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## **Andean-U.S. Free-Trade Agreement Negotiations**

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-name redacted-

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# Andean-U.S. Free-Trade Agreement Negotiations

## Summary

In November 2003, the Administration notified Congress that it intended to begin negotiations on a free-trade agreement (FTA) with four Andean countries - Colombia, Peru, Ecuador, and Bolivia. The notification said that an FTA would reduce and eliminate foreign barriers to trade and investment and would support democracy and fight drug activity in the Andean region. The Andean governments wanted to ensure access to the U.S. market, especially since their current trade preferences will terminate at the end of 2006. In the United States, the business community indicated strong support for the trade agreement, with labor opposing it as the case for many FTAs, and the agriculture community was split.

The Andean-U.S. FTA negotiations began in May 2004, when the United States, Colombia, Peru, and Ecuador participated in the first round of talks. Bolivia participated as an observer. After thirteen rounds of talks, however, negotiators failed to reach an agreement. After the last set of talks, Peru decided to continue negotiating, without Colombia or Ecuador, and concluded a bilateral agreement with the United States in December 2005. Colombia later continued negotiations with the United States and this agreement was successfully concluded on February 27, 2006. Negotiations with Ecuador are stalemated. A senior US trade official recently stated that the Peru and Colombian FTAs are likely to be submitted to Congress as separate agreements, thereby constraining the possibility of an Andean-U.S. FTA.

The United States currently extends duty-free treatment to imports from the four Andean countries under a regional preference program. The Andean Trade Preference Act (ATPA) authorized the President to grant duty-free treatment to certain products, and the Andean Trade Promotion and Drug Eradication Act (ATPDEA) reauthorized the ATPA program and added products that had been previously excluded. Over half of all U.S. imports in 2005 from the Andean countries entered under these preferences.

In 2005, the United States imported \$20.1 billion from the four Andean countries and exported \$9.9 billion. Colombia accounted for about half of U.S. trade with the region. Peru and Ecuador almost evenly split the other half, and Bolivia represented a very small share. The leading U.S. import from the region in 2005 was crude petroleum oil, which accounted for 35% of imports. Leading U.S. exports to the region were petroleum products, mining equipment, and broadcasting equipment.

There were several important issues in the FTA negotiations. The trade negotiators stated that the main obstacles to concluding an overall agreement were in agriculture and intellectual property rights. Another major concern was the issue of labor standards. Under the notification procedures founded in the Trade Promotion Authority Act, the trade agreements with Peru and Colombia could be voted on by the Congress sometime this summer. The narrow passage of CAFTA-DR had been viewed as an indicator that any U.S.-Andean FTA might also face considerable opposition. How the Bush Administration's decision to negotiate and submit separate FTAs with Peru and Colombia might affect this calculation remains uncertain. This report will not be updated.

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# Andean-U.S. Free-Trade Agreement Negotiations

## Background

The Andean-U.S. free trade agreement (FTA) negotiations began in May 2004, when the United States, Colombia, Peru, and Ecuador participated in the first round of talks, with Bolivia participating as an observer. After thirteen rounds of talks, however, negotiators failed to reach an agreement. Peru decided to continue negotiating alone with the United States and concluded a bilateral agreement in December 2005. On January 6, 2006, President Bush notified the Congress of his intention to enter into a free trade agreement with Peru. Colombia later continued negotiations with the United States and this agreement was concluded on February 27, 2006. Negotiations with Ecuador are stalemated. This report discusses the Andean-U.S. FTA negotiation process and the evolution from the concept of a single FTA into more than one bilateral agreements. The report also discusses U.S.-Andean trade relations and the major trade issues in the negotiations. Given that the prospects of a single Andean-U.S. FTA now appear low, this report will not be updated.

## The Negotiations

### Developments Prior to the Negotiations

At a meeting with President George W. Bush on April 28, 2003, in Washington, Colombian President Alvaro Uribe sought a free-trade agreement (FTA) with the United States as a means to improve Colombia's economy, provide employment, and offer an attractive alternative to drug activity in his country. President Bush was reluctant to agree to free-trade talks, however, because he wanted to achieve broader market opening through the hemispheric Free Trade Agreement of the Americas (FTAA).<sup>1</sup> Because the FTAA talks appeared to be stalled, President Bush reportedly offered at the meeting to send then-U.S. Trade Representative (USTR) Robert Zoellick to Colombia to discuss bilateral trade between the two countries.

