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INTERNATIONAL

Andean countries say U.S. trade deal vital

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LIMA - A 2002 trade deal that has allowed hundreds of products from the four Andean countries to enter the United States tariff free has produced billions of dollars in exports and created hundreds of thousands of jobs, officials from the four countries say.

But failure to reach a broader free-trade agreement with the United States before the accord expires at the end of 2006 would cause most of the exports and jobs to disappear, added officials from the four countries: Peru, Colombia, Bolivia and Ecuador.

Negotiations for a new U.S.-Andean Free Trade Agreement are ongoing, but the talks have fallen behind schedule. And the U.S. Congress isn't in a particularly pro-free-trade mood after a free trade accord with the Dominican Republic and the Central American nations barely squeaked by in July.

"It would be disastrous [if the new Andean trade pact doesn't materialize]," Pedro-Pablo Kuczynski, Peru's finance minister, said in an interview. "We have to have a trade agreement. We would benefit immensely."

The current agreement -- formally known as the Andean Trade Promotion and Drug Eradication Act -- expanded an earlier accord in place since 1991 and has aimed to spur exports, encourage production of non-coca crops and strengthen democracy in a region where the elected presidents of all countries have faced restive populations.

"It has demonstrably stimulated trade with the region," Bennett Harman, the deputy assistant U.S. trade representative for Latin America, said by telephone from Washington. "It has strengthened legitimate economies and provided alternatives to cocaine," which is made from coca leaves.

EXPORTS SOAR

Exports for products covered by the two accords reached \$8.4 billion from the four countries in 2004, up from \$5.2 billion in 2003, according to the U.S. Trade Representative's Office.

In 2004, imports from the four countries totaled 1.1 percent of all imports to the United States, the highest figure since Congress enacted the original duty-free agreement in 1991.

Industries that have flourished under the recent agreement include cut flowers and clothing in Colombia; petroleum and cut flowers in Ecuador; asparagus, paprika and artichokes in Peru; and jewelry and wood in Bolivia.

"Without [the agreement], exports to the U.S. would die," said Eduardo Bracamonte, general manager of Exportadores Bolivianos. The company makes rings, bracelets, necklaces and earrings for Wal-Mart, Kmart and JCPenney without having to pay the normal 6 percent duty.

"We wouldn't be able to compete with companies in countries that pay zero percent," Bracamonte said.

JOBS CRUCIAL

Keeping the jobs created under the Andean Trade Promotion and Drug Eradication Act is crucial to the four countries.

For example, Exportadores Bolivianos is based in La Paz. But 750 of its workers and 2,000 sub-contractors live in El Alto, the teeming impoverished city on the high plain above La Paz that was the epicenter of street

protests that toppled two Bolivian presidents in the past two years.

The workers are paid 1,500 *bolivianos* -- nearly \$200 -- a month or three times the country's minimum wage.

If the current trade act expires without being replaced by a free trade agreement, "We'll have incredible social problems," said Juan Carlos Iturri, who until May served as Bolivia's chief trade negotiator.

In Peru, formerly barren coastal areas north and south of Lima have become green as farmers grow asparagus, artichokes, table grapes and paprika for export to supermarkets in Miami and around the United States.

The agreement "has meant \$2 billion in exports we wouldn't have," said Kuczynski. He estimated that it has created more than 200,000 jobs in agriculture, clothing and textiles.

Eliminating duties can make a big difference for the companies, Kuczynski added. "You're dealing with pretty small [profit] margins. A duty of 12 to 15 percent is equivalent to freight [costs]."

ROSES AND COFFEE

Ecuador has increased exports of roses, marigolds, coffee and tuna fish in pouches to the United States, as well as broccoli and pineapple, with the duty-free agreement deserving at least some of the credit, said a U.S. government official in Ecuador.

The duty-free agreement has created more than 100,000 jobs in Colombia, according to U.S. estimates, with businesses in Cartagena, Bogotá, Medellín and Baranquilla benefiting the most.

While the Andean duty-free agreement has received little attention from the U.S. public at large, specific industries hurt by the increased imports from the four countries have lodged complaints.

Asparagus farmers in the state of Washington have said they cannot compete against Peru's asparagus industry, which produces higher yields per acre at lower labor costs.

Peru, Ecuador and Colombia are hopeful that they can reach a free trade agreement that Congress will approve. But the clock is ticking.

Export businesses will soon feel the impact from the doubt over the accord's future, according to company officials.

Sales for Exportadores Bolivianos, for example, have risen by more than 50 percent so far this year compared to 2004, but Bracamonte said the company would soon freeze expansion plans because of the uncertainty over whether Bolivian products will continue to enter the U.S. duty free.

A permanent free trade agreement, he added, would "create a lot of investment."

CHANCES HARMED

Given only observer status at the outset of the talks, Bolivia has harmed its chances of becoming a full participant after its Congress approved an oil and gas law in May that inflamed the international business community because it unilaterally broke existing contracts and imposed sharply higher taxes.

"A country that blows away contracts is not a good candidate for free trade," a U.S. government official said.

Bracamonte countered that Bolivia will fall into the orbit of Venezuela and its leftist president, Hugo Chávez, without a free trade agreement with the United States.

"Does the U.S. want Bolivia to be part of the bloc led by Venezuela or with Chile, Central America, Mexico and the Andean countries?" asked Bracamonte. "Don't leave us out or we'll be in the other bloc."