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# Implications of a Peru Trade Promotion Agreement on U.S. Agriculture

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**American Farm Bureau Federation**  
Economic Analysis Team

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# **Peru Trade Promotion Agreement Analysis**

## **Executive Summary**

On December 7, 2005, the United States and Peru completed negotiations on a bilateral free trade agreement. Originally the negotiations were part of a much larger negotiation, the Andean Free Trade Agreement. The Andean FTA was to include Peru, Columbia and Ecuador. Colombian negotiations have recently been completed, but will be sent to Congress in separate legislation; negotiations still continue with Ecuador. The Peru agreement is moving forward on its own and President Bush has notified Congress of his intent to sign the Peru Trade Promotion Agreement (PTPA) and the agreement must now be approved by Congress.

The PTPA, as proposed, involves a mix of costs and benefits for the U.S. agricultural sector. The benefits involve expanded exports of a wide range of farm products, some of which come later in the implementation period as Peru's import demand for farm products expands. The costs center on increased U.S. imports of Peruvian sugar. By 2025, when the agreement would be fully implemented, increased sugar imports are likely to total \$6.4 million while increased exports of the major grain, oilseed, fiber and livestock products are likely to exceed \$475 million. The total increase in United States farm exports associated with the PTPA could exceed \$705 million per year, including items such as fruits, vegetables, tallow and other high-valued processed products.

It is important to understand that the PTPA allows the United States to become a competitive supplier of agricultural products to Peru. The United States will be able to land product duty-free, allowing the United States to compete with Peru's other Latin American trading partners that are currently supplying a large percent of the Peruvian food and fiber market through other preferential trade agreements. This also levels the playing field by providing U.S. products exported to Peru with the same duty-free access already enjoyed by Peruvian products exported to the United States. Peru would also agree to deal with sanitary and phytosanitary barriers and other non-tariff barriers to U.S. exports.

The PTPA does allow additional Peruvian sugar access into the U.S. market. But, for agriculture as a whole, the economics suggest it will have a positive effect on the American agricultural sector as a whole.

# Background Information on Peru

On December 7, 2005, the United States and Peru completed negotiations on a bilateral free trade agreement. Originally the negotiations were part of a much larger negotiation, the Andean Free Trade Agreement. The Andean FTA was to include Peru, Columbia and Ecuador. Columbian negotiations have recently been completed, but will be sent to Congress in separate legislation; negotiations still continue with Ecuador. The Peru agreement is moving forward on its own and President Bush has notified Congress of his intent to sign the Peru Trade Promotion Agreement (PTPA) and the agreement must now be approved by Congress.

## General Information

Peru is located in western South America, bordering the South Pacific Ocean between Chile and Ecuador. Peru is slightly smaller than Alaska, with less than 3 percent of that arable land. Peru has a population of roughly 28 million people.

A lack of infrastructure in Peru has historically deterred trade and investment in that country. This, along with domestic unrest, resulted in inconsistent economic performance in the 1990s. However, Peru's economy is now considered one of the most vibrant in Latin America. The economy grew by more than 4 percent per year between 2002 and 2005, due in part to the strong macroeconomic policies of the current administration. Foreign direct investment in the Peruvian economy has increased significantly and reflects investor optimism about the economy.<sup>1</sup>

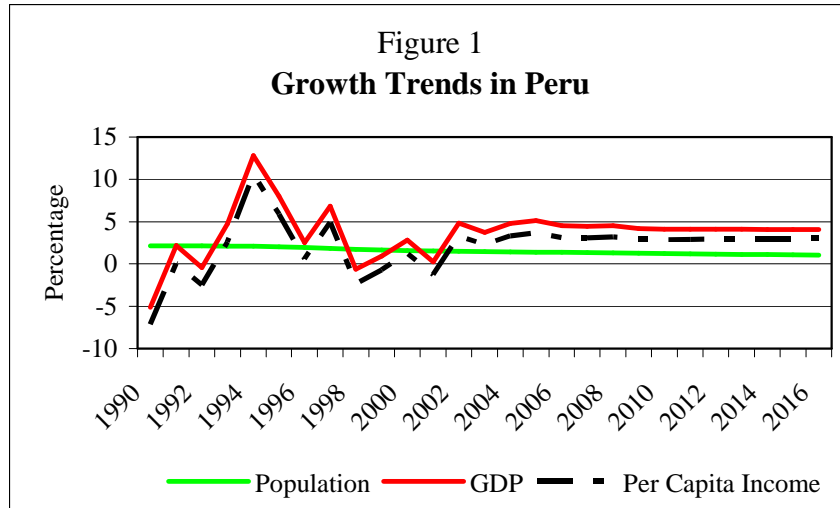
## Growth Trends in Peru

There are several growth trends that can be examined in an attempt to estimate what the Peruvian economy will look like in the future. These include growth in the gross domestic product (GDP), population and per capita income. Figure 1 charts these actual trends from 1990 to the present and forecasts growth through 2016.<sup>2</sup>

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<sup>1</sup> Central Intelligence Agency. *The World Factbook*. Washington, DC, February 2006.

<sup>2</sup> United States Department of Agriculture. "International Macroeconomic Data Set." Economic Research Service, Washington, DC, February 2006.



The gross domestic product (GDP) is a measure of the value of economic production of a country and is often seen as an indicator of the standard of living. While GDP growth in Peru was negative in the early 1990s, the country is now experiencing positive economic growth. This growth is being driven by construction, mining, foreign direct investment, domestic demand and exports.<sup>3</sup> This growth is forecasted to continue at about 5 to 6 percent per year to 2016 and beyond to 2025 when all the provisions of PTPA would be implemented.

The population growth rate for Peru has been as high as 3 percent per year. Population is expected to grow at roughly 1 percent per year in the future. Changes within that population, however, are expected to be significant.