At the time, some Members of Congress supported free-trade talks with Colombia. On June 11, 2003, Senator Max Baucus, Ranking Member of the Senate Finance Committee, and three Democratic Members on the House Ways and Means Committee urged USTR Zoellick to give "significant weight" to market size in selecting countries for FTAs and included Colombia in a list of possible FTA

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<sup>1</sup> "Bush Plays Down Prospects for Colombia Trade Pact." *Reuters*. April 30, 2003.

partners.<sup>2</sup> On August 1, 2003, Senator Charles Grassley, Chairman of the Finance Committee, and a bipartisan group of four other Senators on the Senate Finance Committee sent the USTR a letter asking for “serious consideration of initiating [FTA] negotiations with Colombia....”<sup>3</sup>

The USTR traveled to Bogota and met with Colombia’s President and others on August 8, 2003. The purpose of his trip, according to the USTR, was “...to clearly lay out the scope and depth of such a possible negotiation, what it would involve, and to listen and learn from Colombians about their goals and expectations.”<sup>4</sup> Peru and Ecuador also expressed interest in FTA negotiations with the United States.

On November 18, 2003, USTR Zoellick formally notified Congress of the Administration’s intent to begin FTA negotiations with Colombia, Peru, Ecuador, and Bolivia. A press release that accompanied the notification said that the Administration planned negotiations to begin the second quarter of 2004, initially with Colombia and Peru, and that the United States would work with Ecuador and Bolivia “with a view to including them in the agreement as well.”<sup>5</sup>

The USTR’s letter of notification to Congress identified economic reasons for the negotiations. It said that an FTA would help U.S. interests “...by reducing and eliminating barriers to trade and investment between the Andean countries and the United States. The FTA will also enable us to address impediments to trade and investment in the Andean countries....” The combined markets for the four Andean countries, according to the USTR, have a gross domestic product (on a purchasing power parity basis) of \$463 billion and a combined population of 93 million people.<sup>6</sup> The letter of notification also stated that an Andean FTA would add momentum to the broader negotiations on an FTAA. Those negotiations were still stalled, primarily because of differences between the United States and Brazil.

The notification identified political reasons for the talks as well. It said that an FTA “...will also enhance our efforts to strengthen democracy and support for fundamental values in the region.” It said that one reason for negotiating with all four countries was that a regional strategy would help in combating narcotrafficking.<sup>7</sup>

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<sup>2</sup> Brevetti, Rossella. “Pro-Trade Democrats Urge Zoellick to Consider Market Size in FTA Choices.” The Bureau of National Affairs, Inc. *International Trade Reporter*. June 19, 2003.

<sup>3</sup> Letter reprinted at website of *Inside U.S. Trade*, [<http://www.insidetrade.com/>].

<sup>4</sup> Office of the USTR. “Zoellick to Visit Colombia, Meet with President Uribe on August 8.” Press Release. August 7, 2003. Available at [<http://www.ustr.gov/>].

<sup>5</sup> Office of the USTR. “USTR Notifies Congress of Intent to Initiate Free Trade Talks with Andean Countries.” Press Release. November 18, 2003.

<sup>6</sup> Ibid.

<sup>7</sup> On a regional approach to combating illegal drug activity, the letter of notification stated: “Narcotrafficking is a regional scourge that respects no borders. Experience has shown that to combat it effectively requires coordination and effective strategies among all four Andean countries.” For more information on Andean countries and issues of interest to Congress,

It also pointed out several issues of concern to the United States: protection of worker rights in Ecuador; disputes involving U.S. investors in Peru; violence against trade unionists and disputes with U.S. investors in Colombia; and the need to work with Bolivia and the other Andean countries on capacity building.

On March 23, 2004, the USTR issued a press release announcing that the United States and Colombia would begin FTA negotiations between the two countries, and possibly other Andean countries, on May 18-19, 2004.<sup>8</sup> The naming of only Colombia made it clear that there were still concerns with Peru and Ecuador that had not been addressed. The press release mentioned outstanding disputes between U.S. investors and the Peruvian government and concerns about protection of worker rights and investor disputes in Ecuador. According to the press release, “We [the U.S. government] hope that in the coming weeks these countries will take the follow-on steps that will enable us to include them at the negotiating table, along with Colombia, at the start of the negotiations. We look forward to including Bolivia at a later stage, and are working with them to increase their readiness.” On May 3, 2004, the USTR announced that issues with respect to Peru and Ecuador had been addressed, and those two countries would join with Colombia in the first round of the negotiations.<sup>9</sup>

## Negotiation Process and Outcome

During the first round of FTA negotiations in Cartagena, Colombia in May 2004, negotiators agreed on a schedule that, according to chief U.S. negotiator Regina Vargo, would probably involve seven rounds by early 2005 — one round every five to seven weeks.<sup>10</sup> Fourteen working groups were established during that first round. On the day that negotiations began, students, union members, farmers, and others in Cartagena held a one-day protest against the negotiations because of feared job loss in the agriculture sector.<sup>11</sup>

