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PERU

Free-trade pact may thwart foes

Facing a tough vote in the U.S. House, supporters of a U.S.-Peru free-trade agreement are warning that a defeat would be a victory for U.S. foe Venezuelan President Hugo Chávez.

By Pablo Bachelet

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WASHINGTON - Free-trade agreements generally set tariffs on beef and commodities and deal with government procurement contracts and labor provisions. But as Congress prepares to vote on a contentious free-trade accord with Peru, the figure of Venezuelan President Hugo Chávez is looming large.

Supporters are casting the Peru trade agreement -- which could come up for a vote by the end of the month and is the first such pact with a South American nation since a deal with Chile in 2003 -- as a virtual referendum on Chávez, a virulent critic of President Bush.

Chávez says free-trade agreements with the United States are instruments used by Washington to subjugate the region's poor.

Supporters of the Peru pact, which is facing strong opposition from Congressional Democrats, say its rejection would not only be a victory for Chávez but a blow to other allies in the hemisphere that aspire to closer ties with Washington.

"The agreement is a symbol of what other Latin American countries can achieve if they reject the demagogic policies of Mr. Chávez," Broward Republican Rep. Clay Shaw warned his colleagues at a July 12 hearing of the House Ways & Means Committee, which oversees trade issues.

"I hope that one day this agreement will be expanded to other Andean countries such as Colombia and Ecuador," he added. "What message would we send to those countries if after all the positive actions taken by Peru, members pull the rug out from beneath them by rejecting this agreement?"

Administration officials defend the pact, saying Peru already enjoys duty-free access to the U.S. market under a 1991 trade preference agreement that sought to encourage a non-

drug trafficking economy. Now key lawmakers and the Bush administration want to extend those unilateral preferences to free-trade deals that benefit U.S. producers also.

Illinois Republican Rep. Jerry Weller says U.S. corn farmers pay a 17 percent tariff when they export to Peru, whereas Argentine competitors pay only 3.4 percent. Under the agreement, the U.S. rate would go down to zero.

BUSH'S AGENDA

But the Peru deal has broader implications for Bush's hemispheric agenda. A defeat would virtually doom a similar pact with Colombia, expected to go before Congress later this year, and would send a chilling message to the Caribbean Community and Uruguay, which have expressed interest in free-trade arrangements with Washington. Ecuador's FTA is on hold until the government resolves a conflict with a U.S. oil firm whose assets have been seized.

"We can turn our back on Peru by rejecting this agreement," said Everett Eissenstat, the assistant U.S. Trade Representative for the Americas, "or we can seize this opportunity to strengthen our partnership with Peru and help promote economic growth, prosperity and political stability in Peru and throughout the Andean region."

This is not the first time the Bush administration and its congressional allies are underscoring the geopolitical implications behind trade deals. Last year, Bush argued that a free-trade deal with five Central American countries and the Dominican Republic -- known as CAFTA -- would shore up the fragile pro-U.S. democracies recovering from decades of bloody civil wars. CAFTA passed by a two-vote margin in the U.S. House.

The Peruvians also have played the Chávez card. The country's ambassador to the United States, Eduardo Ferrero, told Dow Jones news service that "if the American Congress doesn't support the agreement, they are going to be supporting President Chávez's position that he is against the agreement."

PERU'S NEW LEADER

And Peruvian President-elect Alan García, a moderate leftist, is credited with winning the presidency last month partly by portraying his opponent Ollanta Humala as a Chávez stooge.

García takes over July 28 from President Alejandro Toledo, who was in Washington this week lobbying for the pact.

Peru's Congress has already approved the Peru FTA by a 79-14 vote.

Even business leaders are warning about Chávez.

"[Approval] will send a strong message that the U.S. stands by its friends and allies in regions where leaders like Hugo Chávez and Evo Morales are vying for influence," Leon Trammell, the founder and chairman of conveyor belt builder Tramco, told a Senate panel. He was referring to Bolivian President Morales, a Chávez ally who in early May nationalized the nation's oil and gas industry.

The Chávez threat doesn't seem to be swaying key Democrats.

Rep. Sander Levin, a Michigan Democrat, said Chávez came to power because free-trade deals fail to ensure that the poor get the benefits of globalization, precisely because labor provisions fall short.

"You need to look at why he's there," he said.

Democrats want tough labor standards included in the text of the agreement.

Supporters say labor standards have improved under Toledo, and they are confident they can secure enough Republican lawmakers to overcome Democrats' reservations.

Toledo, after speaking to lawmakers on both sides of the aisle, hopes there will be a vote before the House goes into summer recess.

But officials at the Office of the U.S. Trade Representative say that getting the Peru bill voted out of the Ways and Means Committee before summer recess and on to the floor is "tight."

Still, Peruvian officials are hopeful that approval will come before July 28 -- which is both the last day before recess and Toledo's last day in office.

Toledo remains confident that the pact will eventually win Congressional approval. "We have a majority," he said.

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- Peru would be the 10th nation in the hemisphere to have a free-trade agreement with the United States, joining Mexico, Canada, Chile, Honduras, Nicaragua, Costa Rica, El Salvador, Guatemala and the Dominican Republic. However, the CAFTA agreements still aren't in effect in Costa Rica and the Dominican Republic.
- The U.S. government has completed negotiations with Colombia and is still negotiating with Panama. Ecuador is on hold due to a dispute with a U.S. oil company. Uruguay and Caribbean Community have expressed interest in starting talks.

- Under the Andean Trade Promotion and Drug Eradication Act, Peruvian exports already enter the United States duty-free. Enacted in 1991 and renewed in 2002, it expires at the end of the year.

- Peru must "effectively" enforce its labor laws. Failure could lead to \$15 million fine.