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Caterpillar's Bulldozers Power Push for Colombia

By Mark Drajem | January 25, 2011 11:21AM ET

(Bloomberg) -- Caterpillar Inc. bulldozers that cost as much as \$2 million plow through rock and move dirt in Colombia's coal mines. With help from the White House and Congress, the company says it can export more of them from its Illinois plant.

The D11 bulldozers, the largest made, face a 5 percent tariff in Colombia, which can add \$100,000 to the price as the company competes for sales with manufacturers in Japan and China, according to Caterpillar, the world's biggest maker of construction equipment.

A free-trade agreement signed in 2006 and never implemented would eliminate those tariffs and help President Barack Obama meet his goal of doubling exports, the Peoria, Illinois-based company says. Caterpillar and Republicans in Congress want Obama to submit stalled agreements with Colombia and Panama to Congress in tandem with a South Korea free-trade accord that Obama plans to push first.

"People don't appreciate how important Latin American export markets are to American manufacturers," William Lane, government relations director for Caterpillar, said in an interview. "At one level this is the easiest issue Caterpillar has ever lobbied."

Bulldozer tariffs aren't Caterpillar's only concern. Its behemoth trucks face a 15 percent duty in Colombia, which adds about \$300,000 to a vehicle that can also cost \$2 million, according to Lane.

Obama, Competitiveness

So Caterpillar and other U.S. companies that export in the Americas will be listening tonight to see if the Colombia and Panama accords rate a mention from Obama in a State of the Union address that will focus on creating U.S. jobs and improving the nation's competitiveness.

The president agreed to revisions in the free-trade agreement with South Korea in December and wants Congress to approve it in the first half of the year. The U.S. and Panama agreed to a tax accord that lawmakers said was necessary for consideration of that free-trade agreement. The U.S. and Colombia haven't negotiated changes on issues raised by Democrats in Congress.

The administration opposes efforts to lump together the three deals and "force feed" them for congressional consideration, U.S. Trade Representative Ron Kirk said Jan. 13.

South Korea Deal

South Korea is the bigger prize for many U.S. companies, as total trade with that nation topped \$80 billion in the first 11 months of 2010, compared with \$25 billion for Colombia and \$5.8 billion for Panama, according to U.S. Commerce Department data. The South Korean deal would increase U.S. exports by \$10.9 billion a year, while trade with Colombia would boost exports by \$1.1 billion, according to the U.S. International Trade Commission.

"The Korean market is six times larger than the Colombian market, and so that's where the bulk of the benefits would be," Stephen Biegun, vice president for international governmental affairs at Ford Motor Co., said today at a hearing of the House Ways and Means Committee on the trade agreements.

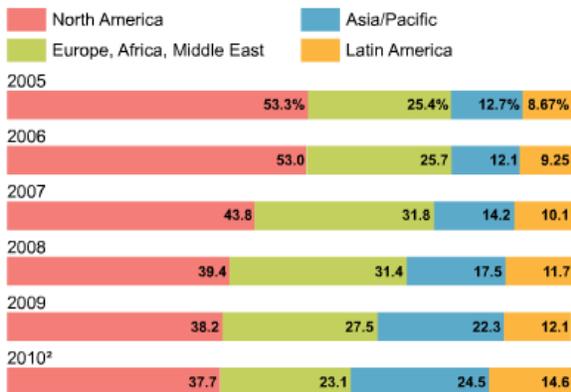
Caterpillar isn't alone among companies that want Obama to press for action on all of the trade agreements, according to Christopher Wenk, senior director for international policy at the U.S. Chamber of Commerce in Washington, the nation's largest business lobbying group.

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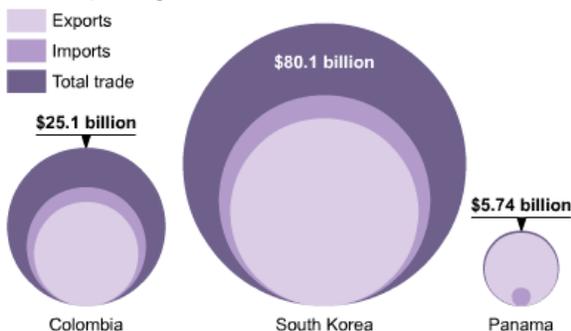
Caterpillar Pushes for Trade Agreement

Caterpillar is lobbying the Obama administration and U.S. Congress to approve trade agreements with South Korea, Colombia and Panama. Caterpillar's revenue in Asian and Latin American markets increased 16.8 percent since 2005, according to data compiled by Bloomberg.

Caterpillar fiscal year total revenue by global region¹



U.S. trade, January - November 2010



1 — Totals may not add up due to rounding
2 — Figures include only first three quarters of fiscal year 2010

Graphic: Alex Tribou
Sources: U.S. Census, Bloomberg Government data

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IMPACT

Action

A dispute over three U.S. free-trade agreements -- with South Korea, Panama and Colombia -- has emerged. President Barack Obama wants Congress to approve the deal his administration negotiated with South Korea first. Caterpillar Inc. and House Republicans want Obama to commit to moving on all three accords.

