

## 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	16 Y, 0 N	Tecler	Tinker

### SUMMARY ANALYSIS

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

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

The memorial has no fiscal impact on state or local government.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### Issue 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 President of the United States alone has the power to enter into a treaty with a foreign government, but the President must obtain the support of a two-thirds majority in the United States Senate.<sup>2</sup> However, Congress has previously approved and implemented major trade legislation, such as the North American Free Trade Agreement (NAFTA) and bilateral free trade agreements (FTAs), through a fast-track process known as Trade Promotion Authority. Through this authority, Congress must consider trade agreements under a 90 day window and implement such agreements by a majority vote of each legislative chamber. The Bipartisan Trade Promotion Authority Act of 2002, which reauthorized fast-track authority, expired on July 1, 2007. Because trade agreements with Columbia, Panama, and South Korea were signed prior to this date, Congress may consider these agreements under the fast-track process.

##### **Panama – Free Trade Agreement with the United States**

Panama is an isthmus country of approximately 3.5 million people. The country is located at the southern tip of Central America, south of neighboring Costa Rica and just north of the South American continent. After attaining its independence from Colombia at the turn of the 20<sup>th</sup> Century, Panama entered into a 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 was completed in 1999.<sup>3</sup>

In 2007, Panama began a \$5.3 billion expansion of the canal and other infrastructure which is 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. Since nearly a third of the \$6.5 billion in total bilateral merchandise trade between the U.S. and Panama ran through Florida in 2010, the maximization of trade between the two countries appears to be an inherent benefit to the state.<sup>4</sup>

Historically, the country of Panama has enjoyed a high number of duty free exports to the U.S. Over 99 percent of Panamanian goods are duty free when exported to U.S. markets.<sup>5</sup> However, the average agricultural tariff placed on U.S. goods is 15 percent, with tariffs on certain commodities such as grains reaching as high as 90 percent. In 2007, the United States and Panama signed the U.S. – Panama FTA which is a significant step toward increasing trade between the two nations.<sup>6</sup>

Under the terms of the agreement, Florida products that carried a 15 percent tariff when exported to Panama would now be completely duty free. Among the duty free products are oranges, grapefruit, and

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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 States Constitution.

<sup>3</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html>. (last visited 03/29/2011).

<sup>4</sup> eFlorida Strategic Intelligence: Implications of the US-Panama TPA, February 2011.

<sup>5</sup> United States Department of Agriculture, Foreign Agricultural Service: U.S. – Panama Trade Promotion Agreement, Florida Farmers Will Benefit, September 2008.

<sup>6</sup> [www.usitc.gov/publications/docs/pubs/2104F/pub3948.pdf](http://www.usitc.gov/publications/docs/pubs/2104F/pub3948.pdf). (last visited 03/29/2011).

citrus juice.<sup>7</sup> The U.S. – Panama FTA would also mean the immediate elimination of duties paid on over 60 percent of the all current U.S. trade to Panama.<sup>8</sup>

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 FTA. Also, the total number of additional jobs that could be supported annually by implementing the FTA is estimated to be around 1,845.<sup>9</sup>

### **Colombia – Free Trade Agreement 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. Several countries border Colombia, these include Brazil, Ecuador, Peru, and Venezuela in South America and Panama in Central America. Colombian ports also have access to the Pacific Ocean and the Caribbean Sea.<sup>10</sup>

In recent years, the country has adopted pro-market economic policies that have encouraged international trade and foreign investment. Foreign investment reached a record \$10 billion in 2008, and after a significant but temporary drop to \$7.2 billion in 2009, is steadily recovering to pre-recession levels. In 2010, the economy grew by 4.5%. Colombia continues to struggle with anti-government forces supported by narcotics trafficking but violence has dropped precipitously over the last ten years.<sup>11</sup>

Like Panama, Colombia has enjoyed a high number of duty free exports to the U.S. Conversely, U.S. goods face tariffs similar to those in the Panamanian market, with tariffs averaging 15 to 20 percent on U.S. exports. However, in 2006, the United States and Colombia signed the U.S. – Colombia FTA, which seeks a permanent political and economic partnership between the two nations.<sup>12</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>13</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 million under implementation of the FTA.<sup>14</sup>

### **South Korea – Free Trade Agreement with the United States**

South Korea is situated in the southern half of the Korean Peninsula. The communist regime of North Korea, or the DPRK, occupies the northern portion of the peninsula, or territory north of the 38<sup>th</sup> parallel. South Korea is also bordered by the Yellow Sea to the West and the Sea of Japan to the East.

