

The U.S.-Peru Trade Promotion Agreement

**Report of the
Agricultural Technical Advisory Committee for Trade in Processed Foods**

February 17, 2006

AGRICULTURAL TECHNICAL ADVISORY COMMITTEE FOR TRADE IN PROCESSED FOODS

February 17, 2006

Report of the Agricultural Technical Advisory Committee for Trade in Processed Foods 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

On January 6, 2006, President Bush notified Congress that he intends to enter into an Agreement with the Government of Peru. 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 sign 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. The report must also include an advisory opinion as to whether the agreement provides for equity and reciprocity within the sectoral or functional area.

With the attached letter of February 2, 2006, I notified the U.S. Trade Representative that the Processed Foods ATAC could not provide advice on the Agreement within the 30 days allowed under the applicable statute because the agricultural portions of the Agreement were not made available to the Committee until January 31. The Committee has now had adequate opportunity to review the full Agreement.

Pursuant to the statutory requirements referenced above, the Agricultural Technical Advisory Committee for Trade in Processed Foods hereby submits the following report:

II. Executive Summary of Committee Report

The Processed Foods ATAC supports this agreement and urges Congress to approve appropriate implementing legislation as soon as possible. While Peru is not a major export market for U.S. processed foods, the Committee strongly endorses the Administration's strategy to create a U.S.-Andean Free Trade Agreement and to generally enhance opportunities for freer trade throughout the Western Hemisphere. The Agreement with Peru represents an important milestone toward achieving that overall objective, building on agreements already concluded with Canada, Mexico, Chile, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. The Committee endorses the fundamental goals of opening markets, promoting trade and

investment, expanding economic growth and opportunity, and encouraging political stability throughout our hemisphere.

The Committee is pleased that the Agreement covers all agricultural products. It notes that Peru will provide immediate duty-free access for more than two thirds of current U.S. agricultural exports. Tariffs on most remaining agricultural and food exports will be phased out over 15 years, with all tariffs eliminated in 17 years. We are also gratified that the U.S. and Peru have worked to resolve sanitary and phytosanitary barriers to trade. The ATAC is pleased to endorse this comprehensive Agreement with an important partner in a strategically important region.

III. Brief Description of the Mandate of The Agricultural Technical Advisory Committee on Trade in Processed Products

The Processed Foods Agricultural Technical 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 ensure that representatives of the private sector have an opportunity to provide input to U.S. Government negotiators regarding all tariff and trade matters. The committee provides a formal mechanism through which the U.S. Government may seek advice and information. It is part of network of statutorily established committees that provide advice on trade negotiations to the President, the Office of the U.S. Trade Representative, the U.S. Department of Agriculture and the U.S. Department of Commerce. Established in 2003, the Processed Foods ATAC provides advice and information regarding trade in processed foods, one of the fastest growing segments of U.S. agricultural trade. The Committee furnishes advisory opinions and reports and performs other technical functions that are appropriate or are requested by the U.S. Trade Representative and/or the Secretary of Agriculture. In carrying out its functions, the Committee draws upon the technical competence and experience of its members who represent a broad cross-section of the U.S. processed food industry.

IV. Negotiating Objectives and Priorities of The Agricultural Technical Advisory Committee on Trade in Processed Products

On November 21, 2003, following the third meeting of this newly-charted advisory Committee, I was directed by the Committee to write to the U.S. Secretary of Agriculture and the U.S. Trade Representative outlining the group's trade policy priorities. This communication expressed the ATAC's opposition to "...any product exclusions from the U.S.-Central American Free Trade Agreement (CAFTA) and other evolving FTAs." The letter also reflected ATAC concern about the creation of special rules of origin and stressed the importance of resolving existing sanitary, phytosanitary, and technical barriers to trade in the CAFTA and other pending FTAs. Finally the letter urged a proactive strategy for reinvigorating the Doha Development Agenda. In that regard, we highly commend Ambassador Portman for sustained extraordinary effort to advance the WTO negotiating process.

V. Advisory Committee Opinion on Agreement

The Agricultural Technical Advisory Committee on Processed Products supports the U.S. - Peru Trade Promotion Agreement. On balance, it is a sound Agreement that will provide significant benefits to both parties. The ATAC urges Congress to quickly approve the implementing legislation so that U.S. companies, farmers, and workers can begin accruing benefits from the Agreement as soon as possible.

Peru is a relatively small, but growing, market for U.S. products. It has a population of about 28 million people with a median age of 25 years of age (compared with 36 for the U.S.). U.S. goods exports increased 24 percent from 2003 to 2004. The current value of U.S. goods exports to Peru totals \$2 billion per year. Under the Andean Trade Preference Act (ATPA), many Peruvian products already enter the U.S. market tariff-free. The Agreement will make tariff-free treatment for Peruvian exports to the U.S. permanent, providing more certainty for businesses and investors.