By November 2005, thirteen rounds of negotiations for the U.S.-Andean FTA were held with no successful conclusion: Cartagena (May 18-19, 2004); Atlanta

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<sup>7</sup> (...continued)

see CRS Report RL32250, *Colombia: Issues for Congress*, by (name redacted); CRS Report RL32580, *Bolivia: Political and Economic Developments and Implications for U.S. Policy*, by (name redacted); CRS Report RS21687, *Ecuador: Political and Economic Situation and U.S. Relations*, by Clare Ribando; and CRS Report RL32733, *Latin America and the Caribbean: Issues for the 109<sup>th</sup> Congress*, coordinated by (name redacted).

<sup>8</sup> Office of the USTR. “U.S. and Colombia to Begin FTA Negotiations on May 18.” Press Release. March 23, 2004.

<sup>9</sup> Office of the USTR. “Peru and Ecuador to Join With Colombia in May 18-19 Launch of FTA negotiations with the United States.” Press Release. May 3, 2004.

<sup>10</sup> Mozzo, Javier. “U.S. Toasts Strong Start to Andean Trade Talks.” *Reuters*. May 19, 2004.

<sup>11</sup> Toro, Juan Pablo. “U.S., South American Nations Complete First Round of Free Trade Talks, Meet Next in Atlanta.” *The Associated Press. Associated Press Newswires*. May 19, 2004.

(June 18, 2004); Lima, Peru (July 26-30, 2004); San Juan (September 13-17, 2004); Guayaquil, Ecuador (October 25-29, 2004); Tucson (November 20-December 4, 2004); Cartagena (February 7-11, 2005); Washington (March 14-18, 2005); Lima (April 18-22, 2005); Guayaquil (June 6-10, 2005); Miami (July 18-22, 2005); Cartagena (September 19-23, 2005); and Washington (November 14-22, 2005).

Bolivia attended the negotiating sessions as an observer, but was not expected to be a party to an agreement. The USTR said, “We want to maintain the door being open....but we also have to recognize realities,” and noted that Bolivia’s government had “some basic stability issues.”<sup>12</sup> In mid-June 2005, the Bolivian president resigned amid widespread opposition to foreign participation in the natural resource sectors and other policies, and an interim president took office. In the December 2005 elections, Bolivians elected Evo Morales as their president. When Morales was inaugurated on January 22, 2006, he started a five-year term as Bolivia’s fourth president since August 2002. Ecuador experienced political change as well during the negotiations. On April 20, 2005, during the ninth round of FTA negotiations, the Congress in Ecuador impeached Ecuador’s president Lucio Gutierrez and replaced him with the vice president, Alfredo Palacio, a physician and political independent. Palacio is the country’s seventh president in nine years.

The thirteenth round of negotiations in Washington was expected to be the last, but negotiators failed to conclude the talks over disagreements in intellectual property rights and agriculture. Colombian and Ecuadorian negotiators said they pulled out because they could not accept U.S. demands for stricter patent protections and reductions in agricultural barriers, while Peruvian negotiators appeared to be more flexible. The Peruvian negotiators decided that they would continue talks with the United States without the other countries. The two countries arrived at an agreement in the first week of December 2005.<sup>13</sup>

On December 7, 2005, U.S. Trade Representative Rob Portman and Peru’s Minister of Foreign Trade and Tourism, Alfredo Ferrero Diez Canesco, announced a successful conclusion to the U.S.-Peru free trade agreement negotiations. The agreement would eliminate tariffs and other barriers to goods and services.<sup>14</sup> Ambassador Portman stated that “An agreement with Peru is a key building block in our strategy to advance free trade within our hemisphere, which we hope to later bring in the other Andean countries including Colombia and Ecuador.”<sup>15</sup> Afterwards,

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<sup>12</sup> Brevetti, Rossella. “Zoellick Hopes Progress in Global Round Will Help Lagging Hemispheric Trade Talks.” *Daily Report for Executives*. Bureau of National Affairs, Inc. September 10, 2004.

<sup>13</sup> Ibid.

<sup>14</sup> For a summary of the U.S.-Peru Trade Promotion Agreement, see USTR, U.S.-Peru Trade Promotion Agreement (TPA) Policy Brief, *Free Trade with Peru: Summary of the U.S.-Peru Trade Promotion Agreement*, [<http://www.ustr.gov/>].

