

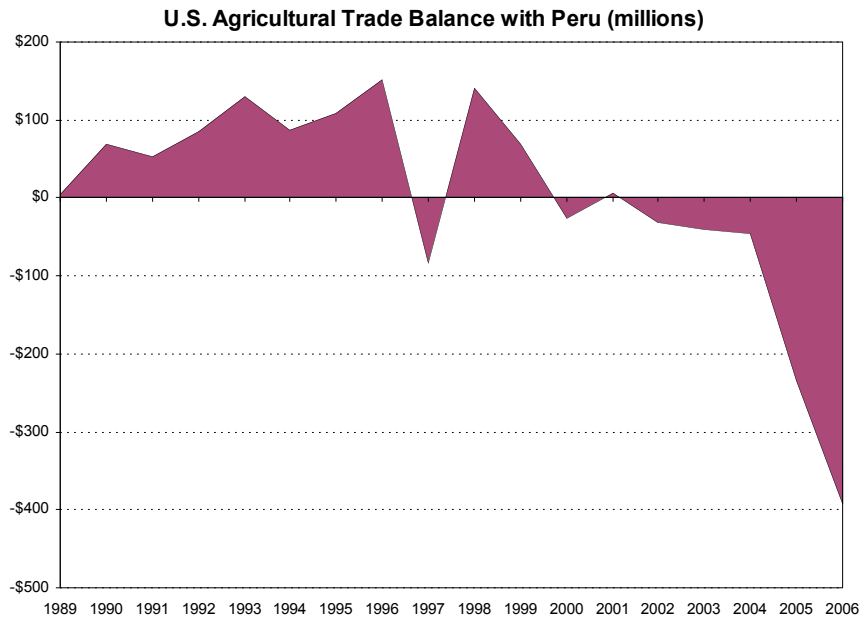
TO: Family Farm and Fair Trade Advocates
 FR: Patrick Woodall, Food & Water Watch
 RE: Agricultural Implications of Peru FTA
 DT: October 2007

The Peru Free Trade Agreement will increase the U.S. agricultural trade deficit with Peru, will fail to provide significant export opportunities for the overwhelming number of producers, and will generate no net economic benefit to the United States. Agricultural exports to Peru have been slowing over the past decade while imports from Peru have been rising rapidly. Peru is a powerhouse exporter of fresh and processed vegetables and fish products and a growing exporter of fresh and processed fruit. As a result, the United States has developed a growing agricultural trade deficit with Peru that totaled nearly \$400 million in 2006.

This agricultural trade deficit is likely to solidify and grow under the Peru FTA because permanent access to the U.S. market provides additional stability to the commercial relationship that encourages international agribusinesses to invest in Peru as an export platform. This has already happened with asparagus processing plants and is likely to continue with value added processed vegetable and fruit operations for export to the U.S. market. Growers who produce vegetables for processing and fresh vegetables that compete with Peru will face the earliest challenges from increased imports. More workers in domestic processing plants could lose their jobs if processors move facilities to Peru. Other crops could follow, most likely fresh and processed fruits in the short term.

Although the Peru FTA may provide a one-time boost for the export of a tiny number of crops, especially wheat, most agricultural exports are likely to see little gain because Peru's demand for imported foodstuffs

is falling as its agricultural production grows. Peru currently produces more than enough corn, rice, beef, pork, and chicken to meet its domestic food needs.



This memo describes the agricultural trade relationship with Peru, the growing agricultural trade deficit with Peru, Peru's growing agricultural production and self-sufficiency, a critique of the American Farm Bureau Foundation analysis of the Peru FTA, as well as major crop and livestock specific detail about the U.S.-Peru trade relationship.

