DRAFT GF&O REPORT ON U.S.-Peru TPA

February 15, 2006

Honorable Rob Portman
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Honorable Mike Johanns
Secretary of Agriculture
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Dear Ambassador Portman and Secretary Johanns:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the final report of the Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds on the Free Trade Agreement with Peru, reflecting a consensus advisory opinion on the proposed Agreement.

Sincerely,

Donald E. Latham
Chair
Grains, Feed, and Oilseeds ATAC

FEBRUARY 15, 2006

The U.S.-Peru Trade Promotion Agreement (PTPA)

Report of the
Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

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Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S. – Peru Trade Promotion Agreement

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

Pursuant to these requirements, the Grain, Feed and Oilseeds ATAC hereby submits the following report.

II. Executive Summary of Committee Report

The Grains, Feed & Oilseeds ATAC fully endorses the agreement reached between the U.S. and Peru on a bilateral trade agreement. The agreement takes Peruvian tariffs immediately to zero on commodities such as barley, wheat and almost all of the soybean complex, and stages improved market access over time via increasingly larger tariff rate quotas and/or declining tariffs for many other commodities including corn, sorghum, rice and livestock products. Importantly, the agreement negates the adverse effects of Peruvian policies such as price bands and absorption requirements. The agreement will provide both immediate and long-term benefits to the U.S. producers and processors of grain, feed and oilseeds.

III. Brief Description of the Mandate of the Grains, Feed and Oilseeds ATAC

The advisory committee is authorized by Sections 135(c)(1) and (2) of the Trade Act of 1974 (Pub. L. No. 93-618), as amended, and is intended to assure that representative elements of the private sector have an opportunity to make known their views to the U.S. Government on trade and trade policy matters. They provide a formal mechanism through which the U.S. Government may seek advice and information. The continuance of the committee is in the public interest in connection with the work of the U.S.

Department of Agriculture (USDA) and the Office of the U.S. Trade Representative. There are no other agencies or existing advisory committees that could supply this private sector input.

IV. Negotiating Objectives and Priorities of the Grains, Feed and Oilseeds ATAC

The principal objective of the Grains, Feed and Oilseeds ATAC is to advise the Administration on issues of importance in negotiating competitive opportunities for United States exports of agricultural commodities in foreign markets and achieving fairer and more open conditions of trade for grains, feed and oilseeds.

V. Advisory Committee Opinion on Agreement

This report supplements the earlier “placeholder” report and now reflects the Grains, Feed & Oilseeds ATAC’s ability to review fully the provisions of the PTPA. The ATAC is very pleased with the terms of the agreement reached with Peru. Overall this agreement has both direct and indirect benefits for the producers of U.S. grains, feed and oilseeds. U.S. sales of these products will increase and so will the export of U.S. poultry and pork products and consequently there will be increased domestic demand for animal feed rations. Following are specific subsector comments:

Corn: Upon implementation there will be an immediate tariff elimination under a 500,000 metric ton corn tariff rate quota (TRQ) which will allow a tariff preference and clear competitive advantage over Argentina. Consequently, the U.S. should experience an immediate increase in its overall market share. This is important since the United States has been a residual supplier of corn in Peru in recent years with sales limited to the period when Argentina is out of the market. Of the more than one million metric tons of corn that Peru imported in MY 2003/04, the United States accounted for only 157,000 metric tons (up from 42,000 metric tons a year earlier), while Argentina supplied the balance. Without the benefits of the PTPA, the United States would remain at a significant disadvantage to Argentina in the future.

Over the course of the 12-year tariff phase out, the volume of the TRQ will increase by 6 percent, compounded annually. That growth will result in an 895,500 ton quota in the last year before the over-quota tariff is completely eliminated for corn. When the tariff is eliminated at the end of the implementation period, the U.S. will be at a significant long-term tariff advantage relative to Argentina. Given lower input costs, growth in the feed and poultry sectors should also spur overall demand for corn in the long term.

It should be noted that while Peru’s WTO bound tariff for corn is 68 percent, it has operated a price band system that is similar, but not identical to the Andean Community price band scheme. Under the Peruvian price band system, a base rate of duty of 12 percent is applied and a variable levy acts to set an effective floor on domestic prices. Under the PTPA, the over-quota base rate of 25 percent will be reduced linearly over 12 years beginning the first year of the agreement (i.e. the first year tariff will be 23 percent). That duty will act as a ceiling binding and will nullify the price band if it reaches a level beyond that point. However, if the price band calculation results in a tariff below the U.S. bound rate (23 percent in year one), the United States will be given that MFN tariff for over-quota shipments. This tariff structure should remove the uncertainty of tariff increases by Peru, as well as limit the use of variable levies or price band schemes as the agreement is implemented and the tariff is brought down to zero. The elimination of the price band system has been a long-standing objective to the U.S. agricultural sector.

Barley: Barley and malting barley tariffs will be eliminated immediately. This is important since Peru imports approximately 75,000 tons of malting barley per year but the market has been dominated by Australia, Canada, Argentina and the EU. By immediately cutting the tariff to zero under the PTPA, this tariff advantage over traditional suppliers should create an opening for U.S. malting barley sales inti this market.

Sorghum: The 25 percent base tariff on sorghum will be eliminated over five years with yearly linear cuts (i.e. the tariff will be 20 percent in year one, 15 percent in year two, etc.). Again, the Price Band will not be in effect unless the tariff calculated under that system is lower than the given bound rate. With the elimination of the tariff in five years, sorghum will compete on a level tariff basis to in-quota corn and have a tariff preference to out-of-quota corn. Mid-term to long-term export opportunities for sorghum will depend on the pricing relationship between U.S. corn and sorghum. Peru's WTO bound tariff for sorghum stands at 68 percent.

