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**BEFORE THE**
**UNITED STATES SENATE COMMITTEE ON FINANCE**

In the Matter of:

*U.S. – Peru Trade Promotion Agreement*

**WRITTEN STATEMENT ON BEHALF OF**
**EXPORAMERICA**

September 17, 2007


Carlos Mateo Paz-Soldan, Esq.
**SAUL EWING LLP**
2600 Virginia Avenue, N.W.
Suite 1000
Washington, DC 20037-1922
(202) 333-8800

EXPORAMERICA
C/o Diego Calmet
El Rosario no. 380 – San Isidro
Lima 27 – Peru

This statement is submitted on behalf of EXPORAMERICA, an association of Peruvian apparel companies whose objective is to promote increased trade between Peru and the U.S. Exporamerica presented testimony at the public hearing conducted by the International Trade Commission (ITC) on March 15, 2006 in connection with its investigation regarding the Peru Trade Promotion Agreement (PTPA), and before this Committee on June 29, 2006.

## I. U.S. – Peru Trade in Fibers, Yarns, and Apparel – A Mutually Beneficial Relationship

Since the implementation of the Andean Trade and Drug Eradication Act (ATPDEA) in 2002, trade in textiles and apparel between the U.S. and Peru has grown considerably.[1] In Peru's case apparel exports have nearly doubled since 2001 and Peru has surpassed Colombia to become the leading Andean exporter of textiles and apparel to the U.S. Although Peru supplied only 1% of total U.S. apparel imports in 2005, it was the fifth largest source of knit cotton shirts and blouses, with shipments of $644 million (equal to 78% of US textile and apparel imports from Peru) and a 5% marketshare.[2]

Peru's growth has also led to significant benefits for the U.S. as demand in Peru for raw materials has outstripped supplies. As noted by the I.T.C., U.S. cotton for use in the textile and apparel industry is a major export product to Peru,[3] and the provisions of the PTPA are likely to have a significant positive effect on U.S. cotton exports to Peru.[4] In addition, according to the ITC, tariff liberalization under the PTPA will likely result in a large percentage increase in U.S. exports of textiles and apparel to Peru. These exports consist mostly of yarns, fabrics, and garment parts.[5]

Building on the benefits of the ATPDEA (which is set to expire in February of 2008), and its predecessor the ATPA of 1991, the PTPA has been signed by executives of both countries and ratified by the Peruvian Congress, but is still pending approval of the U.S. Congress. <u>The increasing interconnectedness of the U.S. and Peruvian textile and apparel industries, which is a direct outgrowth of the ATPDEA, is also creating a mutually beneficial trade relationship that will permit industries in both countries to face the stiff competition coming from China and other Asian producers, which largely do not use U.S. inputs in their textile and apparel production.</u> The PTPA will allow this already thriving relationship to grow.

The emerging "strategic alliance" between textile and apparel industries in both countries is being replicated in other FTAs between the U.S. and its trade partners in the Western Hemisphere.

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[1] The ATPA (1991) and the ATPDEA (2002) , although used interchangeably at times in this testimony, contain differences of importance to the textile and apparel industry. According to the International Economic Review (published ITC #3571 Nov./Dec. 2002), the ATPDEA "authorizes the extension of duty—free treatment to certain products previously excluded from ATPA preferences, including certain textiles and apparel, footwear, petroleum and petroleum derivatives, watches and watch parts (including cases, bracelets, and straps), and certain tuna in smaller foil or other flexible airtight packages (not cans). However, ATPDEA did not renew the reduced--duty provisions on certain handbags, luggage, flat goods, work gloves, and leather wearing apparel."

[2] United States International Trade Comission, "U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects" – USITC Publication 3855, May 2006, p. 3-22.

[3] United States International Trade Commission, "The Impact of the Andean Trade Preference Act" – Eleventh Report 2004, USITC Publication 3803, September 2005, p. 2-38.

[4] United States International Trade Comission, "U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects" – USITC Publication 3855, May 2006, p 3-7.

