Oxfam America

1100 15th Street NW, Suite 600
Washington, D.C. 20005
Tel: (202) 496-1180
Fax: (202) 496-1190

Email: info@oxfamamerica.org
www.oxfamamerica.org

September 17th, 2007

Dear Member of Congress:

I am writing to you regarding the imminent Congressional action on the recently modified free trade agreement between the United States and Peru, referred to as the US-Peru Trade Promotion Agreement (PTPA). Oxfam America is asking you to oppose this trade agreement because it will undermine development and poverty reduction in Peru.

Oxfam believes that trade can contribute to economic growth and to the reduction of poverty in developing countries, provided that trade agreements take into account the economic and social disparities between trading partners and include rules that are aligned with development and poverty-reduction goals. As originally negotiated, the PTPA failed to achieve these purposes. The modifications subsequently negotiated by the Democratic leadership and now included in the agreement, while taking important steps toward making trade work for people living in poverty, remain insufficient to overcome its adverse effects on development and poverty reduction in Peru.

The PTPA's adverse effects on Peruvians will outweigh its limited benefits, which will primarily accrue to a limited group of exporters whose current US market access will be made permanent. Meanwhile, the agreement will harm many thousands of Peru's small farmers who will be forced into an unfair competition with subsidized US agricultural exports. The PTPA will also restrict Peru's ability to regulate foreign investment to ensure it serves national development. The bottom line is that the PTPA is not a fair trade agreement for the poor in Peru and should be rejected.

Nearly half of Peru's 28 million inhabitants live in poverty, the majority of them in rural areas. Agriculture is the main source of income in rural areas and generates nearly a third of all employment nationally. About 90 percent of land under cultivation is dedicated to basic crops that supply the domestic market, like rice, wheat, corn, barley, and cotton. The PTPA is unfair for Peruvian producers because it will fully eliminate tariff protection on subsidized US agricultural exports. Peruvian farmers, 95 percent of whom produce on a small or medium scale, will be undercut by cheaper US imports dumped in Peru below their real cost of production and will be left with no recourse to correct for the price distortions created by US subsidies.

The International Trade Commission (ITC) has estimated the PTPA will lead to large increases in Peru's imports of US grains, but it is more likely that neighboring Southern Common Market (MERCOSUR) countries will capture a greater market share, as their existing trade agreement with Peru requires that Peru grant them the same market access as it grants to any third country. The losers in any case will be Peruvian farmers who will no longer be able to earn a living, potentially prompting many to turn to coca cultivation, thereby undermining years of US foreign policy and drug eradication efforts.

Although the free trade agreement makes permanent the export opportunities that Peru currently enjoys under US trade preference programs, this will only benefit the 3 percent of farms dedicated to non-traditional agricultural exports. It is unlikely that significant numbers of farmers could convert to such crops due to the many limitations they face, such as inadequate infrastructure and insufficient access to credit or technical assistance, as well as geographical conditions, particularly in the tropical forests and highlands where most farmers are poor.

Furthermore, the PTPA protects foreign investors over the public interest by prohibiting performance requirements, restricting the regulation of capital flows and instituting international arbitration for dispute settlement between foreign investors and the state. Thus, the rules on investment give foreign companies leeway to challenge investment regulations, such as laws to protect the environment and public health. This will undermine Peru's ability to ensure that foreign investment contributes to national development, rather than exacerbating poverty and inequality. For example, Peru's Law for the Promotion of the Agricultural Sector grants the farming industry certain tax benefits if at least 90 percent of its inputs are sourced nationally. Under the PTPA, this law could be challenged and potentially repealed, with devastating effects on the sector. Likewise, efforts to regulate the operation of the mining industry to address the health and environmental effects of its business operations could be challenged.

Although Oxfam welcomed the initiative of the new Democratic Congressional leadership earlier this year to modify provisions in the PTPA, the final changes included in the agreement are inadequate to address our primary concerns. We applaud the reduction of some of the onerous requirements for intellectual property protections for medicines that exceed World Trade Organization (WTO) obligations. While these changes are an important step toward preserving access to affordable medicines, they are insufficient to enable Peru to fully exercise its right affirmed under the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and the 2001 Doha Declaration to promote access to medicines for all. In particular, the marketing exclusivity period granted to protect the test data of pharmaceutical companies exceeds WTO obligations and will extend monopolies on newer medicines beyond the term of patent protection. This will further delay generic competition and require poor people in Peru to pay higher medicine prices for longer periods.

Oxfam believes that a core objective of US trade policy should be to promote sustainable development in our trading partners. Unfortunately, the PTPA fails to do so. While the economic impact of the agreement on the US is likely to be negligible, having been estimated by the ITC as an increase of 0.02 percent of GDP, the economic and social costs to Peru will be high, especially among the poor. Peruvian agricultural exports to the US will expand little, as noted by the ITC, given that these products have already enjoyed duty-free access to the US market under Andean trade preference programs for the last 15 years. Contrary to promoting stability in Peru and the Andean region, the PTPA is likely to exacerbate the existing problems of poverty and inequality and undermine regional integration and development.

Oxfam therefore urges you to oppose this free trade agreement with Peru when implementing language is brought to a vote.

Sincerely,

Raymond C. Offenheiser
President