

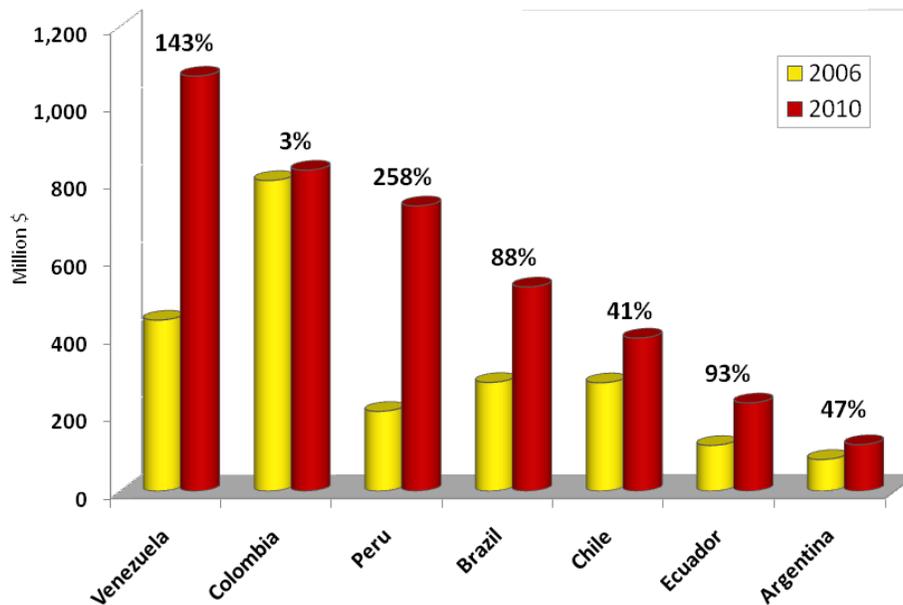
## Trade Promotion Agreement Helps Boost U.S. Agricultural Exports to Peru

### Summary

In fiscal year (FY) 2010, U.S. agricultural exports to Peru reached \$737 million, up 258 percent since FY 2006. Peru has become the fastest growing market in South America for the United States. Corn, pulses, soybean meal, soybean oil, and poultry exports soared due in part to the U.S.-Peru Trade Promotion Agreement (PTPA), strong economic growth in Peru, a growing middle class, and a stronger Peruvian currency (Nuevo Sol).