[5] Ibid p. 3-22.

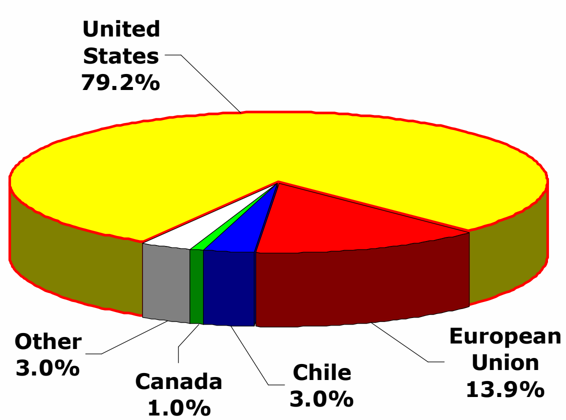
This will help Peru and the U.S. to face the threat presented by Chinese and Asian competition, which in many instances depends on subsidies; artificially low exchange rates to promote exports; and labor that in many cases does not conform with minimum, internationally-recognized, labor standards, none of which occurs in Peru, a country that scrupulously observes the 71 International Labor Organization (I.L.O.) agreements to which it has subscribed.

## II. Importance of the Textile and Apparel Industry to Peru's Economy

The textile and apparel manufacturing industry represents around 10% of Peru's total exports. It is one of Peru's leading industries and an estimated source of direct and indirect employment for over 500,000 Peruvians. As such, it accounts for nearly 20% of the country's manufacturing jobs and almost 10% (considering an average family size of 5) of Peru's population of 28 million depends on this industry for its livelihood.

It is also one of Peru's fastest growing export industries. In 2005, Peru exported approximately US$ 1,150 billion worth of textiles and apparels, compared to US$ 664 million in 2001. Approximately 79.2% of Peru's exports were destined to the U.S. market. This industry has become successful in large part thanks to the ATPDEA.

**Target Markets**
**Clothing and Other Apparel**
**2004**




Source: Aduanas (Peru Customs)