Peru currently has fairly open access to the United States because of our limited tariffs on Peru's agricultural goods (with the notable exception of sugar), but the FTA would make this access permanent and stable.¹ Under the FTA, Peru has committed to immediately eliminate its tariffs on about half of the agricultural tariff lines (56 percent according to the U.S. International Trade Commission, which is lower than the common two-thirds estimate) and phase in the rest over a period of years (from five years to 17 depending on the product).² Some 240 product lines (26 percent of agricultural tariff lines) would be phased out over five years; 69 tariff lines (8 percent) on meat, eggs, dairy, grains, animal/vegetable oils, orange juice and alcoholic beverages are phased out over 10 years; and 47 tariff lines (5 percent) keep tariff-rate quotas on dairy, beef, chicken, corn, rice and soybean oil for 10 to 17 years.³ Many of the remaining tariff barriers are on the very products deemed essential for U.S. export performance – cereals, meats, beef, chicken, corn, rice, and oilseed/vegetable oil.

Total Net Economic Gain and Agricultural Gain to United States Will be Insignificant

The benefits to the U.S. economy overall, beyond just agriculture, will be extremely modest. The Peruvian economy is fairly small, with a GDP of about \$56 billion and per capita GDP of \$2,200.⁴ Total U.S. exports to Peru are very low, amounting to \$2.0 billion in 2005 and 0.25 percent of all U.S. exports.⁵ The three largest agricultural exports to Peru (wheat, cotton, and corn) totaled \$136.7 million in 2005 and represented less than 7 percent of total exports to Peru.⁶ To put agricultural exports to Peru in perspective, the U.S. exported more coin-operated arcade games to Peru in 2005 (\$25 million) than corn (\$20 million).

According to the USITC, total changes to U.S. trade with the world will be minimal.

Aggregate U.S. trade with the world may increase by a small amount as a result of the increased market access under the [Peru] TPA. [...] Total imports will be higher by \$737 million on a landed, duty-paid basis and total exports will be higher by \$640 million on an f.o.b. basis, a 0.04

¹ Peru's market access is provided under the Andean Trade Preferences Act, the Andean Trade Preferences and Drug Eradication Act and the Generalized System of Preferences.

² U.S. International Trade Commission, U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects," Investigation No. TA-2104-20, June 2006, at 2-1.

³ USITC 2006 at 2-4.

⁴ UN Food and Agriculture Organization, *FAO Statistical Yearbook*, Peru Country Profile, 2005.

⁵ USITC at 1-13.

⁶ USITC at Table 1-5 at 1-14.

percent increase in both cases. [...] The simulation model results are, in a practical sense, not different than zero.⁷

The USITC estimates that U.S. GDP could increase by \$2.1 billion or 0.02 percent of the total U.S. economic output. For agriculture, only the wheat sector is expected to receive increases in output and employment from the Peru FTA. Several domestic agricultural sectors would face declines including vegetable and fruits and associated processing jobs. The rice and cut flowers sectors are expected to lose more than 0.10 percent in either output or employment.⁸

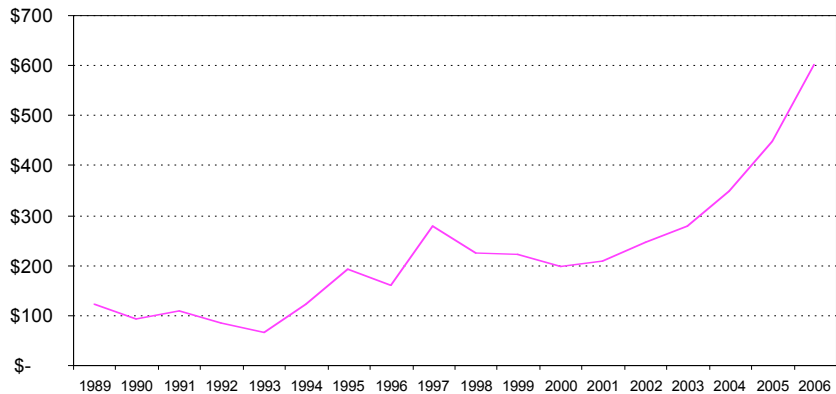
Total Agriculture Trade Deficit Between United States and Peru Growing

The United States currently has a large and growing agricultural trade deficit with Peru. Although the United States regularly sold more total agricultural products to Peru than it bought between 1989 and 1996, the United States developed an agricultural trade deficit in 1997.⁹ In 1998, the United States had its most recent peak total agricultural surplus with Peru and there has been a fairly steady decline to a total agricultural trade deficit in 2006 of \$393 billion. Since 2000, we have had only one year with a slight agricultural trade surplus with Peru, and the cumulative total agricultural trade deficit with Peru amounts to more than three quarters of a billion dollars (\$765 million).

