....	52.6	32.9	3.6	3.0	6.7	0.15	0.3
99—Special Classification Provisions, not otherwise specified or included.....	53.3	61.7	65.6	67.1	92.1	0.29	3.5

(<sup>1</sup>) Less than \$50,000.

(<sup>2</sup>) Less than 0.005 percent.

(<sup>3</sup>) Less than 0.05 percent.

Note: The value of U.S. exports is the free alongside ship (FAS) value of domestic U.S. merchandise exports at the U.S. port of export. Because of rounding, figures may not add to totals shown. All data are in nominal terms.

Source: Official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

**Table III.2: U.S. Imports from Peru by NAICS-based Sector and Subsector, 2002-2006**

NAICS-based U.S. Import Sector and Subsector	Value of U.S. Imports from Peru (millions of dollars)					Percent of	
	2002	2003	2004	2005	2006	Total U.S. Imports in 2006	All U.S. Imports from Peru in 2006
<b>Total U.S. Imports from Peru</b> .....	<b>1,952.9</b>	<b>2,415.8</b>	<b>3,684.8</b>	<b>5,122.6</b>	<b>5,896.9</b>	<b>0.32</b>	<b>100.0</b>
<b>11—Agriculture and Livestock Products</b> .....	<b>204.4</b>	<b>241.3</b>	<b>313.3</b>	<b>355.7</b>	<b>416.3</b>	<b>1.20</b>	<b>7.1</b>
111—Agricultural Products.....	179.2	197.8	244.4	289.0	354.3	2.04	6.0
112—Livestock and Livestock Products.....	1.5	3.2	2.3	0.8	1.2	0.03	( <sup>1</sup> )
113—Forestry Products.....	0.2	0.7	0.7	1.4	1.9	0.07	( <sup>1</sup> )
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products.....	23.4	39.5	65.9	64.4	58.9	0.57	1.0
<b>21—Oil, Gas, Minerals and Ores</b> .....	<b>74.0</b>	<b>136.4</b>	<b>107.0</b>	<b>218.8</b>	<b>244.7</b>	<b>0.11</b>	<b>4.1</b>
211—Oil and Gas.....	36.0	102.8	25.5	113.2	62.7	0.03	1.1
212—Minerals and Ores.....	38.0	33.6	81.6	105.6	181.9	2.37	3.1
<b>31-33—Manufacturing</b> .....	<b>1,639.4</b>	<b>1,995.0</b>	<b>3,174.2</b>	<b>4,504.1</b>	<b>5,183.2</b>	<b>0.34</b>	<b>87.9</b>
311—Food Manufacturing.....	65.8	76.4	102.2	154.6	244.1	0.77	4.1
312—Beverages and Tobacco Products.....	6.2	6.7	5.1	5.0	2.9	0.02	( <sup>1</sup> )
313—Textiles and Fabrics.....	8.8	9.2	11.0	17.3	16.4	0.22	0.3
314—Textile Mill Products.....	3.1	2.9	4.5	4.4	5.0	0.03	0.1
315—Apparel and Accessories.....	386.1	506.8	678.8	801.6	844.7	1.10	14.3
316—Leather and Allied Products.....	1.3	1.8	3.0	3.1	3.6	0.01	0.1
321—Wood Products.....	62.0	50.4	50.0	59.7	71.2	0.31	1.2
322—Paper.....	0.1	0.1	0.6	0.3	0.9	( <sup>2</sup> )	( <sup>3</sup> )
323—Printing, Publishing and Similar Products.....	2.5	4.2	5.4	9.1	11.7	0.20	0.2
324—Petroleum and Coal Products.....	162.0	134.8	189.5	559.0	795.7	0.86	13.5
325—Chemicals.....	35.0	24.1	71.2	162.6	23.2	0.02	0.4
326—Plastics and Rubber Products.....	7.8	5.1	7.0	6.8	12.1	0.04	0.2
327—Nonmetallic Mineral Products.....	28.8	37.6	53.6	73.4	85.1	0.42	1.4
331—Primary Metal Manufacturing.....	746.5	1,035.1	1,878.6	2,514.9	2,940.0	3.32	49.9
332—Fabricated Metal Products.....	4.3	6.5	9.6	10.8	7.3	0.02	0.1
333—Machinery, Except Electrical.....	6.2	3.9	6.7	12.6	11.4	0.01	0.2
334—Computer and Electronic Products.....	1.5	1.1	2.1	1.2	1.1	( <sup>2</sup> )	( <sup>3</sup> )
335—Electrical Equipment, Appliances, and Components.....	1.1	1.0	1.1	0.2	1.0	( <sup>2</sup> )	( <sup>3</sup> )
336—Transportation Equipment.....	3.3	1.8	1.8	2.7	3.6	( <sup>2</sup> )	0.1
337—Furniture and Fixtures.....	9.6	10.3	12.1	12.6	12.6	0.05	0.2
339—Miscellaneous Manufactured Commodities.....	97.4	75.3	80.4	92.2	89.8	0.10	1.5
<b>51—Information</b> .....	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>--</b>	<b>(<sup>3</sup>)</b>
511—Publishing Industries (except Internet).....	0	0	0	0	0	--	( <sup>3</sup> )
<b>91-99—Special Classification Provisions</b> .....	<b>35.1</b>	<b>43.2</b>	<b>90.3</b>	<b>44.0</b>	<b>52.8</b>	<b>0.07</b>	<b>0.9</b>
91—Waste and Scrap.....	0.2	0.8	0.5	1.8	1.7	0.04	( <sup>3</sup> )
92—Used or Second-hand Merchandise.....	2.8	1.6	3.0	2.2	3.1	0.04	0.1
98—U.S. Goods Returned and Reimported Items.....	25.9	33.1	73.9	17.4	24.9	0.06	0.4
99—Special Classification Provisions, not otherwise specified or included.....	6.2	7.7	13.0	22.6	23.1	0.09	0.4