<sup>15</sup> Office of the United States Trade Representative (USTR) Press Release. “United States and Peru Conclude Free Trade Agreement, Negotiations with Colombia, Ecuador to Continue Early Next Year.” December 7, 2005.

Colombia and Ecuador both announced that they would also like to see a successful conclusion to their negotiations.

On February 27, 2006, U.S. Ambassador Portman and Colombia's Minister of Trade, Industry, and Tourism, Jorge Humberto Botero, announced that the United States and Colombia had concluded their work on a free trade agreement. Ambassador Portman announced that the agreement is an essential component of the U.S. regional trade strategy and that it would "...generate export opportunities for U.S. agriculture, industry, and service providers and help create jobs in the United States". He also stated that the agreement would "...help foster economic development in Colombia, and contribute to efforts to counter narco-terrorism, which threatens democracy and regional stability."<sup>16</sup>

The government of Ecuador has stated that it too would like to continue negotiations with the United States and arrive at an agreement, but these talks have been postponed several times.

## **Andean Perspective**

The Andean governments are pursuing FTAs with the United States to assure access to the immense U.S. market. They have preferential access now under unilateral U.S. programs (see following section), but that access is scheduled to expire at the end of December 2006. An FTA would lock in those preferences and additional duty-free treatment. The Andean governments also want to attract foreign investment and see an FTA with the United States as a way to establish a more secure economic environment and increase foreign investment.

Within the Andean countries, however, there is broad grass-roots opposition to free trade with the United States. Opponents argue that any economic benefits from increased trade under an FTA will be realized by only a small segment of the economy, worsening the separation of the classes. They also argue that a large part of the Andean population is poor farmers, who are especially vulnerable and cannot compete against increased agricultural imports from the United States, which some Andean officials claim are heavily subsidized. The Development Group for Alternative Policies states that one of the few remaining mechanisms protecting family farmers in the Andean region is the Andean Community's "price band" system which, they argue, has served to cushion farmers from the vagaries of international commodity prices.<sup>17</sup> A further argument is that an FTA would mean reduced revenues for the Andean governments, and some opponents state that revenue losses will have to be replaced with regressive domestic taxes.<sup>18</sup>

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<sup>16</sup> USTR Press Release. "United States and Colombia Conclude Free Trade Agreement." February 27, 2006.

<sup>17</sup> Hansen-Kuhn, Karen, *The Development Gap, Andean FTA: Threats to Development*, July 2004.

<sup>18</sup> Several arguments against the Andean FTA are presented in: Hansen-Kuhn, Karen. "Andean FTA: Threats to Development," available on The Development Group for (continued...)

The three Andean countries have faced considerable opposition in their countries over a trade agreement with the United States. News accounts reported that during the Cartagena round in September 2005, an estimated 7,000 anti-free trade activists gathered in Cartagena and Bogota, while protesters in Peru erected roadblocks.<sup>19</sup> These protests may have influenced the governments to delay entry into an agreement, but after the successful completion of Peru's agreement with the United States, there likely was more pressure for Colombia and Ecuador to continue negotiations. Ecuador's chief trade negotiator, Manuel Chiriboga, stated in January 2006 that if Colombia concluded an agreement, Ecuador "cannot fail to conclude" due to the risk that Ecuador would be left out of the agreement to be voted on in the U.S. Congress.<sup>20</sup>

## Perspective of U.S. Industry and Other Groups

In the United States, much of the business community supported an Andean FTA. The National Association of Manufacturers (NAM), for example, states in its trade agenda that one of its key objectives is the congressional approval of the Andean FTA and other FTAs now being negotiated. The NAM has written comments on its position in various aspects of the negotiations some of which include the removal of tariff and non-tariff barriers, transparency and accountability in technical regulations, enforcement of national customs laws, protection of U.S. investment abroad, and strengthening and enforcement of intellectual property rights laws.<sup>21</sup> NAM's trade agenda states, "The NAM supports FTAs because U.S. manufacturers face much higher barriers in foreign markets than foreign producers face here."

A number of other groups, however, oppose an Andean FTA. A coalition of 51 labor, religious, and environmental groups wrote to the USTR on September 9, 2004, urging him to suspend the negotiations. They argued that the negotiations have been conducted in secret, there has been no meaningful dialogue with the public, and the Andean negotiations are modeled on failed trade agreements.<sup>22</sup> Among the signatories were the AFL-CIO, American Friends Service Committee, and Public Citizen.

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<sup>18</sup> (...continued)

Alternative Policies (The Development Gap) website at [<http://www.developmentgap.org>].

<sup>19</sup> Joynes, Kate. "Protests Overshadow Andean FTA Talks". *Global Insight Daily Analysis*. Global Insight Limited. September 23, 2005.