Peruvian Agricultural Exports to United States Growing Steadily, U.S. Exports Stagnant

Although Peru's total agriculture exports to the United States faltered a bit in the early 1990s, they have been growing steadily since 2000, exploding by 203 percent from \$196 million in 2000 to \$602 million in 2006.¹⁰ During the same period, U.S. total agricultural exports to Peru grew 23 percent – about a tenth as fast as Peru's exports – from \$170 million to \$202 million, which is how the United States developed an agricultural trade deficit with Peru.

U.S. Total Agricultural Imports from Peru (millions)



⁷ USITC 2006 at 2-16.

⁸ *Ibid.*

⁹ USDA Foreign Agricultural Service HS-124 Agricultural Total. This includes many non-food related products that are derived from cultivated crops, livestock, or other animals including tobacco, fibers, beverages including vinegar, wood and paper products, furs and skins, non-edible agricultural waste, gums and rubber, and other non-food products. Food related agricultural trade will be dealt with in more detail below.

¹⁰ USDA FAS database, all figures derived from total agricultural HS-124 trade between the U.S. and Peru, accessed October 2007. Available at www.fas.usda.gov/ustrade/

Although the United States has seen some upward export trends over the past two decades, there have been downturns as well, and the average total U.S. agricultural exports have been fairly flat. By comparison, Peru's agricultural exports have grown more steadily, especially since 1991. Examining five-year average exports over the past 15 years, the U.S. total export average to Peru has been fairly flat. They were \$233 million between 1992-1996, \$246 million between 1997-2001, and \$235 million between 2002-2006. Meanwhile, Peru's average total agricultural exports to the United States grew steadily over the same periods. Between 1992-1996, Peru's agricultural exports averaged \$123 million. Average exports increased to \$225 million between 1997-2001 and rose further still to \$384 million between 2002-2006.

Average Year-to-Year Total Agricultural Export Growth			
(percent)	1992- 1996	1997- 2001	2002- 2006
U.S. to Peru	15%	3%	2%
Peru to U.S.	16%	10%	24%

Year-to-year agricultural export growth also helps to explain the U.S. transformation from having an agricultural trade surplus with Peru to a large and growing agricultural trade deficit. Between 1992 and 1996, although there were fluctuating agricultural exports from the United States to Peru and vice versa, both countries had similar average five-year annual export growth of 15 percent and 16 percent, respectively. But the U.S. average annual agricultural export growth fell to 3 percent between 1997 and 2001 and to 2 percent between 2002 and 2006. Peru's average annual export growth slowed to 10 percent during the 1997-2001 period before more than doubling to 24 percent between 2002 and 2006.

Peruvian Demand for U.S. Agricultural Goods Low

Import demand for agricultural food and agricultural products hinges on domestic capacity to produce food and economic capacity to purchase agricultural products from overseas. Developing countries primarily import food and agricultural goods when their domestic production falls and cannot provide sufficient food for their population. Peru's agricultural production is increasing for both crops and livestock and is more than sufficient to meet its domestic demand for food. Secondly, wealthier consumers may demand a wider variety of food products than can be produced domestically, and countries with broader income distribution are more likely to import more food products and a greater variety of food products, including value-added processed food goods. Although Peru's economy has stabilized and improved over the most recent years, the majority of Peruvians do not have sufficient income to demand increased imports of either staple crops or value-added foods.