We are very gratified that no products were exempted from this Agreement, as comprehensiveness is a critical threshold matter for the Processed Products ATAC. Members have also taken note of the fact that tariffs on many of the priority products notified to U.S. negotiators, such as frozen french fried potatoes, are scheduled for immediate tariff elimination. Peru should be a model for its Andean partners and other governments in the region, both in terms of level of ambition and the realization of that ambition in the tariff liberalization achieved. ATAC members also expressed strong support for continuation of U.S. tariff-free benefits on imports under the Andean Trade Preference Act. Specifically, members applaud U.S. negotiators for resisting proposals to apply agricultural safeguards on some processed food products. ATAC members urge continued adherence to the principle that U.S. tariffs should not be increased, or re-imposed, on processed food imports where tariff preferences are in force.

ATAC members also are pleased that the Agreement reaffirms each party's rights and obligations under the *Uruguay Round Agreement on the Application of Sanitary and Phytosanitary Measures* and establishes a Standing Committee on Sanitary and Phytosanitary (SPS) Matters as a forum for related issues affecting trade between the two parties. Processed foods are especially vulnerable to sanitary, phytosanitary, and technical barriers. The ATAC urges the elimination of any and all remaining SPS and technical trade barriers.

While the ATAC supports the Agreement, it is concerned the pact perpetuates some of the most undesirable features of the U.S.- Dominican Republic- Central America Free Trade Agreement (U.S.-DR-CAFTA)-- provisions included in that agreement in an unsuccessfully effort to neutralize sugar grower opposition. As in the U.S.-DR-CAFTA, the Peru Agreement does not provide for the elimination of the second tier duty for sugar. This omission is inconsistent with the principles of a free trade agreement. It also conditions Peru's access to the U.S. sugar market for new sugar exports to Peru becoming a net surplus producer of sugar. This provision effectively ensures that Peru will not gain any access for its sugar. And finally, the Agreement duplicates the "Sugar Compensation

Mechanism” clause from the US-DR-CAFTA, a provision criticized by both sugar growers and users. Clearly, a provision that commits U.S taxpayers to essentially pay Peru to refrain from shipping sugar to the U.S. market because it could lower inflated prices to U.S. consumers is a prime candidate for a feature segment on “ The Fleecing of America”. (It is inconsistent with the central tenet of more open trade and the principle that trade provides more choices for consumers and enhances economic efficiencies for participating countries.) As suggested by both U.S. sugar growers and users, this provision – if every triggered – would be a classic example of bad public policy and difficult, if not impossible, to politically sustain.

A recently released study by the U.S. Department of Commerce found that support loans and import restrictions that underpin the U.S. sugar program have maintained the U.S. wholesale-refined sugar price over the last 25 years at two to three times the world price. More profoundly, the study found that for each sugar growing and harvesting job saved through high U.S. sugar prices, 2.8 jobs in confectionary manufacturing are lost. These findings raise very serious questions about the logic of continuing efforts to protect the sugar program and the cost of these efforts in terms of lost jobs and lost export opportunities.

Finally, the ATAC is disappointed that cheeses and other dairy products are subject to the most restrictive tariff phase-out terms of the entire agreement. The Committee is concerned that continued U.S. preoccupation with protecting the U.S. dairy market and insistence on parallel market access terms for dairy consistently produces the worst market access terms for dairy products. With the global competitiveness of the U.S. dairy sector steadily improving, unnecessary focus on protection of the domestic market compromises our ability to grow export markets and clearly does not serve the best interests of the U.S. dairy industry.

VI. Membership of Committee

Attached is a list of members of the Agricultural Technical Advisory Committee on Processed Foods along with their respective affiliations.

Agricultural Technical Advisory Committee for Trade

Processed Foods

NAME	COMPANY
Robert B. Anderson	Sustainable Strategies
Elizabeth H. Avery	PepsiCo, Inc.
Robert P. Bauer	Association of Food Industries
Marietta E. Bernot	Mars, Inc.
Alison R. Bodor	National Confectioners Association
Karl B. Brown	SB Global Foods, Inc.
Catherine A. Caponi	H.J. Heinz Company (Representing)
Leonard W. Condon	Altria Corporate Services, Inc.
Nancy K. Cook	Pet Food Institute
Donna J. Denison	Cassidy & Associates
Mark A. Dunn	J.R. Simplot Company
Elizabeth C. Fay	Cargill, Inc.
James P. Finkle	Constellation Brands, Inc.
M. Troy Flanagan	ConAgra Foods, Inc.

Robert L. Garfield	American Frozen Food Institute
Ronald P. Graf	Hershey Foods Corporation
Ann M. Grappin	Yum! Restaurants International
Steven F. Grover	Burger King
Vijai P. Gupta	Jyoti Cuisine India
Timothy F. Hamilton	MIATCO, Inc.
Gary J. Johnson	McDonald's Corporation
Kelly D. Johnston	Campbell Soup Company
Robert J. Kapuscinski	Global Export Marketing Co., Ltd.
Steven P. Krikava	Land O'Lakes
Deborah A. Lamb	Distilled Spirits Council of the U.S., Inc.
John F. McDermid	International Business-Government Counsellors, Inc.
Joseph T. Plesha, III	Trident Seafoods Corporation
John B. Reynolds	The IAMS Company
Peggy S. Rochette	Food Products Association
Jeffrey A. Shapiro	General Mills, Inc.
Ronald W. Tanner	National Association for the Specialty Food Trade, Inc.
Sarah F. Thorn	Grocery Manufacturers of America