CHAPTER 1
Introduction

Scope and Approach of the Report

This report assesses the likely effect of the U.S.-Peru Trade Promotion Agreement (TPA) on the U.S. economy as a whole and on specific industry sectors, including the effect of the TPA on gross domestic product; exports and imports; aggregate employment and employment opportunities; and the production, employment, and competitive position of industries likely to be significantly affected by the TPA. The report also assesses the likely effect of the TPA on U.S. consumers. The assessment is based on a review of all 23 chapters of the final text of the TPA, including its annexes and associated side letters. Table 1-1 identifies the chapters of the U.S.-Peru TPA and where they are analyzed in this report.

To quantitatively assess the TPA, the U.S. International Trade Commission (Commission) employed the Global Trade Analysis Project (GTAP) model and database. The GTAP is a multicountry model with economy-wide coverage of merchandise and service sectors (a global computable general equilibrium (CGE) model) used in this report to estimate the likely trade and economic effects of the U.S.-Peru TPA.[1] The 56 commodity and services aggregations adopted here cover all sectors, including those with relatively high domestic-world price gaps as a result of tariffs and tariff-rate quotas (TRQs) and relatively large trade flows. The economies covered in the analysis include the United States and Peru, the three other Andean[2] countries (Bolivia, Colombia, and Ecuador), as well as three regional aggregates representing the rest of the world.

The GTAP database, which represents the global economy in 2001, was adjusted to reflect expected economic growth in the world and in the two TPA partners through 2007, the year the proposed U.S.-Peru TPA is expected to enter into force. The adjusted database reflects the removal of textile and apparel quotas under the Agreement on Textiles and Clothing, as well as other international agreements.[3] The analysis is comparative static and assumes the U.S.-Peru TPA is fully implemented and its effects are felt on January 1, 2007. The TPA's provisions are not phased in over time, nor are its effects assumed to be gradually realized over time. The analysis does not completely model rules of origin, but the concept is reflected in the model's product differentiation by country source. In addition, although services trade is included in the model, changes in services trade are not estimated in the

[1] The GTAP database and CGE model are described more fully in app. D of this report; the general effects of trade agreements are described in app. E of this report.

[2] In this report, "Andean" refers only to Bolivia, Ecuador, Colombia, and Peru.

[3] The adjusted database also reflects Uruguay Round tariff reductions insofar as they are reflected in trade data projected to 2005. Moreover, the free trade agreements (FTAs) between Peru and its trading partners are modeled for selected products where necessary data are available. Benchmark adjustments specifically incorporate provisions of NAFTA and ATPA, as well as liberalized sugar import quotas under CAFTA-DR. Other bilateral trade agreements, such as U.S. FTAs with Chile, Singapore, and Australia, are reflected in the overall update of the model with current trade statistics. Trade with these partners is included in trade with large aggregates (rest of the Americas and rest of the world), in which their specific tariffs do not have an observable effect.

Table 1-1 U.S.-Peru TPA: Location of analysis of TPA chapters in the Commission report[1]

TPA chapter and brief description	Chapter of Commission report where analyzed
1. Initial Provisions and General Definitions	Chapter 1
2. National Treatment and Market Access for Goods	Chapter 2
3. Textiles and Apparel	Chapter 2
4. Rules of Origin Procedures	Chapter 2
5. Customs Administration and Trade Facilitation	Chapter 5
6. Sanitary and Phytosanitary Measures	Chapter 5
7. Technical Barriers to Trade	Chapter 5
8. Trade Remedies	Chapter 6
9. Government Procurement	Chapter 6
10. Investment	Chapter 6
11. Cross-Border Trade in Services	Chapter 4
12. Financial Services	Chapter 4
13. Competition Policy	Chapter 6
14. Telecommunications	Chapter 4
15. Electronic Commerce	Chapter 5
16. Intellectual Property Rights	Chapter 6
17. Labor	Chapter 6
18. Environment	Chapter 6
19. Transparency	Chapter 6
20. Administration of the Agreement and Trade Capacity Building	Chapter 1
21. Dispute Settlement	Chapter 6
22. Exceptions	Chapter 1
23. Final Provisions	Chapter 1
Biodiversity-Traditional Knowledge Understanding	Chapter 6 (included with IPR)

[1] Chaps. 1, 20, 22, and 23 of the U.S.-Peru TPA address primarily administrative and legal matters with respect to the agreement and, hence, are summarized in this chapter but not analyzed in this report.

model because of the lack of quantitative data on the ad valorem equivalent (AVE) values of services sector barriers.

The Commission also used qualitative analysis to assess the effect of the market access provisions of the U.S.-Peru TPA on U.S. product sectors, including grain, cotton, sugar and sugar-containing products, asparagus, meat, textiles and apparel, leather goods and footwear, and pharmaceuticals. Initial review of product sectors involved a comprehensive examination and consideration of the TPA's trade liberalization schedules for tariff and nontariff measures and U.S.-Peru bilateral trade flows, and drew on the expertise of Commission industry analysts. Sectors were selected for analysis in this chapter on the basis of a number of criteria, including the importance of the sector in terms of bilateral trade; the likelihood of increased export opportunities for U.S. producers relative to other foreign suppliers; the extent and speed of trade liberalization under the TPA and its potential for increasing U.S. trade; the opinions of industry representatives; and the apparent sensitivity of certain U.S. industries to trade liberalization. The Commission's assessments in this chapter are based on industry knowledge and expertise of USITC industry analysts, industry sources, reports by U.S. industry and functional trade advisory committees on the TPA, and written submissions

received in response to the Commission's *Federal Register* notice of institution for this investigation.[4]

Other effects of the TPA are associated with provisions on trade in services, trade facilitation (e.g., customs administration, technical barriers to trade, and electronic commerce), and the regulatory environment (e.g., government procurement, investment, competition policy, and intellectual property rights). The effects of these provisions are more difficult to quantify because of their intangible nature and data limitations. The limited ability to quantify the effects of trade facilitation and regulatory environment-related provisions does not diminish the potential effect these provisions can have on increasing U.S.-Peru trade in goods and services. Nontariff issues, which hamper trade with and investment in Peru, have been cited as areas of concern by the U.S. government and international organizations. Various chapters of the TPA seek to address some of these issues, which are listed in table 1-2.