Per capita income in Peru is expected to grow significantly in the future, at nearly 5 percent per year. As families in Peru transition from subsistence living to middle class lifestyle, there will be a major impact on the quantity, quality and diversity of food consumption. Rising incomes will increase demand for higher quality food and result in a greater variety in diets. This will include more processed products, value-added foods and livestock products, which will require more feed grains and proteins to produce. With the PTPA in place, this could translate into significant gains for the American agricultural sector.

<sup>3</sup> United States Department of Agriculture. “Peru: 2005 Annual Exporter Guide,” *Global Agriculture Information Network Report*. Foreign Agricultural Service, Washington, DC, November 2005.

### General Trade with Peru

Total trade in goods between the United States and Peru was \$5.8 billion in 2004, up 29 percent from the previous year and nearly tripling in the last decade. The export of American goods to Peru totaled \$2.1 billion, an increase of 19 percent since 2003. Top U.S. export categories were machinery and electronic machinery, plastic, cereals and mineral fuel. U.S. imports of goods from Peru grew nearly 35 percent in 2004 to \$3.7 billion. Top U.S. import categories were coffee and products, cocoa and products, sugar and wine and products. The United States had a total trade deficit of \$1.6 billion in 2004 with Peru. The stock of United States foreign direct investment in Peru in 2004 was \$3.9 billion.

### **Agricultural Information**

Peru has a varied geography – ranging from an arid coastal region, to the Andean Mountains farther inland and tropical lands bordering Colombia and Brazil. Only a small part of this geography, less than 3 percent, is arable land that is fit to be cultivated. Agricultural production is concentrated in the valleys of the coastal region, the basins and valleys of the Andes, and the western margins of the tropical region. In most other areas, the land is of very poor quality and lacks adequate water. In addition to the limited amount of arable land, there are other obstacles to increasing the country's agricultural production. The Peruvian government has frequently utilized domestic price controls on agricultural and food products to ensure their consumers have access to affordable food supplies. By placing price controls on domestic agricultural products and subsidizing food imports, the Peruvian government has inadvertently harmed its domestic farmer.<sup>4</sup>

Peru's main commercial agricultural crops are coffee, sugarcane, cotton and rice. In addition to these commercial crops, many peasants in Peru still practice subsistence agriculture and produce crops including potatoes, corn, barley, wheat, sweet potatoes and other fruits and vegetables. Since the 1950s, fishing in Peru has also grown to be a major economic activity. Peru has one of the world's largest fishing zones, which is rich in a wide variety of fish and marine life. However, over-fishing in the 1970s and 1980s has reduced annual catch volumes.

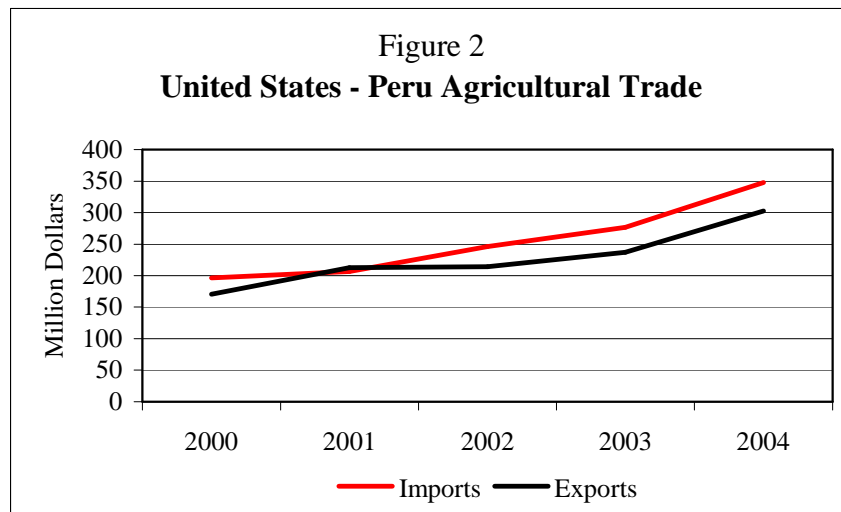
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<sup>4</sup> United States Library of Congress. *Peru: A Country Study*. Washington, DC, November 2002.

Current food consumption patterns in Peru emphasize consumption of fruit and vegetable products and rice, rather than meat products. This is best illustrated in the food balance sheet that is attached to this report as Appendix A. As the Peruvian consumer experiences increases in their income, they will be able to diversify their consumption to include more meats and high-valued products.

### **Agricultural Trade Information**

In 2004, Peru was the 32<sup>nd</sup> largest export market for U.S. agricultural products, excluding fish and forestry products. The United States is the fourth largest supplier of the Peruvian agricultural market with an overall 8 percent market share. As shown in the figure below, American agricultural exports to Peru have increased 44 percent since 2000, from \$170 million to \$302 million in 2004. American agricultural imports from Peru are also growing, reaching a high of \$347 million in 2004. In 2004, the United States had an agricultural trade deficit with Peru of \$45 million.



#### Agricultural Imports

From 2000 to 2004, the United States imported an average of \$255 million of agricultural products from Peru. Many of these agricultural products are tropical products not largely produced in the United States, including bananas, mangos, coffee, cocoa and spices. Most fruits and vegetables were imported in the off-season when American production was not available in

bulk. However, the United States also imported commodities that competed directly with American production, including some vegetables (namely asparagus, peas and lettuce) and sugar.

Table 1 shows the United States top ten agricultural imports from Peru.

Table 1  
**Top Ten U.S. Agricultural Imports from Peru**

*(Values in \$1,000)*

Commodity	2000	2001	2002	2003	2004	5-Yr Avg
Fresh Vegetables, excluding Potatoes	50,056	63,028	78,855	97,266	119,239	81,689
Coffee & Coffee Products	86,101	48,108	57,610	61,706	75,997	65,904
Fresh Fruit, Other	13,684	17,684	26,475	21,278	25,650	20,954
Sugar & Related Products	6,934	26,925	16,677	19,066	16,602	17,241
Vegetables, Prepared or Preserved	4,509	7,324	13,687	15,805	27,577	13,780
Vegetables, Frozen	6,069	8,574	9,827	10,693	11,585	9,350
Spices	1,488	2,861	7,521	8,029	16,582	7,296
Cocoa & Cocoa Products	8,847	4,900	3,519	3,026	3,971	4,853
Edible Tree Nuts	2,923	2,904	2,395	4,864	7,446	4,106
All U.S. Imports from Peru	196,284	206,232	245,873	276,897	347,975	254,652

### Agricultural Exports

From 2000 to 2004, the United States exported an average of \$227 million of agricultural products to Peru. In 2004, the top American agricultural exports to Peru were wheat, cotton, corn, soybean oil, soybean meal and rice. The table below shows the top ten agricultural exports to Peru.