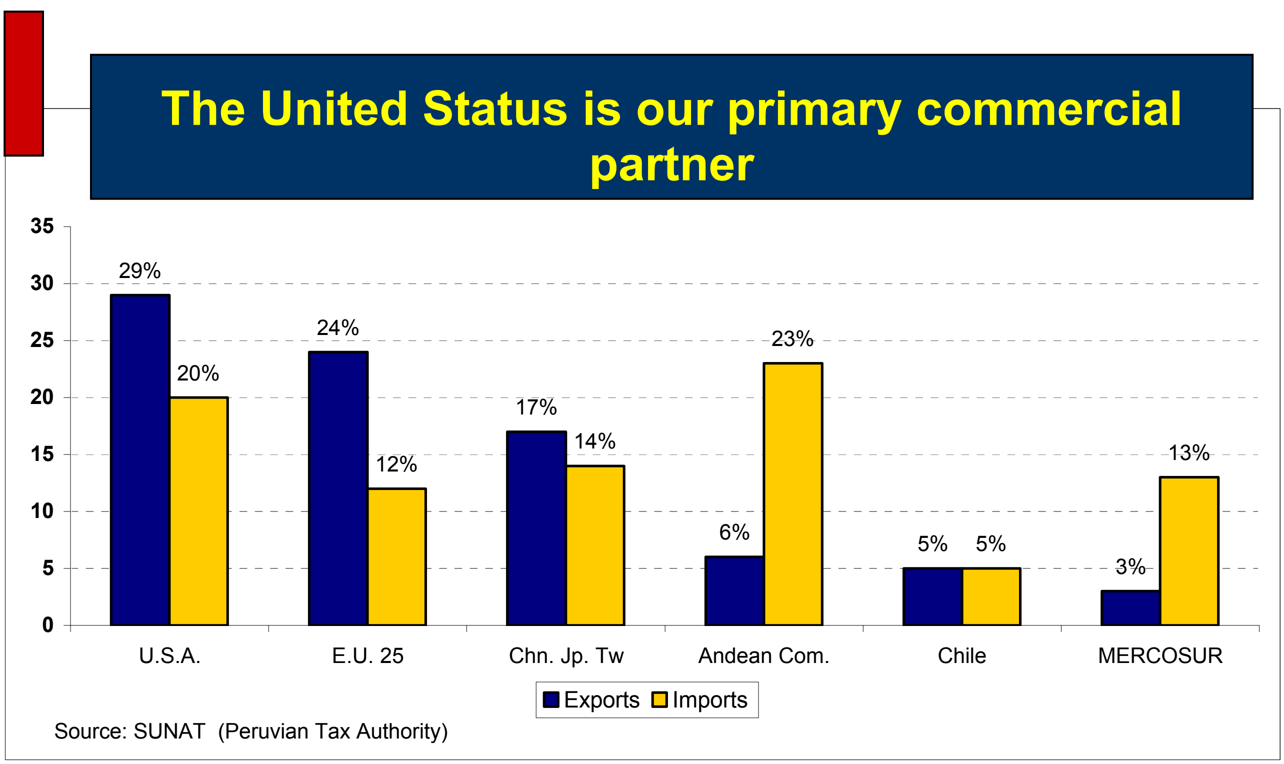
The qualitative importance of apparel exports to Peru becomes evident when considering that 70% of Peru's exports correspond to minerals (gold, copper, lead, silver, zinc, etc.) and fish meal, all of which represent commodities and have little or no value-added. In this regard, it is estimated that an article of clothing multiplies the value of the fiber approximately 12 times. Peru's apparel industry allows for substantial value added because, unlike neighboring Colombia or the Central American nations which are overwhelmingly maquila (cut & sew) oriented, its industry is vertically integrated throughout the productive chain and its niche market is the "full package" product. Approximately 80% of Peru's textile and apparel exports are represented by cotton garments and fabrics. Of this amount, about 80% are knit fabrics.

## III. Benefits to the U.S. Economy:

### A. Cotton

As is shown in the chart below, the U.S. is Peru's primary trade partner and the destination for nearly one third of the country's exports. As indicated earlier, Peru's growing exports also benefit the U.S. In the case of apparel, 95% of Peru's exports are manufactured from cotton fiber. Given that there is a shortfall of cotton production in Peru for use in export garments, the country must import cotton to meet the demand of its textile and apparel sector. According to the ITC, Peru imported an average of 39625 MT of cotton annually from 2000-2005, of which 27,155 MT, or more than two-thirds, were imported from the United States.[6] This growing consumption of U.S. cotton has been spurred by the ATPDEA and will be further encouraged by approval of the PTPA.

It should be noted that, at present, U.S. cotton exports to Peru are currently subject to a 12% import duty on the CIF value. Upon implementation of the PTPA, this import duty will be eliminated immediately. This will further encourage U.S. cotton exports to Peru and in turn make Peruvian apparel more competitive price-wise in the U.S. market. Moreover, Peruvian imports of a variety of synthetic fibers, demand for which has grown on a daily basis, are also likely to increase significantly. However, allowing the ATPDEA to lapse without the PTPA in place would immediately threaten this thriving relationship and hurt Peruvian apparel producers and their U.S. cotton suppliers.




Recognizing the benefits to the U.S. cotton industry of increasing exports of U.S. cotton to the ATPDEA countries, the Memphis, TN-based, National Cotton Council (NCC) passed a

[6] ITC May 2006 report, p. 3-8.

resolution supporting the adoption of the PTPA and its strong rule of origin requirements, and informed the U.S.T.R. that the NCC had determined that the agreement will be beneficial for U.S. cotton producers and for U.S. textile and apparel manufacturers.[7] The chart below shows the growth in U.S. cotton exports to Peru over the last five years.

