Statement by Hal S. Shapiro

Before the House Committee on Ways and Means
Subcommittee on Trade

Washington, D.C.

March 30, 2011

Chairman Brady, Ranking Member McDermott, Members of the Committee:

It is an honor to appear before you today. My name is Hal Shapiro, and I am a partner with the law firm of Akin Gump Strauss Hauer & Feld in Washington, D.C. I formerly served as Associate General Counsel in the Office of the U.S. Trade Representative and as Senior Advisor for International Economic Affairs at the National Economic Council. My testimony today reflects my views alone and not those of my firm or any clients.

We gather today at the most promising moment to advance the U.S. international trade agenda in the past few years. Our economy is emerging from a deep and painful recession, restoring the confidence needed for the United States to lead market opening initiatives. President Obama has mobilized his Administration through the National Export Initiative in order to double U.S. exports by 2014. At the end of 2010, U.S. exports had grown by 17 percent, and Administration officials believe the country is on track to meet the President's challenge. This export growth has supported hundreds of thousands of additional American jobs. According to U.S. Government data, every $1 billion in goods exports supports more than 6,000 jobs, and every $1 billion of services exports supports more than 4,500 jobs. Agriculture exports alone support nearly one million American jobs. And, jobs supported by merchandise exports pay 18 percent more than the national average.

As this Committee well knows, three pending bilateral free trade agreements – those with Korea, Colombia, and the one we are here to discuss today, Panama – are central elements in the U.S. trade agenda. U.S. Trade Representative Ron Kirk testified recently before the Senate Finance Committee that the Administration has completed work on the Korea Agreement, and that is indeed good news. The Korea Agreement would be the United States' most commercially significant free trade agreement since NAFTA. The U.S. International Trade Commission has estimated that the reduction of Korean tariffs and tariff-rate quotas on goods alone would add $10 billion to $12 billion to annual U.S. gross domestic product and around $10 billion to annual merchandise exports to Korea. The Obama Administration's work with the Government of Korea to negotiate provisions relating to the automotive sector addressed bipartisan concerns, with both Chairman Camp and Ranking Member Levin supporting that result. Under the Korea Agreement, almost 95 percent of bilateral trade in consumer and industrial products would become duty free within three years of the date it enters into force; thus, swift action on this agreement would be one of the most effective ways to help our economy grow more rapidly.

In addition, Ambassador Kirk also informed the Finance Committee that the Administration is continuing to work with the Governments of Colombia and Panama to resolve all outstanding issues. Ambassador Kirk explained that U.S. and Panamanian negotiators met in February and agreed upon actions that, when taken by Panama, will ready the Trade Promotion Agreement ("TPA") for Congressional consideration.

Before turning to the specific benefits of the Panama agreement, allow me, as a former U.S. trade official who has written and taught on the subject, to say that I believe that U.S. international trade agreements should serve three aims – they should enhance our national security, they should strengthen our economy, and they should promote our values. And, these three aims are best achieved when our agreements have bipartisan input and support. In my view, when work on the Panama Agreement is completed, it will satisfy these aims and it should garner broad bipartisan support.

First, in terms of our national security, Panama is an important and dependable ally of the United States in a critical part of the world. The United States and Panama have had shared geopolitical and economic interests dating back to the late 1800s and to the opening of the Panama Canal in 1914. Panama has proved to be a steadfast friend to the United States a time when relations with some of our relations in Latin American have been uneven. The TPA would serve to make our ties to Panama stronger and more enduring.

In terms of economics, the United States has much to gain from the Agreement. Panama is a country of 3.5 million people with a stable, diversified economy that has experienced significant growth despite the current global economic downturn. Panama's gross domestic product expanded by an annual average of over 9 percent for the five years ending 2008, and it has grown over the past two years despite the global recession. Panama has the highest per capita income in the Central American region.