The average annual growth of Peru's agricultural sector has surged over the past 20 years, more than doubling from 1.9 percent between 1986 and 1996 to 4.1 percent between 1996 and 2006.¹¹ Peru's harvested area has increased dramatically. Between 1990 and 2000, harvested cereal area increased 79 percent from 684,000 hectares to 1.2

¹¹ World Bank, Development Economics LDB Database, "Peru at a Glance," September 28, 2007.

million hectares, and yield increased by 11.5 percent.¹² The increase in harvested area and crop yield has produced a dramatic increase in cereal crop production. In 1990, Peru produced 1.8 million metric tons of cereals; by 2000, Peru produced 3.6 million metric tons – doubling production in one decade.¹³ Corn and rice production, which are staples of the Peruvian diet, showed strong increases. Corn production doubled from 632,000 metric tons in 1990 to 1.3 million metric tons in 2005.¹⁴ Rice production tripled from 966,000 metric tons to 2.3 million metric tons over the same period.¹⁵ During this period, Peru’s population increased much more slowly than basic foodstuffs production, growing 27 percent from 22 million people in 1990 to 28 million in 2005.¹⁶

Peru’s livestock production has grown as well, producing more than enough beef, pork and poultry to feed its population. Between 1997 and 2005, beef production in Peru has grown by 29.6 percent from 261 million pounds in 1997 to 338 million pounds in 2005.¹⁷ Chicken production grew even faster, rising 67.8 percent from 962.7 million pounds in 1997 to 1.6 billion pounds in 2005.¹⁸ Pork production grew more slowly, growing 18.8 percent from 190.9 million pounds in 1997 to 226.9 million pounds in 2005, but since Peruvians eat only 6 pounds of pork a year it is more than enough to provide 28 million people with typical pork consumption.¹⁹

While Peru’s domestic agricultural capacity continues to grow, consumer incomes have not grown sufficiently for most Peruvians to demand increased food imports. Poverty in Peru remains persistent and lower-income Peruvians are receiving a declining share of the national income. More than half of Peruvians (53 percent) fall below Peru’s national poverty line.²⁰ Fully a tenth (10.5 percent) of Peruvians are very poor by world standards, earning less than \$1 a day according to the most recent World Bank figures.²¹ The income disparity in Peru is also growing, meaning broad demand for imported goods is declining since more income is controlled by fewer consumers. In 1995, the poorest income quintile (the poorest 20 percent) received 4.9 percent of Peru’s total income; by 2004 the poorest quintile received 3.7 percent of the income.²²

¹² Food and Agriculture Organization, Peru Statistics on Cereals, available at www.fao.org/countryprofiles/ accessed October 15, 2007.

¹³ *Ibid.*

¹⁴ Peru Statistics on Cereals; FAO, Statistics Division, Major Food and Agricultural Commodities and Producers, Peru, available at www.fao.org/es/ess/top/country.html accessed October 15, 2007.

¹⁵ *Ibid.*

¹⁶ World Bank, Millennium Development Goals, Peru Country Profile, available at <http://devdata.worldbank.org/idg/IDGProfile.asp> accessed October 26, 2007.

¹⁷ Food and Agriculture Organization, FAOSTAT database query, available at <http://faostat.fao.org/site/340/DesktopDefault.aspx?PageID=340>, accessed October 28, 2007.

¹⁸ *Ibid.*

¹⁹ *Ibid.*

²⁰ World Bank, Development Economics LDB Database, “Peru at a Glance,” September 28, 2007.

²¹ World Bank, *Global Monitoring Report 2007*, at Table A.1 at 230.

²² World Bank, Millennium Development Indicators database, April 2004, available at <http://devdata.worldbank.org/idg/IDGProfile.asp?CCODE=PERU> accessed October 26, 2007; *Global Monitoring Report 2007*.

Farm Bureau Study Has Significant Limitations and Flaws

The American Farm Bureau Federation has produced a study estimating a net gain of more than \$706 million in agricultural exports to Peru.²³ This projection has a serious methodological flaw – it projects the most successful agricultural export performance on crops that have limited or no export history to Peru, and it does not take into account any agricultural imports (except sugar), such as vegetables, fruits, processed produce, and other products that make up the bulk of Peruvian agricultural exports to the United States. To calculate the net gain in agricultural trade, the Farm Bureau extrapolates the export gains from a few commodities like wheat and cotton onto the entire sector.