Four Andean countries—Bolivia, Colombia, Ecuador, and Peru—are beneficiaries of the Andean Trade Preference Act (ATPA), as amended by the Andean Trade Promotion and Drug Eradication Act (ATPDEA).[5] As this unilateral trade preferences program is set to expire at the end of 2006, two policy scenarios are assessed in this report with regard to market access provisions.[6] Given that ATPA expired in 2001 and was renewed retroactively in 2002, the first policy scenario, referred to as "ATPA preferences continue," assumes implementation of a U.S.-Peru TPA and continued ATPA preferences for the remaining three Andean countries. The second policy scenario, referred to as "ATPA preferences expire," assumes implementation of the U.S.-Peru TPA and the simultaneous expiration of ATPA preferences for the remaining three Andean countries. The economy-wide and sector-specific analyses identify the policy scenario assumptions, as appropriate. For example, the effect of the different policy scenarios on potential increases in U.S. exports is minimal. Consequently, U.S. export-oriented discussions do not analyze different policy scenarios.[7]

Data and other information for the study were obtained from industry reports, interviews with government and industry contacts, official reports of the trade advisory committees, hearing testimony,[8] written submissions to the Commission, and the GTAP database. Other sources include the U.S. Department of Agriculture, the U.S. Department of Commerce, the U.S. Department of State, the World Trade Organization, the World Bank, and the Global Trade Atlas.

---

[4] A copy of the *Federal Register* notice is in app. B.

[5] Use of the acronym "ATPA" in this report refers to ATPA as amended by ATPDEA.

[6] "Market access" provisions in this report refer to those provisions primarily reflected in chaps. 2–4 of the TPA.

[7] Given the minimal difference in most information in the associated CGE/GTAP results, tables for the "ATPA preferences expire" scenario are provided in app. F.

[8] The Commission held a public hearing for this investigation on Mar. 15, 2006. A calendar of the hearing is included in app. C of this report, and a summary of hearing testimony and written submissions is provided in chap. 7.

Table 1-2 Selected nontariff impediments in Peru

Topic	Selected nontariff issue	Source year	TPA-relevant chapter(s)[a]
Agriculture	Five percent "temporary" surcharge on agricultural products	2005[b]	2
Agriculture	Peru maintains local-content requirements in relation to various government nutrition programmes, as well as a trade-related investment measure in dairy.	2000[h]	9
Agriculture	Import surcharges (variable levy) introduced in 1991 on some basic agricultural commodities of which rice, corn, sugar and dairy products remain taxed (surcharges were replaced by a price-band system in 2001).	2005[b, d]	2
Agriculture	Of 330 tariff items, 23 items are also subject to variable specific duties intended as a price stabilization and protection mechanism. These duties affected five product groups: milk, maize, sorghum, rice, and sugar.	2000[h]	2
Government procurement	Government procurement concerns, including 20-point (on a 100-point scale) preferential treatment for national companies	2005[b]	9
Government procurement	A number of provisions favor domestic suppliers in government procurement.	2000[h]	9
IPR	Infringement of intellectual property remains a serious problem in Peru, especially in the area of e-commerce.	2005[f]	16
IPR	Concerns about continued high rates of copyright piracy and inadequate enforcement of IPR laws	2005[d]	16
IPR	IPR concerns, including enforcement, copyright piracy, protection of confidential test data, and patent protection on second uses	2005[b]	16
Regulatory	Private investment is undermined by uncertainties about economic policies, laws, government regulations, the resolution of commercial disputes, and contract enforcement.	2004[g]	10, 19, 21
Regulatory	Complaints about regulatory administration and predictability of dispute settlement	2005[b]	10, 19, 21
Regulatory	Dispute settlement continues to be problematic in Peru, although the government of Peru has taken steps in 2005 to improve the dispute settlement process.	2005[d]	10, 21
Regulatory	Current law limits foreign employees to no more than 20 percent of the total number of employees in a local company, however, there are a variety of exceptions to these limits, including foreign banks and service companies, and international transport companies.	2005[b, d]	10, 11, 12, 14
Regulatory	Concerns of lack of transparency in telecommunications regulatory decision-making process	2005[b]	14, 19
Regulatory	Although Peru eliminated most restrictions and requirements on imports in the 1990s, the system is, nevertheless, dynamic, and decisions are often made on an ad hoc basis.	2005[f]	5, 19
Remanufacture	Prohibition on the importation of remanufactured goods	2005[b, e]	2
SPS	SPS bans, import requirements and permits, e.g., on poultry (lifted 2004), live animals, beef and beef products, and paddy rice	2005[b]	2, 6
SPS	SPS measures banning live bovines, bovine products, and derivatives.	2005[c]	2, 6
Used vehicles	A discriminatory system giving certain tax advantages to second-hand cars imported to Peru for re-conditioning in the CETICOS (and the ZOTAC) has been in operation since 1996.	2005[c]	2
Used vehicles	Import ban on used cars and parts (though imports of used industrial machinery and equipment is permitted).	2005[f]	2

Sources: As cited.

Note: Examples selected based on survey of standard sources regarding nontariff trade impediments. Citations represent the Peruvian environment in the year of publication; no assumptions are made as to whether these represent the current environment.

[a] Including annexes and side letters. *U.S.-Peru TPA*, available at *http://www.ustr.gov*.
[b] USTR, *2005 National Trade Estimate Report on Foreign Trade Barriers*.
[c] European Commission, EU Market Access Sectoral and Trade Barriers Database.
[d] US&FCS and U.S. Department of State, *Doing Business in Peru*.
[e] USDOC, ITA, Industry Trade Policy reports 2005.
[f] EIU, *Country Commerce: Peru*.
[g] IMF, *Country Report, Peru: Selected Issues*.
[h] WTO, "Trade Policy Review, Peru."

The remainder of this report is organized as follows: chapter 1 provides an overview of U.S.-Peru trade, a literature review, and a country profile for Peru; chapter 2 provides a summary of market access provisions for goods and the economy-wide analysis; chapter 3 presents selected sector-specific analyses; chapter 4 covers the effect of market access for services sector-related provisions; chapter 5 covers the effect of trade facilitation-related provisions; chapter 6 covers the effects of regulatory-related provisions, including investment; and chapter 7 summarizes the views of interested parties. This report also includes the following appendices: (A) the request letter from the USTR; (B) the *Federal Register* notice announcing the institution of the investigation and scheduling a hearing; (C) a list of hearing participants; (D) a technical appendix that explains the methodology used in chapter 2; (E) general effects of trade agreements based on economic theory; (F) GTAP tables for the economy-wide analysis; and (G) a chapter-by-chapter review of the provisions of the TPA.