Table 2  
**Top Ten U.S. Agricultural Exports to Peru**

*(Values in \$1,000)*

Commodity	2000	2001	2002	2003	2004	5-Yr Avg
Wheat	29,576	76,286	64,686	100,716	151,281	84,509
Cotton	17,938	30,169	29,629	42,118	41,981	32,367
Corn	24,280	22,944	17,279	4,095	25,673	18,854
Soybean Oil	20,403	16,291	15,038	18,618	10,736	16,217
Soybean Cake & Meal	26,870	9,606	19,954	1,488	9,431	13,470
Rice	4,892	118	2,928	4,503	8,407	4,170
Feed, Ingredients & Fodder	3,780	5,172	4,137	4,048	3,350	4,097
Inedible Tallow	132	2,126	6,745	2,882	5,718	3,521
Misc Horticultural Products	4,132	2,384	2,631	3,183	2,707	3,007
Lentils	2,688	3,198	3,955	3,672	1,229	2,948
All U.S. Exports to Peru	170,274	212,494	213,859	236,970	302,496	227,219

However, the United States is facing stiff competition in the Peruvian market. Peru already has preferential trade agreements in place with several other countries in the Latin America region. As such, these Latin American trading partners are supplying a large percentage of the Peruvian food and fiber market. Chile has a 28 percent share of the Peruvian food market. Columbia and Argentina each have an 11 percent share.<sup>5</sup> Enacting the PTPA would put the United States on a level playing field with these preferred suppliers, enabling the United States to compete for these markets.

### Agricultural Tariff Rates

Peru's relatively high tariff structure is the major impediment to market access in many sectors, including agriculture. While progress has been made in lowering these tariff barriers in past trade negotiations, room for improvement remains.

Currently, rice, corn, sugar and milk products have been excluded from Peru's agricultural liberalization and are subject to a price band protection system. Tariffs on meats, some fresh fruits, and vegetables and pulses are also high, even though there is little domestic production. Table 3 shows both the bound and applied tariff rates for some selected agricultural commodities, both in the United States and in Peru.

As shown here, import duties on agricultural and processed food products are currently high and the average tariff rate is roughly 18 percent. Elimination of Peru's duties in the agricultural sector would create new opportunities for American farmers and ranchers in this market, particularly relative to other suppliers that already have trade agreements with Peru.

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<sup>5</sup> United States Department of Agriculture. "Peru: 2005 Annual Exporter Guide," *Global Agriculture Information Network Report*. Foreign Agricultural Service, Washington, DC, November 2005.

Table 3  
**Tariff Rate Information**  
*(Values in Percent)*

Commodity	Peru		United States	
	Bound	Applied	Bound	Applied
Barley	30.0	12.0	0.7	0.0
Beef	30.0	20.0	26.4	5.3
Butter	30.0	20.0	80.9	6.7
Cheese	30.0	20.0	36.4	9.8
Corn	30.0	12.0	0.6	0.0
Cotton	30.0	12.0	25.9	25.9
Milk	30.0	20.0	40.0	0.0
Pork	30.0	20.0	0.2	0.0
Poultry	30.0	20.0	17.4	6.9
Rice	52.0	52.0	6.8	6.8
Sorghum	30.0	12.0	1.4	0.0
Soybeans	30.0	12.0	0.0	0.0
Soybean Meal	30.0	12.0	2.5	2.5
Soybean Oil	30.0	12.0	19.1	19.1
Sugar	68.0	14.5	195.0	195.0
Wheat	30.0	12.0	2.6	0.0
Aggregate Fruits	30.0	25.0	3.7	3.7
Aggregate Vegetables	30.0	12.0	6.8	6.8
Processed Products	16.6	16.6	11.4	11.4

On the U.S. import side, Peruvian agricultural exporters currently face little or no tariffs when exporting to the United States through the Andean Trade Preference Act (ATPA). The ATPA was enacted in 1991 to combat drug production and trafficking in the Andean countries, including Bolivia, Columbia, Ecuador and Peru. The program offers trade benefits to help these countries develop and strengthen legal industries, especially by producing legal food and fiber products for export. The ATPA was expanded under the Trade Act of 2002 and is now called the Andean Trade Promotion and Drug Eradication Act. It provides duty-free access to U.S. markets for approximately 5,600 products.<sup>6</sup>

<sup>6</sup> Office of the United States Trade Representative. "Andean Trade Preference Act." Washington, DC, February 2006.

# AFBF Economic Analysis

Before discussing the economic impact analysis of the PTPA, an understanding of the agreement's content is important. Some important aspects of the agricultural sections of the PTPA are summarized below.

## Major PTPA Provisions

Under the PTPA, more than two-thirds of current U.S. agricultural exports to Peru will become duty-free immediately. Items that receive immediate duty-free treatment include high-quality beef, cotton, wheat, soybeans, soybean meal, apples, pears, cherries, almonds and some processed food products. In addition, the United States and Peru have worked to resolve sanitary and phytosanitary barriers to agricultural trade, including food safety inspection procedures for beef, pork and poultry. Some of the other specific provisions of the agreement are discussed further below.

