

STATEMENT OF THE PERUVIAN ASPARAGUS IMPORTER'S ASSOCIATION

BEFORE THE

HOUSE COMMITTEE ON SMALL BUSINESS

Full Committee Hearing

**“Evaluating the Impact of Pending Free Trade Agreements
Upon U.S. Small Businesses”**

Washington, D.C.

November 1st, 2007

Introduction

This statement is submitted on behalf of the Peruvian Asparagus Importers Association (PAIA). PAIA is a not-for-profit association of 29 U.S. companies and 3 Peruvian Companies that earn a living by importing fresh asparagus from Peru.¹ PAIA presented testimony at the public hearing conducted by the International Trade Commission (ITC) on March 15, 2006 in connection with its investigation regarding the Peru Trade Promotion Agreement (PTPA), and also presented a previous version of this statement at the House Ways and Means hearings.

I. The Peru TPA would continue favorable economic trends begun under the ATPA for both the United States and Peru

PAIA's particular area of interest in the context of trade between the U.S. and Peru is imports of fresh asparagus from Peru. Under the ATPA and its successor, the Andean Trade Promotion and Drug Eradication Act (ATPDEA), imports of fresh asparagus from Peru have been accorded duty-free treatment since 1992.² PAIA strongly supports the actions of U.S. and Peruvian negotiators to maintain this duty-free treatment for imports of fresh asparagus under the terms of the PTPA. The duty-free treatment accorded to imports of fresh asparagus from Peru since 1992 has resulted in pronounced economic benefits to U.S. consumers, U.S. importing

¹ The U.S. member-companies of PAIA are: Altar Produce Inc.; Alpine Fresh; AYCO Farms Inc.; CarbAmericas Inc.; Chestnut Hills Farms – Bounty Fresh; Central American Produce Inc.; CH Robinson; Consolidated Growers International; Contel Fresh Inc.; Crystal Valley Foods; Dole Fresh Vegetables Inc.; Fru-Veg Marketing Inc.; Globalex Inc.; Gourmet Trading Company; Jacobs Malcolm & Burt; Keystone Fruit Marketing; Mission Produce Inc.; North Bay Produce; Pro-Act LLC; Progressive Marketing Group; Rosemont Farms Corporation; Southern Specialties; Team Produce International; Triton International; YesFresh, LLC; AL-FLEX Exterminators; APL Limited; Customized Brokers;; The Perishable Specialist, Inc.; and the Peruvian are Kuehne & Nagel S.A., UPS-SCS Peru Srl and Hellmann Worldwide Logistics.

² The ATPDEA is currently scheduled to expire as on February 29, 2008. Imports of fresh or chilled asparagus from Peru are not currently subject to duty-free treatment under the Generalized System of Preferences.

companies, U.S. distributors, U.S. transportation companies, the many other companies in the domestic commercial chain, the Peruvian economy, and the thousands of people in Peru whose livelihood is dependent on trade with the United States. However, if the PTPA is not approved by Congress, or is implemented sometime after March 1st, 2008, and the ATPDEA is not renewed in the interim, this will surely result in discernible economic harm to both the United States and Peruvian economies. Moreover, approval of the PTPA would also be an effective tool for providing support to Peru in light of the seismic events that resulted in hundreds of deaths and up to 70% destruction of cities such as Pisco in the country's main agroexport production area of Ica.

Peru is the world's largest exporter of asparagus,³ and that crop stands squarely at the heart of a dynamic agroexport sector in Peru.⁴ As the ITC has noted in prior reports, asparagus is a perennial crop that requires substantial long-term investment. Peru's exceptional climate conditions, its favorable geographic location, and the advances made by Peru in its management of water supply for irrigation, has enabled the country to achieve the highest asparagus crop yields in the world.⁵ "Peru is one of only a few countries whose favorable climate enables it to produce asparagus year round."⁶ In turn, the asparagus-growing industry in Peru is estimated to employ nearly 60,000 people,⁷ and has enabled regions of the country – such as Ica and La Libertad – to become models of economic development and engines of job creation.