**U.S. Cotton Exports to Peru (including US Pima and US Upland)[8]**

| YEAR | VOLUME M.T. FIBER | CIF VALUE IN US $ | TOTAL IMPORTS % |
|---|---|---|---|
| 2001 | 23,294,206 | 31,640,563 | 58.4 |
| 2002 | 31,359,226 | 36,722,259 | 75.7 |
| 2003 | 34,032,917 | 48,952,961 | 86.0 |
| 2004 | 23,828,597 | 43,286,463 | 71.9 |
| 2005 | 34,764,482 | 48,665,512 | 75.0 |
| 2006 | 31,504,338 | 42,448,355 | 84.7 |
| 2007* | 34,327,180 | 51,241,751 | 90.8 |

* January to July 2007.

**B. Yarns and Fabrics**

The rules of origin agreed to under ATPDEA, and the PTPA, are designed to foster the use of inputs produced in member countries (the use of yarn or fabrics from third parties – as is the case in some of the countries that participate in the CAFTA- is not allowed in PTPA except in specific cases). Once the PTPA is in place Peru is expected to increasingly meet its unsatisfied demand for yarn and fabrics with products manufactured in the U.S., because this is the only way in which apparel will qualify for duty free treatment in the U.S. under the rules of origin.

As the ITC notes, U.S. textile firms generally support the rules of origin for textiles and apparel under the PTPA because the rules ensure that the agreement benefits both parties and will further regional integration goals.[9] Under the agreement, yarns and fabrics produced in the U.S. will enter Peru duty free immediately upon implementation. This will boost imports from the U.S., which will have an advantage vis-à-vis yarn and fabric suppliers that pay a 25% customs tariff to enter Peru. Again, expiration of the ATPDEA, without the PTPA in place, will interrupt this flow and will threaten the growth in trade between both countries that would otherwise be expected from a smoother transition from the ATPDEA to the PTPA.[10]

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[7] "Cotton's Week" (NCC Newsletter), February 17, 2006, referring to letter from John Maguire, NCC senior vice president, Washington Operations to Ambassador Portman.

[8] - Source : Aduanas.

[9] United States International Trade Comission, "U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects" – USITC Publication 3855, May 2006, p. 3-23.

[10] The National Council of Textile Organizations (NCTO), another major U.S. association based in Gastonia, NC, which represents numerous yarn and fabric producers throughout the U.S., but who are mostly concentrated in North Carolina, South Carolina, and Georgia, is also pleased that the PTPA addresses all the major negotiating objectives, which significantly enhances the hemispheric supply chain and makes these improvements permanent. The structure and rules of the PTPA will benefit textile and apparel producers in both countries.

## C. <u>The Apparel Value Chain in the U.S. and Other Considerations</u>

In addition to the direct benefits to the U.S. cotton and textile industries noted above, growing apparel imports from Peru under the ATPDEA have generated benefits to the U.S. economy across the entire transportation, distribution, and retail chain. In this regard, if for example a clothing garment has a FOB Callao-Peru value of US$ 6.00, the price at which the same garment is sold in the U.S. generally ranges from US$ 40 to 50. This price differential indicates that a greater portion of the value chain involved in Peruvian apparel exports remains in U.S. hands. These considerable benefits are distributed among U.S. sea, air, and land transporters; couriers; ports; warehouses and distribution facilities; and finally retailers. <u>It is also safe to say that the Peruvian apparel industry supports thousands of U.S. jobs along the value chain associated with this trade.</u> Finally, the last link of this value chain is, of course, the U.S. consumer who as a result of the ATPDEA has had access at more competitive prices to high-quality apparel containing in many instances cotton and animal fibers unique to Peru.

