



Testimony

of Thomas F. Catania
Vice President of Government Relations
Whirlpool Corporation

before the United States Senate Committee on Finance

on the U.S.-Peru Trade Promotion Agreement (PTPA)

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Thank you, Chairman Baucus, Ranking Member Grassley, and distinguished members of the Committee. My name is Tom Catania and I serve as the Vice President of Government Relations for Whirlpool Corporation. I am testifying today on behalf of the U.S. Chamber of Commerce, the Association of American Chambers of Commerce in Latin America (AACCLA), and the Latin America Trade Coalition, which consists of over 700 U.S. companies and business organizations that support the pending Trade Promotion Agreements with Peru, Colombia and Panama. I also have spent a number of years in Whirlpool's North American division in Miami, which managed U.S. sales to the Latin America region. Whirlpool is the world's leading manufacturer and marketer of home appliances, with more than 73,000 employees and over 70 manufacturing and technology centers around the world.

I am pleased to be before you today to discuss the merits of the U.S.-Peru Trade Promotion Agreement (PTPA) and its potential to strengthen U.S. manufacturing. Whirlpool strongly supports this Agreement because it removes barriers to trade that disadvantage U.S. companies that export to Peru. At Whirlpool, we welcome the challenge to compete globally with foreign suppliers if subject to the same rule of law. This is made possible by U.S. trade agreements that even the terms of trade. Currently, U.S. exports are disadvantaged by preferential arrangements within the hemisphere that foreign appliance manufacturers take advantage of by setting up operations in Mexico to export within Latin America. We have substantial operations of our own in Mexico and Brazil, but believe our U.S.-produced products provide the best solution for our brands' Peruvian targeted consumer segments. However, we cannot sustain the duty disadvantage under the present trade regime. The U.S.-Peru Agreement will allow Whirlpool to maintain U.S. jobs rather than being left with no competitive choice, but to relocate or expand operations in other Latin American locations to increase exports to the region.

OPENING PERU'S MARKET TO U.S. GOODS AND SERVICES

Since 1991, Peru has enjoyed duty-free access to the U.S. market for most goods and services as a result of the Andean Trade Preference Act, and subsequently by the Andean Trade Promotion and Drug Eradication Act. The positive effects in Peru of these laws were significant and they led to numerous political and economic reforms that have helped Peru's gross domestic product grow significantly. The agreement we are discussing today has the potential to spur even more development and growth in Peru's economy by encouraging trade, creating jobs, and attracting investment.

The agreement makes it easier for U.S. consumers to buy products made by Peru's workers, farmers and companies. Total two-way trade between U.S. and Peru has doubled over the past three years, reaching \$8.8 billion in 2006. However, due to U.S. trade preference programs, U.S. exports to Peru grew by just 80% from 2001-2006, while Peruvian exports to the U.S. grew 130% during the same time period. Having fair access to a growing, dynamic market like Peru is critically important to Whirlpool and other U.S. manufacturers.

PTPA will cut Peru's taxes on U.S. products and as a result, make this trade relationship a more mutually beneficial, reciprocal partnership. The day the agreement enters into force, 80% of U.S. consumer and industrial products and more than two-thirds of current U.S. farm exports will enter Peru duty-free. The U.S.-Peru TPA will help level the playing field by eliminating tariffs and other non-tariff

barriers and providing access to the 28 million Peruvian consumers for our U.S.-produced goods and services. In fact, tariffs of 15%-20% on Whirlpool's U.S. exports of refrigerators, ranges and clothes washers would be immediately eliminated.

Whirlpool's U.S. exports to Peru come from many of our U.S. manufacturing operations, including those in Arkansas, Indiana, Iowa, Ohio and Tennessee. The U.S.-Peru TPA, as well as other Latin American TPAs with Colombia and Panama, would save Whirlpool millions of dollars in duties not paid and would encourage even greater export opportunities for Whirlpool's U.S. manufacturing operations. I should add that we recently opened a legal entity, primarily a sales and service company, in Peru called Whirlpool Peru.

BENEFITS OF U.S.-PERU TRADE

The U.S.-Peru TPA is a great step forward in the evolution of our trading relationship with Peru from one based on unilateral trade preferences to reciprocal market access. As such, the economic, employment, and pocketbook impact of the agreement are quite positive. Indeed, PTPA is expected make modest but nonetheless valuable contributions to economic growth, incomes, and employment opportunities in cities and towns across the country.

According to the U.S. Department of Commerce, Peru was the 43rd largest market for U.S. goods in 2006, out of a total of 228 markets. Texas and Florida were the top state exporters, with California, Louisiana, Illinois, South Carolina, New York, Georgia, Pennsylvania, Tennessee, Washington, and New Jersey also posting significant export totals to Peru in 2006.

The U.S.-Peru TPA is expected to have a positive effect throughout the U.S. economy. According to the International Trade Commission, U.S. economy-wide imports from Peru are expected to increase by 439 million dollars, while U.S. exports to Peru are expected to increase by 1.1 billion dollars. That is an 8% increase in Peru exports and a 25% increase in U.S. exports. These figures do not even consider the positive impact of the elimination of *non-tariff barriers*, which will facilitate and reduce costs on U.S. exports even more. Specifically, U.S. manufacturers will benefit from:

- Non-discriminatory, national treatment in all aspects of our business;
- Comprehensive rules of origin that ensure only U.S. and Peru benefit from the agreement;
- Transparency and efficiency in administering customs procedures, including the agreement's rules of origin which provide clarity, predictability, and certainty to manufacturers;
- Enhanced commitments in distribution services, such as wholesaling, retailing and franchising; and
- Greater protection for intellectual property rights, specifically, criminalization of end-user piracy, providing strong deterrence against piracy and counterfeiting, and limiting the grounds for revoking a patent, thus providing protection against arbitrary revocation.