Overview of the U.S.-Peru TPA

Like other free trade agreements (FTAs) to which the United States is a party,[9] the agreement with Peru would create a preferential trade regime with a specific, negotiated range of goods and services measures of mutual benefit or interest to the parties, with commitments covering other trade-related matters. Under this TPA, duties on categories of originating goods will be phased out over periods of up to 17 years.[10] It also will provide a set of commitments on matters that were not previously subject to the World Trade Organization (WTO) regime or that are covered by agreements to which one or the other of the partners is not a party. The TPA will not cover every aspect of bilateral trade or give preferences for all goods under any tariff category, but will accord benefits to originating goods. The TPA's rules of origin grant special tariff treatment to particular goods upon importer claim, and certain sensitive agricultural products are subject to TRQs for a specific time period. Among the TPA's objectives, the preamble states that the pact is meant to strengthen cooperation, help expand trade within a structure of rules, and simplify regional trade.

The text of the U.S.-Peru TPA[11] is largely modeled on other recent U.S. FTAs, particularly the U.S.-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR). The TPA contains separate commitments of each party set forth in schedules and annexes on market access, rules of origin, services, and procurement, as well as general disciplines that apply to both parties. Some provisions also draw upon multilateral instruments of the WTO or other treaties, or state that the same obligations apply under the TPA. These obligations exist separately, even if the corresponding WTO agreement provision is eliminated. Some TPA commitments deal with specific aspects of trade relations between the parties, and side letters provide for ongoing cooperation or cover other specific matters. Below is a summary of the text of TPA chapters that address primarily administrative and legal matters regarding

[9] To date, the United States has implemented FTAs with Israel, Canada, Mexico, Jordan, Singapore, Chile, Australia, Morocco, and Central America and the Dominican Republic (as of the date of this report, only El Salvador, Honduras, and Nicaragua have implemented CAFTA-DR). The U.S. Congress has approved implementing legislation for an FTA with Bahrain; however, to date, it has not been implemented. Although signed, Congress has not approved implementing legislation for the U.S.-Oman FTA. On Feb. 27, 2006, the United States announced the conclusion of FTA negotiations with Colombia. In addition, the United States is negotiating FTAs with Korea, Malaysia, Panama, Thailand, the United Arab Emirates, and the five nations of the Southern African Customs Union.

[10] Information on the tariff commitments of the United States and Peru is available in chap. 2 of this report.

[11] The text of the U.S.-Peru TPA is available at *http://www.ustr.gov*.

the TPA (TPA chapters 1, 20, 22, and 23); these are not further analyzed in this report.[12] For a chapter-by-chapter review of the TPA provisions, see appendix G of this report.

TPA Chapter 1—Initial Provisions and General Definitions

The text states that the parties agree to set up the TPA in a way that is consistent with the 1994 General Agreement on Tariffs and Trade (GATT), and that reaffirms the existing application of bilateral rights and obligations continue to apply. The text also states that nothing in the TPA is to be read as altering any legal obligation under another international pact. Among the general definitions in the TPA, the term "territory" is defined by both parties to cover the "land, maritime, and air space under its sovereignty and the exclusive economic zone and the continental shelf within which it exercises sovereign rights and jurisdiction in accordance with international law and its domestic law" without any mention of free trade zones or other areas.

TPA Chapter 20—Administration of the Agreement and Trade Capacity Building

This chapter sets up a Free Trade Commission of cabinet-level representatives to supervise the implementation of the TPA, consider all types of matters raised under it, resolve disputes that may arise regarding the interpretation or application of this agreement, establish and task working groups, and fulfill other similar duties. The Free Trade Commission comprises the USTR and the Peruvian Ministro de Comercio Exterior y Turismo. Under this chapter, each party shall also designate a TPA coordinator to prepare for Free Trade Commission meetings and follow up on its decisions. The chapter also includes provisions on administering dispute settlement proceedings.

In recognition that trade capacity building is a catalyst for the reforms and investments needed to foster trade-driven economic growth and reduce poverty, section B of this chapter establishes a Committee on Trade Capacity Building. This committee will seek to prioritize trade capacity-building projects and invite the participation of international donor organizations, private-sector entities, and nongovernmental organizations to encourage trade and reform. The committee also will provide oversight to a working group on customs administration and trade facilitation created under the provisions of this chapter, but tasked to implement the provisions of Chapter 5—Customs Administration and Trade Facilitation.

TPA Chapter 22—Exceptions

This chapter discusses general exceptions to various chapters of the TPA and mentions specific provisions of various WTO agreements, which are incorporated by reference. This chapter also exempts the disclosure of essential security, taxation, or other information, which would impede law enforcement or be contrary to the public interest.

[12] Other chapters of the TPA are summarized and analyzed in chaps. 2–6 of this report. Summaries are not intended to interpret them or to identify the negotiators' intent.

TPA Chapter 23—Final Provisions

This chapter contains the mechanisms for acceding to the TPA and putting it into force as well as an article on the legal significance of annexes. The parties must consult on any changes made to provisions of the WTO agreement incorporated in this text to determine if the same principle will apply herein. If the parties agree, any country or group of countries may accede to the TPA. The TPA will enter into force on or after the exchange of written notifications by the United States and Peru that each has completed its respective domestic legal procedures. "The English and Spanish texts of the Agreement are to be equally authentic."[13] Any withdrawal from the TPA will take effect 6 months after written notice.

U.S.-Peru Trade Overview

Andean Trade Preference Act

The U.S. Congress enacted ATPA in 1991[14] to grant the Andean nations of Bolivia, Colombia, Ecuador, and Peru certain unilateral trade preferences to promote broad-based economic development and viable economic alternatives to coca cultivation and cocaine production in the region. ATPA expired in December 2001, but was renewed retroactively and amended on August 6, 2002, by ATPDEA.[15]

ATPA, as amended by ATPDEA, provides duty-free treatment to qualifying products from the four designated beneficiary countries. ATPDEA expanded preferential treatment to additional products previously ineligible under the original ATPA, namely certain textiles and apparel, footwear, tuna in foil or other flexible airtight packages (not cans), petroleum and petroleum derivatives, and certain watches and watch parts. In all, nearly 6,300 tariff rate lines or products are covered by ATPA trade preferences, of which about 700 were added by ATPDEA.[16] The following products are excluded from preferential tariff treatment under ATPA: textile and apparel articles not otherwise eligible for preferential treatment under ATPDEA; canned tuna; above-quota imports of certain agricultural products subject to tariff-rate quotas, including sugars, syrups, and sugar-containing products; and rum and tafia.

The four ATPA beneficiary countries are also GSP beneficiaries.[17] ATPA and GSP provisions are similar in many ways, and many products can enter the United States free of duty under either program. However, Andean producers tend to prefer the more comprehensive ATPA for three reasons. First, ATPA authorizes duty-free treatment on more tariff categories than the GSP, including some textile and apparel articles ineligible for the GSP. Second, unlike the GSP, imports under ATPA are not subject to competitive-need

[13] *U.S.-Peru TPA*, article 23.7.