In this regard, it is important to mention that Peruvian apparel exports include those manufactured with wools from species in the camelid family such as the alpaca, llama, and vicuña. This uniquely Peruvian production has grown rapidly in recent years, does not compete with U.S.-produced apparel, and has resulted in concrete conservation and environmental benefits in Peru.[11]

Under both the ATPA, and its successor the ATPDEA, Peru's growing apparel industry, its capacity to generate employment, and its need for imported and domestically grown cotton and other inputs, has also contributed to Peru's success in reducing illegal coca-leaf cultivation and providing alternative, legal, employment for tens of thousands of Peruvians. This is an important U.S. strategic objective in the war on drugs, the struggle against narcotics trafficking towards the U.S., and keeping illegal drugs out of U.S. communities and neighborhoods. This is also a key reason for approval of the PTPA.

Figures from the ITC noted that net coca cultivation decreased dramatically from 115,300 hectares in 1995 to 27,500 hectares in 2004.[12] Although coca cultivation has risen slightly in Peru in the last two years, it is important to note that since 2000, coca cultivation in the Andean region as a whole has declined by nearly 30% to 158,000 hectares, according to the United Nations Office on Drugs and Crime (UNODC).[13] Given that the ATPDEA has been in place since 1991, it is clear that this program has been an invaluable tool in reducing coca cultivation by spurring the growth of the apparel and other export-driven industries in Peru.

In observing the overall picture, it is also important to note that Andean apparel exports to the U.S. do not even reach 1.1% of total U.S. imports. Therefore, there is no risk of displacement or damage to the U.S. from Peruvian apparel imports.

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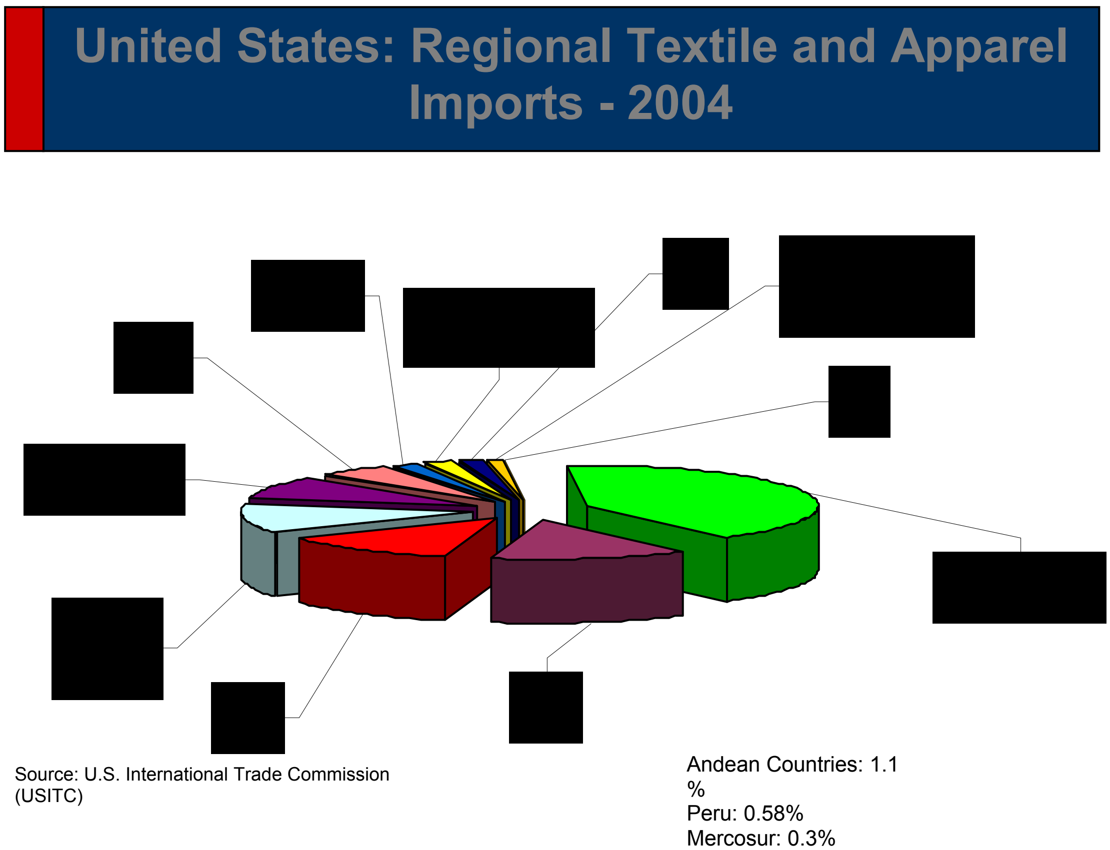
[11] Once endangered wild vicuña herds, which have some of the finest fibers in the animal kingdom, are making a comeback in the impoverished Andean highlands thanks to export markets created in the last 15 years for apparel made with their wool.