(<sup>1</sup>) Less than \$50,000.

(<sup>2</sup>) Less than 0.005 percent.

(<sup>3</sup>) Less than 0.05 percent.

**Note:** The value of U.S. imports is the customs value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. merchandise imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones). Because of rounding, figures may not add to totals shown. All data are in nominal terms.

**Source:** Official U.S. trade statistics from the U.S. Department of Commerce, Bureau of Census.

**Table III.3: Customs Value, Dutiable Value, Calculated Duties, and Average Rate of Duty on U.S. Imports from Peru by NAICS-based Subsector, 2006**

NAICS-based U.S. Import Subsector	Customs Value (\$thous.)	Dutiable Value (\$thous.)	Calculated Duties (\$thous.)	Average Rate of Duty (percent)
315—Apparel and Accessories.....	844,743.1	15,796.2	2,707.6	17.1
313—Textiles and Fabrics.....	16,436.8	15,734.1	1,166.7	7.4
311—Food Manufacturing.....	244,132.8	5,400.9	430.2	8.0
314—Textile Mill Products.....	5,013.3	2,470.4	150.5	6.1
327—Nonmetallic Mineral Products.....	85,052.6	1,231.3	76.7	6.2
316—Leather and Allied Products.....	3,587.0	489.3	62.2	12.7
324—Petroleum and Coal Products.....	795,699.3	35,466.7	53.2	0.2
325—Chemicals.....	23,162.9	1,537.0	50.1	3.3
111—Agricultural Products.....	354,251.8	789.2	47.3	6.0
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products.....	58,913.9	720.1	41.4	5.8
333—Machinery, Except Electrical.....	11,351.0	1,324.5	33.2	2.5
336—Transportation Equipment.....	3,586.1	820.4	20.5	2.5
339—Miscellaneous Manufactured Commodities.....	89,800.5	249.7	12.0	4.8
326—Plastics and Rubber Products.....	12,093.5	223.6	7.9	3.5
332—Fabricated Metal Products.....	7,284.8	169.2	6.0	3.6
All Other Subsectors.....	3,341,808.0	20,918.8	6.9	( <sup>1</sup> )
Total.....	5,896,917.4	103,341.5	4,872.5	4.7

(<sup>1</sup>) Less than 0.05 percent.

**Note:** The customs value of U.S. merchandise imports is the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation. The customs value given is for imports for consumption, which represents the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones. The dutiable value represents the customs value of the foreign merchandise imported into the United States that is subject to duty. The calculated duty represents the estimated import duties collected. Estimated duties are calculated based on the applicable rates of duty as shown in the Harmonized Tariff Schedule of the United States Annotated for Statistical Reporting Purposes. Estimates of calculated duty do not necessarily reflect amounts of duty paid. The average rate of duty is the ratio of calculated duties over dutiable value, expressed in percentage terms. Because of rounding, figures may not add to totals shown. All data are in nominal terms.

**Source:** Compiled from official statistics of the U.S. Department of Commerce, Bureau of Census.