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FACT SHEET

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U.S.-Peru Trade Promotion Agreement

On April 12, 2006, the United States and Peru signed the U.S.-Peru Trade Promotion Agreement (PTPA). The PTPA achieves two key objectives: it makes agricultural trade more of a two-way street, and it levels the playing field with U.S. competitors in the Peruvian market.

Currently, less than 2 percent of U.S. agricultural exports enjoy duty-free access to Peru. Most Peruvian agricultural tariffs range up to 25 percent, with no assurance that Peru will not raise tariffs to their WTO limits of 30-68 percent. Additionally, Peru applies variable tariffs based on price bands on more than 40 products, including corn, rice, dairy, and sugar. Under the current price band system, the tariffs on these products vary with world prices and may range up to Peru's WTO bound rate of 68 percent.

Upon implementation of this agreement, U.S. exporters will receive duty-free treatment on products accounting for nearly 90 percent of current trade and will see all tariffs phased out for the remaining products. Moreover, under the agreement, Peru will immediately eliminate its price band system.

Under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) legislation passed through the Congress in 2002, the

United States allows over 99 percent of Peru's exports into the U.S. market duty-free. The PTPA makes the preferential treatment permanent.

This agreement, which includes a CAFTA-plus agricultural package, is seen as another key building block in the U.S. strategy to advance free trade within the hemisphere.

Key Elements of the Agreement

Market Access. No products are excluded from this agreement. Liberalization of Peru's market will occur through tariff elimination for all commodities combined with zero-duty tariff-rate quotas (TRQs) on commodities for which tariff elimination takes place over longer periods. The agreement eliminates Peru's use of Andean Price Bands (variable tariffs), thereby ensuring that Peru stops applying high duties.

Tariff Elimination. Tariff phase-outs range from immediate duty-free access to 17 years. Almost 60 percent of all agricultural tariff lines, accounting for nearly 90 percent of trade, will be eliminated on entry into force of the agreement. Peru will eliminate many tariffs within 5 years and most other tariffs in 15 years. As a general rule, almost all tariffs will be reduced in equal annual

installments over the agreed phase-out period.

Tariff-Rate Quotas (TRQs). For some products with longer tariff phase-outs, immediate market access will be provided through the creation and annual expansion of TRQs (zero-duty access for a specified quantity of imports). General principles--and in some cases, specific commitments--on TRQ administration will encourage full utilization of the TRQs.

Safeguards. The agreement includes volume-based agricultural safeguards for a limited number of products covered by TRQs. The safeguard triggers are set as a percentage of the growing TRQ quantities. Increased tariffs resulting from the triggering of the safeguard can only be maintained for the remainder of the current calendar or marketing year. Safeguards on agricultural products expire when the tariff has been phased out.

Sanitary and Phytosanitary Measures. An SPS Committee will be established to expedite resolution of technical issues. The United States and Peru have worked to resolve sanitary and phytosanitary (SPS) barriers to agricultural trade, including: complying with the WTO regarding imports of beef and poultry products; continuing to recognize the U.S. meat inspection system as equivalent to that of Peru; modifying Peru's import permit requirements for the import of beef, pork, and poultry shipments; and agreeing to withdraw draft standards for Peru's imports of rice.

Export Subsidies. The parties agree not to use export subsidies on products shipped into each other's market, except to compete with third party export subsidies.

Specific Products

Beef. Peru's WTO tariff bindings on beef are currently 30 percent, with applied tariff rates ranging from 0 to 25 percent. Under the agreement, the United States secured immediate duty-free treatment on the products most important to the U.S. beef industry; i.e., high quality USDA Prime and Choice cuts. All other tariffs on beef and beef products will be eliminated within 15 years, earlier in a number of cases. For Standard Quality beef, the agreement also provides for an 800-ton TRQ with 6-percent annual growth and a 25-percent above-quota tariff phased out over 12 years. Additionally, there is a 10,000-ton beef offal TRQ with 6-percent growth and a 12-percent above-quota tariff phased out over 10 years. Peru will have the right to use safeguards on Standard Quality beef if imports surge.

Regarding SPS measures, Peru reopened its market to U.S. boneless beef and certain offals on April 12 and agreed to fully open to U.S. beef and beef products other than specified risk materials no later than May 31, 2006. Peru agreed to continue to recognize the equivalence of the U.S. meat inspection system and to accept beef shipments accompanied by a USDA FSIS Export Certificate of Wholesomeness with content of the certificate agreed between the two countries.

The 26-percent U.S. tariff on beef imports will be phased out over 15 years.

Pork. Peru's WTO tariff bindings on pork are currently 30 percent, with applied tariff rates ranging from 0 to 25 percent. The agreement provides for tariff phase-out in 10 years or less on all pork products, with many key pork tariffs eliminated in 5 years.