<sup>20</sup> Joynes, Kate. "Ecuador Should Finalize U.S. Trade Deal in February." *Global Insight Daily Analysis*. Global Insight Limited. December 29, 2005.

<sup>21</sup> National Association of Manufacturers website at [<http://www.nam.org/>]. See "NAM Written Comments on the Proposed United States-Andean Free Trade Agreement", March 30, 2004.

<sup>22</sup> Alliance for Responsible Trade website at [<http://www.art-us.org>].

## U.S.-Andean Trade

The United States extends special duty treatment to imports from Bolivia, Colombia, Ecuador, and Peru under a regional trade preference program. This program accounted for over half of all U.S. imports from the four countries in 2005.

The program began under the Andean Trade Preference Act (ATPA; title II of P.L. 102-182), enacted on December 4, 1991. ATPA authorized the President to grant duty-free treatment to certain products from the four Andean countries that met domestic content and other requirements. It was intended to promote economic growth in the Andean region and to encourage a shift away from dependence on illegal drugs by supporting legitimate economic activities. ATPA was originally authorized for 10 years and lapsed on December 4, 2001.

After ATPA had lapsed for months, the Andean Trade Promotion and Drug Eradication Act (ATPDEA; title XXXI of P.L. 107-210), was enacted on August 6, 2002. ATPDEA reauthorized the ATPA preference program and expanded trade preferences to include additional products that were excluded under ATPA. The additional products under ATPDEA included petroleum and petroleum products, certain footwear, tuna in flexible containers, and certain watches and leather products. ATPDEA also authorized the President to grant duty-free treatment to U.S. imports of certain apparel articles, if the articles met domestic content rules. Duty-free benefits under ATPDEA end on December 31, 2006.

In 2005, a considerable share (46%) of all U.S. imports from the four Andean countries entered duty-free under ATPDEA, and a smaller share (11%) entered duty-free under ATPA.<sup>23</sup> A very small share (2%) entered duty-free under the U.S. Generalized System of Preferences, which applies to most developing countries throughout the world. Of the remaining 41% of imports, most entered duty-free under normal trade relations, which applies on a nondiscriminatory basis to almost all U.S. trading partners. Only 7% of the value of U.S. imports from the four countries was dutiable in 2005. Thus, compared to the status quo, only a relatively small share of U.S. imports would become duty-free under an FTA. That small share, however, might include products that are relatively import-sensitive in the United States or disproportionately important to the Andean countries.

In 2005, the United States imported \$20.1 billion, or 1% of total U.S. imports, from the four countries. The same year, the United States exported \$9.9 billion, or 1% of all U.S. exports, to the four countries. Colombia accounted for 44% of those U.S. imports and 55% of the U.S. exports (see **Table 1**). Peru and Ecuador split nearly all of the other half of imports and exports, and Bolivia accounted for a very small share.

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<sup>23</sup> Data from USITC Interactive Tariff and Trade DataWeb at [<http://dataweb.usitc.gov>]. For more information on U.S. imports under ATPDEA and ATPA, see, U.S. International Trade Commission (USITC). *The Impact of the Andean Trade Preference Act*. USITC Publication 3725. September 2004; and USITC. "The Expanded Andean Trade Preferences Act and a U.S. Free Trade Agreement with its Beneficiaries." *International Economic Review*. USITC Publication 3742. November/December 2004. P. 14.

The leading U.S. import from the region in 2005 (35% of imports) was petroleum oil, principally crude oil from Ecuador and Colombia. Other leading U.S. imports were jewelry, gold, coal, coffee, articles of copper, and cut flowers. Leading U.S. exports to the region were petroleum products, mining equipment, broadcasting equipment, and data processing machines.

**Table 1. U.S. Trade with the ATPA Countries, 2005**

Country	U.S. Imports		U.S. Exports	
	Region Share (%)	Leading Items	Region Share (%)	Leading Items
Bolivia	1	jewelry, crude oil	2	mining machinery, jewelry
Colombia	44	crude oil, coal	55	data processing machines, mining machinery
Ecuador	29	crude oil, crustaceans	20	petroleum products, broadcasting equipment
Peru	26	gold, refined copper	23	petroleum products, mining machinery

**Source:** USITC Interactive Tariff and Trade DataWeb at [<http://dataweb.usitc.gov>]. Data are for U.S. imports for consumption (Customs value) and domestic exports (Fas value). Regional shares may not add to 100% due to rounding.

