

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HM 189 Free Trade Agreements Between the United States and Colombia, Panama, and the Republic of Korea

**SPONSOR(S):** Ray and others

**TIED BILLS:**           **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Federal Affairs Subcommittee	15 Y, 0 N	Cyphers	Cyphers
2) Economic Affairs Committee			

### SUMMARY ANALYSIS

This memorial asks Congress to support the approval of pending free trade agreements between the United States and Colombia, Panama, and the Republic of Korea.

The House Memorial does not amend, create, or repeal any provisions of the Florida Statutes.

The House Memorial has no fiscal impact on state or local government.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### Background

##### Treaty Powers in the United States

The United States Constitution is clear regarding some of the powers which are not to be held by the states. One of those powers is the ability to enter into treaties. In Article I of the U.S. Constitution, states are specifically forbidden to enter into any "Treaty, Alliance, or Confederation".<sup>1</sup> The power to enter into a treaty with a foreign government is given only to the President of the United States, but the President must gain the support of a two-thirds majority in the United States Senate.<sup>2</sup>

##### Panama –Trade Promotion Agreement (TPA) with the United States

Panama is an isthmus country of approximately 3.5 million people. It is located at the southern tip of Central America, just south of Costa Rica and just north of Colombia. After attaining its independence from Colombia at the turn of the 20<sup>th</sup> Century, Panama entered at treaty with the United States which resulted in the construction of the Panama Canal by the United States in 1914. The canal and two strips of land on both sides of the canal were the property of the United States until an agreement was signed by President Jimmy Carter to begin the process of turning ownership of the canal over to Panama. The transfer of all properties still held by the United States in Panama ended in 1999.<sup>3</sup>

In 2007, Panama began a \$5.3 billion expansion of the canal and other infrastructure which are scheduled to be completed by 2015. This expansion is expected to ease the movement of goods between the Eastern United States and Asia, and it is also expected to expand the direct trade between Panama and the United States.<sup>4</sup> Since nearly a third of \$6.5 billion in total bilateral merchandise trade between the U.S. and Panama ran through Florida in 2010, there appears to be an inherent benefit to the maximization of trade between the two countries.<sup>5</sup>

Historically, the country of Panama has enjoyed a "one-way street" of duty free exports to the U.S. In fact, the average agricultural tariff placed on goods from the United States is 15 percent, with some tariffs for things like grains reaching as high as 90 percent. Conversely, over 99 percent of Panamanian goods are duty free when exported to U.S. markets.<sup>6</sup> However, in 2007, the United States and Panama signed the U.S. – Panama Trade Promotion Agreement which would mark a significant step in increasing trade between the two nations.<sup>7</sup> Under the terms of the agreement, Florida products that once carried 15 percent tariffs when they were exported to Panama would now be completely duty free. Among the duty free products are oranges, grapefruit, and all citrus juices.<sup>8</sup> On a larger scale, the U.S. – Panama TPA would mean the immediate elimination of duties paid on over 60 percent of the all current U.S. trade to Panama.<sup>9</sup>

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<sup>1</sup> Article I, Section 10, Clause 1 – United States Constitution

<sup>2</sup> Article II, Section 2, Clause 2 – United State Constitution

<sup>3</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html>

<sup>4</sup> *Id.*

<sup>5</sup> eFlorida Strategic Intelligence: Implications of the US-Panama TPA, February 2011.

<sup>6</sup> United States Department of Agriculture, Foreign Agricultural Service: U.S. – Panama Trade Promotion Agreement, Florida Farmers Will Benefit, September 2008.

<sup>7</sup> [www.usitc.gov/publications/docs/pubs/2104F/pub3948.pdf](http://www.usitc.gov/publications/docs/pubs/2104F/pub3948.pdf)

<sup>8</sup> United States Department of Agriculture, Foreign Agricultural Service: U.S. – Panama Trade Promotion Agreement, Florida Farmers Will Benefit, September 2008.

<sup>9</sup> United States Department of Agriculture, Foreign Agricultural Service: Fact Sheet U.S. – Panama Trade Promotion Agreement, September 2010.

