A Year after Implementation of Peru Free Trade Agreement, U.S. and Peru Left with Broken Promises and No New Trade Model

On the one-year anniversary of the implementation of the U.S.-Peru “Free Trade Agreement” (FTA), it has become clear that the hopes and predictions of proponents of the trade deal have failed to materialize. Instead, as critics of the deal had feared, environmental and labor conditions in Peru have deteriorated rapidly since the congressional passage of the FTA in late 2007 and implementation on February 1, 2009.

The Peru FTA text included several reforms of labor and environmental standards relative to the Bush trade pact model, which was based on the North American Free Trade Agreement (NAFTA) and the Central America Free Trade Agreement (CAFTA.) These changes were added to the template following a May 2007 deal between the Bush administration and some congressional Democrats.

LABOR

Despite the 2007-revised labor language, in Peru today, under the FTA, employers can use subcontracting and outsourcing legal loopholes that limit workers’ ability to unionize, and child labor and forced labor continue unabated. Indeed, the Peruvian government’s true intentions became clear at a U.S. Chamber of Commerce victory event the day the Peru FTA was signed into law, when Peruvian President García himself told the audience of lobbyists for U.S. multinationals: “Come and open your factories in my country so we can sell your own products back to the U.S.”

Prediction: Representative Joseph Crowley (D-N.Y.) claimed that “The labor standards [in the Peru FTA] include freedom of association, the right to collectively bargain, elimination of forced and compulsory labor, abolition of child labor, and elimination of employment discrimination, not to mention the advancements we have made in environmental protection.”

Reality: Peruvian law post-FTA violates ILO standards. Peru’s Labor Ministry determines the legality of labor strikes, but Peru’s obligations under the International Labor Organization require that only an independent body such as a court of law, not the Labor Ministry, shall determine the legality of strikes. Unfortunately, Congress gave up its leverage over the Peruvian government when it voted to approve the FTA before the promised changes had been made in domestic law.

Reality: In Peru under the FTA, employers can use subcontracting and outsourcing legal loopholes that limit workers’ ability to unionize. In a January 2009 letter to the U.S. Trade Representative, Ways & Means Committee Chair Charles Rangel (D-N.Y.) and Trade Subcommittee Chair Sander Levin (D-Mich.) noted that, in 2008, Peru changed its labor laws to allow Peru’s Labor Ministry to
permit companies to use this technique to deny the right to organize whenever the Ministry believes that doing so is “reasonable.”

**Reality:** Under the FTA, child labor and forced labor continue unabated in Peru. A September 2009 investigation conducted by the U.S. Labor Department found that bricks, gold, and fireworks are produced with child labor in Peru.\(^4\) The investigation also discovered that the production of Brazil nuts, gold, and timber in Peru involved forced labor.\(^5\)

---

**ENVIRONMENT**

Despite the revised environmental language, the Peruvian government rolled back environmental protections existing prior to the FTA so as to implement the FTA’s foreign investor rights provisions to access forestry, mining and other natural resource concessions. This included access to sensitive Amazonian territories over which indigenous communities had control under pre-FTA Peruvian law.

The foreign investor chapter (chapter 10) contains numerous commitments and obligations that promote unsustainable land use and natural resource policies and provide new rights to foreign investors “with respect to natural resources that a national authority controls, such as for their exploration, extraction, refining, transportation, distribution, or sale.”\(^6\) Peru’s FTA Annex II lists a reservation from this foreign ownership right that allows the government to forbid foreigners from owning land that is within 50 miles of Peru’s border.\(^7\) However, the García government did not schedule any such exceptions for Amazon land or for land in collective indigenous title.\(^8\) Peru could have taken exceptions to the FTA rules for the Amazon and chose not to do so. This made a mockery of Peru agreeing to the FTA’s Annex on Forest Sector Governance and other additions related to natural resources following the initial signing of the agreement. In response to indigenous opposition, including road blocks in the remote northern Amazonian region of Bagua, the Peruvian government dispatched the military, and the resulting confrontation resulted in over 30 fatalities — making the Peru FTA the first U.S. trade agreement to result in an immediate body count. (The related FTA Decrees and a timeline leading to this incident are included below.)