[14] Public Law 102-182, title II; 105 STAT. 1236, 19 U.S.C. 3201–3102.

[15] Public Law 107-210, title XXXI. ATPDEA duty-free treatment became effective for all four beneficiary countries on Oct. 31, 2002 (Presidential Proclamation 7616, 67 F.R. 67283).

[16] USTR, "Fact Sheet: New Andean Trade Benefits." Accordingly, approximately 90 percent of rate lines provide duty-free treatment to U.S. imports from the ATPA region (60 percent under ATPA and 30 percent have normal trade relations (NTR) rates of free). U.S. imports under the remaining approximately 10 percent of tariff rate lines are dutiable.

[17] The U.S. GSP program originally was enacted for 10 years pursuant to title V of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 2066 et seq.). The program has expired and been renewed several times.

limits and country income restrictions. This provision means that preferential treatment is not forfeited if imports of a product or national income exceed a certain threshold.[18] Third, ATPA-qualifying rules of origin for products are more liberal than those of the GSP; the GSP requires that 35 percent of the value of the product be added in a single beneficiary country or in a specified association of GSP-eligible countries, whereas ATPA allows regional aggregation within ATPA plus U.S. and Caribbean content. Duty-free treatment under both the ATPA (as amended by ATPDEA) and GSP programs is due to expire on December 31, 2006.

Bilateral Trade

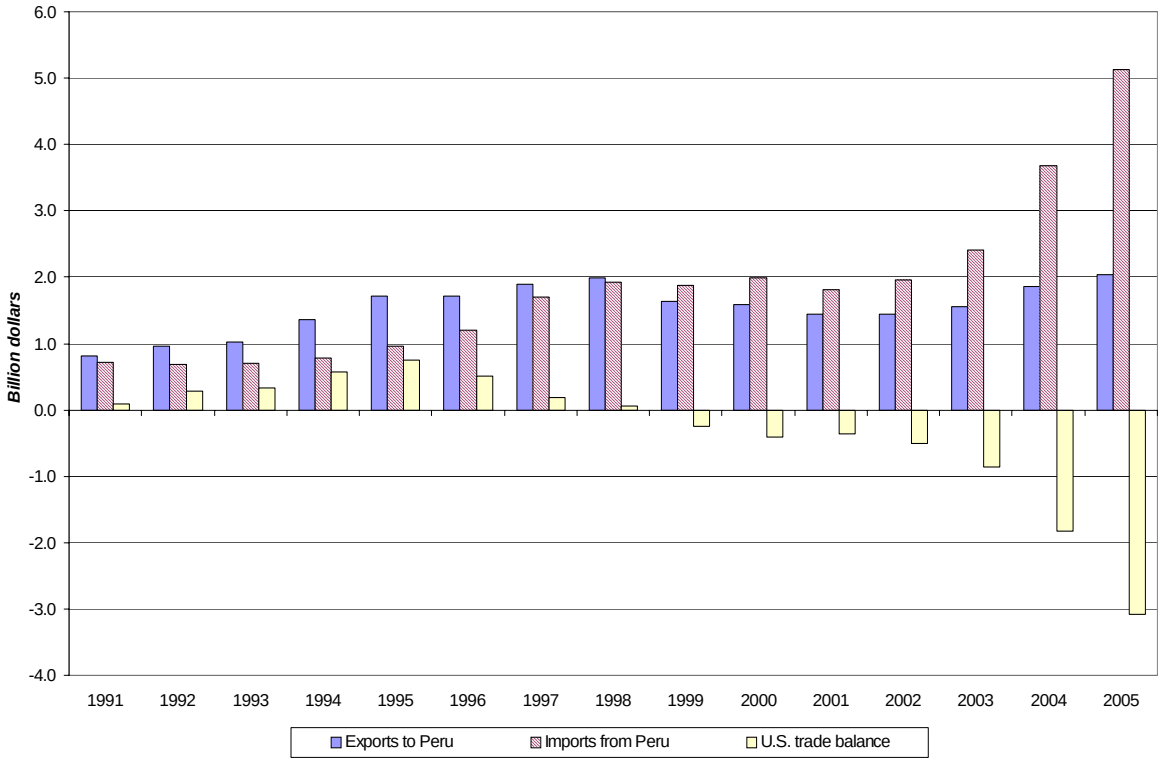
Peru accounted for 0.31 percent, or $5.1 billion, of the $1.7 trillion total U.S. imports in 2005. Between 1991 (when ATPA was signed into law) and 2005, U.S. imports from Peru increased at a compound annual growth rate of 15.0 percent (figure 1-1). Imports from Peru have increased even more rapidly since the 2002 renewal and expansion of ATPA by ATPDEA. Since the expansion of these trade preferences, imports from Peru increased by a compound annual growth rate of 37.9 percent from 2002 to 2005; however, this growth is largely the result of increasing values (driven by price increases) of mineral and energy-related imports.

U.S. imports from Peru are highly concentrated in a few product categories, primarily minerals and metals, apparel, energy-related products, coffee, and vegetables (table 1-3). Gold, copper, silver, tin, and zinc combine to make up approximately one-half of U.S. imports from Peru. Petroleum products and apparel each account for more than 10 percent of total U.S. imports from Peru. Coffee, fruits and nuts, prepared vegetables, asparagus, fish, and wood each represent more than 1 percent of U.S. imports from Peru. Of the $5.1 billion worth of imports from Peru, 97 percent entered free of duty, 50 percent under most-favored-nation (MFN)[19] provisions, and 46 percent under ATPA (figure 1-2). Of the $2.3 billion in imports that entered under ATPA, 9 percent were also eligible for preferential treatment under the GSP. The remaining 91 percent were “ATPA-only,” meaning they were eligible for duty-free treatment only under ATPA.

[18] Under th GSP, a beneficiary developing country loses benefits for an eligible product when U.S. imports of the product exceed either a specific, annually adjusted value or 50 percent of the value of total U.S. imports of the product in the preceding calendar year—known as the competitive-need limit. See sec. 503(c)(2) of the Trade Act of 1974, as amended. As mentioned above, ATPA has no competitive-need limits.

[19] Nondiscriminatory tariff treatment is commonly and historically called "most-favored-nation" (MFN) status and is currently called normal trade relations (NTR) status in the United States.

Figure 1-1 U.S. trade with Peru, 1991-2005



Source: Compiled from official statistics of the U.S. Department of Commerce.