Upon implementation, the American Farm Bureau predicts the gains for agriculture in the United States to be over \$190 million per year. According to analyses performed by the United States International Trade Commission, U.S. exports to Panama could rise between 9 percent and 145 percent, as a result of implementation of the TPA. Also, the total number of additional jobs that could be support annually by implementing the TPA is estimated to be around 1,845.<sup>10</sup>

## **Colombia – Trade Promotion Agreement (TPA) with the United States**

Colombia, as it is today, was created as a result of the collapse of Gran Colombia in 1830. It is the northernmost country in South America, and it boasts a population of over 44.7 million people. It borders several countries including Venezuela, Peru, Brazil, and Ecuador in South America and Panama in Central America. It also has access to both the Pacific Ocean on the West and the Caribbean Sea to the North.<sup>11</sup>

Colombia has made significant moves toward pro-market economic policies over the country's last two executive administrations. Foreign investment in the country even reached a record high of \$10 billion in 2008, and after a significant but temporary drop to \$7.2 billion in 2009, it began to recover in 2010 when its economy grew by 4.5%. The country still struggles with anti-government forces supported by narcotics trafficking and even neighboring countries like Venezuela, but Colombia continues to liberalize their economy and government.<sup>12</sup> There has also been a precipitous drop in the amount of violence against union members (and violence overall) in Colombia over the last ten years.<sup>13</sup>

Like Panama, Colombia has enjoyed a “one-way street” of duty free exports to the U.S. Conversely, American goods face tariffs similar to those in the Panamanian market, with averages ranging between 15 and 20 percent on exports from the United States. However, in 2006, the United States and Colombia signed the U.S. – Colombia Trade Promotion Agreement, which seeks to make permanent the political and economic partnership between the two nations.<sup>14</sup>

Under the terms of the agreement, Florida products that were once subject to tariffs would now be completely duty free, or in a few cases, nearly so. In the case of 80 percent of U.S. goods exported to Colombia, the elimination of the tariffs would be immediate. After five years, that percentage rises to 87%, and the tariffs would be removed completely after the tenth year of the agreement's implementation.<sup>15</sup> The United States International Trade Commission estimates that the increase in overall exports and Florida-based exports to Colombia would be 13.7 percent. The benefit to Florida, however, lies in the rate of that increase. While the 13.7 percent for overall U.S. imports is based on growth over 2005 levels, the same amount of growth for Florida is based on increases over 2010 levels. In dollars, Florida goods would increase by \$345 under implementation of the TPA.<sup>16</sup>

## **Republic of Korea – U.S. – Korea Trade Agreement (KORUS)**

The Republic of Korea, or South Korea, is situated in the southern half of the Korean Peninsula while a Communist-style government (North Korea, or the DPRK) occupies the northern portion of the peninsula bordering China. South Korea is bordered by only one country (North Korea) and by two bodies of water: The Yellow Sea to the West, and the Sea of Japan to the East.

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<sup>10</sup> eFlorida Strategic Intelligence: Implications of the US-Panama TPA, February 2011.

<sup>11</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/co.html>

<sup>12</sup> *Id.*

<sup>13</sup> [http://www.cato.org/pub\\_display.php?pub\\_id=12783](http://www.cato.org/pub_display.php?pub_id=12783)

<sup>14</sup> <http://www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta>

<sup>15</sup> *Id.*

<sup>16</sup> U.S. International Trade Commission; U.S. – Colombia Trade Promotion Agreement: Potential Economy-wide and Select Sectoral Effects, December 2006.

During the Korean War (1950-53), the U.S. and United Nations were allied with South Korea in its defense from attacks by North Korea which were known to be supported by China and the Soviet Union. An armistice, signed in 1953, ended combat between the nations, but the result was the splitting of the Korean peninsula along the 38th parallel. After 32 years of military rule, South Korea became a modern democracy in 1993. Tensions remain between North Korea and South Korea, and the United States still has a military presence in the country to assist in its defense, but since the war, South Korea has achieved rapid economic growth with incomes rising to be roughly 17 times that of North Korea. In fact, in the decades since the end of the Korean War, South Korea's Gross Domestic Product has grown from being among the worst in the world to 20<sup>th</sup> in the world.<sup>17</sup>

Historically, trade relations between the United States and South Korea have been strong. However, over the last ten years, the U.S. has fallen from Korea's number one source of imports to number three.<sup>18</sup> Currently, U.S. exporters to Korea pay tariffs in average of 6.2 percent, and Korean imports are subject to tariffs averaging 2.8 percent. The United States and Korea have recently completed negotiations on the U.S. – Korea Trade Agreement (KORUS), but it has yet to be implemented. Meanwhile, South Korea has already begun to implement a trade agreement with the European Union, Chile, India, and others.<sup>19</sup>