**Prediction:** Representative Earl Blumenauer (D-Ore.): “We have already been able to use the force of these agreements to clarify the protections of threatened Peruvian forest wilderness using the leverage we have already got even before it was enacted.”

**Reality:** Laws protecting forests and indigenous rights have been weakened and repealed. Whatever leverage Congress had over the Peruvian government disappeared when they voted to approve the FTA before a comprehensive pro-environment policy was put into place. Less than a week after President Bush signed the Peru FTA into law, the Alan García administration rammed through a bill (Law Number 29157) to give it new powers to implement any FTA-related measure for a period of six months without legislative approval.\(^9\) This delegation of legislative authority is similar to Fast Track, the process under which the FTA itself was approved in the United States.\(^10\) With this new authority, President García radically altered Peru’s legal structure on use of the Amazon rainforest and indigenous lands by issuing dozens of decrees slashing environmental regulations.\(^11\) When several of the U.S. environmental groups that had been working with the Office of the U.S. Trade Representative (USTR) on the FTA’s forestry annex (but apparently were not familiar with the
FTA’s foreign investor rules) asked the Obama administration USTR to repudiate the García administration’s claim that the anti-environment, foreign-investor-land-use Decrees were not necessary to implement the Peru FTA, USTR officials refused to do so. However, due to widespread protests and roadblocks, in June 2009 the Peruvian Congress repealed two of these decrees (numbers 1064 and 1090) that would have facilitated foreign investors’ purchase of collectively-held indigenous land. According to a December 2009 report from The Economist Intelligence Unit, “the decrees were an important component of the FTA with the US, and failure to pass them could prompt legal challenges to the agreement.” The Peruvian government said in January 2010 that it will be developing new versions of these laws by August 2010, as the final step in FTA implementation.

**Peru’s Indigenous Communities Protest FTA Implementation Threat to Amazon**

AIDESEP, a Federation Representing 350,000 Indigenous Peoples in Amazon Region: “The FTA will give incentives for further and irreversible destruction of virgin rainforest, which will in turn increase global warming and displace our communities from their home territories… Provisions contained in the Peru FTA are directly incentivizing this massive takeover that is threatening our livelihoods and leading to irreversible destruction of virgin rainforest. For example, the Peru FTA’s Chapter 10 establishes investor rights provisions that would help lock in our government’s destructive anti-indigenous and anti-environment policies. The FTA explicitly gives foreign oil, gas and mining companies the right to skirt Peruvian laws and courts and challenge the Peruvian government in foreign tribunals for changes to their licenses, authorizations, permits and other investment agreements. This provision goes even beyond NAFTA and CAFTA, and opens up a wide range of policies and future reforms to challenge in foreign trade tribunals.”

**Reality:** Protests by indigenous communities in the Amazon against the Peru FTA’s implementation and related new foreign investors access rights to indigenous lands have been deadly. The August 2008 protests against the FTA’s implementation were quite calm compared to the May-June 2009 indigenous demonstrations sparked by the imminent implementation of the remaining anti-environmental FTA implementation decrees. In one confrontation alone, 34 protestors and police were killed. Faced with this widespread unrest, the Peruvian Congress repealed two additional decrees that redefined forest land to permit more logging and mining.

**Reality:** Vast new tracts of indigenous land have been opened to mining. Notwithstanding the repeal of the decrees noted above, between January 2008 and June 2009, the government auctioned 7,700 square miles of land for mining, including forest area that is the ancestral home of the Awajun and Wampis indigenous groups. In addition to this legal mining, illegal mining in the Peruvian rainforest has skyrocketed since international gold prices have reached new heights (increasing 35 percent since FTA implementation). According to press reports, the government estimates that 40 percent of that gold is illegally mined. To extract the gold, miners use large amounts of mercury that renders nearby water sources undrinkable.