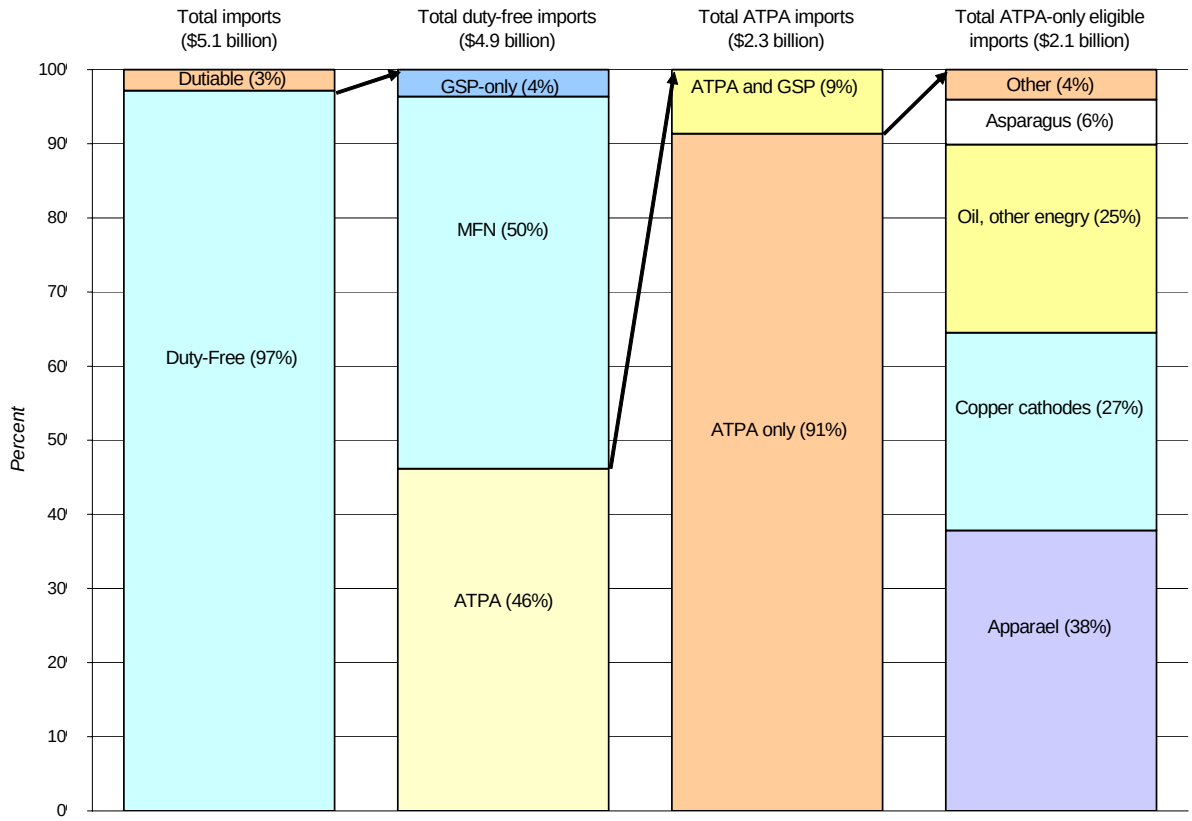
Table 1-3 Leading U.S. imports from Peru, total U.S. imports from the world, and Peruvian share of total, 2005

HTS subheadings	Description	Imports from Peru	Imports from world	Peruvian share
		----------1,000 dollars----------		-Percent-
7108.12.10	Gold, nonmonetary, bullion and dore	1,555,783	3,573,530	43.54
7403.11.00	Refined copper cathodes and sections of cathodes	556,350	3,238,489	17.18
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	324,062	6,615,774	4.90
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	276,178	7,585,160	3.64
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	228,655	23,819,186	0.96
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	173,459	1,548,195	11.20
7106.91.10	Silver bullion and dore	151,098	991,963	15.23
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	146,971	3,424,241	4.29
8001.10.00	Tin (o/than alloy), unwrought	138,341	284,902	48.56
0709.20.90	Asparagus, n.e.s.o.i., fresh or chilled	86,400	188,872	45.75
2608.00.00	Zinc ores and concentrates	84,967	116,985	72.63
0901.11.00	Coffee, not roasted, not decaffeinated	74,283	2,222,981	3.34
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	73,565	48,435,154	0.15
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	55,538	863,223	6.43
2901.21.00	Ethylene	48,606	2,560,773	1.90
7113.19.29	Gold necklaces and neck chains (o/than of rope or mixed links)	40,264	947,605	4.25
4407.24.00	Virola, Mahogany, Imbuia and Balsa wood sawn or chipped lengthwise, sliced or peeled, over 6 mm thick	38,246	114,821	33.31
7106.92.10	Silver (incl. silver plate w gold/platinum), semimanufacture, rectangular/near rectangular shape,99.5% or > pure, marked only by wgt/identity	32,450	39,738	81.66
0904.20.20	Paprika, dried or crushed or ground	28,113	44,306	63.45
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine, frozen	25,714	2,803,362	0.92
	Subtotal	4,139,043	109,419,259	3.78
	Other	983,547	1,552,960,409	0.06
	Total	5,122,590	1,662,379,669	0.31

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: The abbreviation “n.e.s.o.i.” stands for “not elsewhere specified or otherwise included.”

Figure 1-2 U.S. imports from Peru, by preference program, 2005



Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1-4 lists the leading U.S. ATPA-only imports from each of the ATPA beneficiaries, and the AVE for each of these products that would apply in the absence of ATPA preferences. The lower the AVE and the less of the product produced by Bolivia, Colombia, and Ecuador, the less likely there would be trade diversion to Peru under the U.S.-Peru TPA in the event ATPA preferences expire (the "ATPA preferences expire" scenario). Apparel represented 38 percent of ATPA-only imports. These apparel products benefit substantially from ATPA as imports would have faced duty rates ranging from 16.5 percent to 19.7 percent ad valorem.[20] In addition to potentially facing relatively large MFN tariff rates, in the absence of ATPA, apparel also represents leading ATPA-only imports from Bolivia and Colombia, increasing the likelihood for trade diversion from these countries to Peru in the "ATPA preferences expire" scenario.[21]

[20] Other apparel products not listed in the top five could have been subject to duties of up to 28.6 percent.

[21] The economy-wide and sector-specific analyses discuss the various factors that limit possible trade diversion in apparel.