Regarding SPS measures, Peru agreed to continue to recognize the equivalence of the U.S. meat inspection system and to accept pork shipments accompanied by a USDA FSIS Export Certificate of Wholesomeness with content of the certificate agreed between the two countries.

Under the ATPDEA, U.S. tariffs on pork imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Poultry. Peru's WTO tariff bindings on poultry are currently 30 percent, with applied tariff rates ranging from 4 to 25 percent. The United States secured a 12,000-ton TRQ at zero duty with 8-percent annual compound growth for chicken leg quarters. Under the deal, the 25-percent above-quota tariff will begin phase-out after an 8-year grace period and will be completely eliminated in 17 years. Peru will have access to safeguards on chicken leg quarters in the event of import surges during the 17-year tariff phase-out period. Phase-out tariffs on other poultry products range from 2 to 10 years.

Regarding SPS measures, Peru agreed to fully reopen its markets to U.S. poultry and products from all states. Peru also agreed to continue to recognize the equivalence of the U.S. poultry meat inspection system and to accept poultry shipments accompanied by a USDA FSIS Export Certificate of Wholesomeness with content of the certificate agreed between the two countries.

Under the ATPDEA, U.S. tariffs on imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Dairy. Peru's WTO tariff bindings on dairy products range from 30 to 68 percent, with applied tariffs on many products subject to price bands that can range up to the WTO

bound rates. Tariffs on whey will be eliminated upon entry into force.

Additionally, U.S. exporters will have access to six dairy TRQs, all at zero duty, under this agreement. A 4,630-ton TRQ with 12-percent annual compound growth was agreed for milk powder. The out-of-quota base rate ranges from 25 to 35 percent. Tariffs will be phased out from these rates after a 10-year grace period and will be completely eliminated in 17 years. The TRQ for cheese was set at 2,500 tons with a 12-percent annual compound growth rate and an out-of-quota base of 25 percent phased out starting after 10 years, with elimination in 17 years. The 25-percent out-of-quota base tariff rates for yogurt, butter, and ice cream are set to be phased out in 15 years. TRQs for these products are set at 70 tons, 500 tons, and 300 tons, respectively. Finally, there is a processed dairy products TRQ set at 2,000 tons with a 10-percent annual compound growth rate and an out-of-quota base tariff rate of 17 percent phased out over 15 years. Peru will phase out all other dairy lines between 5 and 15 years. Peru can use safeguards on concentrated milk products, yogurt, butter, and cheese.

Regarding access to the U.S. market, the United States agreed to establish TRQs for: cheese (2,500 tons, 12-percent annual compound growth, out-of-quota tariff reduced starting after 10 years with elimination in 17 years); condensed and evaporated milk (6,000 tons, 12-percent annual compound growth, out-of-quota tariff reduced starting after 10 years with elimination in 17 years); and processed dairy products (2,000 tons, 10-percent annual compound growth, out-of-quota tariff reduced starting in 15 years). The United States can use safeguards for cheese, and condensed and evaporated milk.

Vegetables. Peru's WTO tariff bindings on vegetables are 30 percent, with applied tariff rates up to 25 percent. The United States obtained duty-free access on most vegetable products. Tariffs for almost all others will be phased out over 5 years.

Under the ATPDEA, U.S. tariffs on almost all imports from Peru are currently zero, including asparagus. The PTPA continues the zero-duty treatment. Additionally, the United States provides immediate duty-free access on certain fresh and canned olive lines.

Potatoes and Products. Peru's WTO tariff bindings on potatoes and potato products are 30 percent, with applied tariff rates ranging from 0 to 25 percent. All fresh potato lines and almost all processed potato lines, including frozen french-fries, dehydrated and chips, will receive immediate duty-free access to Peru upon entry into force of the agreement.

Fruits and Tree Nuts. Peru's WTO tariff bindings on fruits and tree nuts are 30 percent, with applied tariff rates of 25 percent. Most fruits including fresh grapes, raisins, apples, pears, cherries, peaches, and plums, and tree nuts such as almonds and pistachios, will receive duty-free access to Peru when the agreement is implemented. Almost all other tariffs on fruits and tree nuts will be completely phased out in 5 years.

Under the ATPDEA, U.S. tariffs on imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Dry Peas, Beans, and Lentils. Peru's WTO tariff bindings on dry peas, beans, and lentils are 30 percent, with applied tariff rates that range from 0 to 25 percent. Duty-free treatment was secured for most pulses. The

tariff phase-out for all other products will be 5 years or less.

Under the ATPDEA, U.S. tariffs on imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Wheat and Barley. Peru's WTO tariff bindings on wheat and barley range from 30 to 68 percent with applied tariff rates subject to price bands, ranging from 0 up to the WTO bound rate depending on world prices. Tariffs on wheat, wheat flour, barley, and many other wheat and barley products will be set at zero immediately. Most other tariffs for these products will be phased-out over 5 years with some phased out in 10 years.