## Selected Issues in the Negotiations

The following highlights some of the more difficult issues in the Andean-U.S. FTA negotiations.<sup>24</sup> In addition to the following, the negotiations also covered other issues such as services trade, electronic commerce, and government procurement. Trade negotiators identified the difficulties in agriculture and intellectual property rights as the main obstacles in reaching agreement. Andean negotiators stated at the time that the United States needed to be more flexible in these areas. U.S. trade officials said that the United States was very interested in reaching agreement in these areas, but that it had also been clear in laying out its expectations before the negotiations began.<sup>25</sup>

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<sup>24</sup> For information on the provisions of the U.S.-Peru Trade Promotion Agreement, see CRS Report RS22391, *U.S.-Peru Trade Promotion Agreement*, March 2, 2006. For information on the provisions of the Colombia-U.S. FTA, see USTR, *Free Trade with Colombia: Summary of the Agreement*, February 27, 2006. Information is available on the USTR website, [<http://www.ustr.gov>].

<sup>25</sup> See Brevetti, Rossella, "Andean Officials Stress Importance of Finishing FTA Talks in October," *International Trade Reporter*, September 15, 2005; and National Association of Manufacturers (NAM), "Andean FTA," in the NAM website [<http://www.nam.org/>].

## Agriculture

U.S. negotiators refused to talk about rules for agricultural subsidies, saying that subsidies should be dealt with in the on-going multilateral trade negotiations in the World Trade Organization. Nevertheless, an important goal for the United States in the FTA talks was the elimination of a practice called the “price-band mechanism.” Under this mechanism, a fluctuating tariff is imposed on an import for the purpose of keeping the import’s price within a specific range. The band addresses changes in world commodity prices. Colombia and Ecuador have these variable duties on over 150 items, including corn, rice, soybeans, and powdered milk.<sup>26</sup> Andean negotiators said that the price-band mechanism is necessary to protect their farmers, especially small farmers, against subsidized imports. A spokesperson for small farmers in Colombia said that there is a large rural population and high unemployment in Colombia, and without protected alternative crops, the people will produce drugs.<sup>27</sup>

Some specific products were especially important to the trading partners. For example, access to the U.S. market is critical for Andean producers of cut flowers (Colombia and Ecuador) and asparagus (Peru). These products, however, have the largest potential displacement effects on U.S. producers under ATPDEA<sup>28</sup>, so they are worrisome to U.S. growers. Also, U.S. sugar producers are concerned about increased imports from the Andean countries. Conversely, Andean farmers see some U.S. products, such as corn and chicken parts, as threatening.

## Intellectual Property Rights (IPR)

A major area of disagreement was the so-called “data exclusivity.” This term refers to an additional period of patent protection that is given to test data, especially data on pharmaceuticals and agricultural chemicals. The United States wanted rules on data exclusivity in an FTA to protect the results of research by pharmaceutical companies for five years.<sup>29</sup> In related action, the Pharmaceutical Research and Manufacturers of America (PhRMA) petitioned the U.S. government to withdraw ATPDEA benefits for Peru and Ecuador because they have no data exclusivity laws.<sup>30</sup>

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<sup>26</sup> USTR. *2004 National Trade Estimate Report on Foreign Trade Barriers*. Pgs. 96 and 117.

<sup>27</sup> Otis, John. “Tree Oil Plan Tries to Bear Fruit; Growing Palm Extract Instead of Lucrative Coca is a Hard Sell for Colombia Farmers.” *Houston Chronicle*. February 6, 2005.

<sup>28</sup> USITC. *The Impact of the Andean Trade Preference Act*. P. 3-11.

<sup>29</sup> The United States negotiated rules on data exclusivity in the Central American-Dominican Republic FTA. Guatemala subsequently approved a law that the USTR claims is inconsistent with the data exclusivity provisions of the FTA. A bill to repeal that law was introduced in the Guatemalan congress on January 28, 2005. See, Brevetti, Rosella. “Guatemala Takes Steps Toward Repeal of Data Law USTR Claims Violates CAFTA.” Bureau of National Affairs, Inc. *Daily Report for Executives*. February 1, 2005.

<sup>30</sup> The Colombian government issued decrees in 2002 and in 2003 that gave protection of data for drugs and for agricultural chemicals respectively. See, USTR. *2004 National Trade Estimate Report on Foreign Trade Barriers*. (continued...)

Oxfam, a development and relief organization, argued, “Guaranteeing exclusive rights over pharmaceutical data will result in delays and limit generic competition in cases where the patent has expired or a compulsory license has been granted.”<sup>31</sup> The Andean countries opposed rules on data exclusivity, arguing that the additional period keeps generic pharmaceuticals from entering the market and thus hurts poor people.

