Statement of the American Farm Bureau Federation

STATEMENT OF THE
AMERICAN FARM BUREAU FEDERATION
TO THE
SENATE FINANCE COMMITTEE
REGARDING THE U.S.-PERU TRADE PROMOTION AGREEMENT

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Presented by:
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I would like to thank the committee for providing this opportunity for the American Farm Bureau Federation to testify on the U.S.-Peru Trade Promotion Agreement (PTPA). My name is David Winkles. I am president of the South Carolina Farm Bureau, and a soybean, corn, wheat and cotton farmer. I am also a member of the American Farm Bureau Federation's Trade Advisory Committee.

Trade is important to U.S. farmers and ranchers for several reasons. This year, a record $1 of every $4 in sales in American agriculture is coming from the export market. If we look at the volume of products, more than three tons of every 10 tons of agricultural products marketed are moving into export. To put it another way, 96 percent of our current or potential customers live outside the borders of the U.S. For every 25 potential consumers for our food, feed and fiber worldwide, only one lives in the U.S. Equally important, agricultural productivity is increasing nearly twice as fast as domestic demand for agricultural products. This means that our dependence on trade as an outlet for our growing agricultural product will only increase over time.

It is critical for U.S. agriculture that industry, Congress and the administration work together to further open and develop world markets. USDA estimates that in 2007, the U.S. agricultural trade surplus will grow to $8 billion from recent lows of $3-4 billion. However, we will not maintain this surplus, let alone return to surpluses as large as $26 billion just 10 years ago, unless action is taken to bolster our international competitiveness.

AFBF supports all three Latin Trade Promotion Agreements – the Peruvian, Colombian and Panama agreements. We appreciate the committee holding this hearing on the U.S.-Peru Trade Promotion Agreement (PTPA) and encourage this committee and the Senate to vote on this agreement without delay. At the same time, we would encourage you to promptly take action on the Colombia and Panama agreements. These three agreements provide gains across U.S. agriculture and we estimate that passage of the Peru, Colombia and Panama agreements will increase U.S. agricultural exports by almost $1.5 billion per year by the time the agreements are fully implemented.

These three agreements will also make agricultural trade more equitable between the U.S. and these partner countries by providing U.S. agricultural exports duty-free access to their markets equivalent to the access they already have to the U.S. market. Colombia and Peru received duty-free access to the U.S. market under the 1991 Andean Trade Promotion and Drug Eradication Act (ATPDEA), but U.S. products entering the countries have continued to face duties over the intervening two decades. Panama receives duty-free access under a similar agreement--the Caribbean Basin Initiative. The recent action by Congress to extend for an additional eight months the ATPDEA is to the disadvantage of U.S. farmers and ranchers if it is not balanced with passage of the trade agreements. ATPDEA allows Peru and Colombia continued duty-free access and provides nothing for U.S. agriculture in the currently closed markets. Passage of the Peru and Colombia TPAs would provide U.S. agriculture the same open access to Peru and Colombia and an opportunity to increase competitiveness and boost market share.

U.S.-Peru Trade Promotion Agreement

The PTPA expands exports of a wide range of U.S. farm products, though some increases will not occur until later in the implementation period as Peru's import demand for farm products expands. 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-value processed products. We do, however, anticipate increased U.S. imports of Peruvian sugar. We estimate that by 2025, when the agreement would be fully implemented, increased sugar imports are likely to total $6.4 million.

The reason agricultural exports are likely to be so much higher with the PTPA is attributable to changes in world trade. Competitive pricing of quality products available in volume in a timely manner is no longer enough to guarantee export markets. Special agreements that provide a supplier with preferred access to a market are fast becoming the rule rather than the exception in international trade. The PTPA will allow the United States to compete with Peru's other Latin American trading partners that are currently supplying a large percentage of the Peruvian food and fiber market based on preferential access to the market. Chile has a 28-percent share of the Peruvian food market, and Colombia and Argentina each have an 11-percent share.[1] Our share currently stands at 8 percent and fluctuates widely from year-to-year given our role as a residual supplier.