[11] United States International Trade Commission, "The Impact of the Andean Trade Preference Act" – Eleventh Report 2004, USITC Publication 3803, September 2005, p. 4-14.

[13] UN Office on Drugs and Crime, "Coca Cultivation in the Andean Region: A Survey of Bolivia, Colombia and Peru," June 2006, Preface.



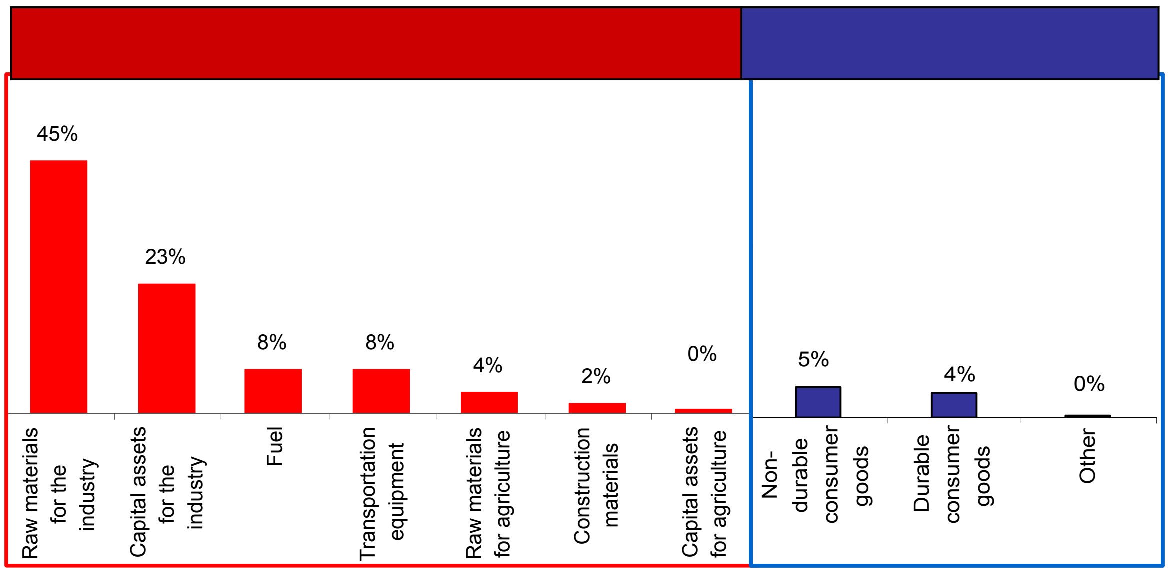

It should be considered that, as shown in the chart below, Peruvian and U.S. economies are complementary in many aspects and barely compete against each other, and therefore, a bilateral agreement generates a win-win situation for both countries.

In this regard, it is estimated that <u>for every dollar exported by the ATPDEA beneficiary countries to the U.S., 94 cents worth of U.S. goods are in turn imported by the ATPDEA countries,</u> whereas by way of comparison the Asian countries only buy 14 cents out of every dollar exported to the U.S.[14]

[14] The ATPDEA beneficiary countries are Bolivia, Colombia, Ecuador and Peru.