### All Commodities Included in the Agreement

The PTPA requires an eventual elimination of *all* tariffs on *all* agricultural products exported by the United States to Peru. Most agricultural products from Peru already enter the United States duty-free under the Andean Trade Preference Act. The PTPA would level the playing field by ensuring the same open market access for United States exports to Peru as Peruvian exports currently receive in the United States. Tariffs on U.S. farm products are phased out completely over 17 years. The agreement not only eliminates the lower applied tariffs currently applied to agricultural imports from the United States, but would also preclude the possibility of Peru shifting to the much higher bound tariffs for farm products at anytime in the future (See Table 3). This elimination of both applied tariffs and bound tariffs ensures the United States open access regardless of market developments that might lead Peru to revert to their higher bound rates on record with the World Trade Organization.

### Tariff Rate Quotas in the Agreement

In the PTPA, both parties utilized tariff rate quotas as a transition vehicle to open markets for a variety of agricultural products. A tariff rate quota, also known as a TRQ, is a two-leveled tariff, where the tariff rate charged on imports depends on the volume or quantity of imports. A lower tariff, also called an in-quota tariff, is charged on imports that fall within the quota volume.

These tariffs are generally low and not very trade distorting. A higher tariff, also called an over-quota tariff, is imposed on imports in excess of the quota volume.

The United States will utilize TRQs to open its markets for cheese, condensed and evaporated milk, processed dairy products and sugar. With the exception of sugar (see the Sugar section below), all U.S. TRQs will be eliminated and the markets will be fully opened within 17 years. Peru will also utilize TRQs as a means of transition to completely open markets. Like the United States, all Peruvian TRQs will be eliminated and markets will be fully opened within 17 years. Table 4 shows the commodities for which Peru will utilize a TRQ, the average U.S. export of these selected commodities (from 2000 to 2004) and the TRQ values for year one and year ten of the agreement's implementation.

Table 4  
**Peru's TRQ Commitments**

*(Values in Metric Tons)*

Commodity	Avg US Exports	Year 1 TRQ	Year 10 TRQ	Unlimited In
Standard Quality Beef	73	800	1,352	12 years
Beef Variety Meats	1,174	10,000	Unlimited	10 years
Chicken Leg Quarters	1,090	12,000	23,988	17 years
Yellow Corn	188,759	500,000	844,739	12 years
Rice	16,397	55,500	125,021	17 years
Refined Soybean Oil	987	7,000	Unlimited	10 years
Milk Powder	629	4,630	12,839	17 years
Yogurt	7	70	165	15 years
Butter	137	500	1,179	15 years
Cheese	548	2,500	6,933	17 years
Ice Cream	163	300	707	15 years
Processed Dairy Products	2	2,000	4,716	15 years

To ensure that these TRQs are administered in a manner that facilitates opening these protected markets, the agreement provides specific guidelines on how to operate these TRQs. The

agreement states, “Each Party shall make every effort to administer its TRQs in a manner that allows importers to fully utilize them.” Specifically, the agreement requires that TRQ administration be transparent, that administration will be done by government authorities, and that TRQ quantities are made in commercially viable amounts.

#### Safeguard Mechanisms in the Agreement

The PTPA allows either country to impose a safeguard measure on selected agricultural commodities in the event that the domestic market for the commodity could be disrupted and producers could be harmed by a surge in imports. Peru has safeguard measures for standard-quality beef, chicken leg quarters, rice, milk powder, butter and cheese; the United States has safeguard measures for condensed and evaporated milk and cheese. A trigger level was set for each commodity in the text of the agreement and an additional duty (that varies by commodity) may be charged *temporarily* if this trigger is reached.

#### Sugar in the Agreement

The PTPA also requires the United States to expand its current sugar quota for Peru. Peru currently has authorization to export 43,175 metric tons of sugar to the United States each year. Under the PTPA, Peru’s sugar quota would increase immediately by 9,000 metric tons and by 180 metric tons each year thereafter.

However, the text of the agreement (Article 2.19) provides for a “sugar compensation mechanism.” The United States has the right to compensate Peru for their increased sugar quotas in lieu of actually importing the sugar. This provision is similar to that provided in the Dominican Republic-Central American Free Trade Agreement. However, the PTPA explicitly explains how this compensation will occur. The agreement states, “Such compensation shall be equivalent to the estimated economic rents that Peru’s exporters would have obtained on exports to the United States of any such amounts of sugar goods and shall be provided within 30 days after the United States exercise this option.” Also similar to the DR-CAFTA, Peru must meet a “net-exporter” provision (or export more sugar than they import) in order to send any additional product to the United States market.

## **Analysis Methodology**

This analysis of PTPA's impact on American agriculture is based on two different trade scenarios—the first assumes no agreement is implemented and the second assumes that the current agreement is put in place. Since Peruvian producers already have open access to much of the U.S. agricultural market, the analysis focuses on assessing U.S. opportunities to increase exports to Peru. In the first scenario, Peruvian demand, supply, exports and imports for the major grain, oilseed, livestock, and fiber products in 2025 (by which time all TRQs will be eliminated and the PTPA would be fully implemented) are estimated assuming continuation of the current market situation. The supply baseline assumes continuation of Peru's historical production trends for the last 3 decades demand projections looked at economic growth and population gains; exports were projected based on trends as well. Imports were then calculated as a residual. Prices in this scenario were assumed to stay constant at 2000-2004 levels.

With an agreement in place, it was assumed that the main difference between the two scenarios would be due to the commodity price changes resulting from tariff elimination, and the higher general economic growth and per capita incomes likely with an agreement. Supply, demand, price and income elasticities developed by the Food and Agriculture Organization of the United Nations were used to adjust production and consumption of the various commodities to reflect tariff-related changes in price and a PTPA's higher economic growth rates. Imports were then recalculated.