In addition to addressing tariffs, these agreements also resolve sanitary and phytosanitary barriers to agricultural trade, including in the Peruvian case regarding food safety inspection procedures for beef, pork and poultry. The result for the sector as a whole is that PTPA will have a positive effect on American agriculture.

Agricultural Imports

Taking a longer-term perspective, from 2000-2006, the United States imported an average of $331 million of agricultural products from Peru. The temperate zone products that were imported from Peru were generally imported in the off-season when American production was not available in bulk. Examples include bananas, mangos, coffee, cocoa and spices. However, the United States also imported commodities (less than a third of the total) that competed directly with American production, including some vegetables (specifically asparagus, peas and lettuce) and sugar. Table 1 shows the U.S.'s top 10 agricultural imports from Peru. Since the agreement was negotiated, exporters in Peru and importers in the U.S. have pushed imports up 15 percent as they anticipate expanded commerce after the agreement is signed.

[1] United States Department of Agriculture. "Peru: 2005 Annual Exporter Guide," *Global Agriculture Information Network Report*. Foreign Agricultural Service, Washington, DC, November 2005.

Table 1
Top Ten U.S. Agricultural Imports from Peru
(Values in $1,000)

Commodity	2000	2001	2002	2003	2004	2005	2006	Ave.
Fresh Vegetables	50.1	63	78.9	97.3	119.2	140.1	157.2	100.83
Coffee and Prod	86.1	48.1	57.6	61.7	76	79.5	120.1	75.59
Fish	30	29.3	25.7	42.9	69.4	65.9	63.2	46.63
Veg Prep	6.1	9.7	17.6	20.4	34	64.2	96.8	35.54
Fres Fruit and Prod	15.7	20.7	34.1	27.9	25.7	49.6	66.4	34.30
Sugar and Prod	6.9	26.9	17.3	21	17.2	15.8	39.9	20.71
Spices	1.5	2.9	7.6	8.3	17.3	35.7	40.8	16.30
Nuts	2.9	2.9	2.4	4.9	7.4	14.2	11.3	6.57
Pulses	1.2	5.3	3.2	2.1	4.2	5.4	8.9	4.33
Cocoa and Prod	1.2	5.3	3.5	3	4	3.8	8.3	4.16
U.S. Imports from Peru	196.3	206.2	245.8	267.9	348	447.7	601.7	330.51

Agricultural Exports

From 2000 to 2006, the United States exported an average of $223 million of agricultural products to Peru. Over this period, the top American agricultural exports to Peru were wheat, cotton, corn, soybean oil, soybean meal and rice (Table 2). However, from year-to-year exports of a particular commodity may vary significantly. As an example, Table 2 indicates that our wheat exports jumped from $29.6 million in 2000 to over $150 million in 2004. However, they fell to less than $20 million in 2006 as the U.S. went from being a residual supplier, to the only major supplier with adequate supplies, back to being a residual supplier. You can see the dramatic increase in U.S. exports when the U.S. moves from a residual supplier to preferred supplier position. The PTPA provides U.S. agriculture the opportunity to become the preferred supplier.

Table 2
Top Ten U.S. Agricultural Exports to Peru
(Values in $1,000)

Commodity	2000	2001	2002	2003	2004	2005	2006	Ave.
Wheat	29.6	76.3	64.7	100.7	151.3	78	18.6	74.17
Cotton	19.1	30.3	35.2	46.5	44.6	39.3	42.8	36.83
Feed Indregients	24.6	23.5	17.7	5.6	25.8	20.2	43.9	23.04
Corn	24.3	22.9	17.3	4.1	25.7	20.1	43.8	22.60
Soybean Oil	20.4	16.3	15	18.6	10.7	7.6	9.7	14.04
Soybean Meal	26.9	9.6	20	1.5	9.4	1.4	14.8	11.94
Horticultural products	6.2	6.4	4.3	5.7	4.7	6.4	10.4	6.30
Rice	4.9	0.1	2.9	4.5	8.4	7.8	0.2	4.11
Tallow	0.1	2.1	6.7	2.9	5.7	4.2	7	4.10
Pulses/Lentiles	4.1	4.8	5.5	4.7	1.8	2.7	4.4	4.00
U.S. Exports to Peru	170.3	212.5	213.9	237	302.6	212.6	208.8	222.53