The KORUS, if implemented, would mean the elimination of tariffs on over 95 percent of U.S. exports of consumer and industrial products over five years and the immediate elimination of tariffs on over two-thirds of U.S. agricultural products.<sup>20</sup> For the Florida agriculture industry, this means the immediate elimination of the 54 percent tariff on frozen orange juice; the 30 percent tariff on grapefruit would be and other fruits would be eliminated in two to five years; and the tariff on oranges would be reduced by 30 percent immediately, and be eliminated completely in seven years. Tariffs on other agricultural products from vegetables to beef would be significantly reduced or eliminated as well.<sup>21</sup> Other key export products from Florida like Chemicals, Computer and electronics, and machinery would also see the elimination of tariffs as high as 50 percent.<sup>22</sup>

#### A. EFFECT OF PROPOSED CHANGES:

This memorial asks Congress to support the approval of pending free trade agreements between the United States and Colombia, Panama, and the Republic of Korea.

Copies of the memorial are to be sent to the President of the United States, the President of the United States Senate, the Speaker of the United States House of Representatives and to each member of the Florida delegation to the United States Congress.

The legislation also includes whereas clauses in order to support the memorial. The whereas clauses include:

WHEREAS, Florida, the United States' fifth-largest exporter in 2008, with goods exports totaling \$50.4 billion, has a global reputation as a gateway to the Americas and a vital stake in global markets, and

WHEREAS, Free Trade Agreements with Colombia, Panama, and the Republic of Korea offer valuable opportunities for the United States to enhance its competitive edge in the global economy by lowering the barriers that its own exporters face in these markets, and

WHEREAS, state and local officials around the United States have signaled their support for Congressional approval of these Free Trade Agreements, and

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<sup>17</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/ks.html>

<sup>18</sup> International Trade Administration: Benefits from the U.S. – Korea Trade Agreement, February 2011

<sup>19</sup> United States Department of Agriculture, Foreign Agricultural Service: Fact Sheet, U.S. – Korea Trade Agreement, March 2011.

<sup>20</sup> International Trade Administration: Benefits from the U.S. – Korea Trade Agreement, February 2011.

<sup>21</sup> United States Department of Agriculture, Foreign Agricultural Service: U.S. – Korea Trade Agreement, Florida Farmers Will Benefit, December 2010.

<sup>22</sup> International Trade Administration: Benefits from the U.S. – Korea Trade Agreement, February 2011.

WHEREAS, manufactured exports translate into the creation of jobs for Florida workers, including 128,400 of them as of 2005, and

WHEREAS, agriculture exports, services exports, foreign investment, and imports all contribute significantly to Florida's economy and employment base, and

WHEREAS, according to the United States Department of Agriculture, Florida's agricultural exports reached \$1.96 billion in 2007, maintaining 17,420 Florida jobs, both on and off farmlands, and

WHEREAS, in 2007, Florida's exports to Colombia surpassed \$2 billion, increasing by percent over the previous year, and

WHEREAS, Florida is the second-leading United States exporter to each of its pending Latin American Free Trade Agreement partners, Panama and Colombia, and approval of Free Trade Agreements with those countries will ensure that those nations continue to make progress in reducing violence while improving economic stability, and

WHEREAS, a Free Trade Agreement with the Republic of Korea would substantially increase access to the South Korean market and both the United States and the Republic of Korea would benefit from increased exports, economic growth, and job creation...

**B. SECTION DIRECTORY:**

None

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

**A. FISCAL IMPACT ON STATE GOVERNMENT:**

1. Revenues:

None

2. Expenditures:

None

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

1. Revenues:

None

2. Expenditures:

None

**C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

None

**D. FISCAL COMMENTS:**

None

### **III. COMMENTS**

#### **A. CONSTITUTIONAL ISSUES:**

1. Applicability of Municipality/County Mandates Provision:

Not Applicable

2. Other:

None

#### **B. RULE-MAKING AUTHORITY:**

Not Applicable

#### **C. DRAFTING ISSUES OR OTHER COMMENTS:**

None

### **IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES**