

Falling Sales Bolster Caterpillar's Free Trade Lobbying

May 21, 2009: 07:18 PM ET



CHICAGO --(Dow Jones)- Caterpillar Inc.'s (CAT) plunging sales and its shrinking workforce are strengthening the construction equipment maker's case for approval of a U.S. free trade agreement with Panama, observers said Thursday.

Caterpillar has been lobbying for Congressional ratification of the Panama agreement for over two years as it eyes a potentially rich source of equipment sales in the widening of the Panama Canal. Chairman and Chief Executive James Owens on Thursday called the \$5.25 billion canal expansion one of the world's largest public works projects in recent years.

More than 60% of the Peoria, Ill.-based company's \$51.3 billion in sales last year came from overseas customers. Owens said Caterpillar's export business last year supported "tens of thousands of jobs in the U.S. for Caterpillar and its suppliers."

Industry observers say Caterpillar's arguments for expanding free trade are likely to get more traction in Congress now than in previous years when the company's sales were booming and its U.S. factories were running at capacity. Because of the downturn in the global economy, the company expects 2009 sales to fall by 30% from last year. It's laid off about 25,000 workers since last year.

"You could see the Panama Canal expansion as one of the biggest economic stimulus projects in the world and this trade agreement would ensure U.S. companies would get a share of the work," said Daniel Griswold, director of trade policy studies at the Cato Institute, a conservative think tank in Washington D.C.

The Panama agreement and free trade deals with Columbia and South Korea were signed during the Bush Administration, but have yet to be voted on by Congress.

Without approval of the Panama deal, Caterpillar maintains it will have difficulty supplying earth-moving equipment for the canal because the company would be subject to Panamanian tariffs that effectively raise the prices of Caterpillar machinery imported into the Central American country by 3% to 10%.

Caterpillar said the tariffs put it at a disadvantage to foreign competitors that already have duty-free access to Panama.

A top official for the U.S. Trade Representative's Office told the Senate Finance Committee Thursday that the Panama agreement would create employment and business investment opportunities for U.S. citizens.

"This agreement will give American workers, farmers, ranchers and businesses the same access to Panama's growing market that Panama has to our market," Everett Eissenstat, assistant U.S. trade representative, said in prepared remarks.

Eissenstat said 90% of Panamanian goods sold in the U.S. enter the country duty-free already. But U.S. exports to Panama are subject to tariffs as high as 20% on some consumer and industrial goods and a 15% average on U.S. farm products.

Labor unions, a key Democratic constituency, have denounced the free trade deals as giving U.S. companies incentives to abandon domestic operations and relocate to foreign countries with lower labor costs.

As a result, the Administration and Democrats in Congress are moving cautiously and a vote on the pending trade agreements have not been scheduled.

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