Another IPR issue was the so-called “bio-piracy.” Andean negotiators wanted IPR provisions to go beyond those contained in the WTO. They wanted protection against the use of “traditional knowledge” and “genetic resources” without fair compensation. The United States wanted “second use” protection, where a product gets additional protection if it is found to serve a use other than the original one under the patent. It also wanted protection against parallel imports, which are products legitimately made in one foreign country, but imported into another country without the approval of the IPR holder. The Andean countries opposed these U.S. positions.

## Worker Protections and Human Rights

Some unions and labor rights groups protested against trade negotiations with Ecuador and Colombia, because they claimed that these countries have unacceptable records on worker rights and permit violence against trade unionists. For example, an official with the International Confederation of Free Trade Unionists (ICFTU) criticized Colombia’s president for negotiating with paramilitary forces, who are the killers of trade unionists according to the ICFTU official, and said that the more a union protests the president’s economic policy, the more the union is persecuted.<sup>32</sup> The Colombian government responded that through several programs it instituted, it “...clearly demonstrated its commitment to the protection of human rights and has given special priority to the protection of union members.”<sup>33</sup> The U.S. State Department country report on human rights for Colombia identifies many legal rights for unions, but recognizes problems with protecting those rights.<sup>34</sup> For example, the report states that in Colombia, the Constitution provides a right for most workers to organize unions, but in practice, “...violence against union members and anti-union discrimination were obstacles to joining unions and engaging in trade union activities....”

Another point of controversy was Ecuador’s record on human rights. On February 1, 2005, 38 House Members (37 Democrats, 1 Independent) wrote to the foreign trade minister of Ecuador, expressing concern with “...serious workers’ rights

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<sup>30</sup> (...continued)

*Trade Estimate Report on Foreign Trade Barriers.* P. 98.

<sup>31</sup> Oxfam. “Make Trade Fair for the Americas; Agriculture, Investment and Intellectual Property: Three Reasons to Say No to the FTAA.” Oxfam Briefing Paper 37. Available at the Oxfam website at <http://www.oxfam.org>.

<sup>32</sup> Interview on ICFTU web page <http://www.icftu.org>.

<sup>33</sup> Written Comments by the Government of Colombia Regarding Its Commitment to Human Rights and Labor Rights. Before the Trade Policy Staff Committee. April 2, 2004.

<sup>34</sup> U.S. Department of State web page at <http://www.state.gov>.

violations in Ecuador and Ecuador's failure to live up to commitments made to the U.S. government in October 2002, as part of a review of Ecuador's benefits under the [ATPDEA]."<sup>35</sup> They said that they would recommend the gradual withdrawal of Ecuador's ATPDEA benefits and that Ecuador's continued failure to observe the ATPDEA commitments "...casts doubt on whether Ecuador will be able to follow through with obligations..." under an FTA.<sup>36</sup>

## Textiles

A small but significant share of U.S. apparel imports from Andean countries still pay full duty under ATPDEA. The Andean region is not considered a major supplier, but free trade could cause some increase in imports. In addition, the rule of origin for textiles and apparel was an important issue in the negotiations.

## Investor/State Disputes

One of the most important issues in the negotiations was the unresolved disputes involving U.S. investments in Andean countries. On October 6, 2004, the House Committee on International Relations, Subcommittee on the Western Hemisphere, held a hearing on U.S. investment disputes in Peru and Ecuador. At the hearing, E. Anthony Wayne, Assistant Secretary of State for Economic and Business Affairs, testified, "Nearly every U.S. company doing business in Ecuador has faced problems with Ecuadorian government entities, from regulatory bodies to the courts and the customs agency." He said that the situation in Peru was "...considerably better," although there still were problems. He stated that both countries had been cautioned that, "...left unresolved, these disputes are a stumbling block to achieving an FTA." A few months later in October 2004, Deputy USTR Peter Allgeier warned that Peru and Ecuador could be dropped from the FTA, if outstanding investor disputes were seen as endangering congressional approval of an FTA with Colombia.<sup>37</sup>

On April 13, 2005, the House Committee on International Relations, Subcommittee on the Western Hemisphere, held a hearing on U.S. trade agreements with Latin America. At the hearing, John Murphy, Vice President for Western Hemisphere Affairs of the U.S. Chamber of Commerce, said that the situation regarding investment disputes with Peru and Ecuador was difficult and that persistent disputes could "...stand as a substantial obstacle that could block the participation of these countries [in an FTA]." These disputes were discussed at the negotiations.

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<sup>35</sup> Letter from World Trade Online at [<http://www.insidetrade.com/>].