The Asociación de Gremios Productores y Agroexportadores del Perú (AGAP) (the umbrella organization for Peru's agricultural producers and exporters) estimates that the Peruvian agroexport chain as a whole has generated 600,000 jobs, three times more than were generated in traditional agriculture sectors.⁸

According to U.S. Customs, in the past two years, U.S. imports of fresh asparagus from Peru had a value of between \$100 and \$110 million. That is a significant amount of foreign

³ *World Horticultural Trade & U.S. Export Opportunities: World Asparagus Situation & Outlook*, Foreign Agricultural Service, U.S. Department of Agriculture (August 2005) at 1 (data provided for 2004). The United States "is Peru's top market, accounting for 75 percent of Peru's fresh asparagus exports in 2004." *Id.* at 3

⁴ *World Horticultural Trade & U.S. Export Opportunities: World Asparagus Situation & Outlook*, Foreign Agricultural Service, U.S. Department of Agriculture (July 2004) at 2 ("In 2003, asparagus became Peru's leading agricultural export, valued at a record \$206 million, bumping coffee to second place.").

⁵ *The Impact of the Andean Trade Preference Act: Eleventh Report 2004*, Inv. No. 332-352, USITC Pub. 3803 (September 2005) at 2-20.

⁶ *Id.*

⁷ *Id.* at 3-14.

⁸ *See Improving Competitiveness and Market Access for Agricultural Exports Through the Development and Application of Food Safety and Quality Standards: The Example of Peruvian Asparagus*, A Report by the Agricultural Health and Food Safety Program of the Inter-American Institute for Cooperation on Agriculture (IICA), Tim M. O'Brien and Alejandra Díaz Rodríguez (July 2004) at 4-5.

AGAP discussed this finding in a report that it presented earlier this year to the Technical Working Group for the PTPA from the Congressional Agricultural Commission in Peru. AGAP's president, Felipe Llona Málaga, explained that the high level of employment generated in the agroexport sector is concentrated in crops including asparagus, artichokes, paprika, onions, grapes, and garlic, particularly in the provinces of Lima, Ica, Piura, La Libertad, and others.

exchange earnings for a country with a gross domestic product of only \$67.1 billion, and with a per capita GDP of only \$2,777 per year.⁹ The success of Peru's agroexport industry in general, and the asparagus industry specifically, over the past decade is one of the signal achievements of the ATPA in that it has effected the creation of high-value marketable agricultural businesses at the expense of illegal coca cultivation. In its most recent report on the impact of the ATPA, the ITC noted that net coca cultivation decreased dramatically, from 115,300 hectares in 1995 to 27,500 hectares in 2004.¹⁰

II. Economic Benefits of the US – Peru Trade in Asparagus

While the Peruvian asparagus industry has created tangible economic benefits in that country, the U.S. has also derived a significant economic benefit from this trade. The vast majority of the value chain generated by sales of Peruvian asparagus in this market remains in this country. For example, in 2003, the value chain for imports of fresh asparagus from Peru was worth approximately \$300 million. Of that total, approximately 70 percent remained in U.S. hands, including air, sea and land carriers, importers, ports, storage facilities, distributors, wholesalers and retailers. In other words, for every dollar spent by a U.S. consumer on fresh asparagus imported from Peru, 70 cents remains in the U.S. Moreover, even of the 30 percent that reverts back to the country-of-origin, a substantial portion is spent on U.S. inputs such as seeds and fertilizers.¹¹

In addition, imports of fresh asparagus from Peru fuel job creation in the United States. PAIA estimates that aside from the several hundred persons employed or indirectly involved in the process of importing fresh asparagus imports from Peru, these imports result directly or indirectly in the creation of at least 5,000 U.S. jobs in companies throughout the commercial chain.