Table 1-4 U.S. ATPA-only imports by value, by Andean country, 2005

Country and HTS subheading	Description	Customs value	Ad valorem equivalent	Percent of total
		-1,000 dollars-	--------Percent--------	
Peru				
7403.11.00	Refined copper cathodes and sections of cathodes[1]	556,350	1.0	26.68
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, n.e.s.o.i.	274,270	16.5	13.15
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	242,469	0.2	11.63
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	213,694	0.2	10.25
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	172,107	19.7	8.25
	Subtotal	1,458,890		69.95
	Other	626,655		30.05
	Total	2,085,545		100.00
Colombia				
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	1,725,838	0.3	41.90
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	1,171,245	0.2	28.44
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	312,474	0.2	7.59
0603.10.60	Roses, fresh cut	188,965	6.8	4.59
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	143,042	16.6	3.47
	Subtotal	3,541,564		85.99
	Other	577,044		14.01
	Total	4,118,607		100.00
Ecuador				
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	3,937,316	0.2	93.26
0603.10.60	Roses, fresh cut	74,108	6.8	1.76
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) fr petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	73,288	0.2	1.74
1604.14.30	Tunas and skipjack, not in oil, in airtight containers, not of U.S. possessions, over quota	47,814	12.5	1.13
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	16,721	0.3	0.40
	Subtotal	4,149,247		98.28
	Other	72,562		1.72
	Total	4,221,809		100.00
Bolivia				
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	44,501	0.3	46.89
7113.19.21	Gold rope necklaces and neck chains	13,816	5.0	14.56
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	12,130	19.7	12.78
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	7,270	19.7	7.66
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	7,167	16.5	7.55
	Subtotal	84,887		89.44
	Other	10,017		10.56
	Total	94,901		100.00

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: The abbreviation “n.e.s.o.i.” stands for “not elsewhere specified or included.”

[1] Although this product is also GSP eligible, it is excluded from GSP for Peru because imports exceed the competitive-need limit; consequently, it can only enter duty free under ATPA, which does not apply competitive-need limits.

Copper cathodes represented 27 percent of ATPA-only imports; the applicable MFN duty rate is 1.0 percent ad valorem. Petroleum and other energy-related products represented 25 percent of ATPA-only imports; the applicable MFN duty rate is 0.3 percent ad valorem. Given these low MFN duty rates, effects directly attributable to the U.S.-Peru TPA are expected to be small. Asparagus, which accounts for 6 percent of ATPA-only imports, also benefits substantially from ATPA, as the applicable rates of duty would have been 5.0 percent or 21.3 percent for these imports, depending mainly on the season of entry. However, asparagus is not a leading ATPA-only import from the other three Andean countries, and therefore, is not likely to experience trade diversion under the "ATPA preferences expire" scenario. Although these ATPA-only imports are not expected to receive preferential market access under a U.S.-Peru TPA above what was received under ATPA, substantial historical trade flows are expected to continue after implementation of the U.S.-Peru TPA, and the permanence of market access under the TPA may stimulate increased investment.

Peru accounted for 0.25 percent or $2.0 billion of the $804.0 billion in total U.S. exports in 2005. U.S. exports to Peru have increased at a compound annual growth rate of 6.8 percent since 1991, and a compound annual growth rate of 12.2 percent since 2002. U.S. exports to Peru are relatively diversified. More than 35 percent are electrical and mechanical appliances and machinery. Refined petroleum products and organic chemicals account for 10 percent and 5 percent, respectively (table 1-5). Many agricultural and related products have significant flows, including wheat, paper, cotton, fertilizers, rubber, corn, and animal and vegetable fats and oils.

Based on Peru's tariff schedule summarized in the tabulation below, 37 percent of Peru's tariff rate lines have a base rate between 1 percent and 5 percent. However, more than 50 percent of tariff rate lines have a base rate between 11 percent and 20 percent.

Peru applied tariff rates

Tariff base rate (percent)	Number of tariff lines	Percent of total tariff lines
0	106	1.52
1 to 5	2,602	37.30
6 to 10	127	1.82
11 to 20	3,808	54.59
21 to 35	326	4.67
> 35	7	0.10
Total	6,976	100.00

Source: *U.S.-Peru TPA*, "Peru Tariff Schedule (Industrial and Textiles)" and "Peru Tariff Schedule (Agriculture)," available at *http://www.ustr.gov.*

Note: Does not include tariff lines with base rate values of blanks.

Corrected page as amended by errata sheet issued June 12, 2006.

Table 1-5 Leading U.S. exports to Peru, total U.S. exports to the world, and Peruvian share of total, 2005

HTS subheadings	Description	Exports to Peru	Exports to world	Peruvian share
		--------1,000 dollars--------		-Percent-
2710.19	Petroleum oils & oils (not light) from bituminous minerals or preps n.e.s.o.i. 70%+ by wt. from petroleum oils or bitum. min	210,746	9,653,155	2.18
8431.49	Parts and attachments, n.e.s.o.i., for derricks, cranes, self-propelled bulldozers, graders etc. and other grading, scraping, etc. machinery	87,346	3,022,815	2.89
1001.90	Wheat (other than durum wheat), and meslin	78,046	4,206,085	1.86
8473.30	Parts and accessories for automatic data processing machines and units thereof, magnetic or optical readers, transcribing machines, etc., n.e.s.o.i.	57,572	12,171,725	0.47
3907.60	Polyethylene terephthalate, in primary forms	56,576	586,063	9.65
9880.00	Estimate of non-Canadian low value export shipments; compiled low value shipments to Canada; and shipments not identified by kind to Canada	55,677	20,443,326	0.27
8525.20	Transmission apparatus incorporating reception apparatus for radiotelephony, radiotelegraphy, radiobroadcasting or television	52,039	3,266,140	1.59
8431.43	Parts for boring or sinking machinery, n.e.s.o.i.	49,362	5,680,194	0.87
5201.00	Cotton, not carded or combed	38,437	3,920,176	0.98
3100.00	Fertilizers (exports only; includes crude fertilizers from other areas)	37,157	2,906,094	1.28
2926.10	Acrylonitrile	31,660	954,602	3.32
9504.30	Coin- or token-operated games, other than bowling alley equipment; parts and accessories thereof	25,046	601,494	4.16
8402.90	Parts for super-heated water boilers and steam or other vapor generation boilers (other than central heating hot water boilers)	24,008	123,351	19.46
1005.90	Corn (maize), other than seed corn	20,289	4,860,457	0.42
7308.90	Structures and parts of structures n.e.s.o.i., or iron or steel	16,029	489,588	3.27
8432.90	Parts for agricultural, horticultural or forestry machinery (for soil preparation or cultivation) and parts for lawn or ground rollers	14,103	164,534	8.57
8704.10	Dumpers (dump trucks) designed for off-highway use	13,888	1,605,676	0.86
3906.90	Acrylic polymers n.e.s.o.i., in primary forms	13,570	1,159,231	1.17
8479.90	Parts of machines and mechanical appliances having individual functions, n.e.s.o.i.	13,451	2,150,630	0.63
3901.10	Polyethylene having a specific gravity of less than 0.94, in primary forms	13,332	1,571,457	0.85
	Subtotal	908,333	79,536,793	1.14
	Other	1,129,706	724,455,097	0.16
	Total	2,038,039	803,991,890	0.25

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note: The abbreviation “n.e.s.o.i.” stands for “not elsewhere specified or included.”