**Reality:** Several laws passed in 2008 to implement the FTA that threaten the Peruvian rainforest and indigenous peoples remain in effect. The overall acreage of forest habitat is being auctioned off at an alarming rate: between the conclusions of negotiations of the FTA and implementation,
the rate of forest habitat being auctioned off more than doubled.25 There was a pause in concession grants in 2009 due in part to the huge protests by indigenous groups against the anti-environmental decrees, but this year the government plans to reopen the auction process.26 The government has already scheduled seventeen oil blocks to be put up for auction.27

In addition, FTA implementation Decree 1020 encourages the breakup of communally held land by offering loans and other incentives to landholders who want to combine their land into larger property units.28 This is similar to changes the Mexican government made to Mexico’s revolution-era land reforms, which were enshrined in its Constitution.29 The new Peruvian Law on Water Resources establishes a new agency to manage water resources that could be used to shift water access from indigenous communities to large corporate agribusinesses.30

**Other Issues**

The Bush administration was directly involved in writing the Peruvian Decrees. According to *Inside U.S. Trade*, two teams of Bush administration officials actually traveled to Peru to draft and finalize at least 35 of the new Peruvian laws with the García administration.31 As these decrees were announced, USTR Susan Schwab was very clear how FTAs allowed governments to make an end-run around their constituents: “What free trade agreements enable a country to do, and I am talking about the United States and its trading partner, is implement reforms that we should probably be doing anyway but that could be difficult politically. Part of our effort is working with Peruvian authorities to help them get there”32 [emphasis added].

Besides pushing through these anti-environmental laws, the Peruvian president used his FTA implementation authority to deregulate the financial sector, even as the need to strengthen financial regulations has become apparent in the wake of the global financial crisis. Decree 1052, for example, obligates Peru to permit the emergence of new “financial products”, such as credit risk derivatives, if the government of an FTA partner permits them. Decree 1008 allows Peru’s privatized social security funds to raise the proportion of their securities linked to overseas economic activity from 20 to 30 percent.33 Finally, the state agricultural bank can now originate securitized products and is more open to private investors, under Decree 995.34

---

**FTA IMPLEMENTATION PROTEST IN PERU: NON-STOP SINCE EARLY 2008** 35

- In February 2008, Peruvian farmers shut down the roads into the capital, and the Peruvian armed forces killed at least four people and detained 700 more.36
- By early July 2008, Peruvian farmers and workers had launched a two-day strike, cutting off tourist traffic to Peru’s famous Incan ruins, Machu Picchu.37
- By August 2008, the FTA implementation-related decrees had come out, and Peruvian civil society demanded the retraction of many of them. Various congressional and emergency commissions were formed to deal with the demands that various Decrees be revoked, including one which conflicted with Peru’s ratification of an ILO on indigenous rights. Over the course of the next seven months, the commissions issued reports calling for several of the Decrees to be revoked.
On 9th April, indigenous groups initiated large-scale protests against the anti-environmental decrees and blocked major roadways. On May 9, 2009 the government declared a state of emergency in several Amazonian provinces.

Between May 11 and 13, Alberto Pizango, the leader of Peru’s main indigenous federation, AIDESEP, met with the prime minister, but no accord was produced. On May 15, Pizango called for protests to escalate, but a period of dialogue lasted until May 22.

On May 26-27, some members of Congress suggested revoking the Decree that was a main focus of the protests, but were blocked by procedural maneuvers by President García’s ruling party allies on May 28 and then again on June 4.

On May 28, a Peruvian NGO (DAR) sent a letter to U.S. Speaker of the House Nancy Pelosi (D-Calif.) and Ways & Means Committee Chair Charles Rangel (D-N.Y.) asking that the FTA implementation protect indigenous rights. On June 2, the UN commission on indigenous rights requested that the Peruvian government respect indigenous rights.

Indigenous protests escalated dramatically from June 5 to June 10. At least 30 indigenous people and police were killed. In the pre-dawn hours of June 5, Peruvian military police staged a violent attack on a group of indigenous people camped out on a peaceful blockade of a road outside of Bagua, in a remote area of the northern Peruvian Amazon. Several thousand indigenous peoples were forcibly dispersed by tear gas and live ammunition. Violence and protests continued for days.

On June 10, Congress revoked Decrees 1064 and 1090 and restores the previous forestry law. The protests are called off.