### Peru: Top Growth Market in South America

U.S. Agricultural Exports to Top South American Markets FY 2006 to FY 2010

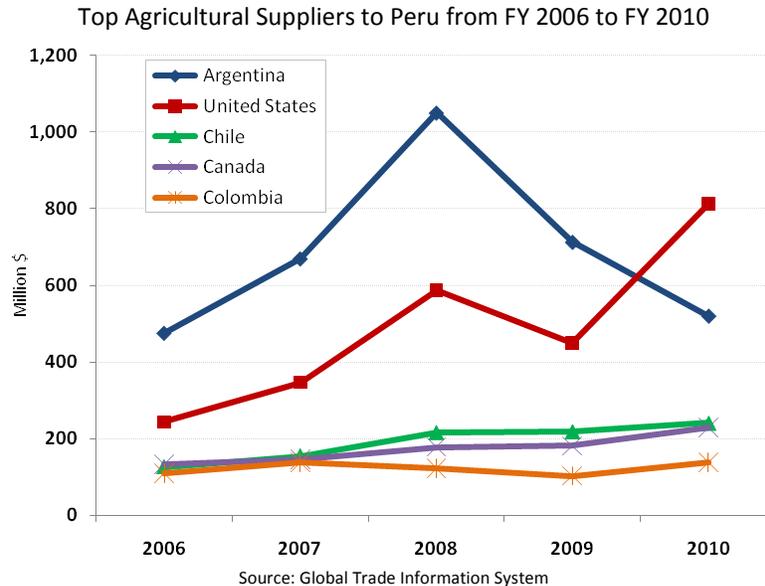


Source: U.S. Census Bureau, Foreign Trade Statistics

### U.S. market share surpassed Argentina in Fiscal 2010

Within a year of the PTPA going into effect, U.S. agricultural exports to Peru increased \$194 million (52 percent) to total \$571 million. In FY 2010, exports from the United States surpassed Argentina by \$292 million to become the top supplier to Peru with roughly 30 percent of the market. Argentina's major exports to Peru include corn, soybean oil, soybean meal, and wheat. The PTPA and production issues in Argentina caused exports to Peru to drop 27 percent and market share to fall 10 percent from the previous year. Corn, wheat, soybean meal, soybean oil, and cotton were the top growth products exported by the United States.

### U.S. Agricultural Exports to Peru Surpassed Argentina in FY 2010



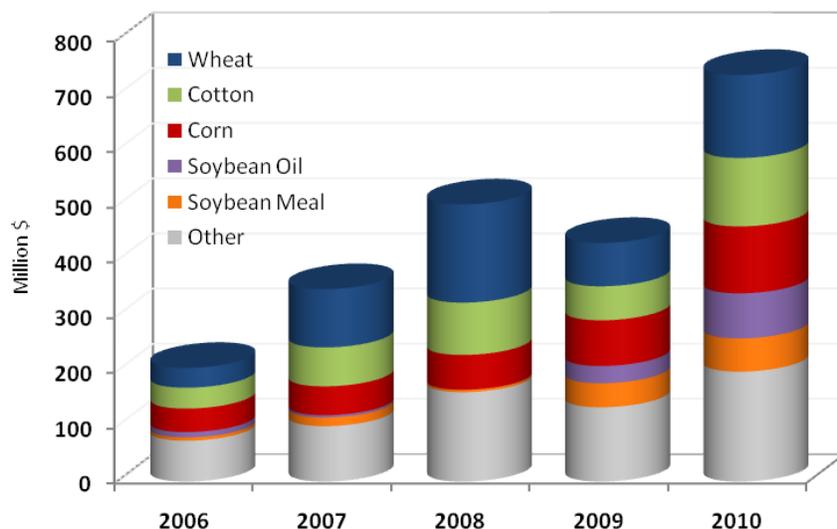
### ***PTPA spurs U.S. corn export growth to Peru***

With the exception of the United States, all corn competitors, including Argentina, face a 9-percent duty on a cost, insurance, and freight (CIF) basis and are subject to variable tariffs based on the Andean Price Band System (APBS). The basic ad valorem tariff is applied if the CIF price is within the APBS. If the price falls below the band, a variable levy is applied in addition to the ad valorem tariff. If the price is higher than the band, the variable levy is not applied and discounts to the ad valorem tariff are made to keep the price within the APBS. Corn suppliers from the United States have a competitive advantage through the PTPA's duty-free tariff rate quota (TRQ) on yellow corn, which started at 500,000 metric tons (MT) and grows 6 percent annually (530,000 MT in 2010) until the tariff phases out in 12 years. Yellow corn exports in FY 2010 totaled \$121 million, more than double FY 2008 shipments—the year prior to the PTPA. U.S. market share expanded from 23 to 43 percent, while Argentina contracted from 74 to 47 percent. As price is a primary driver in the Peruvian corn market, Argentina has been historically the top corn supplier due to its freight cost advantages. In calendar year 2009, the United States shipped corn to Peru at its maximum TRQ fill rate. Despite the U.S. advantage, it is expected that Argentina will remain a strong competitor.

### ***Soybean meal and oil exports soared due to tight supplies in competing countries***

Droughts in Argentina and Paraguay reduced soybean oil and meal supplies and heightened the price competitiveness of U.S. soybean meal and oil in FY 2010. U.S. soybean meal exports soared from \$4 million in FY 2008 to \$60 million in FY 2010, while soybean oil exports rose from \$0.2 million to \$82 million. Additionally, U.S. soybean oil exports were further supported by Argentina's increased industrial soybean oil use for biodiesel production. Recent changes in Argentina's export taxes and domestic biofuel policies, as well as China's growing demand for soybean oil and its recent removal of its ban on Argentine soybean oil imports, could contribute to reducing Argentine shipments to Peru. Peru may look to the United States as a more reliable supplier.