Once Peru's import needs were re-estimated, the market share likely to accrue to the United States under the two scenarios was calculated using historical data. For the non-agreement scenario, the 2000-2004 base market share was used. This assumes the United States continues with an 8 percent general agricultural market share, compared to a much larger share ranging from one-third to two-thirds for the major commodity markets elsewhere in the region. For the PTPA scenario, the U.S. share was increased by 25 percent to reflect the improved U.S. competitive position. In other words, the aggregate United States share of the Peruvian market increased from 8 to 10 percent. As a specific example, the U.S. share of the wheat market was assumed to increase from 32 percent to 40 percent, based on improved access to the Peruvian wheat market. These share estimates were then applied to the estimates of the country's overall

import demand to generate U.S. export estimates. This assumption of added market share accruing to the United States is important. Given that the United States will have duty-free access for most agricultural products, goods from the United States will be as competitive as products from Peru's other partners with preferential trade agreements of their own. Consequently, it is likely that the United States will *gain* market share. Rather than assume that the United States would capture the entire market, assuming a 25 percent gain recognizes the potential to grow, without overstating possible results.

Analysis of the sugar market was done separately and drew directly on the specific United States import levels provided in the agreement. Estimating the cost of the added U.S. sugar imports in question was fairly straightforward and the results would essentially be subtracted directly from domestic sugar producers' receipts and income.

Specific data for the remaining commodities moving between Peru and the United States, for consumption, production, and trade are much more limited. Consequently, the same kind of detailed analysis consisting of production and consumption adjustments due to lower tariff rates is not possible. Growth in United States exports of these items with an agreement is assumed to be at the same pace estimated for the major grain, oilseed, livestock and fiber commodities.

As with any economic report, it is necessary to list some caveats. First, due to data limitations, the study looked at fairly broad commodity aggregates. For example, beef is treated as a single commodity, despite differences between low and high quality beef products. Also, the data used for the analysis is from the Food and Agriculture Organization (FAO) of the United Nations. While FAO works very hard to ensure the quality and internal consistency of the data, the data is only as good as the information countries provide.

### **Agriculture Shares in General Gains**

Focusing specifically on the farm-sector impact indicates that U.S. agriculture would be a net gainer with the PTPA in place. The PTPA would essentially complete the trade liberalization initiated under Andean Trade Preference Act and ensure the United States the same open access to Peru's market that the United States has extended to Peru for more than a decade. In this

setting, PTPA-related expansion in United States farm exports to Peru is likely to significantly outpace expansion in United States imports of farm products from Peru.

Looking at the major commodities, the United States faces a small increase in sugar imports related to Peru's quota increase. Table 1 illustrates that by the 2025 end of the implementation period, the PTPA 12,240 ton increase in the U.S. sugar quota, if filled, would translate into a \$6.4 million increase in sugar imports. This compares to the \$21.9 million value of Peru's current quota.

Table 1  
**Impact of PFTA on U.S. Sugar Imports**

	<u>Without an Agreement</u>		<u>With an Agreement</u>	
	2005	2025	2005	2025
<u>In 1,000 MT</u>				
Export Quotas <sup>1</sup>	43.2	43.2	43.2	43.2
Increase in Quota w/ PFTA	0.0	0.0	9.0	12.6
Total Peru Quota	43.2	43.2	52.2	55.8
<u>In \$1,000,000<sup>2</sup></u>				
Export Quotas <sup>1</sup>	21.9	21.9	21.9	21.9
Increase in Quota w/ PFTA	0.0	0.0	4.6	6.4
Total Peru Quota	21.9	21.9	26.5	28.3

*1 Assumes import quotas for other countries and allocation to Peru does not change from 2004 levels*

*2 Priced at 2000-2004 average of \$507 per ton*

However, the PTPA will provide an opportunity for the U.S. to expand exports of grains, oilseeds, fiber and livestock products. So, the increase in sugar imports would be more than offset by export gains in excess of \$470 million per year by 2025 in items such as wheat, rice, corn, cotton, soybean products and livestock products. The increased United States agricultural exports likely with a PTPA in place could exceed \$705 million if other agricultural and processed products grow at the same pace. Table 2 shows the value of these increased exports.

Table 2  
**Summary of PTPA Benefits to U.S. Agriculture**

Year 2025

*(Values in 1,000 Dollars)*

Commodity	2000-2004 Average Imports from US	2025 Imports from US without FTA	2025 Imports from US with FTA	2025 Difference
Beef	290	12,415	25,845	13,430
Butter	234	870	1,550	680
Cheese	1,707	14,870	23,310	8,440
Corn	17,142	48,095	89,120	41,025
Cotton	32,108	112,205	256,425	144,220
Pork	34	60	165	105
Poultry	983	15,870	46,675	30,805
Rice	4,542	48,630	88,000	39,370
Soybean	200	1,240	1,575	335
Soybean Meal	13,570	64,450	80,600	16,150
Soybean Oil	16,890	55,745	87,055	31,310
Wheat	75,835	106,370	257,210	150,840
Estimated Impact of Selected Commodities	163,535	480,820	957,530	476,710
All Other Commodities	73,367	221,560	450,600	229,040
<b>Total</b>	<b>236,902</b>	<b>702,380</b>	<b>1,408,130</b>	<b>705,750</b>

As shown in the table, the analysis suggests a total surplus of PTPA-related gains in exports over imports of \$699 million. Even without the commodities with limited data mentioned previously, there still is a positive balance of more than \$470 million.

Looking at some of the specific commodities of export interest to the United States, the agreement would put the United States in a strong position to capitalize on the following commodity opportunities in what will be a fast growing overall market.

- Peru's growth in imports of **grains and oilseed products** related both to growing food demand for wheat and vegetable oils and to growing domestic livestock demand for feed grains and protein meals is likely to be substantial. With no wheat and oilseed production capacity, Peru's dependence on imports is likely to grow steadily. The trade agreement puts the United States in a strong supplier position to compete on a level playing field with other trade agreement partners.