In December 2009, a working group convened to promote dialogue between the government and indigenous groups (Grupo Nacional de Coordinación para el Desarrollo de los Pueblos Amazónicos) finished its deliberations on recommendations moving forward. But the government unilaterally “approved” the recommendations in the absence of a consensus with the indigenous groups and regional governments. The situation on the ground is fluid, and indigenous groups are outraged.

In January 2010, a member of Congress warned that there would be new protests soon if the remaining decrees were not revoked.

Given the toxic contents of the Peru FTA, it is no surprise that no U.S. labor, environmental, consumer, faith, family farm, or development groups supported this agreement. Both of Peru’s labor federations and its major indigenous people’s organization all strongly opposed the trade pact.

The American electorate also rejected the trade model that the Peru FTA embodied. Since congressional passage of the Peru FTA, 28 House members who campaigned against NAFTA and its expansion were elected to replace those who had voted for the Peru FTA.

As the Office of the U.S. Trade Representative (USTR) initiates formal negotiations for the Trans-Pacific Partnership (TPP) agreement in the coming months, it must consult closely with Congress to ensure that the disastrous experience of the Peru FTA is not repeated. Specifically, USTR should ensure that the Peru FTA and any eventual TPP are changed to reflect the standards embodied in the spell out TRADE Act, which is cosponsored by a majority of House Democrats, committee chairs and subcommittee chairs from diverse caucuses within the party.
ANNEX: PERUVIAN LEGISLATIVE DECREES TO IMPLEMENT FTA

Some of the decrees for which Garcia used his special FTA implementation rights to avoid Peru’s Congress had nothing to do with the FTA. Others decrees are exactly what the FTA requires. According to various watchdog groups, the most controversial Garcia FTA implementing decrees were:

- Legislative Decree 1064, which promotes the privatization of indigenous and campesino-held lands by revoking certain procedural protections for these communities (established in 1995 by Law Number 26505) and establishing a variety of circumstances under indigenous and peasant groups would lose their land grants. As noted above, this has been revoked for the moment, but the Peruvian government intends to develop a new version of it this year;

- Legislative Decree 1079, which eliminates any laws that limit the central government’s power of eminent domain in “protected natural areas;”

- Legislative Decree 1090, which revises parts of the Ley Nº 28204, Ley de Transferencia de madera decomisada y sus normas modificatorias (2004) and Ley 27308, Ley Forestal y de Fauna Silvestre (2000). In particular, the decree appears to eliminate so-called “forest plantations” and “land whose major use capacity is forest-related” from the definition of “forest resources.” This would appear to lower environmental protections for this land, and protections for the indigenous groups who inhabit such land. Moreover, this decree was not formulated with the prior, informed consent of Peruvian indigenous groups, which led many organizations to call it in contravention of ILO Convention 169 on indigenous rights, which Peru has ratified. This decree has also been temporarily revoked, but the Peruvian government intends to develop a new version of it this year;

- Legislative Decree 1089, which creates a process to evict people from state-owned, otherwise unused land unless they can prove that they have been engaged in agricultural activities over a long period of time. Not even this exception applies if private investors are interested in developing the plot;

- Legislative Decree 1015, which eliminates a special form of consultation (embodied in Peru’s Law Number 26505) with indigenous communities when private investors want to invest in their territories. This decree (together with a closely related decree, 1073, was initially retracted in August 2008 after indigenous groups’ protests and a Supreme Court ruling. It remains to be seen whether it will emerge in another form;

- Legislative Decree 1020, which promotes the displacement of small, independent campesinos, in part by creating financial trusts that will subsidize small landholders that combine into “agrarian associations” that designate representatives with whom the government and investors can negotiate. These trusts can accept money from governments and any private source – opening up potential for widespread corruption-driven displacement;

- Legislative Decree 1081, which appears to abolish independent organizations of water users;

- Legislative Decree 994, which promotes the partial privatization of irrigation projects; and
- Legislative Decree 1080, which eliminates several protected categories of seeds and their associated (higher) regulatory structure, and newly allowed the national seed regulator to delegate its enforcement actions to the private sector. It also eliminates as an objective of national policy that seeds be shared and utilized widely throughout the country. These measures modify the Law Number 27262 (the General Seed Law of 2000).\(^5^2\)

**Writing and research by Travis McArthur and Todd Tucker, Public Citizen.**

**Date: February 1, 2010.**

**ENDNOTES**


\(^2\) This and the other prediction quotes come from the House floor debate on the Peru FTA. See “Providing for the Consideration of H.R. 3688, UNITED STATES-PERU TRADE PROMOTION AGREEMENT IMPLEMENTATION ACT,” In House of Representatives, Nov. 07, 2007.


