



Business RoundtableSM

**Hearing of the U.S. Senate
Committee on Finance**

On

**“The U.S.-Panama
Trade Promotion Agreement”
Thursday, May 21, 2009
10:00 a.m.**

215 Dirksen Senate Office Building

**Testimony by Mr. James Owens
Chairman and CEO, Caterpillar, Inc.
Peoria, Illinois**

on behalf of the

**U.S. Chamber of Commerce
Business Roundtable**

and the

Latin American Trade Coalition

Caterpillar Washington Office
1425 K Street, NW, Suite 400, Washington, D.C. 20005, (202) 466-0672

Chairman Baucus, Ranking Member Grassley, Members of the Committee:

I'm Jim Owens, Chairman and CEO of Caterpillar, Inc. Today, I have the honor to testify on behalf of the U.S. Chamber of Commerce, Business Roundtable and the Latin American Trade Coalition in support of the U.S.-Panama Trade Promotion Agreement (also known as the "Panama TPA" or "TPA").

First a word about the organizations that I represent:

- Caterpillar is the world-leading producer of construction and mining machines as well as diesel and gas turbine engines. We are also one of America's largest exporters.
- The U.S. Chamber of Commerce is the world's largest business federation, representing three million businesses of every size, sector, and region.
- The Business Roundtable is an association of chief executive officers of leading U.S. companies with \$4.5 trillion in annual revenues and more than 10 million employees.
- The 1,200-member strong Latin American Trade Coalition is a broad-based group of U.S. companies, business and agricultural organizations, and local chambers of commerce and other groups representing the largest and most dynamic sectors of our economy.

My company and the business organizations I represent today firmly believe that international trade has a critical role in fostering economic growth for America's workers, farmers and businesses. The Panama TPA and agreements like it promote sustainable economic growth both here at home and in the economies of our trading partners — in this case a close neighbor and ally, Panama.

The United States has negotiated, signed and implemented successful trade agreements in the Western Hemisphere with Canada, Mexico, Chile, Central America and the Dominican Republic, and Peru. The Panama TPA promises to build on impressive U.S. export gains in the region.

I'm pleased to report that Caterpillar exports have dramatically benefited from all these free trade agreements (FTAs). Since the FTAs have gone into effect, Cat exports last year quadrupled to the NAFTA countries, tripled to Chile, and nearly doubled to the CAFTA-DR countries.

We believe the Panama agreement will be no exception. The Panama TPA is a front-loaded, ambitious, and comprehensive agreement, with considerable benefits to both the United States and Panama. Most of the tariff cuts on American products will occur as soon as the agreement goes into effect.

The agreement will substantially improve market access for American farm products, consumer and industrial goods, and services in Panama, and it will bolster the rule of law, investor protections, internationally recognized workers' rights, and transparency and accountability in business and government. The agreement's strong intellectual property

rules and related enforcement provisions will help protect and promote America's dynamic innovation-based industries and creative artists. The opportunities created by lowering tariff and non-tariff barriers to U.S.-Panama trade and investment promise to expand two-way trade opportunities and lift living standards in both countries.

Beyond the purely commercial benefits, the agreement will also strengthen the century-old U.S.-Panama geostrategic partnership. From the time of the Panama Canal's construction, the United States and Panama have made common cause on issues from security to commerce. Panama has major ports to both the Atlantic and the Pacific, and the Canal is a major transit point for world trade. With one-third of its population speaking English fluently and a fully dollarized economy, Panama is a good friend and partner of the United States. The TPA offers critical support and stronger ties to this close ally in Latin America, a region where attitudes toward the United States and the values it represents — including democracy, transparency and governmental accountability — have taken a decided turn for the worse in many countries.

In Panama, the May 3 election of Ricardo Martinelli to succeed Martin Torrijos as President of Panama signals a continued commitment to close ties to the United States at a time when a number of countries in the region are taking a different course. President-elect Martinelli has called the TPA his new administration's "number one priority." Panama's legislature displayed similar enthusiasm with a strong vote in favor of the TPA shortly after its signing, which incorporated new labor and environmental provisions reflected in the May 10 (2007) Bipartisan Agreement on Trade. Both the Panamanian administration and the legislature have been responsible partners in working to meet the additional requests that have subsequently been raised by the U.S. Congress and administration.

Looking forward, the agreement with Panama is an important step in the U.S. strategy to promote trade liberalization and economic integration with the region. As well as being a gateway from the Pacific to the Atlantic, Panama is a literal and figurative bridge between Central and North America on one end and South America on the other. U.S. total exports to trade agreement partners in the Western Hemisphere reached \$471 billion in 2008. This region represents a significant and growing market that has largely avoided the worst of the current economic crisis. We urge Congressional consideration of the trade agreements with Panama and Colombia as the next step in this important strategy.