⁹ See *Background Note: Peru*, U.S. Department of State (December 2005), <http://www.state.gov/r/pa/ei/bgn/35762.htm> (last visited March 22, 2006). Peru's asparagus exports are forecast to increase by an additional 3 percent in 2006. *World Horticultural Trade & U.S. Export Opportunities: World Asparagus Situation & Outlook*, Foreign Agricultural Service, U.S. Department of Agriculture (August 2005) at 3.

¹⁰ *The Impact of the Andean Trade Preference Act: Eleventh Report 2004*, USITC Pub. 3803 at 4-14.

¹¹ Transcript of hearing before the United States International Trade Commission: *In the Matter of: U.S.-Peru Trade Promotion Agreement: Potential Economywide and Selected Sectoral Effects*, Investigation No. TA-2104-20 (March 15, 2006) at 33-35 (hereafter "Tr. at ___") (testimony of John-Campbell Barmmer).

For example, in 2003 (the last full year for which the complete set of following data are available), the fob value of Peruvian fresh asparagus exports to the U.S. was approximately \$78.5 million. The comparable cif value was \$132.7 million. The value that accrued to importers was approximately \$20 million, while the value that accrued to wholesalers and retailers was approximately \$90 million. In addition, other value-added in the U.S. (e.g., for storage, fumigation, etc.) totaled approximately \$15 million. These sub-totals sum to \$258 million, which represents the approximate retail value of fresh asparagus imports from Peru sold off the U.S. supermarket shelves. In other words, approximately 30 percent of that end-value (\$78.5 million out of \$258 million) remains in Peruvian hands, while the remainder (\$179.5 million out of \$258 million) remains here in the United States.

Sources: Aduanas (National Customs Superintendency of Peru); U.S. International Trade Commission Trade DataWeb; estimates by APOYO Consultoría, and the Instituto Peruano del Espárrago y Hortalizas (IPEH).

III. Peruvian Asparagus Imports are Counterseasonal to U.S. Asparagus Production

Imports of fresh asparagus from Peru also serve a U.S. market demand that cannot be met by domestic growers alone. The most important factor here is that imports of fresh asparagus from Peru are largely counter-seasonal to the U.S. crop. As the ITC has noted, historically, the season for U.S. production has differed somewhat from that of most imports from ATPA countries, with the bulk of fresh asparagus imports from ATPA countries entered during July through the following January when overall U.S. production is low.¹²

According to official U.S. import statistics for 2005, 85 percent of total fresh asparagus imports from Peru entered the United States during the months of July through January; only 15 percent entered during the remainder of the year (February through June). In contrast, the peak production period for U.S.-grown fresh asparagus is February through June; therefore, all or nearly all U.S. production occurs during a period when the level of imports from Peru is minimal.

This is not to say that there are no imports of fresh asparagus from Peru present in the U.S. market during the peak production period for the U.S. crop; as referenced above, imports of Peru during the February – June period represent 15 percent of total annual imports from that country, or approximately 9,794 net tons (2005 data). However, even in this period, imports from Peru largely complement, rather than supplant, the U.S. crop. The vast majority of fresh asparagus imports from Peru enters the United States through the Port of Miami,¹³ and are sold predominantly in East Coast markets. Because of the distances involved, the high costs for transportation – exacerbated by recent increases in gasoline prices – and the perishable nature of the product, most of the fresh asparagus produced in California and Washington are sold in West Coast and Southwest markets.