\(^6\) Ibid.

\(^7\) Peru FTA Article 1028.


\(^9\) Indeed, perversely, Peru’s Annex II reservation relating to minority rights is extremely narrow and explicitly does not cover policies related to foreign investors’ rights to own and control extractive services or other businesses or to the investment chapter’s rights of establishment. Thus, while the text states: “Peru reserves the right to adopt or maintain any measure according rights or preferences to socially or economically disadvantaged minorities and ethnic groups. For purposes of this entry: ethnic groups means indigenous and native communities; minorities includes peasant (campesinos) communities…” this only applies to certain listed provisions of the FTA, not to the entire FTA.


\(^12\) Under this authority, the García administration introduced 99 decrees, the majority of which were introduced in the final weeks of the time period, in late June 2008. For a full list of the measures, see [http://sc.pcm.gob.pe/web/images/stories/interior/docs/sit_dl.pdf](http://sc.pcm.gob.pe/web/images/stories/interior/docs/sit_dl.pdf). Accessed July 13, 2009.


\(^15\) “USTR Hold Back on Controversial Peru Decrees at Root of Protests,” *Inside U.S. Trade*, June 19, 2009. The repealed decrees were 1090 and 1064.


\(^17\) According to the EFE wire service, “De otro lado, respecto a la implementación del TLC con Estados Unidos, Pérez explicó que Perú tiene hasta agosto para concluir con este proceso, en el que se incluye la modificación de la ley forestal que generó una violenta protesta de comunidades indígenas en la ciudad de Bagua con 34 muertos. ‘Lo que viene es
In Mexico, the NAFTA-conforming amendments to Article 27 of Mexico’s Constitution broke up the ejido system and newly allowed foreigners to own farmland. This change is considered a major contributing factor to why U.S. corn dumping under NAFTA led to the displacement from formerly ejido of over two million Mexican campesinos. See Timothy A. Wise, “Reforming NAFTA’s Agricultural Provisions,” in _The Future of North American Trade Policy: Lessons from NAFTA_, (Boston: Boston University, 2009), at 35.


In Mexico, the NAFTA-conforming amendments to Article 27 of Mexico’s Constitution broke up the ejido system and newly allowed foreigners to own farmland. This change is considered a major contributing factor to why U.S. corn dumping under NAFTA led to the displacement from formerly ejido of over two million Mexican campesinos. See Timothy A. Wise, “Reforming NAFTA’s Agricultural Provisions,” in _The Future of North American Trade Policy: Lessons from NAFTA_, (Boston: Boston University, 2009), at 35.


Ángel Páez, “PERU: Congress Probes Massacre; Prime Minister to Quit,” _Inter Press Service_, June 16, 2009.

Available at: http://ipsnews.net/news.asp?idnews=47248


Available at: http://ipsnews.net/news.asp?idnews=47297


See gold price estimates at: http://www.usagold.com/gold-price.html


In Mexico, the NAFTA-conforming amendments to Article 27 of Mexico’s Constitution broke up the ejido system and newly allowed foreigners to own farmland. This change is considered a major contributing factor to why U.S. corn dumping under NAFTA led to the displacement from formerly ejido of over two million Mexican campesinos. See Timothy A. Wise, “Reforming NAFTA’s Agricultural Provisions,” in _The Future of North American Trade Policy: Lessons from NAFTA_, (Boston: Boston University, 2009), at 35.


Available at: http://agendamagna.wordpress.com/2009/02/13/reforma_de_la_ley_del_sistema_privado_de-administracion_de-pensiones/. This modifies the Supreme Decree Number 054-97-EF, which is available at: http://www.sbs.gob.pe/normas/leyes/tuo.pdf


1 “Oil and Gas Blocks Cover 75 Percent of the Peruvian Amazon,” _Environmental News Service_, May 28, 2008.