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

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<sup>7</sup> United States Department of Agriculture, Foreign Agricultural Service: U.S. – Panama Trade Promotion Agreement, Florida Farmers Will Benefit, September 2008.

<sup>8</sup> United States Department of Agriculture, Foreign Agricultural Service: Fact Sheet U.S. – Panama Trade Promotion Agreement, September 2010.

<sup>9</sup> eFlorida Strategic Intelligence: Implications of the US-Panama TPA, February 2011.

<sup>10</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/co.html>. (last visited 03/29/2011).

<sup>11</sup> [http://www.cato.org/pub\\_display.php?pub\\_id=12783](http://www.cato.org/pub_display.php?pub_id=12783). (last visited 03/29/2011).

<sup>12</sup> <http://www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta>. (last visited 03/29/2011)

<sup>13</sup> *Id.*

<sup>14</sup> U.S. International Trade Commission, U.S. – Colombia Trade Promotion Agreement: Potential Economy-wide and Select Sectoral Effects, December 2006.

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 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>15</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 South Korea's number one source of imports to number three.<sup>16</sup> Currently, U.S. exporters are subject to tariffs averaging 6.2 percent, and tariffs averaging 2.8 percent are imposed on Korean imports. The United States and South Korea recently completed renegotiations on the U.S. – Korea Free Trade Agreement that was previously signed in 2006, but never implemented. South Korea is also in the process of implementing trade agreements with the European Union, Chile, India, and others.<sup>17</sup>

The agreement, 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>18</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 and other fruits would be eliminated in two to five years, and the tariff on oranges would be reduced by 30 percent immediately, and will be eliminated completely in seven years. Tariffs on other agricultural products from vegetables to beef would be significantly reduced or eliminated as well.<sup>19</sup> Tariffs assessed on other key export products from Florida including chemicals, computers, electronics, and machinery would see up to a 50% reduction.<sup>20</sup>

In order to further the development of trade with South Korea, the state has provided financial support to the Florida/Korea Economic Cooperation Committee, Inc. (FLOR/KOR). FLOR/KOR is a statewide public-private partnership created in 1982 to promote trade, investment, education, tourism and friendship ties between Florida and Korea. The committee serves as a point of contact and facilitator for Florida traders, investors and professionals seeking business opportunities and the development of ties in Korea with Korean companies and organizations. To accomplish its mission, FLOR/KOR works in close cooperation with the Korea-U.S. Economic Council and, the Korea International Trade Association in Seoul, the Governor's Office of Tourism, Trade & Economic Development, and Enterprise Florida.<sup>21</sup>

#### A. EFFECT OF PROPOSED CHANGES:

##### **Changes Made By the Memorial**

This memorial urges the United States Congress to support the approval of free trade agreements between the United States and Colombia, Panama, and South 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 that support the memorial.

#### B. SECTION DIRECTORY:

None.

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<sup>15</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/ks.html>. (last visited 03/29/2011).

<sup>16</sup> International Trade Administration, Benefits from the U.S. – Korea Trade Agreement, February 2011.

<sup>17</sup> United States Department of Agriculture, Foreign Agricultural Service: Fact Sheet, U.S. – Korea Trade Agreement, March 2011.

<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: U.S. – Korea Trade Agreement, Florida Farmers Will Benefit, December 2010.

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

<sup>21</sup> Florida/Korea Economic Cooperation Committee, Inc., <http://www.florkor.org/index.htm>. (last visited 03/29/2011).

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

### FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

### B. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

### C. 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

None.