## Peruvian and U.S. industries do not compete against, but rather complement each other

**Peru: U.S. imports for 2004**
**Millions of US$ CIF**




## IV. <u>Peru TPA and Labor</u>

The growth of globalized, export-based industries in Peru has been such that in parts of the country such as Ica and La Libertad there is full-employment year round and extreme poverty has been reduced by an astounding 36% comparable to levels experienced nationwide by countries such as Chile. The cotton, textile and apparel industries located in these regions have helped to contribute to these successes. Moreover, workers in these industries earn good wages by Peruvian standards which is helping to reduce Peru's extreme poverty levels. In recent years for example, the former Peruvian Prime Minister Pedro Pablo Kuczynski announced that extreme poverty has been reduced from 24% to 18% between 2001 and 2005.

In addition, the approval of the PTPA will also be an effective tool for providing support to Peru in light of the recent earthquake which occurred precisely in the areas south of Lima that have benefited from the ATPDEA and will benefit from the PTPA. This seismic event resulted in hundreds of deaths and up to 70% destruction of cities such as Pisco.

In terms of its commitment to global labor standards, Peru has ratified 71 ILO conventions, including the eight "core conventions." It has been praised multiple times by the ILO for its progress in improving labor laws. In addition to all of the ILO's Core Labor Rights Conventions, the PTPA's labor standards exceed those of five other previously-ratified trade agreements: Jordan, Chile/Singapore, CAFTA, Bahrain and even the ATPDEA, which does not make ILO or national standards mandatory.

The PTPA goes beyond many other free trade agreements in the enforcement of worker rights and dispute resolution. The PTPA-created Labor Affairs Council develops public participation in reporting and funding to ensure implementation of the agreement and improved cooperation and capacity-building mechanisms.

Finally, Peru approved the latest changes proposed in a letter signed by bipartisan leaders from the U.S. Congress and Administration on May 10, 2007, the considerable commitments have already been incorporated and ratified by Peru's Congress on July 28, 2007, and will be implemented by Presidential decrees.

## V. Investment and Dispute Resolution

The PTPA's Investment Chapter will facilitate transactions for U.S. industries and banks, as well as commercial and service companies, among others, that have investments or are interested in investing in Peru. U.S. investors will be treated equally as local institutions. Moreover, they will have full freedom to remit investments and profits. Therefore, it is possible that U.S. textile companies will install industrial plants and trading companies in Peru, which will use supplies produced in the United States, such as state-of-the-art fibers, yarns and fabrics.

It should also be pointed out that the PTPA contemplates a dispute settlement mechanism, designed to provide security to U.S. investors in Peru given that any controversy will be resolved on a fair and equitable basis, without the intervention of political or other considerations in the settlement of disputes.

## VI. Concluding Remarks

The Peruvian economy, as shown in the chart below, is clearly very small in comparison to U.S. economy. However, an emerging strategic alliance between the textile and apparel industries of both countries, and more broadly between the countries themselves, which has been made possible by the ATPA/ATPDEA, and will be enshrined by the PTPA will provide stability to the hemisphere based on the common principles shared by the U.S. and Peru, such as freedom and democracy, upon which fair and prosperous societies are based.

The ATPA/ATPDEA has brought significant benefits to the United States – progress in the "war on drugs," benefits to U.S. consumers of imports from Peru and segments of the U.S. economy from distribution and manufacturing – as well as to Peruvian economy in general and to the apparel sector in particular. If the ATPDEA is allowed to lapse after December 31, 2006 with the PTPA in its place, the benefits that currently flow to both the Peruvian and U.S. economies from this program would lapse as well.

Exporamerica is pleased that the United States has negotiated a free trade agreement with Peru that subject to the rules of origin would provide duty-free treatment to imports from Peru. However, it is not at all clear whether this agreement will be fully implemented until January 1, 2007. For this reason, Exporamerica urges prompt consideration and approval by the U.S. Congress of the PTPA, and looks forward to working with this body to achieve this objective.

## The U.S. is the world's largest market

**(Peru's economy is comparable to Utah's in relation to the entire U.S.)**


**In terms of GDP**

**Source: Brigham Young U.**