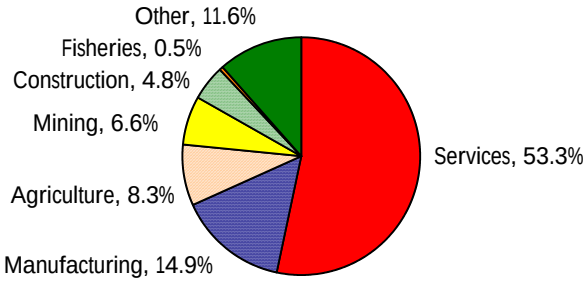
PERU

ECONOMIC PROFILE

Economic indicators

	2000	2004
Population (mn)	26.3	27.9
GDP (US$ bn)	53.7	77.6
GDP per capita (US$)	2,041.8	2,781.4
Real GDP growth (%)	0.2	5.9
Goods exports (US$ mn)	7,025.7	16,691.7
Goods imports (US$ mn)	7,221.2	12,079.0
Trade balance (US$ mn)	-195.5	4,612.7

GDP by economic activities, 2004
(nominal GDP = $68.6 billion)



Peru's main trade commodities, US$ million, 2004

Exports		Imports	
Copper	2,446.0	Intermediate goods	5,358.4
Gold	2,383.1	Capital goods	2,366.6
Fishmeal	1,103.7	Consumer goods	1,974.4
Zinc	576.8	Other goods	126.2

Peru's main trading partners, percent of total, 2004

Exports		Imports	
United States	29.0	United States	28.7
China	9.3	Spain	7.4
United Kingdon	7.5	Chile	6.6
Chile	5.0	Brazil	6.0

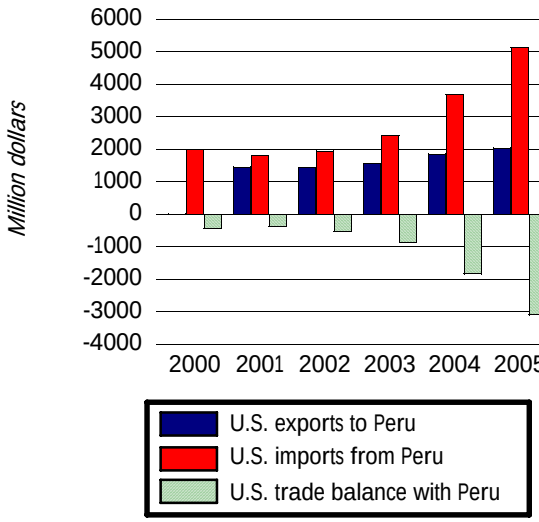
Source for economic indicators, GDP figure, and trade data: "Peru: Economic Structure"; 2005 data are EIU estimates

Economic overview

- Peru is a lower-middle-income country located in the Andean region (figure 1-3). Its population is less than one-tenth of that of the United States, and its GDP in 2004 was less than 1 percent of the U.S. GDP.
- The Peruvian economy is characterized by relatively modern sectors on the coastal plains and subsistence sectors in the mountains of the interior. Peru has a wide diversity of climates, encouraging the cultivation of many varieties of crops.
- Peru's GDP increased by 45 percent between 2000 and 2005, largely resulting from the political and economic reforms enacted in the 1990s and continued in recent years.[1] Increased exports of nontraditional goods and high mineral prices in 2004 and 2005 also helped export earnings and GDP growth.
- Services represent approximately one-half of Peru's GDP. The manufacturing sector is small, accounting for 15 percent of GDP, but fairly diverse; the largest sectors are food processing, fishmeal, metals and minerals, steel, and textiles and apparel. However, low demand in both Peru and the regional market has resulted in limited growth in the manufacturing sector.
- Export-earning industries are primarily mining, specifically copper, gold, silver, zinc, and lead, as well as fishing and fishmeal processing. Peru has been ranked as high as the second-largest fishing nation in the world, but overfishing and the effects of El Niño have led to reduced catches in recent years.
- The United States is Peru's largest single-country trading partner, accounting for approximately 29 percent of Peru's exports and imports.
- Sectors targeted for expansion by the Peruvian government include tourism, petroleum and natural gas (large deposits have been located but need development), textiles (locally grown Pima cotton is highly regarded, and animals native to Peru such as alpacas and llamas have high-quality wool), and agriculture (the climate lends itself to growth of a wide range of products).
- Foreign direct investment from Spain, the United States, and the United Kingdom has been concentrated in the communications, energy, and mining sectors.

[1] Although not as pervasive as in the past, Peru's informal economy is still large. In general terms, an estimated 38 percent of GDP and 60 percent of man-hours worked took place in the informal sector in Peru in the late 1980s. DeSoto, Chersi, and Ghibellini, "El Otro Sendero."

U.S. merchandise trade with Peru, 2000-2005



Leading U.S. exports to Peru, US$ million, 2005	
Machinery and parts	709.2
Plastics and chemicals	357.5
Mineral fuels and oils	216.4
Cereals	107.2
Vehicles	73.3
Other	574.4
Total	2,038.0
Leading U.S. imports from Peru, US$ million, 2005	
Precious stones and metals	1,827.4
Mineral fuels & organic chemicals	777.4
Apparel	746.6
Copper & related articles	592.7
Vegetables	160.6
Other	1,017.9
Total	5,122.6

Source: Compiled from official statistics of the U.S. Department of Commerce.

Regional trade agreements

- Peru is a member of the WTO, the Asia-Pacific Economic Cooperation (APEC) forum,[2] and the Latin American Integration Association (ALADI).[3]
- Peru is a member of the Andean Community[4] and an associate member of Mercosur.[5]
- Peru has full or partial bilateral trade agreements with more than 12 countries (some through ALADI), including Argentina, Bolivia, Brazil, Chile, Cuba, Mexico, Paraguay, Thailand, and Uruguay.
- Peru is negotiating preferential trade agreements with other countries/regions, including the European Union and some of the members of APEC, bilaterally and through the Andean Community.
- Peru has signed bilateral investment treaties with 28 countries[6] and is a member of the Multilateral Investment Guarantee Agency, the Overseas Private Investment Corporation, and the International Center for Settlement of Investment Disputes.