- Expanding import demand for **livestock products** related to growth in population and per capita incomes, combined with rather limited domestic production potential, will also be important. Rapid growth in tourism should also help to stimulate demand for meats in the hotel and restaurant trade, which could be significant on its own. Growth in domestic demand for livestock products is likely to outpace production, despite larger imports of feed grains and protein meals. The PTPA would allow the United States to use its cost advantages and its wide variety of beef, pork and poultry products to fill a growing share of this market.
- Gains in **cotton** import demand are also key, due to both increased domestic demand for cotton and import demand from the United States for finished textiles and apparel. The PTPA would put the United States in a position to price competitively and boost market share.
- Gains in **other agricultural products** could also be substantial. The United States exports a diverse basket of farm products to Peru. The commodities noted specifically above account for two-thirds of the United States total exports. Other commodities or commodity groupings of importance include fruits, vegetables, tallow, and other processed products. Data on production and trade in these products is generally too limited to support detailed analysis. Assuming that the same pattern of growth likely for grains, fiber, oilseeds and livestock products holds for these other commodities, PTPA would allow the United States to capture a larger share of these expanding markets as well.

### **Conclusion: Positive Impact on the Farm Sector**

The PTPA, as proposed, involves a mix of costs and benefits for the U.S. farm sector. The benefits involve expanded exports of a wide range of farm products, some of which come later in the implementation period as Peru's import demand for farm products expands. The costs center on increased imports of sugar. By 2025, when the agreement would be fully implemented, increased sugar imports are likely to total \$6.4 million while increased exports of the major grain, oilseed, fiber and livestock products are likely to exceed \$476 million. The total increase in United States farm exports associated with the PTPA could exceed \$705 million per year,

including items such as fruits, vegetables, tallow and other high-valued processed products. So, the analysis indicates a total net benefit for the American agricultural sector of \$699 million.

In closing, it is important to understand that the PTPA allows the United States to become a competitive supplier of agricultural products to Peru. While the PTPA does not guarantee the United States expanded exports, the United States will be able to land product duty free, along with Peru's other regional suppliers. This levels the playing field by providing U.S. products exported to Peru with the same duty-free access already enjoyed by Peruvian products exported to the United States. Peru would also agree to deal with sanitary and phytosanitary barriers and other non-tariff barriers to U.S. exports. The PTPA does allow additional Peruvian sugar access into the U.S. market. But, for agriculture as a whole, the economics suggest it will have a positive effect on the American agricultural sector.

# United States Trade Representative Fact Sheet

*Free Trade with Peru: Brief Summary of the U.S.-Peru Trade Promotion Agreement*

[http://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2005/asset\\_upload\\_file96\\_8619.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file96_8619.pdf)

*Free Trade with Peru: Detailed Summary of the U.S.-Peru Trade Promotion Agreement*

[http://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2005/asset\\_upload\\_file490\\_8547.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file490_8547.pdf)

*Real Results on Labor Rights: Facts about Peru's Labor Law Protection and Enforcement*

[http://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2005/asset\\_upload\\_file163\\_8548.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file163_8548.pdf)

**Food Balance Sheet**

**Peru**

2002

All Values in Metric Ton

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Grand Total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,571.0	67.1	48.0
Vegetal Products	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,235.0	42.2	25.5
Animal Products	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	336.0	24.9	22.5
Cereals (Excluding Beer)	3,142,876	2,573,403	-84,808	68,916	5,562,555	1,793,656	94,717	115,990	205,095	32,051	3,321,196	124.1	1,050.0	26.9	4.9
Wheat	186,663	1,467,431	-73,560	36,798	1,543,736	0	16,000	1	50,000	0	1,477,735	55.2	374.0	11.8	2.0
Rice (Milled Equivalent)	1,413,117	34,322	-9,151	289	1,437,998	0	33,350	59,855	34,994	0	1,309,952	48.9	490.0	9.7	0.8
Barley	199,651	82,087	0	17,237	264,501	0	15,000	54,113	53,000	32,051	110,337	4.1	37.0	1.2	0.2
Maize	1,293,364	931,519	0	12,706	2,212,177	1,761,155	29,000	2,021	60,000	0	360,000	13.4	131.0	3.5	1.6
Rye	67	8	0	0	75	0	7	0	3	0	65	0.0	0.0	0.0	0.0
Oats	12,865	54,974	0	504	67,336	29,489	800	0	1,594	0	35,453	1.3	8.0	0.3	0.1
Millet	0	85	0	0	85	85	0	0	0	0	0	0.0	0.0	0.0	0.0
Sorghum	26	193	0	0	219	214	0	0	4	0	0	0.0	0.0	0.0	0.0
Cereals, Other	37,123	2,784	-2,097	1,383	36,428	2,713	560	0	5,500	0	27,655	1.0	10.0	0.3	0.1
Starchy Roots	4,761,502	71,990	0	1,624	4,831,868	0	643,750	64,628	1,154,840	0	2,969,259	110.9	336.0	5.1	0.6
Cassava	891,321	2,084	0	625	892,780	0	0	2,068	220,000	0	671,321	25.1	111.0	0.6	0.1
Potatoes	3,297,310	69,906	0	811	3,366,405	0	600,000	62,560	850,000	0	1,853,845	69.3	187.0	4.0	0.4
Sweet Potatoes	224,470	0	0	106	224,364	0	0	0	50,000	0	174,364	6.5	21.0	0.2	0.0
Yams	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Roots, Other	348,401	0	0	82	348,319	0	43,750	0	34,840	0	269,729	10.1	17.0	0.4	0.1
Sugarcrops	9,100,000	0	0	0	9,100,000	0	0	9,100,000	0	0	0	0.0	0.0	0.0	0.0
Sugar Cane	9,100,000	0	0	0	9,100,000	0	0	9,100,000	0	0	0	0.0	0.0	0.0	0.0
Sugar Beet	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Sugar & Sweeteners	946,862	163,911	11,852	49,529	1,073,097	0	0	33,696	18,465	19	1,023,023	38.2	373.0	0.0	0.0
Sugar, Non-Centrifugal	28,125	0	0	0	28,125	0	0	0	0	0	28,125	1.1	9.0	0.0	0.0
Sugar (Raw Equivalent)	907,117	154,148	11,852	43,062	1,030,055	0	0	33,696	18,465	0	977,894	36.5	357.0	0.0	0.0
Sweeteners, Other	11,620	9,756	0	5,955	15,421	0	0	0	0	19	17,004	0.6	6.0	0.0	0.0
Honey	0	7	0	512	-505	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Pulses	170,241	46,429	5,005	19,253	202,422	0	8,752	0	5,274	558	187,837	7.0	66.0	4.6	0.5
Beans	62,814	2,788	0	19,025	46,577	0	3,000	0	1,100	0	42,477	1.6	15.0	1.0	0.1
Peas	39,660	16,601	5,000	8	61,253	0	3,000	0	1,000	0	57,253	2.1	20.0	1.3	0.1
Pulses, Other	67,767	27,040	5	220	94,592	0	2,752	0	3,174	558	88,107	3.3	31.0	2.3	0.4
Treenuts	5,074	543	0	3,706	1,911	0	0	0	727	0	4,630	0.2	1.0	0.0	0.1