Panama is one of the few Latin American countries with which the United States has a merchandise trade surplus, the largest in the region. The U.S. goods trade surplus with Panama was $4.1 billion in 2009. U.S. goods exports in 2009 were $4.4 billion. Panama is currently the 40th largest export market for U.S. goods. U.S. imports from Panama in 2009 were relatively small at $304 million. The limited amount of goods Panama sends to the United States reflects the fact that, unlike other Latin American countries, services comprise more than 70 percent of Panama's economy.

Panama's average tariff on U.S. industrial and consumer goods is 7 percent, but tariffs on some of these products are as high as 81 percent. Panama's average tariff on U.S. agricultural goods is 15 percent, but some U.S. agricultural exports face tariffs as high as 260 percent.

When the Panama Agreement enters into force, 88 percent of U.S. merchandise exports will enter Panama duty-free, with remaining tariffs phased out over five or ten years. The TPA includes "zero for zero" immediate duty-free access for key U.S. sectors and products, including agricultural and construction equipment, information technology products, and medical and scientific equipment. Other notable U.S. export sectors, such as motor vehicles and parts, paper and wood products, and chemicals also will obtain improved access to Panama's market as duties are phased out.

The Agreement provides for immediate duty-free treatment for over 60 percent of U.S. agricultural exports to Panama, including high quality beef, certain pork and poultry products, cotton, wheat, soybeans and soybean meal, most fresh fruits and tree nuts, distilled spirits and wine, and a wide assortment of processed products. Duties on other agricultural goods will be phased out within five to 12 years and on the most sensitive products within 15 years to 20 years. The Agreement also includes undertakings on telecommunications, services trade, government procurement, investment, and intellectual property rights.

The U.S. International Trade Commission has studied the Agreement and found that its main effect would likely be to increase U.S. exports, while causing little growth in U.S. imports from Panama. This result would be due to the relatively small amount of goods imported from Panama; the limited production capacity of Panama; and the fact that most imports from Panama – 96 percent by value –

historically have entered the United States duty free through either normal trade relations or preferences provided by the Caribbean Basin Initiative programs or the Generalized System of Preferences, assuming all of these programs are in effect at the time the agreement goes into operation.

With this background in mind, there are some who understandably wish that the Panama Trade Promotion Agreement had already been submitted to Congress for approval. As Members of this Committee recall, the text of the Agreement was originally completed in December 2006 and it was signed in June 2007. Many factors led to delay including, perhaps most extraordinarily, concerns over allegations that a leader of Panama's National Assembly had murdered a U.S. soldier.

Regardless of how we arrived at this point, it is my hope that the Agreement will come before the Congress soon and that it will garner strong bipartisan support and reflect a wide range of the values Members on both sides of the aisle represent.

Concerns have been raised for some time regarding the transparency of tax information and labor laws in Panama. On taxes, Panama and the United States concluded a Tax Information Exchange Agreement in November 2010. The negotiations for this agreement commenced in 2002, but were accelerated in 2009. Secretary of the Treasury Tim Geithner has indicated that this agreement will improve information sharing and cooperation. Panama has not yet ratified this agreement, which it hopefully will do soon.

On labor and the environment, the Panama Agreement does not just seek to lock in existing standards as some past U.S. agreements have done; rather, it calls for enhanced standards subject to strong enforcement mechanisms. Panama has worked with the Administration to institute a number of administrative changes to meet labor provisions of the TPA and core International Labor Organization standards. For example, in June 2009, the President of Panama issued a decree requiring the Ministry to Labor to create a process for receiving complaints, and undertaking inspections, related to union formation. The Decree also requires training for workers regarding union formation.

Panama deserves credit for working diligently with the Administration to address these and other concerns. The Administration has indicated that a work plan is in place to conclude talks, ensure full implementation of commitments, and bring the Agreement before the Congress. It is my hope that the remaining steps are taken swiftly, and this important agreement will forge even closer bonds between the United States and this important strategic partner.

Thank you.