Opening Markets

Above all else, the TPA further opens Panama's market to products and services made by American workers, farmers, and companies. Panama's purchases of U.S. manufactured goods and farm products reached \$4.6 billion last year, and the \$4.2 billion U.S. merchandise trade surplus with Panama in 2008 was among the largest with any country. Goods exports to Panama from Illinois — where Caterpillar is headquartered — have grown quickly in recent years, surpassing \$110 million in 2008, led by rapid growth in exports of machinery.

The United States is far and away Panama's largest trading partner, with a 33% share of Panama's imports, and purchasing 36% of all Panamanian exports. The \$5.25 billion expansion of the Panama Canal is now moving ahead and presents significant opportunities for U.S. companies to provide goods and services to the government of Panama as they embark on one of the largest public works project since the Three Gorges Dam in China. We are also excited about construction of a new metro system in Panama City and the Petaquilla mine, which will be the 5th largest copper mine in the world.

The trade agreement will grant U.S. firms outstanding access to the Panamanian market and the chance to compete in selling everything from heavy equipment to engineering services.

U.S. export success in Panama comes despite a fundamental imbalance in the proverbial playing field. The United States unilaterally opened its market to Panama and its neighbors through the Caribbean Basin Initiative in 1983 and expanded that access through successive acts with the support of strong bipartisan majorities in Congress. Currently, under the Caribbean Basin Trade Partnership Act (CBTPA), fully 96% of all imports from Panama already enter the U.S. market duty-free. By contrast, Panama's average applied duty on imports of manufactured goods is 10%, and agricultural products face even higher tariffs. In other words, Panama enjoys virtually free access to our marketplace, while U.S. products continue to be taxed at steep rates when entering Panama.

The unilateral preferences have always been subject to re-authorization by Congress with no guarantees that they would be continued. Without the extension of these preferential programs, Panama risks immediately losing a significant part of its exports. Losing access to the U.S. market would hurt the Panamanian economy resulting in lost jobs and a lower standard of living.

The TPA makes Panama'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, the TPA will provide continuity in a long-term U.S. policy with regard to Panama — one that boosts economic development and reinforces democratic consolidation.

The TPA will also cut Panama's tariffs on U.S. products, and as a result it will transform an imbalanced trade relationship into a more mutually beneficial, reciprocal partnership. The day the agreement enters into force, 88% of Panama's tariffs on U.S. consumer and industrial goods and a majority of the tariffs on U.S. farm exports will be eliminated. In turn, the agreement locks in Panama's access to the U.S. market, creating a new level of certainty for investors and traders in that country.

Manufacturing: The Panama TPA offers immediate opportunities for the U.S. manufacturing sector. The fastest-growing product categories among U.S. manufactured exports to Panama have been sophisticated machinery; organic chemicals; and sound equipment. The Panama TPA promises to not only accelerate this growth by reducing the

landed cost of U.S. goods to Panama considerably, but it will open up opportunities in new product categories. The benefits of the agreement are significantly front-loaded. When the agreement goes into effect, 88% of U.S. exports of consumer and industrial goods will become totally duty-free immediately. The remainder will be duty-free within ten years.

For Caterpillar, the world's largest producer of earthmoving equipment, expanding the Panama Canal is an important opportunity. If we can sell our U.S.-produced products throughout Panama duty-free, it will provide us with a competitive edge over products made in other parts of the world. Consider Panama's significant tariffs on manufactured goods. Panama's tariff on off-highway trucks and diesel engines is 10%. For other Caterpillar-type products tariffs range from 3% to 5%. What does the U.S. have to do in return? In relation to mining and construction equipment, like off-highway trucks and bulldozers: nothing. The U.S. tariff on these products is already at zero, and that won't change.

Agriculture: The TPA will provide new market opportunities for a wide range of U.S. agricultural products. Upon implementation, over half of these products will be duty free, with tariffs on most remaining U.S. farm exports phased out within 15 years. The agreement is comprehensive in its coverage, providing commercially meaningful access for U.S. agricultural priorities while taking into account both U.S. and Panamanian agricultural sensitivities. The agreement also creates a mechanism for sanitary and phytosanitary cooperation and should ease related non-tariff barriers to U.S. agricultural exports to Panama. The American Farm Bureau Federation expects export gains in excess of \$151 million per year by 2027 in items such as wheat, rice, corn, cotton, soybean products and livestock products.

Government Procurement: Panama is not a party to the World Trade Organization's Government Procurement Agreement. If approved, the Panama TPA will guarantee U.S. firms the opportunity to bid for Panamanian government contracts on a level playing field. Guaranteed and favorable access to these procurement opportunities is important to a broad range of U.S. businesses.

Services: Service providers will also benefit significantly from the agreement. The Panama TPA's services commitments cover both the cross-border supply of services and the right to invest and establish a local service presence and are strengthened by a set of detailed disciplines on regulatory transparency, which is fundamental to meaningful services market access.

Panama agreed to exceed commitments made in the WTO, and to dismantle significant services and investment barriers, such as lifting restrictions on investment in retail trade, ensuring access to contracts related to the Panama Canal, and providing new access in professional services that previously had been reserved exclusively to Panamanian nationals. These commitments and improvements in Panama's services regime will allow U.S. firms to take full advantage of the benefits of the agreement across all sectors, including express delivery, logistics, energy, audiovisual, computer, construction, wholesaling, health, education, and environmental services.