Product	Domestic Supply					Domestic Utilization							Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)	
Oilcrops	146,139	167,341	-25,700	7,047	280,732	42,857	3,770	87,435	18,694	2,002	126,062	4.7	41.0	2.9	2.3	
Soyabeans	1,921	74,529	-30,000	4	46,446	0	150	2,000	1,500	0	42,796	1.6	17.0	1.5	0.7	
Groundnuts (Shelled Eq)	3,484	1,871	0	65	5,290	0	160	0	177	350	4,604	0.2	3.0	0.1	0.2	
Sunflowerseed	0	53	0	0	53	0	0	0	0	0	53	0.0	0.0	0.0	0.0	
Rape and Mustardseed	0	486	0	12	474	0	0	0	0	0	474	0.0	0.0	0.0	0.0	
Cottonseed	76,000	85	4,000	0	80,085	0	3,450	76,635	0	0	0	0.0	0.0	0.0	0.0	
Coconuts - Incl Copra	22,623	1,028	0	41	23,610	0	0	0	10,000	0	13,610	0.5	4.0	0.0	0.4	
Sesameseed	73	264	0	148	189	0	0	0	17	0	172	0.0	0.0	0.0	0.0	
Palmkernels	8,500	0	300	0	8,800	0	0	8,800	0	0	0	0.0	0.0	0.0	0.0	
Olives	32,488	3	0	6,678	25,813	0	0	0	7,000	0	18,813	0.7	4.0	0.0	0.4	
Oilcrops, Other	1,050	89,021	0	99	89,972	42,857	10	0	0	1,652	45,540	1.7	13.0	1.2	0.5	
Vegetable Oils	68,554	279,699	5,000	12,571	340,682	0	0	0	0	185,161	155,554	5.8	138.0	0.0	15.6	
Soyabean Oil	360	235,392	0	385	235,367	0	0	0	0	135,000	100,367	3.7	88.0	0.0	10.0	
Groundnut Oil	0	1	0	0	1	0	0	0	0	0	1	0.0	0.0	0.0	0.0	
Sunflowerseed Oil	0	11,266	5,000	15	16,251	0	0	0	0	10,000	6,251	0.2	6.0	0.0	0.6	
Rape and Mustard Oil	0	20	0	0	20	0	0	0	0	14	0	0.0	0.0	0.0	0.0	
Cottonseed Oil	11,900	0	0	0	11,900	0	0	0	0	0	11,900	0.4	11.0	0.0	1.2	
Palmkernel Oil	3,800	582	0	0	4,382	0	0	0	0	0	4,382	0.2	4.0	0.0	0.4	
Palm Oil	43,000	16,679	0	7,492	52,187	0	0	0	0	20,000	32,045	1.2	29.0	0.0	3.3	
Coconut Oil	0	5	0	0	5	0	0	0	0	0	5	0.0	0.0	0.0	0.0	
Sesameseed Oil	0	65	0	0	65	0	0	0	0	0	65	0.0	0.0	0.0	0.0	
Olive Oil	0	286	0	2	284	0	0	0	0	0	269	0.0	0.0	0.0	0.0	
Ricebran Oil	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0	
Maize Germ Oil	0	174	0	0	174	0	0	0	0	0	172	0.0	0.0	0.0	0.0	
Oilcrops Oil, Other	9,494	15,229	0	4,669	20,054	0	0	0	0	20,147	97	0.0	0.0	0.0	0.0	
Vegetables	1,963,484	1,621	0	215,437	1,749,668	0	25,000	0	534,059	0	1,215,486	45.4	43.0	1.6	0.3	
Tomatoes	129,913	325	0	18,305	111,932	0	0	0	13,000	0	116,882	4.4	3.0	0.1	0.0	
Onions	457,959	2	0	43,668	414,293	0	0	0	90,000	0	324,293	12.1	14.0	0.4	0.1	
Vegetables, Other	1,375,612	1,294	0	153,464	1,223,443	0	25,000	0	431,059	0	774,311	28.9	27.0	1.1	0.2	
Fruits (Excluding Wine)	3,463,507	75,006	3,750	107,518	3,434,745	0	0	50,000	1,315,019	14,739	2,054,597	76.8	128.0	0.7	0.9	
Oranges, Mandarines	425,868	1,119	0	11,711	415,276	0	0	0	163,000	0	252,276	9.4	10.0	0.1	0.0	
Lemons, Limes	254,491	4	0	2,548	251,947	0	0	0	111,783	0	140,161	5.2	4.0	0.0	0.0	
Grapefruit	3,516	132	0	0	3,648	0	0	0	536	0	3,039	0.1	0.0	0.0	0.0	
Citrus, Other	43,739	0	0	0	43,739	0	0	0	10,500	14,739	18,500	0.7	0.0	0.0	0.0	
Bananas	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0	
Plantains	1,569,970	0	0	19,079	1,550,891	0	0	0	650,000	0	900,891	33.7	77.0	0.1	0.0	
Apples	123,742	24,358	0	6	148,094	0	0	0	77,720	0	70,014	2.6	4.0	0.0	0.0	
Pineapples	155,903	233	0	1	156,135	0	0	0	47,000	0	109,136	4.1	4.0	0.0	0.0	
Dates	248	1	0	0	249	0	0	0	37	0	212	0.0	0.0	0.0	0.0	
Grapes	136,051	23,540	0	11,677	147,914	0	0	50,000	26,300	0	71,614	2.7	5.0	0.0	0.0	
Fruits, Other	749,979	25,619	3,750	62,496	716,852	0	0	0	228,143	0	488,754	18.3	24.0	0.2	0.8	
Stimulants	201,600	6,490	2,657	173,330	37,416	0	0	0	400	0	37,016	1.4	4.0	0.3	0.2	
Coffee	169,566	3,414	2,500	167,676	7,805	0	0	0	400	0	7,405	0.3	0.0	0.0	0.0	
Cocoa Beans	25,685	2,740	151	5,584	22,991	0	0	0	0	0	22,991	0.9	3.0	0.2	0.2	
Tea	6,349	335	6	70	6,620	0	0	0	0	0	6,620	0.2	0.0	0.1	0.0	