Soybeans and Products: Peruvian oilseed imports grew from 34,825 tons in 1997 to 158,518 tons in 2003. While over 90% of Peru's imports of oilseeds are comprised of soybeans, soybean oil and soybean meal, the co-product trade has been dominated by Argentina and Paraguay. These two countries have had preferential access for soybean meal, allowing them to own 80 percent of the market, and soybean oil. The U.S. had earlier secured shipments of soybean oil to Peru via the P.L. 480 program. Under the PTPA, the duties to be paid on most U.S exports will go to zero upon implementation, and the tariff and TRQ restrictions on refined soybean oil will be phased out. This should enable U.S. soybean and soybean products to be more competitive in the Peruvian market vis a vis other suppliers in south America.

Wheat: The U.S. has supplied around 65 percent of the 1.4 million ton annual wheat imports into Peru. However, per capita bread consumption in Peru has been relatively low and under the PTPA, the tariff on all wheat from the U.S. immediately drops to zero. This offers a potential opportunity to grow wheat product consumption and U.S. sales.

Rice: The TRQ for rice would triple in size and unlimited access would occur over a lengthy 17 year phase-in period. However, it is an improvement over the current price band system and 25 percent duty. Uruguay currently dominates this market with over 70 percent of the import market share. Additionally, the SPS agreement may not end the Peruvian ban on U.S. paddy rice due to phytosanitary concerns, but it provides an additional vehicle for discussing its merits.

Livestock Sector: The livestock sector is the largest user of U.S. soybeans and some U.S. grains, and the export market is the fastest growing outlet for U.S. livestock products. Consequently, the U.S. grain and oilseed sectors indirectly benefit from any increase in export of livestock products. The PTPA's provision of improved access to the Peruvian market for U.S. produced meat proteins may be less than hoped but it will still have an additional positive effect on our subsectors.

Miscellaneous Provisions: Other provisions in the PTPA achieving the objectives of the U.S. grain, feed and oilseeds industry include:

> ***Absorption Requirements:*** There are no allowances for requiring domestic content requirements (absorption of local crops) as a precondition to import.
> ***Price Bands:*** Peru has agreed to TRQ's rather than price band systems.
> ***Safeguards***: Peru will not impose special safeguard measures or implement any other undue tariffs.
> ***State Trading***: USTR was again successful in obtaining Peru's commitment to work with the U.S. "toward an agreement on export state trading enterprises in the WTO that:
>
> a) eliminates restrictions on the right to export;
> b) eliminates any special financing granted directly or indirectly to state trading enterprises that export for sale a significant share of their country's total export of an agricultural good; and
> c) ensures greater transparency regarding the operation and maintenance of export state trading enterprises."

Sugar Compensation Mechanism (Art. 2.19): The Committee would like to note its concern over the adoption of provisions that negate trade by instead offering financial inducements. The offer to pay Peruvians the value of any premiums that they forfeit should the U.S. decide against allowing duty free sugar imports sets a potentially unfortunate precedent. For example, in a free trade agreement with Korea, Seoul could offer to simply compensate the U.S. government should it prohibit imports of beef and rice. Such compensation mechanisms do not enhance trade. In fact, they raise the tax burden of American agricultural producers when the U.S. pays compensation and they will hurt the U.S. agricultural sector should the government accept payment in lieu of exports.

Select Market Access Changes					
<u>HTS</u>	**<u>Description</u>**	US Tariff Before	US Tariff After	Other country tariff before	Other country tariff after
10019020	Wheat	$0.35/kg.	0	17%	0
10011000	Durum	$0.65/kg.	0	0	0
10030000	Barley	$0.15/kg.	0	30%	0

10030020	Barley Malt	$0.01/kg.	0	30%	0
10040000	Oats	0	0	0	0
10051000	Corn	0	0	68% + Price Band	(a)
10061000	Rice	$0.018/kg.	0		(b)
10063010	Milled Rice	11.2%	0	52%	(b)
10070000	Sorghum	$0.22/kg.	0	68% + Price Band	(c)
12010000	Soybeans	0	0	4%	0
12021080	Peanuts	163.8%	(d)	12%	(e)
12081000	Flour and meals of soybeans	1.9%	0		(f)
15071000	Crude soybean oil	19.1%	0	4%	0
15079000	Refined soybean oil	19.1%	0	12%	(g)
21061000	Protein Concentrates	6.4%	0	12%	0
23040000	Oilcake	$0.45/kg.	0	4%	0
35040010	Protein isolates	5%	0	4%	0

Footnotes	
(a)	Immediate duty free access for 500kmt with 6% compounded annual increase in TRQ over 12 years reaching 895,500 tons in 12th year; over-quota tariff of 25% undergoes linear reduction to zero over 12 years
(b)	17 yr linear TRQ; 9 month annual market opening; rough and brown rice are calculated as smaller factors of milled rice equivalents
(c)	Five year linear tariff reduction to zero
(d)	15 year linear reduction to zero
(e)	5 year linear reduction to zero
(f)	12% duty with linear phase down to zero after year five
(g)	9 year linear TRQ starting at 7kmt and ending at 10.342kmt with in-quota duty at zero and above TRQ duty at 12%; TRQ and duty eliminated in year 10

VI. Grain, Feed and Oilseed ATAC Membership