The Farm Bureau assumes that the gains it estimates for grains, oilseeds, livestock, and cotton can and will be applied to all other agricultural products.²⁴ But the United States imports more than it exports to Peru for many crops. Using the Farm Bureau’s own figures, the United States imported seven times more fresh vegetables (excluding potatoes) than sugar in 2004.²⁵ Calculating net exports without considering the majority of agricultural imports from Peru is inherently deceptive and downplays the significant U.S. agricultural trade deficit with Peru. The USITC does not endorse this methodology and notes that the Farm Bureau “did not provide the basis for employing this [identical] increase in market share.”²⁶ Finally, even the benefits the Farm Bureau estimates will result from the Peru FTA will not be realized until 2025, not when the agreement is initially implemented.²⁷

The Farm Bureau model assumes export gains that do not account for the current decline in agricultural exports to Peru. Food & Water Watch examined the average U.S. exports to Peru between 1997 and 1999 and compared them to the most recent 3-year average between 2004 and 2006 and found that U.S. exports had declined for many crops.²⁸ Meat and milling product exports nearly evaporated over the past decade, dropping from more than \$13 million during the 1997-1999 period to \$1.3 million in the most recent 3-year period. Fresh vegetable, fresh fruit and nut, and fruit and vegetable preparations declined by about 60 percent, from a total of \$15 million between 1997

U.S. Exports to Peru (\$000)	1997-1999 Average	2004-2006 Average	Change
Cereals	133,806	118,216	-11.7%
Fats, Animal, Vegetable	32,762	19,642	-40.0%
Meat, Fish, Preps	351	208	-40.7%
Edible Vegetables	10,355	4,410	-57.4%
Edible Fruit, Nuts	842	319	-62.1%
Vegetable, Fruit, Preparations	3,821	1,335	-65.1%
Cereal, Flour, Starch	3,230	932	-71.2%
Meat, Edible Offal	6,903	837	-87.9%
Milling Products	6,517	429	-93.4%

²³ American Farm Bureau Federation, “Implications of a Peru Trade Promotion Agreement on U.S. Agriculture,” 2006 at 1.

²⁴ Farm Bureau at 13.

²⁵ American Farm Bureau Federation, “Implications of a Peru Trade Promotion Agreement on U.S. Agriculture,” 2006 at Table 1 at 6.

²⁶ USITC, 2006 at 1-20.

²⁷ Farm Bureau at 12.

²⁸ USDA FAS HS-2 agricultural exports available at www.fas.usda.gov/ustrade.

and 1999 to \$6 million in the most recent 3-year period. Even cereal exports, which are significantly buoyed by wheat exports, saw an 11.7 percent decline during this period.

Specific Crop and Livestock Opportunities Limited or Nonexistent for Most Agricultural Products

Although wheat and pulse, especially lentil and chickpea growers, are likely to see gains under the Peru FTA, few other agricultural producers are likely to see significant gains, and many producers will see very limited increases in exports to Peru with total world exports flat or declining.

Corn: U.S. corn exports to Peru have fluctuated considerably and have been trending down. Peru's growing corn production seems to have dampened U.S. corn exports. The average U.S. corn exports between 1997 and 1999 were \$42.6 million, but the three-year average fell by 29.5 percent to \$30.0 million between 2004 and 2006.²⁹ Peru's corn production has doubled over the past 15 years, which has reduced import demand.

Rice: Peru's rice production has grown significantly over the past 25 years, and in 2005 Peru produced more than 3.2 million metric tons of rice.³⁰ The USITC estimates that the Peru FTA will lower total U.S. rice exports, reduce total rice production, rice revenue, and employment in the rice sector. Although rice exports to Peru are expected to increase by \$154,000 under the FTA, U.S. world rice exports are expected to decline by \$1.2 million and total U.S. rice production is expected to fall by 0.14 percent and employment in the rice sector is expected to fall by 0.12 percent.³¹