29 In Mexico, the NAFTA-conforming amendments to Article 27 of Mexico’s Constitution broke up the ejido system and newly allowed foreigners to own farmland. This change is considered a major contributing factor to why U.S. corn dumping under NAFTA led to the displacement from formerly ejido of over two million Mexican campesinos. See Timothy A. Wise, “Reforming NAFTA’s Agricultural Provisions,” in _The Future of North American Trade Policy: Lessons from NAFTA_, (Boston: Boston University, 2009), at 35.


33 Available at: http://agendamagna.wordpress.com/2009/02/13/reforma_de_la_ley_del_sistema_privado_de-administracion_de-pensiones/. This modifies the Supreme Decree Number 054-97-EF, which is available at: http://www.sbs.gob.pe/normas/leyes/tuo.pdf


40 “Congresista José Maslucán advierte que negativa del gobierno de derogar decretos antiamazónicos avivaría nuevas protestas.” Available at: http://www.aidesep.org.pe/index.php?codnota=1185


42 One example of a challenger candidate successfully highlighting an incumbent’s Peru FTA vote was now-Rep. Gary Peters (D-Mich.), who criticized incumbent Joe Knollenberg for his support of that and other FTAs. For more details on this shift in Congress, see Todd Tucker, “Election 2008: Fair Trade Gets an Upgrade,” _Public Citizen_, November 2008.


According to its text, “This regulation enters into force on the day following its publication.” (http://www.congreso.gob.pe/ntley/Imagenes/DecretosLegislativos/01079.pdf)

The original legislation, Law Number 653, is here: http://www.google.com/url?sa=t&source=web&ct=res&cd=1&url=http%3A%2F%2Fwww.dar.org.pe%2Fnormas_de_agua%2F12_DL653.doc&ei=fxcSqKvKI_kMOWSta4C&usg=AFQjCNHxS2ZVfotViizNWGGG-kul0YHkIQ&sig2=fjxwaxYFr1xPTQNaoViVaaQ. According to the text, “This law will be implemented, through a Supreme Decree, with the approval vote of the Council of Ministers in a period of no greater than 90 calendar days counted from its publication in the Official Gazette El Peruano.”

The original legislation, Law Number 653, is here: http://www.google.com/url?sa=t&source=web&ct=res&cd=1&url=http%3A%2F%2Fwww.dar.org.pe%2Fnormas_de_agua%2F12_DL653.doc&ei=fxcSqKvKI_kMOWSta4C&usg=AFQjCNHxS2ZVfotViizNWGGG-kul0YHkIQ&sig2=fjxwaxYFr1xPTQNaoViVaaQ. According to the text, “This law will be implemented, through a Supreme Decree, with the approval vote of the Council of Ministers in a period of no greater than 90 calendar days counted from its publication in the Official Gazette El Peruano.”

The original legislation, Law Number 653, is here: http://www.google.com/url?sa=t&source=web&ct=res&cd=1&url=http%3A%2F%2Fwww.dar.org.pe%2Fnormas_de_agua%2F12_DL653.doc&ei=fxcSqKvKI_kMOWSta4C&usg=AFQjCNHxS2ZVfotViizNWGGG-kul0YHkIQ&sig2=fjxwaxYFr1xPTQNaoViVaaQ. According to the text, “This law will be implemented, through a Supreme Decree, with the approval vote of the Council of Ministers in a period of no greater than 90 calendar days counted from its publication in the Official Gazette El Peruano.”

The original legislation, Law Number 653, is here: http://www.google.com/url?sa=t&source=web&ct=res&cd=1&url=http%3A%2F%2Fwww.dar.org.pe%2Fnormas_de_agua%2F12_DL653.doc&ei=fxcSqKvKI_kMOWSta4C&usg=AFQjCNHxS2ZVfotViizNWGGG-kul0YHkIQ&sig2=fjxwaxYFr1xPTQNaoViVaaQ. According to the text, “This law will be implemented, through a Supreme Decree, with the approval vote of the Council of Ministers in a period of no greater than 90 calendar days counted from its publication in the Official Gazette El Peruano.”