Looking at Tables 1 and 2, the U.S. has traditionally carried an agricultural trade deficit with Peru. However, in the 12 to 18 months since negotiators arrived at a final draft agreement, U.S. exports to Peru have jumped 65 percent, as U.S. exporters and Peruvian importers anticipate relations under the new accord where the U.S. moves into a preferred supplier position. With continuation of these growth trends, the U.S. should move into an agricultural trade surplus position with Peru by the end of PTPA implementation.

Agricultural Tariff Rates

The PTPA agreement would not be as potentially beneficial to the U.S. but for Peru's restrictions on access to its markets. Peru's high tariff structure is the major impediment to access in many sectors, including agriculture. Peru has historically used restrictive trade policies as an economic development tool designed to maximize self-sufficiency and minimize imports. This has been the case even for products where Peru's climate and resource restraints ruled out production. For example, Peru uses tariffs on meats, some fresh fruits, and vegetables and pulses even though there is little domestic production of these items.

Table 3 shows both the bound and applied tariff rates for some selected agricultural commodities, both in the United States and in Peru.

As the table demonstrates, the average tariff rate is roughly 18 percent compared to a U.S. rate of 0 on many Peruvian products. Consequently, the elimination of Peruvian duties on imports operates as an effective 18-percent discount on U.S. prices, while the prices of Peruvian products entering the U.S. do not change since tariffs are generally 0 already.

Table 3

Tariff Rate Information

(Values in Percent)

	Peru		United States	
Commodity	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

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.

The PTPA requires the elimination of *all* tariffs on *all* agricultural products exported by the United States to Peru. 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 also the higher bound tariffs allowed under the WTO. (See Table 3). This elimination of both applied and bound tariffs ensures the United States open access regardless of market developments that might lead Peru to revert to higher tariff rates.

As much as trade agreements focus on tariffs, non-tariff barriers are also troublesome for U.S. exporters. Peru currently uses sanitary and phytosanitary restrictions to limit or prohibit a broad range of U.S. agricultural products. The PTPA addresses these concerns. The PTPA establishes that U.S. products that meet U.S. domestic standards are sufficient to meet Peruvian standards. Looking at tariff and non-tariff issues in combination, the agreement creates new opportunities for American farmers and ranchers in this market relative to other suppliers that already have trade agreements with Peru.

Tariff Rate Quotas in the Agreement

In the PTPA, both parties utilize tariff rate quotas (TRQ) as a transition vehicle to open markets for a variety of trade sensitive agricultural products.

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, all U.S. TRQs will be eliminated and 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

Regarding TRQ administration, the agreement provides specific guidelines on how to operate these TRQs. 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 both countries to impose safeguard measures 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 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 increased sugar quotas in lieu of actually importing the sugar. 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." In addition, Peru must meet a "net-exporter" provision (or export more sugar than it imports) in order to send any additional product to the United States market.

As demonstrated in Table 5, the PTPA-related increase in Peru's sugar quote (if filled) by the 2025 end of the implementation period would be 12,240 tons and 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 5

Impact of PFTA on U.S. Sugar Imports

	Without an Agreement		With an Agreement	
	2005	2025	2005	2025
	In 1,000 MT			
Export Quotas[1]	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
	In $1,000,000[2]			
Export Quotas[1]	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

Balance of Changes in Imports and Exports Favor U.S. Agriculture

This 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 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 6

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
Total	236,902	702,380	1,408,130	705,750

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.
- 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 agreement is positive for U.S. agriculture. The total increase in U.S. farm exports associated with the PTPA could exceed $705 million per year after full implementation of the agreement.

Congress's quick passage of this agreement, and the Colombia and Panama TPAs, will demonstrate to U.S. farmers and ranchers that Congress is committed to promoting U.S. agricultural trade.