Soybeans: Total oilseed gains are likely to be minor and soybean gains are similarly small. USITC estimates that the increased oilseed exports to Peru under the FTA to be \$0.000.³² U.S. world oilseed exports are projected to fall by \$6.0 million under the Peru FTA, and total oilseed production is estimated to fall by 0.1 percent, and employment in the oilseed sector by 0.08 percent.³³ U.S. soybean exports to Peru have been very low in recent years – between 2001 and 2005 the U.S. did not export any soybeans to Peru.³⁴

Pork: Peru is not a nation of pork eaters, so the gains for the pork sector are likely to be very small. Peruvians eat an average of six pounds of pork annually, so even with population growth, the total demand for pork is likely to be fairly low.³⁵ In 2005, Peru produced 198 million pounds of pork, which could provide each of the 28 million Peruvians with 7 pounds of pork, meaning that import demand is very limited.³⁶ Even

²⁹ USDA FAS, HS-4 export data, available at www.fas.usda.gov/ustrade/, accessed October 28, 2007.

³⁰ FAO, Statistics Division, Major Food and Agricultural Commodities and Producers, Peru, available at www.fao.org/es/ess/top/country.html accessed October 15, 2007.

³¹ USITC at tables F-1, F-2, and F-3 at F-4-F-8.

³² USITC at Table F-1 at F-4.

³³ USITC at Table F-2 at F-6 and Table F-3 at F-8.

³⁴ USDA FAS, HS-4 export data, available at www.fas.usda.gov/ustrade/, accessed October 28, 2007.

³⁵ Farm Bureau at Appendix Food Balance Sheet at 3.

³⁶ FAO, Statistics Division, Major Food and Agricultural Commodities and Producers, Peru, available at www.fao.org/es/ess/top/country.html accessed October 15, 2007.

the Farm Bureau study estimates the gain from the Peru FTA in 2025 to be \$105,000 in additional pork exports than would occur without the FTA.³⁷ The expected change in pork exports and production is so limited that it is not even calculated separately in the USITC model for the sectoral impact of the Peru FTA. Instead, it is included in the category “animal products not elsewhere classified” and “meat products not elsewhere classified.”³⁸

Beef: Although the U.S. beef exports to Peru are expected to grow, world beef exports are expected to increase very slightly and beef output would effectively remain constant (actually falling by one-hundredth of a percent). U.S. world exports of beef would increase only slightly (by 0.15 percent) under the Peru FTA and the total quantity of beef produced in the United States would decline slightly by 0.01 percent and employment in the beef sector would decline by the same amount (0.01 percent).³⁹ Peru’s demand for U.S. beef imports is limited because domestic production exceeds domestic demand. Peruvians eat an average of 9 pounds of beef annually, but in 2005 Peru produced 335 million pounds of beef, or about 12 pounds for each of Peru’s 28 million people.⁴⁰

Poultry: U.S. poultry exports to Peru have almost completely evaporated over the past decade. In the three years between 1997 and 1999, U.S. poultry exports to Peru averaged \$2.1 million but the most recent 3-year average fell by 93.9 percent to \$125,000 between 2004 and 2006.⁴¹ Although Peruvians eat an average of 27.8 pounds of chicken a year, Peru produced 1.6 billion pounds of chicken in 2005, enough for each Peruvian to eat 57 pounds of chicken annually and more than enough to nearly eliminate demand for imported poultry.⁴²

³⁷ Farm Bureau at 15.

³⁸ USITC at Tables F-1 through F-3, at Appendix F.

³⁹ USITC Table F-2 at F-6 and Table F-3 at F-8.

⁴⁰ Farm Bureau at Appendix Food Balance Sheet at 3; FAO, Statistics Division, Major Food and Agricultural Commodities and Producers, Peru, available at www.fao.org/es/ess/top/country.html accessed October 15, 2007.

⁴¹ USDA FAS, HS-4 export data, available at www.fas.usda.gov/ustrade/, accessed October 28, 2007.

⁴² Farm Bureau at Appendix Food Balance Sheet at 3; Food and Agriculture Organization, FAOSTAT database query, available at <http://faostat.fao.org/site/340/DesktopDefault.aspx?PageID=340>, accessed October 28, 2007.