<sup>36</sup> On December 17, 2004, Human Rights Watch reported that in a special session of Ecuador's congress called the preceding week by the president, "...52 members of the 100-seat congress voted to replace 27 of the 31 justices with their own political allies." Human Rights Watch saw this action as a violation of judicial independence. Available at [<http://hrw.org/>].

<sup>37</sup> Brevetti, Rossella. "Allgeier Says Peru, Ecuador Face Omission From FTA Unless Investor Disputes Resolved." The Bureau of National Affairs, Inc. *Daily Report for Executives*. October 4, 2004.

Since the beginning of 2005, progress was made in resolving disputes with U.S. companies.

## Visas

Andean countries, especially Colombia, wanted to have visa and immigration issues in the talks. They said that heightened U.S. security made it hard for their business representatives to enter the United States. U.S. negotiators insisted that immigration issues were not negotiable.

## Environment

An important environmental issue concerned investment provisions. In a letter dated September 13, 2004, a number of environmental groups, including Friends of the Earth, Natural Resources Defense Council, and Sierra Club, expressed concern about the possible inclusion in an Andean FTA of an investment chapter similar to Chapter 11 of the North American Free-Trade Agreement.<sup>38</sup> That chapter allowed private investors from one signatory country to seek binding arbitration against the government of another signatory. Such provisions, environmental groups argued in their letter, could allow "... foreign companies to completely bypass domestic courts to challenge public interest safeguards." On the other hand, U.S. negotiators sought such provisions in trade agreements, since U.S. companies wanted such protections for their foreign investments.

## Prospects

The last round of negotiations in which the United States and the three Andean countries all participated was held in Washington on November 14-22, 2005. Subsequently, Peru and Colombia concluded bilateral FTAs with the United States and talks with Ecuador have been postponed several times due to a number of differences. The main outstanding issues are related to agriculture. Ecuadorian President Alfredo Palacio has said that he would like to see a trade agreement with the United States but would not sign a deal that is unfair to Ecuador. He is facing considerable pressure from indigenous groups not to enter into an agreement. Thousands of Ecuadorean Indians have been protesting the free trade talks saying that they cannot compete with farm products from the United States. They believe a trade agreement would put them at a disadvantage with U.S. farmers and disrupt their ancestral culture.<sup>39</sup>

There has been some speculation that the United States will not renew the ATPDEA in the absence of a PTPA. In September 2005, the House Ways and Means

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<sup>38</sup> The letter is available at [[http://www.choike.org/documentos/ngos\\_us.pdf](http://www.choike.org/documentos/ngos_us.pdf)]. For further information on Chapter 11, see CRS Report RL31638, *Foreign Investor Protection Under NAFTA Chapter 11*, by (name redacted).

<sup>39</sup> Soto, Alonso, "Ecuador Indians Protest Free Trade Talks with the United States," *The Washington Post*, March 13, 2006.

Committee released a report on a bipartisan congressional trade mission to Colombia, Ecuador, and Peru.<sup>40</sup> The purpose of the trip was to focus on the ongoing negotiations of the U.S.-Andean free trade agreement and to discuss investment and security issues in the region. The report states that the current unilateral trade preferences received by the Andean countries set to expire in December 2006 may not be renewed. It indicates that a “reciprocal, mutually beneficial arrangement must take the place of the unilateral access.”<sup>41</sup>

A senior US trade official recently said that the U.S. trade agreements with Colombia and Peru are likely to be treated as separate agreements by the Congress, thereby narrowing the possibility of a stand-alone Andean-U.S. FTA.<sup>42</sup> Under current deadlines in the Trade Promotion Authority Act (TPA), expedited legislative procedures apply to implementing bills for trade agreements, if, among other requirements, the agreements are entered into by June 30, 2007. Given the TPA notification procedures, the free trade agreements with Colombia and Peru could be voted on by the Congress sometime this summer. It is not known if or when a U.S.-Ecuador FTA might be reached.

The narrow passage of CAFTA-DR (P.L. 109-53) had been viewed as an indicator that any U.S.-Andean FTA might also face considerable opposition. How the Bush Administration’s decision to negotiate and submit separate FTAs with Peru and Colombia may affect this calculation remains uncertain.<sup>43</sup>

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<sup>40</sup> Committee on Ways and Means, U.S. House of Representatives, *Report on Trade Mission to Colombia, Ecuador, and Peru*, WMCP: 109-6, September 2005.

<sup>41</sup> *Ibid*, p. 1.

<sup>42</sup> Trade Reports International Group, *Washington Trade Daily*, “U.S. Colombia Reach FTA,” February 28, 2006.

<sup>43</sup> See CRS Report RS22339, *Trade Liberalization Challenges Post-CAFTA*, by (name redacted), November 30, 2005.

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