### **Top U.S. Agricultural Exports to Peru from FY 2006 to FY 2010**



Source: U.S. Census Bureau, Foreign Trade Statistics

### ***U.S. wheat confronts strong competition***

The United States, Canada, and Argentina are Peru’s top wheat suppliers with each country taking turns as the leading supplier within the past three years. In FY 2010, U.S. wheat exports to Peru totaled \$150 million (734,000 MT). Canada’s wheat exports roughly doubled from FY 2008 to 2010 to total \$145 million. Canada has become a strong competitor to the United States as wheat is duty free through the Canada-Peru Free Trade Agreement implemented in August 2009. Peru’s increasing domestic production will also provide more competition as domestic production tends to expand as local wheat prices rise. Production expanded 18 percent, from 186,000 MT in marketing year (MY) 2008/2009 (July/June) to 220,000 MT in 2009/2010.

### ***Substantial growth potential for several key high-value products***

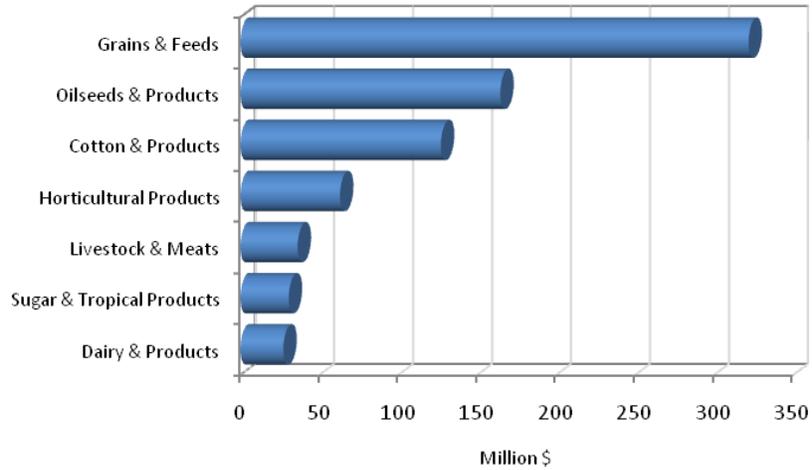
U.S. pulses, poultry meat, beef, and snack foods exports also increased from FY 2008 to 2010 due to the tariff elimination, phase-out, and duty-free TRQ benefits of the PTPA. These products have substantial growth potential, especially beef and dairy, as Peru’s middle class continues to grow and its gross domestic product (GDP) rises. IHS Global Insight forecasts a strong recovery in 2010 as the GDP growth rate rebounds to 8 percent and stays strong at 6 percent in 2011. In addition, the strong Peruvian currency makes U.S. agricultural products more competitive.

### ***Export growth prospects to Peru continues in 2011 and beyond***

Much of the gains in U.S. agricultural export sales from FY 2008 to 2010 can be attributed to the PTPA. U.S. agricultural exports to Peru are forecast to rise in FY 2011. Much of this growth will be driven by higher U.S. exports of grains, specifically corn and wheat, soybean meal, soybean oil, cotton, and dairy. Demand for U.S. products should continue to improve as Peru’s economy and middle class continues to grow.

## Grains and Oilseeds Lead FY 2011 Agricultural Export Growth in Peru

Top U.S. Agricultural Exports to Peru Expected in 2011



Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

For more information contact OGA-TBAD | Tani Lee | [Tani.Lee@fas.usda.gov](mailto:Tani.Lee@fas.usda.gov), (202) 720-0522, USDA-FAS, Office of Global Analysis, Trade and Biofuels Analysis Division