Therefore, even to the extent that there is some degree of overlap between the U.S. production period and imports from Peru, direct competition between these sources is minimal. ***Aside from Peruvian asparagus being counterseasonal to asparagus produced in the U.S., it is also marketed to regions dissimilar to those regions targeted by U.S. growers.*** Most of the imports from Peru that enter the United States during the February through June period are marketed in the East Coast and southeast United States regions which would not otherwise be served by domestic sources. Indeed, the advent of year-round availability of fresh asparagus from Peru has allowed U.S. consumers in large geographic portions of the country to gain access to this product at times when supply would simply not exist from U.S. growers. This is one reason why per capita consumption of asparagus in the United States has doubled in the last decade alone, exceeding the rate of growth exhibited by nearly all other fruits and vegetables. As the ITC recently stated, the impact of ATPA on U.S. consumers has been significant in that imports of Peruvian fresh-market asparagus, together with Mexican exports and U.S. production, have resulted in greater availability of fresh asparagus throughout the year. This extended

¹² *The Impact of the Andean Trade Preference Act: Eleventh Report 2004*, USITC Pub. 3803 at 3-12.

¹³ In 2005, 89 percent of imports of fresh asparagus from Peru entered the U.S. through the Port of Miami. Source: U.S. International Trade Commission Trade DataWeb (subheadings 0709.20.1000 and 0709.20.9000, HTSUS), by quantity.

availability of fresh-market asparagus, together with the overall consumer awareness of, and preference for, healthy foods, may be partly responsible for higher per capita annual consumption of fresh asparagus in recent years.¹⁴

Notwithstanding the seasonality and regionality aspects of supply and consumption discussed above, the fundamental fact is that since at least 1998, U.S. consumption of fresh asparagus has outpaced U.S. supply.¹⁵ Imports are *necessary* to meet demand in the United States. In the absence of import sources – meaning, specifically, imports from Peru and Mexico – domestic production would be woefully inadequate to meet U.S. consumer demand. This would inevitably lead to a jump in prices, to the detriment of U.S. consumers, and eventually a drop in consumption, to the detriment of U.S. producers. While domestic production of fresh asparagus may have declined in recent years,¹⁶ the decline would surely accelerate in coming years in the absence of reliable import supply.

IV. Asparagus and Other Agroexports as a Weapon Against Narcoterrorism

The connections between drug trafficking and terrorism are well-established worldwide. The intention of the Andean Trade Preference Act (ATPA) was to spur the development of alternative industries to assist Peru and other Andean countries in the “War Against Drugs” and the struggle against guerrillas and terrorist organizations. Thanks to the ATPA and the vision of US policymakers, the Peruvian asparagus industry was able to blossom in the early 1990’s. Having become Peru’s most important agricultural export, about 40% of the asparagus industry’s 60,000 workers come from mountainous areas where coca production has traditionally taken place.

Coinciding with the rise in asparagus production, as noted earlier, from 1995 to 2004, the ITC reported that coca cultivation has decreased dramatically, from 115,300 hectares to 27,500 ha in 2004. This helps to reduce the presence of drugs in US communities. In a related event, Peru successfully confronted and nearly eliminated the terrorist threat constituted by the radical Shining Path narcoterrorist organization during the 1990’s, a group largely funded by illegal coca production.

V. Peru TPA and Labor Standards: Real Protection

¹⁴ *The Impact of the Andean Trade Preference Act: Eleventh Report 2004*, USITC Pub. 3803 at 3-12-14.

¹⁵ Total imports accounted for approximately 60 percent of the U.S. market for fresh asparagus in 2004. U.S. imports from Peru accounted for approximately 60 percent of total imports in 2004, as well. *See also* U.S. Department of Agriculture FATUS data (<http://www.fas.usda.gov/ustrade/>). Consequently, Peru’s share of the U.S. market was about 36 percent (compared to about 40 percent accounted for by domestic production).

Indeed, the quantity of domestic production in 2004 was approximately 87,000 net tons, which exceeded the volume of imports from Peru that year (61,123 net tons) by 42 percent. About one-fourth of domestic production, or approximately 22,000 net tons, was exported.

¹⁶ According to the Commission’s most recent report on the impact of the ATPA, domestic production of fresh asparagus declined 4 percent from 2003 to 2004, from 119.4 million pounds to 115 million pounds. However, the value of domestic production increased by 10 percent over that period, from \$136.7 million to 150.4 million. *The Impact of the Andean Trade Preference Act: Eleventh Report 2004*, USITC Pub. 3803 at 3-12.