Product	Domestic Supply					Domestic Utilization						Per Caput Supply			
	Production	Imports	Stock Chgs	Exports	Total	Feed	Seed	Processing	Waste	Other Uses	Food	KG/Year	Calories/Day	Protein/Day (in Grams)	Fat/Day (in Grams)
Spices	17,313	2,421	304	15,787	4,251	0	0	0	28	0	4,224	0.2	1.0	0.0	0.0
Pepper	0	216	300	166	350	0	0	0	28	0	322	0.0	0.0	0.0	0.0
Pimento	15,857	27	0	15,075	809	0	0	0	0	0	809	0.0	0.0	0.0	0.0
Cloves	0	180	0	0	180	0	0	0	0	0	180	0.0	0.0	0.0	0.0
Spices, Other	1,456	1,998	4	546	2,912	0	0	0	0	0	2,913	0.1	1.0	0.0	0.0
Alcoholic Beverages	725,180	17,855	0	7,661	735,374	0	0	0	0	8,911	726,463	27.1	53.0	0.2	0.0
Wine	12,650	6,526	0	66	19,110	0	0	0	0	0	19,110	0.7	1.0	0.0	0.0
Beer	612,500	1,618	0	3,599	610,519	0	0	0	0	0	610,519	22.8	22.0	0.2	0.0
Beverages, Fermented		287	0	0	287	0	0	0	0	0	281	0.0	0.0	0.0	0.0
Beverages, Alcoholic	94,330	2,312	0	89	96,553	0	0	0	0	0	96,553	3.6	29.0	0.0	0.0
Meat	907,176	16,313	0	610	922,879	0	0	0	342,800	0	580,287	21.7	97.0	10.8	5.7
Bovine Meat	141,501	7,607	0	25	149,083	0	0	0	38,000	0	111,083	4.1	13.0	2.4	0.3
Mutton & Goat Meat	37,981	33	0	0	38,014	0	0	0	8,200	0	29,814	1.1	5.0	0.5	0.4
Pigmeat	84,892	508	0	86	85,315	0	0	0	14,000	0	71,315	2.7	17.0	1.0	1.5
Poultry Meat	609,445	8,093	0	476	617,062	0	0	0	280,000	0	337,246	12.6	58.0	6.3	3.5
Meat, Other	33,357	72	0	23	33,406	0	0	0	2,600	0	30,829	1.2	3.0	0.5	0.1
Offals	117,468	13,160	0	0	130,628	0	0	0	950	0	129,678	4.8	14.0	2.3	0.4
Animal Fats	206,917	54,399	55,208	162,012	154,511	0	0	0	0	57,639	96,872	3.6	83.0	0.0	9.3
Butter, Ghee	1,300	3,660	0	1	4,959	0	0	0	0	0	4,959	0.2	4.0	0.0	0.4
Cream	0	62	0	0	62	0	0	0	0	0	62	0.0	0.0	0.0	0.0
Fats, Animals, Raw	16,668	50,677	-9,792	1,400	56,152	0	0	0	0	34,301	21,851	0.8	15.0	0.0	1.7
Fish, Body Oil	188,949	0	65,000	160,611	93,338	0	0	0	0	23,338	70,000	2.6	65.0	0.0	7.2
Fish, Liver Oil	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Milk (Excluding Butter)	1,214,340	210,525	0	27,358	1,397,507	22,867	0	0	21,400	887	1,352,354	50.5	84.0	4.4	4.4
Eggs	181,601	1,206	0	690	182,116	0	25,000	0	35,000	0	122,116	4.6	16.0	1.2	1.1
Fish, Seafood	7,993,391	43,255	1,409,204	8,824,442	621,408	59,517	0	0	0	0	561,891	21.0	41.0	6.2	1.5
Freshwater Fish	40,395	56	0	960	39,491	0	0	0	0	0	39,491	1.5	3.0	0.4	0.1
Demersal Fish	188,329	383	0	112,731	75,982	8	0	0	0	0	75,974	2.8	4.0	0.7	0.0
Pelagic Fish	7,512,315	16,025	1,409,204	8,650,311	287,233	9,340	0	0	0	0	277,893	10.4	24.0	3.2	1.1
Marine Fish, Other	122,447	24,969	0	9,959	137,457	50,169	0	0	0	0	87,288	3.3	6.0	0.9	0.2
Crustaceans	5,201	56	0	3,118	2,139	0	0	0	0	0	2,139	0.1	0.0	0.0	0.0
Cephalopods	91,207	194	0	33,483	57,918	0	0	0	0	0	57,918	2.2	4.0	0.8	0.0
Molluscs, Other	33,497	1,572	0	13,880	21,189	0	0	0	0	0	21,189	0.8	1.0	0.1	0.0
Aquatic Animals, Others	2,116	0	0	0	0	0	0	0	0	0	2,116	0.1	0.0	0.0	0.0
Meat, Aquatic Mammals	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Aquatic Products, Other	2,116	0	0	0	2,116	0	0	0	0	0	2,116	0.1	0.0	0.0	0.0
Aquatic Plants															
Miscellaneous	0	0	0	0	0	0	0	0	0	0	0	0.0	1.0	0.0	0.0