Forging new and lasting relationships in Peru and throughout the region will provide Whirlpool with an opportunity to improve its competitiveness and achieve economies of scale throughout the Western Hemisphere.

ADDITIONAL BENEFITS

Losing access to the U.S. market would mean losing millions of dollars in revenue and thousands of Peruvian jobs. Without these jobs, many Peruvian workers will be forced to find other employment opportunities in a country that has a very high unemployment rate and where nearly half of the population lives in poverty. However, the PTPA makes Peru's favorable access to our markets permanent and provides additional benefits in the form of improved market functioning and enhanced economic growth. In other words, PTPA will provide continuity for the long-term U.S. policy goals of economic development and democratic consolidation in Peru.

In addition to contributing strongly to the expansion of trade and economic relations between the United States and Peru, the TPA will lend a helping hand to our close ally and will enhance U.S. efforts to strengthen democracy in the region. The embrace of democratic norms throughout the hemisphere over the past 25 years has been remarkable. But in some countries, poor economic policy and weak political parties, among other factors, have recently endangered this progress. The recent surge in populist victories, especially in South America, underscores the fact that democratic elections do not guarantee the rule of law.

While questions of the rule of law in the region may legitimately be addressed in a number of ways, we believe that the promulgation of ambitious and comprehensive free trade agreements would do more to enhance the rule of law and transparent governance in the region than any other possible step by the United States. While the commercial benefits are substantial, they go beyond just opening overseas markets for America's workers, farmers and companies. These agreements assist in the creation of a transparent, rules-based economic environment, which is a critical element in the success of democratic institutions and market-based economic policies.

Like much of Latin America, the Andean region is struggling against corruption, which undermines growth, security, and stability. PTPA contains critical provisions to enhance transparency and accountability in governance, providing the countries with important tools to fight the scourge of corruption. As an example, the agreement provides for the criminalization of bribery in government procurement, providing for more efficient procurement and a more competitive marketplace.

PTPA also promotes U.S. security interests by forging a deeper partnership with Peru through a framework for government-to-government relationships that is grounded in the tangible national interests of all parties. Such a framework is vital to enhancing cooperation in the fight against terrorism and narcotics trafficking; it also sets an example for other countries around the world as we pursue our global security goals. By promoting economic growth in Peru, the TPA will help stabilize its economy and provide its citizens with long-term alternatives to narcotics trafficking or illegal immigration.

THE RULE OF LAW

The agreement will strengthen protection and enforcement of U.S. trademarks, patents, and copyrights, creating new opportunities for U.S. innovation-based and creative industries in Peru. In specific terms, PTPA includes strong intellectual property enforcement mechanisms and penalty provisions, including the criminalization of end-user piracy and counterfeiting and the authority to seize and destroy not only counterfeit goods but also the equipment used to produce them. The agreement also provides necessary mechanisms to fight the problem of trans-shipment of counterfeit goods with specific provisions that are aimed at goods-in-transit.

In addition, U.S. direct investors in Peru will benefit from the strong investment chapter in the agreement, particularly the sections dealing with investment protections and dispute settlement. As noted by the Advisory Committee for Trade Policy and Negotiations in its report to President Bush, PTPA goes beyond earlier agreements in this regard and sets the gold standard for future free trade agreements. Indeed, the agreement enables binding third party arbitration for investor-state disputes not only for investments concluded after the agreement goes into effect, but also for many types of investments that pre-date the agreement.

The agreement provides for rights that are consistent with U.S. law and also contains fully transparent dispute settlement procedures that are open to the public and allow interested parties to provide their input. As such, these trade agreements provide an opportunity for the partner countries to improve their investment climate by undertaking legal and judicial reforms, and resolving investment disputes (e.g., the criminalization of commercial disputes).

CONCLUSION

In conclusion, it is worth noting that the commercial benefits of recent free trade agreements have surpassed all expectation. Consider the U.S.-Chile FTA, which was implemented on January 1, 2004, and immediately began to pay dividends for American businesses and farmers. U.S. exports to Chile surged by 33% in 2004, a blistering 85% in 2005 and 31% in 2006. While the U.S. International Trade Administration had forecast total export growth of 18-52% over the first 12 years of the agreement's implementation, U.S. exports to Chile leapt by 33% in 2004, 43% in 2005, and an additional 38% in 2006. All told, U.S.-Chile trade has jumped by two-and-a-half fold in just three years. Given the similarities between PTPA and the U.S.-Chile FTA, impressive benefits from this new agreement are likely as well.

While exports are important, it is worth reporting that imports from Chile have also increased. In the end, trade is about more than just exporting — it is about more choices at lower costs for consumers, and as a result a higher standard of living. Sometimes, as is the case with Chile, free trade is about having access to fresh grapes in the winter and more crushed grapes (i.e., wine) year-round. With Peru, our consumers will benefit from more access to healthy foods and vegetables like fish and asparagus. This is especially appreciated during the winter.

We appreciate this opportunity to share our strong support for PTPA. We believe that trade expansion is an essential ingredient in any recipe for economic success in the 21st century, and PTPA is an excellent model in this regard. If U.S. companies, workers, and consumers are to thrive amidst rising competition, new trade agreements such as PTPA are critical. U.S. business is more than capable of competing in the global marketplace when trade barriers are removed and markets are open.

The U.S.-Peru TPA is good for Whirlpool and other U.S. manufacturers, and it will promote economic growth and prosperity in both the U.S. and Peru. We hope the Congress will move quickly to pass this agreement and the Colombia and Panama agreements to ensure strengthened export opportunities for U.S. manufacturers.

Mr. Chairman and members of the committee, thanks again for the opportunity to testify before the committee.