The Rule of Law

Intellectual Property: The agreement will strengthen protection and enforcement of U.S. trademarks, patents, and geographic indicators, internet domain names and copyrighted works, creating new opportunities for U.S. innovation-based and creative industries in Panama. In specific terms, the Panama TPA includes strong intellectual property enforcement mechanisms and penalties 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.

Investment Protections and Dispute Settlement: U.S. direct investors in Panama will benefit from the strong investment chapter in the agreement, particularly the sections dealing with investment protections and dispute settlement.

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).

Increased Transparency: The agreement's dispute settlement mechanisms provide for open public hearings, public access to documents, and the opportunity for third parties to submit views. Transparency in customs operations will aid express delivery shipments, and will require more open and public processes for customs rulings and administration. For customs procedures, Panama committed to publish laws and regulations on the Internet and, to the extent possible, will publish proposed regulations in advance and allow interested parties an opportunity to comment on the proposals. Moreover, transparency in these areas is an essential tool in combating corruption and promoting habits of transparency in government.

Growth, Income, and Jobs

The Panama TPA is a great step forward in the evolution of our trading relationship with Panama from one based on unilateral trade preferences to reciprocal market access. As such, the economic, employment, and pocketbook impacts of the agreement are quite positive. Indeed, the TPA is expected make valuable contributions to economic growth, incomes, and employment opportunities in cities and states across the country.

Both Texas and Florida surpassed \$1 billion in exports to Panama last year, while eight states, including Illinois, had exports to Panama in excess of \$100 million last year. Nineteen more enjoyed exports of at least \$10 million. Fully 37 states saw their exports to

Panama at least double between 2004 and 2008. This market is growing more important every year for producers all across the United States.

It's not only workers at large companies like Caterpillar who benefit from increased trade. Panama is also a great market for U.S. small business. Nearly 6,000 U.S. companies exported their products to Panama. Of this total, 4,748, or 81%, are small and medium-sized enterprises. These so-called SMEs exported \$775 million worth of merchandise to Panama in 2005. This represented 40% of all U.S. merchandise exports to these countries, well above the 29% share of U.S. exports that our smaller companies contribute globally.

With its economy overwhelmingly based on services, Panama's economy complements the strengths of the U.S. economy. Panama has no significant textile or apparel industry, and its agricultural exports (mostly tropical products) largely do not compete with U.S. farm and ranch products.

Additional Benefits

In addition to contributing strongly to the expansion of trade and economic relations between the United States and Panama, the TPA will lend a helping hand for a close ally in Latin America 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, populist economic policies 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 by themselves 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 a great deal to enhance the rule of law and transparent governance in the region. 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, Central America struggles against corruption, which undermines growth, security, and stability. The Panama TPA 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 better and more efficient procurement on the part of the Panamanian government entities but also affording a more competitive marketplace.

Environmental stewardship has long been a priority for Panamanians as the Canal is dependent on protection of the forests in the huge watershed that allows this engineering marvel to function. The Canal expansion now underway is expected to allow 70% of the

fresh water that was previously lost from the locks to be recycled, saving 28-35 million gallons per ship, 40-50 times per day.

The Panama TPA also promotes U.S. security interests by forging a deeper partnership with Panama 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 numerous areas, including tax information exchange; it also sets an example for other countries around the world as we pursue our global security goals. By promoting economic growth in Panama, the TPA will give a boost to its economy and provide its citizens with long-term growth opportunities.

Conclusion

In concluding, it is worth noting that the commercial benefits of recent free trade agreements have surpassed all expectations. Consider the U.S.-Chile Free Trade Agreement, which was implemented on January 1, 2004, and immediately began to pay dividends for American businesses and farmers. While the U.S. International Trade Commission (USITC) 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 34% in 2004, 43% in 2005, 31% in 2006, 22% in 2007, and more than 50% in 2008. All told, U.S. exports to Chile quadrupled in just five years.

This outcome is five times as robust as the USITC's most cautious scenario and nearly twice as robust as its most optimistic scenario. Given the similarities between the Panama TPA and the U.S.-Chile TPA, we may surely expect impressive benefits from this new agreement as well.

While exports are important, we are also pleased to report that imports from Chile have also increased. As we all know free trade is about more than just exporting — it is about providing more choices at lower costs for consumers, which leads to 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 Panama, our consumers will benefit from more access to tropical fruits, seafood, and high-quality coffee among other products.

I very much appreciate this opportunity to share our strong support for the Panama TPA. We believe that trade expansion is an essential ingredient in any recipe for economic success in the 21st century, and the Panama TPA 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 the Panama TPA are critical. It has been my experience that the U.S. business is more than capable of competing in the global marketplace when trade barriers are removed and markets are open.

That concludes my remarks. At this time I would be pleased to answer any questions. Thank you very much.