

Interview with Pablo de la Flor

Vice Minister of International Trade of the Republic of Peru
Chief U.S.-Peru Free Trade Agreement Negotiator

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In May 2004, the U.S. began free trade negotiations with three Andean countries - Ecuador, Peru and Colombia. While negotiations with Ecuador have been suspended since late March, Colombia finished the bulk of negotiations in February and the Peruvian Congress ratified a free-trade agreement (FTA) on June 28, 2006.

As part of our ongoing series looking at FTAs in the region, the Americas Society and Council of the Americas (AS/COA) interviewed Pablo de la Flor, Vice Minister of International Trade of the Republic of Peru and chief negotiator for the FTA. Mr. De la Flor sees the agreement as having positive spill-over effects for Peru and the U.S. in the commercial context and beyond. The Peruvian government has made a significant effort to increase public knowledge about the agreement with the majority of the population now supporting ratification. Turning to relations among Andean Community (CAN) members, he sees the FTA as complying with CAN norms and looks ahead to other possible trade agreements.

AS/COA: On June 28, 2006, the Peruvian Congress voted (79 votes to 14) to ratify the FTA with the United States. The agreement still needs to be ratified by the U.S. Congress. From your point of view, how can possible uncertainties about the FTA in the U.S. Congress be resolved?

De la Flor: The approval of the FTA by an ample margin in the Peruvian Congress is an example of the resolve that Peruvians maintain in decisively facing the challenges of commercial liberalization, competitiveness and globalization.

After the triumph of APRA (American Popular Revolutionary Alliance) in the second round of the presidential elections in Peru, the present make-up of political forces has tilted towards FTA approval. With respect to approval in the U.S. Congress, Peru is trying to use persuasion to obtain the requisite support, with a focus on Democratic representatives. Our objective is to ensure FTA approval before July 28. Although the timing is tight, it is possible for us to achieve this goal. For that reason, we trust that, in the end, reason and political sense will prevail.

AS/COA: What are the benefits for each country of the free-trade agreement (FTA) signed between Peru and the United States?

De la Flor: The FTA with the U.S. is much more than merely a commercial agreement. As a result of this agreement, Peru is committed to adopting measures that project and anchor important public policies. The continuity of these measures is intrinsic to the economic development of the country. From that perspective, the FTA can be thought of as an important signal, an informative crossroads, which demonstrates the country's commitment to the creation of an environment that facilitates private initiative and promotes foreign trade. Having a negotiated and approved agreement with the U.S. places us in a good position and generates new opportunities to attract foreign investment. We can negotiate new deals with partners who will not want to see their business displaced by North American exports.

In strictly commercial terms, in the last few years the relative importance for Peru of exports to the United States has grown due to the impact of the ATPDEA (Andean Trade Promotion and Drug

Eradication Act). That program incorporated new products like clothing, footwear and leather to the list of ATPA (Andean Trade Preference Act), the ATPDEA's predecessor. In order to keep access free from tariffs and overseen by clear rules, Peru needs the FTA.

For the United States, the benefits are equally important; reciprocity conditions are established that are not included in the ATPDEA. As a result of this agreement, North American agricultural and industrial exports will have tariff-free access to the Peruvian market. At the same time, the FTA clearly delineates the laws governing investments, intellectual property rights, labor issues, and environmental concerns. Finally, the agreement translates into greater stability for Peru and, as a result, for South America, which is desirable for the United States.

AS/COA: *To what extent do you see continuity between this FTA and the provisions established in the Andean Trade Promotion and Drug Eradication Act (ATPDEA)?*

De la Flor: At the start of FTA negotiations, one of Peru's main objectives was to guarantee preferential access for our exports to the North American market. Peru sought to make permanent the unilateral, temporary and partial preferences granted by the United States through the ATPDEA. That objective has been completely reached.

On the import side, duties have been lowered as a response to the specific needs of some sensitive local products. All in all, it is important not to lose sight of the fact that opening the Peruvian market will contribute to an increase in consumer well-being; they will have access to a greater variety of products at lower prices. In the same light, I must also mention the positive impact that this opening will have on the well-being of local companies that, once the agreement is implemented, will benefit from better conditions when purchasing raw materials and capital assets.

AS/COA: *The concept of free trade, especially in regard to agreements signed with the United States, has faced many challenges recently. What is the Peruvian government doing to diffuse any type of resistance in Peru and how might other countries use this methodology?*

De la Flor: The public discussion surrounding the free trade agenda is fundamental for the political sustainability of any agreement. It is crucial that we adequately inform the public of the reach and implications of the FTA and, as a result, obtain the support of the different social actors involved. It is for that reason that from the beginning of the negotiation we decided to prioritize communication, and we began an ambitious series of public consultations.

As a result, representatives from the private sector participated actively in different working groups created to accompany the process in each one of the negotiation rounds. We undertook special efforts to guarantee the participation of representatives from small and medium-sized companies. Meetings were held between them and the heads of the Andean negotiating team before each negotiation phase.

Over the last few months we have implemented an important public dissemination campaign. We have carried out more than 300 presentations before diverse audiences in both Lima and the provinces. In addition, we have published information ads in newspapers and magazines and launched advertising campaigns in radio and on television. The positive results of these efforts are evident; according to recent surveys, more than 60% of the population supports ratification of the agreement and thinks it will be beneficial for country's interests.

On the other hand, I want to stress that much of the resistance to the agreement rests with the farming sector. In order to deal with these justified concerns, which are tied to the vulnerable situation in which these farmers could find themselves if they were in direct competition with subsidized U.S. agricultural products, we have chosen to start up an ambitious compensation program that will mitigate any adverse impact on corn, cotton or wheat farmers.

We have also emphatically stated that the benefits of the agreement will occur only if we usher in an overall transformation in our agricultural sector. We must also internally implement the pending second-generation reforms, particularly those reforms related to institutions.

AS/COA: *The pursuit of country-specific FTAs has caused some turmoil in the Andean Community (CAN), partially prompting the withdrawal of Venezuela and the subsequent June 13 meeting of remaining presidents to chart a new course for the bloc. What do you see as the future of the CAN with some of its members negotiating individual free trade agreements?*

De la Flor: The CAN must be sincere about its objectives in the near future. This is to say that it must recognize itself as a free-trade zone, and not as a customs union, proposing effective mechanisms that deepen regional commercial integration. In that regard, the FTA negotiated with the U.S. does not present any obstacle; to the contrary, it can lead to an improvement in the Andean integration process. In fact, with the United States we have broached subjects like public purchases and trade in services that, by extension, we will have to adopt with our other Andean partners.

It is necessary to understand that the withdrawal of Venezuela from the CAN is not linked to the FTA negotiation. The Chávez government has adopted an economic policy that is incompatible with the process of economic opening and commercial integration.

Finally, I want to remind you that the countries of the CAN maintain a rich negotiating agenda. In July, we must define areas for the FTA negotiation with the European Union. In addition, soon Colombia, Ecuador and Peru will undertake joint negotiations with Central America. In the Peruvian case, we are about to conclude free-trade agreements with Mexico, Chile and Singapore. We have already concluded similar negotiations with Thailand. It will be the responsibility of the next government to initiate negotiations with China, Korea, Japan and India.

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