Revenue

The Korean agreement would boost exports by up to \$10.9 billion, according to the U.S. International Trade Commission. South Korea ranked as the U.S.'s seventh largest export market in the first 11 months of 2010, with Colombia ranked No. 20 and Panama No. 37.

Cost

Within three years the Korean agreement would eliminate 95 percent of tariffs, which are currently applied on U.S. imports at an average applied rate of 11.2 percent, contrasting with the average 3.7 percent U.S. tariff, according to the Congressional Research Service.

Winners

For companies with strong export markets in Latin America such as Caterpillar Inc., the Colombia and Panama agreements could provide more benefits than Korean deal. Caterpillar sales to Latin America were \$1.76 billion in the third quarter of 2010.

Losers

Unions oppose the Colombia free trade agreement due to concerns about violence against labor leaders as well as fears that U.S. jobs will move. The minimum wage in Colombia is 532,500 pesos a month, equal to \$287 at yesterday's exchange rate. Assuming a 40-hour work week, that averages \$1.79 an hour, compared with \$12.00 in the U.S.

"So much of the discussion has been on Korea, but the business community wants all" of the free-trade deals, Wenk said in an interview.

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Export Goal

In the State of the Union address last year, Obama pledged to "double our exports over the next five years, an increase that will support 2 million jobs in America." He also said that "we will strengthen our trade relations in Asia and with key partners like South Korea and Panama and Colombia" without specifying what actions he would take.

Unions, which helped fund the election campaigns of Obama and Democrats in Congress, are united in opposition to the Colombia pact because of longstanding concern about violence against labor organizers. While the AFL-CIO, the largest U.S. labor federation, opposes the Korea deal as well, the United Auto Workers endorsed that agreement after Obama won concessions intended to open Korea's market to American autos.

The new government of President Juan Manuel Santos in Colombia "has now articulated a new approach which provides an opportunity to address the serious concerns consistently expressed by us," Representative [Sander Levin](#), the top Democrat on the Ways and Means Committee, said today. Levin of Michigan, who traveled to Colombia this month, said "there is now an opportunity for the two governments to work together mutually to achieve real progress on the ground."

Ford, FedEx, MetLife

The Republican leadership of the House focused attention on the Korea, Colombia and Panama accords before Obama's speech by inviting representatives of [Ford](#), [FedEx Corp.](#) and [MetLife Inc.](#) to testify on behalf of the accords today.

"In these difficult economic times, Congress and the administration owe it to American workers, businesses and farmers to take all available steps to increase exports and the jobs they support," Ways and Means Committee Chairman [Dave Camp](#), a Michigan Republican, said today at the hearing.

Also this week, Colombia's Vice President Angelino Garzon, a former labor leader, is in Washington for meetings with labor union leaders. He is also scheduled to meet in Washington with his counterpart, [Joe Biden](#), and Secretary of State [Hillary Clinton](#).

'Field Goal'



Photographer: [Arboleda/AFP/Getty Images](#)

Caterpillar bulldozers face a 5 percent tariff in Colombia, which can add \$100,000 to the price.

Leading the charge for action on all three agreements, Caterpillar ran an advertisement last month in *Politico*, a newspaper that circulates at the Capitol, with a photo of goalposts and the caption, "Now is not the time to kick a field goal on trade."

"For Caterpillar, passing the Korea FTA while keeping Colombia and Panama on the sidelines is like kicking a field goal on second down," the ad said, using imagery from American football to invoke a missed opportunity.

Caterpillar has much at stake in Latin America, with the Panama Canal being expanded and large-scale mining projects planned in Colombia, Lane said. In the third quarter of last year, Caterpillar sales in the region jumped 95 percent to \$1.76 billion, a faster increase than in anywhere else. Sales there accounted for 16 percent of worldwide revenue.

Business groups say Republican efforts to push for action on the Colombia and Panama agreements will lead to a series of political maneuvers in the coming weeks.

'Kabuki Dance'

"There is going to be this elaborate kabuki dance," said William Reinsch, president of the [National Foreign Trade Council](#), which represents exporters such as Caterpillar, get is a promise of a pathway to move forward."

[General Electric Co.](#) and [Boeing Co.](#) "What they will try to do is get is a promise of a pathway to move forward."

While Korea is "a more significant market," congressional action on each of the agreements will be watched around the world to see if the U.S. can deliver on future accords in Asia or at the World Trade Organization, Phil Levy, a former Bush administration official and a scholar at the American Enterprise Institute in Washington.

"If you want to establish credibility with other trading partners, you need to be able to do these deals," he said.

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7,000 won, or \$0.00, an hour in South Korea and \$7.25 in the U.S.

Strategy

Republicans want Obama to commit to advancing the Colombia and Panama free trade agreements. The administration has said it will focus on the other agreements once Congress approves the larger agreement with Seoul.

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