

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Peru

**Post:** Lima

### **U.S.-Peru Trade Promotion Agreement-First Year's Results**

**Report Categories:**

Trade Policy Monitoring

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**Report Highlights:**

A year into implementation, the U.S.- Peru Trade Promotion Agreement is already paying off for U.S. agricultural exports. U.S. exports of corn, soybean meal and oil, and poultry meat, among other products, have hit all time records. However, there is still work to be done to take full advantage of the potential of this market.

## **Summary**

The U.S.- Peru Trade Promotion Agreement (PTPA) had its first year anniversary on February 1, 2010. As a result of the Agreement, and despite the continuing international economic uncertainties, U.S. agricultural exports to Peru reached an all time record of \$530 million in Calendar Year 2009. This 22 percent increase, compared to the same previous year, of U.S. exports was mainly driven by a number of product categories. Post has identified winners and disappointments. For products that have not expanded, we have identified constraints and suggest possible remedial actions.

### Major Winners

#### *Yellow Corn*

U.S. yellow corn exports to Peru increased 167 percent in calendar year (CY) 2009, reaching 572,060 MT. The value of yellow corn exports increased over one hundred percent to \$117 million. The U.S. market share in the Peruvian corn market spiked from 15 to 38 percent in CY 2009. Corn users, mainly poultry producers, hurry to import U.S. corn at the beginning of the year to access as much of the tariff rate quota (TRQ) as they can. U.S. corn exports are expected to continue increasing in the future, at least at the TRQ growth rate.

Yellow corn imports face a duty of 9 percent. The PTPA grants U.S. corn a duty free TRQ of 500,000 MT in the first year. The TRQ is scheduled to increase 6 percent annually until reaching unlimited duty free status in the twelfth year.

#### *Pulses*

Exports of U.S. pulses to Peru reached 16,818 MT in CY 2009, increasing 44 percent compared to the previous year. This increase is mainly due to a 57 percent growth of lentil exports and a 35 percent growth of pea exports, which total size reached 29,651 MT and 22,995 MT respectively. U.S. pulses exports to Peru totaled \$13.7 million.

Peas and lentils face an import duty of 9 percent. The PTPA grants immediate duty free access to those products coming from the United States.

#### *Poultry Meat*

Peruvian poultry meat imports totaled \$17 million in CY 2009, \$2.2 million of which came from the United States. The sharp increase, from almost nothing in the previous year, is due to the PTPA's duty free TRQ provision which allows 12,000 MT of chicken leg quarters to be exported into Peru. However, less than 3 percent of the TRQ was used in 2009. High prices and insufficient marketing have prevented more U.S. product from coming in. The TRQ will grow at a rate of eight percent per year until it reaches unlimited duty free status in the seventeenth year.

## *Beef*

U.S. beef exports to Peru in CY2009 hit an all time record, reaching \$6.5 million. This 9 percent increase was the result of the trade preferences granted in the PTPA. The agreement establishes two TRQs for beef. The first one is for Standard Quality Beef, which begins at 800 MT and reaches full duty free access in 12 years. The second is for Beef Variety Meats and begins at 10,000 MT, with unlimited access in 10 years.

## *Snack foods*

Snack food exports from the U.S. increased over 40 percent in CY 2009, reaching an all time record of \$21.3 million. This group of products has a great growth potential and will probably continue increasing as the Peruvian economy improves.

## Smaller Players

The following groups of products, though not very significant in terms of dollar value, have experienced noteworthy growth in market share due to tariff preferences granted in the trade agreement.

- *Fresh fruit*: U.S. exports increased 29 percent to just over \$1 million.

- *Tree nuts*: Peruvian imports from the world decreased 10 percent; however imports from the U.S. increased 70 percent.

- *Wine and Beer*: though Peruvian imports from the world dropped 10 percent, U.S. imports increased 15 percent.

## **TRQ Filling Rates**

<b>PRODUCT</b>	<b>ORIGIN</b>	<b>HTS</b>	<b>TRQ (MT)</b>	<b>FILLED RATE</b>
BEEF: STANDARD QUALITY	UNITED STATES	0201300010 0201300090	800.00	2.3%
BEEF: OFFALS	UNITED STATES	0206210000 0206220000	10,000.00	0.0%
CHICKEN LEG QUARTERS	UNITED STATES	0207130011 0207131000	12,000.00	2.9%
YOGURT	UNITED STATES	0403100020 0403100090	70.00	2.2%
DAIRY: PROCESSED PRODUCTS	UNITED STATES	0403901000 0403909010	2,000.00	0.9%

BUTTER	UNITED STATES	0405100000 0405200000	500.00	0.0%
CHEESE	UNITED STATES	0406100000 0406200000	2,500.00	24.1%
RICE	UNITED STATES	1006109000 1006200000	55,500.00	0.0%
SOYBEAN OIL: REFINED	UNITED STATES	1507901000 1507909000	7,000.00	0.0%
ICE CREAM	UNITED STATES	2105001000 2105009000	300.00	6.3%
CORN: YELLOW	UNITED STATES	1005901100	500,000.00	100.0%
MILK: POWDERED	UNITED STATES	0402101000 0402109000	4,630.00	8.5%

## Other Success Stories

Other U.S. agricultural products have performed well in the Peruvian market in CY 2009; however, this success cannot be attributed to the trade agreement. Since Peru grants duty free access to imports of these products from all origins, the U.S. market advantage has been based on price, quality, availability, or a combination of these factors. This group of products includes:

### *Soybean meal*

U.S. soybean meal exports increased 615 percent in CY 2009, reaching an all time record of 181,650 MT. The U.S. market share of the Peruvian market grew from 3 percent in CY 2008 to 22 percent in CY 2009. Strong demand for high quality product, particularly from the poultry and aquaculture industries and reduced prices for U.S. soybean meal triggered this market share growth.

### *Soybean oil*

Soybean oil exports from the U.S. increased from practically nothing to an all time record of 61,837 MT. Problems with other suppliers and competitive prices allowed U.S. exports to capture 24 percent of this \$220 million market.

## Untapped Potential

Beef and dairy products are two groups that have potential in the Peruvian market but have not performed well in the first year. The main constraint for these products has been higher prices compared to competitors and the local industry. However, there is a growing segment of Peruvians with high incomes that can afford and are willing to pay more for better quality products.

In order to support the increased sales of U.S. agricultural products, Post is involved in a series of educational workshops and training activities. These activities include meat cuts training for

importers, commercial missions to promote dairy products, and an agricultural leadership mission to the United States to increase producer awareness of the benefits of using biotech products.

### **What's Next**

U.S. exports have gained market share in Peru due to the trade agreement but also due to the continued promotion and market service of some Cooperators who see the potential of the Peruvian market. A clear example has been the American Soybean Association which has permanently visited importers, provided customer support, and organized technical seminars to develop new markets such as aquaculture.

Other examples of active cooperators in Peru include U.S. Wheat Associates and the Washington Apple Commission. U.S. Wheat maintains constant contact with importers to provide them with technical and market information. The Washington Apple Commission is conducting a market survey to improve the understanding of the market and the Peruvian consumer.

Post supports and encourages these efforts and believes that such activities, along with working with the Peruvian government to lift sanitary restrictions will result in increased exports of U.S. agricultural products.