Peru has ratified 71 ILO conventions, including the eight “core conventions.” It has been praised multiple times by the ILO for its progress in improving labor laws. In addition to all of the ILO’s Core Labor Rights Conventions, the PTPA’s labor standards exceed those of five other previously-ratified trade agreements: Jordan, Chile/Singapore, CAFTA, Bahrain and even the ATPDEA, which does not make ILO or national standards mandatory.

The PTPA goes beyond many other free trade agreements in the enforcement of worker rights and dispute resolution. The PTPA-created Labor Affairs Council develops public participation in reporting and funding to ensure implementation of the agreement and improved cooperation and capacity-building mechanisms.

Finally, Peru approved the latest changes proposed in a letter signed by bipartisan leaders from the U.S. Congress and Administration on May 10, 2007, the considerable commitments have already been incorporated and ratified by Peru’s Congress on July 28, 2007 and are being implemented by Presidential decree.

VI. Peruvian Asparagus and Environmental Concerns

Since asparagus cultivation is undertaken almost entirely on irrigated desert lands along Peru’s coast, the environmental impacts of this industry on existing habitats is negligible. In fact, by contributing to the successful reduction of coca leaf production in biologically sensitive rain forest habitats, the growth of the asparagus industry along Peru’s arid coast has had, in an indirect manner, highly beneficial environmental impacts.

The growth of the asparagus industry has created a business that is a global player and as a result has adopted rigorous international standards on environmental management practices and labor standards to comply with import requirements in the U.S., the European Union, and elsewhere. The Peruvian asparagus industry complies with very exacting practices of EUREPGAP and GAP (Good Agricultural Practices) to maintain consumer confidence in the quality and safety of its product.

VII. Conclusion:

The duty-free treatment for imports of asparagus from Peru provided for in the proposed PTPA will serve a wide range of economic interests both in the United States and in Peru. In the United States, a steady, year-round demand supply of asparagus enters the U.S. and satisfies the increased demand for asparagus in the U.S that domestic production cannot meet. Asparagus also accounts for about 5,000 U.S. jobs in transportation and distribution.

In Peru, the asparagus industry, thanks to the duty-free access to the U.S. market, has been able to fight extreme poverty by employing at higher wages than other Peruvian jobs. Asparagus in Peru has also indirectly fought coca production and narcoterrorism by providing an alternative source of well-paying employment.

Peru’s agroexport industry as a whole has generated 600,000 formal jobs in Peru. Asparagus composes 10% of these with its 60,000 workers. Peru’s paprika industry has enjoyed

export growth of 88% from 2004 to 2005, making Peru now the top world exporter of paprika, an industry which employs 15,000 Peruvians. The Peruvian artichoke industry has increased exports by 100% from 2004 to 2005, and also employs about 15,000 workers. The peppers industry employs 1,500. Asparagus has been a model for these industries and their growth is having a multiplier effect in terms of their impact on trade, job creation in both countries, and reduction of poverty in Peru.

These great changes could not have been possible without the duty-free access afforded to Peruvian industries in the ATPA and ATPDEA. PTPA is now an excellent opportunity to ensure the continued prosperity of these industries, and by extension raising the living standards in Peru.

The PTPA is also an excellent opportunity to increase opportunities for U.S. SMES. As indicated by Deputy USTR John Veroneau, in 2005 U.S. SMES exported \$ 744 million in merchandise to Peru, representing 38% of total U.S. exports to Peru – well above the 29% SME share of U.S. exports to the world. More than 81% of U.S. companies that export to Peru are SMES. In addition many of our companies that import asparagus from Peru are SMES yet our activities generate many jobs and revenues for the U.S. economy, as indicated above, through the asparagus value chain. It is for this and all of the above reasons we urge the Congress to expedite the passage of the PTPA.