Under the ATPDEA, U.S. tariffs on imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Feed Grains

Yellow Corn. *Peru's WTO tariff binding on yellow corn is 68 percent with the applied tariff rates subject to prices bands and therefore ranging from 0 percent up to the WTO bound rate, depending on world prices.* The agreement includes a 500,000-ton TRQ with a 6-percent annual compound growth rate. The out-of-quota tariff will be capped at 25 percent immediately and phased out over 12 years.

White Corn. Peru's WTO tariff binding on white corn is 68 percent, and the applied tariff rate is 17 percent. Under the agreement, U.S. white corn will be duty free in 10 years.

Sorghum. Peru's WTO tariff binding on grain sorghum is 30 percent. Currently, sorghum is subject to Peru's price band system. Peru will eliminate the tariff entirely in 5 years.

Corn Products. Peru's WTO tariff bindings on corn products range from 30 to 68 percent. Applied tariff rates range from 0 to 25 percent on some products, with others subject to Peru's price bands. Tariffs range from 0 percent up to the WTO bound rate, depending on world prices. The phase-out for tariffs on other corns and corn products was set for 10 years or less.

Under the ATPDEA, U.S. tariffs on imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Rice. Peru's WTO tariff bindings on rice range from 30 to 68 percent, with applied tariff rates subject to price bands and therefore ranging from 0 percent up to the WTO bound rate, depending on world prices. The United States obtained a 74,000-ton TRQ on a milled rice-equivalent basis with an annual compound growth rate of 6 percent. Milled, brown, and rough rice can be imported under the TRQ. The out-of-quota tariff is capped at 52 percent and will begin to be phased out after a grace period of 8 years and will be completely eliminated in 17 years. Safeguards will be available if there are import surges. The rice flour tariff will reach zero in 5 years and tariffs for bran, sharps, and other milled rice residues will be phased out in 10 years. Regarding standards, Peru agreed to withdraw proposed rice standards and to provide no less favorable treatment than that applied to like Peruvian product.

Under the ATPDEA, U.S. tariffs on imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Soybeans and Soybean Products. Peru's WTO tariff bindings on soybeans and soybean products are 30 percent, with applied tariff rates ranging from 0 to 12 percent. Tariffs on soy beans, soy meal and flour, and crude soybean oil will be eliminated on entry into force of the agreement. Additionally, the United States obtained a 7,000-ton TRQ on refined soybean oil with an annual compound growth rate of 5 percent. The out-of-quota tariff is capped at 52 percent and will be phased out over 10 years.

Under the ATPDEA, U.S. tariffs imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Peanuts. Peru's WTO tariff bindings on peanuts are at 30 percent, with applied tariff rates of 25 percent. Under the agreement, peanut tariffs will be eliminated immediately.

The United States has agreed to phase out the peanuts and peanut products over 15 years.

Sugar. Peru's WTO tariff bindings on sugar and sweeteners range from 30 to 68 percent, with some applied tariff rates ranging from 4 to 25 percent. Other products are subject to Peru's price band system and with tariffs ranging up to the WTO bound level. Under the agreement, all tariffs will be eliminated within 10 years, and in many cases, eliminated earlier, including 5 years for high fructose corn syrup.

The United States agreed to provide Peru a 9,000-ton sugar TRQ with 2 percent simple annual growth. Peru must be a net exporter

to be able to export this additional tonnage. There is also a sugar compensation mechanism that enables the United States to provide compensation in lieu of accepting imports under the zero-duty treatment. The United States also provided Peru a non-growing 2,000-ton TRQ for specialty sugar.

Processed Products. Peru's WTO tariff bindings on processed products are 30 percent, with applied tariff rates ranging from 4 to 25 percent. Under the agreement, the vast majority of products will immediately enter Peru duty-free. All others will enter free of tariffs in 10 years or less.

Under the ATPDEA, U.S. tariffs on imports from Peru are currently zero. The PTPA continues the zero-duty treatment.

Tobacco. Peru's WTO tariff bindings on tobacco are 30 percent, with applied tariffs ranging from 12 to 25 percent. Burley tobacco will receive duty-free treatment under the agreement and all other tobacco products will enter Peru without tariffs in 5 years.

Under the ATPDEA, U.S. tariffs on some tobacco products, including cigarettes, from Peru are currently zero. The PTPA continues the zero-duty treatment. Additionally, the United States will eliminate duties on other tobacco items within 15 years.

Cotton. Peru's WTO tariff bindings on cotton are 30 percent, with applied tariff rates of 12 percent. Under the agreement, Peru will eliminate cotton tariffs immediately.

The United States agreed to eliminate all cotton tariffs upon entry into force of the agreement.

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