U.S.-Peru trade in goods

- U.S. trade with Peru is small, accounting for approximately 0.3 percent of total U.S. goods trade in 2005.
- The U.S. trade deficit with Peru increased during 2000 through 2005, primarily as a result of increased imports from Peru, driven by increasing values (driven primarily by price increases) of energy-related products and minerals/metals.
- U.S. exports to Peru in 2005 totaled more than $2.0 billion and consisted mainly of various types of machinery, plastics, mineral fuels and oils, and cereals.
- U.S. imports from Peru in 2005 totaled more than $5.1 billion and consisted mainly of minerals and metals, mineral fuels and oils, organic chemicals, apparel, and vegetables.
- Approximately 6,300 tariff rate lines or products from Peru are eligible to enter the United States duty free under the ATPA program.

[2] APEC members are Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, the Russian Federation, Singapore, Taiwan, Thailand, the United States, and Vietnam.

[3] ALADI members are Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

[4] The Andean Community is a customs union that includes Bolivia, Colombia, Ecuador, Peru, and Venezuela.

[5] Mercosur includes Argentina, Brazil, Paraguay, and Uruguay. On Dec. 8, 2004, the Andean Community signed a cooperation agreement with Mercosur, and the two blocs published a joint letter of intention for future negotiations toward integrating all of South America in the context of the South American Community of Nations. In Dec. 2005, Mercosur began considering Venezuela for membership.

[6] The countries are Argentina, Australia, Bolivia, Chile, China, Colombia, Cuba, the Czech Republic, Denmark, Ecuador, El Salvador, Finland, France, Germany, Italy, Malaysia, the Netherlands, Norway, Paraguay, Portugal, Romania, Singapore, Spain, Sweden, Switzerland, Thailand, the United Kingdom, and Venezuela.

Figure 1-3 Map of Peru

Literature Review

The Commission found four studies in its review of the literature that directly assess the economic effect of a proposed U.S.-Peru/Andean FTA. Two studies analyze a proposed U.S.-Peru FTA; one analyzes a proposed U.S.-Andean FTA; and a fourth study assesses the effect of the U.S.-Peru TPA specifically on the agricultural sector.[22] Although the focus of most of these studies is primarily on the effect of the agreements on Peru or the Andean Community, the general effects, when reported, on U.S. trade and GDP were very small and mitigated by Peru's existing preferential access to the U.S. market under ATPA. In addition, estimated values by those studies reporting economy-wide effects on the United States of an agreement similar to the U.S.-Peru TPA and using similar modeling techniques did not differ substantially from those determined by Commission analysis in this report.

In the first study, Eduardo Moron[23] used a calibrated dynamic stochastic general equilibrium model of the Peruvian economy to simulate results of the proposed FTA with the United States. On the basis of a three-sector economy model (exportable, importable, and nontradeable goods), Moron examines seven scenarios.[24] The author finds that, from the perspective of Peru's economy, a combination of all reforms results in a higher GDP (by 3.29 percent) for Peru, a substantial increase in exports, imports, and investment, and a real exchange rate depreciation. Moron does not report results for the United States. In terms of trade creation and trade diversion, Moron's analysis suggests there should be minimal trade diversion because of the substantial difference in the level of industrial development and production bases between the United States and Peru.

In addition to his analysis, Moron references two papers that use CGE models to examine the effects of an FTA on the Peruvian economy. In the first paper, Cuadra et al.[25] use the GTAP CGE model (version 5) to simulate the FTA with the United States as well as FTAs with various other regional groups and global free trade. Depending on the scenario and assumptions, Peru's GDP increases between 0.11 and 7.02 percent. Moron does not cite results for the United States. In the second paper referenced by Moron, Rodriguez et al.[26] also use a CGE model. The authors' analysis indicates that, under an FTA, Peru's imports from the United States will be higher by 30.3 percent and Peru's exports to the United States will be higher by 3.0 percent.[27]

In the second study that the Commission identified, Vernon O. Roningen[28] uses a partial equilibrium model to analyze Peru's bilateral trade with a number of countries, including the

---

[22] References to FTAs in this section imply proposed, possible, or hypothetical FTAs.

[23] Moron, "The Effect of the Free Trade Agreement with the U.S. in the Peruvian Economy."

[24] The seven scenarios are: 1) reduction in tariff rates, 2) increased access to the U.S. market for Peru's exports, 3) increased value-added tax (VAT) to compensate for lower tariff revenue and to compensate contracting industries, 4) increased VAT for importable goods to cover increased property rights protection, 5) increased government expenditure, 6) increased total factor productivity, and 7) combined effects.

[25] Cuadra, Fairlie, and Florian, "Escenarios de integracion del Peru," referenced in Moron, "The Effect of the Free Trade Agreement with the U.S. in the Peruvian Economy." This paper is unpublished, written in Spanish, and not available on the Internet.

[26] Rodriguez, et al. "Efectos macroeconomicos del acuerdo de libre comercio," referenced in Moron, "The Effect of the Free Trade Agreement with the U.S. in the Peruvian Economy." This paper is unpublished, written in Spanish, and not available on the Internet.

[27] Moron reports that the two papers show very different results, partly because the models are so different. He cites both papers as a comparative static exercise rather than using them for analysis of the transitional dynamics.

[28] Roningen,"The Economic Impact of a Peru Free Trade Agreement with the United States."

United States, in the sugar, cotton, and other selected sectors.[29] Scenarios included (1) global free trade in all products, (2) an FTA between Peru and the United States, (3) an FTA with the removal of the U.S. sugar import quota system, (4) an FTA with a balanced tripling of the Peru sugar quota into the United States, (5) an FTA with the removal of the U.S. cotton export subsidy, and (6) an FTA with the removal of both the United States and the EU textile import quota systems.

For the various scenarios of an FTA between the United States and Peru, the model distinguished between the benefits already obtained through ATPA (i.e., what can be lost for Peru if the FTA is not enacted before ATPA expires) and the benefits from the proposed FTA. Model results for the sugar sector show that most of the gains stem from the FTA rather than ATPA, but for cotton/textiles, most of the gains have already been obtained under the ATPA program. Therefore, the cotton/textiles sector will be the most negatively affected sector if ATPA preferences are not renewed and the FTA is not signed. In examining and comparing scenarios that include the FTA and additional changes, reform of the U.S. sugar import quota scheme (e.g., a tripling of the current quota) would produce more gains for Peru than an FTA with the United States, and removal of the U.S. cotton export subsidies would provide a small increase in benefits for Peru. In sum, according to Roningen, with respect to the sugar and cotton sectors, provisions of the FTA are less liberalizing of the sugar and cotton/textile sectors than would be reforms of the import quota and export subsidy regimes evaluated in his analysis.

The third study the Commission identified examines FTAs involving Latin American countries, and Peru is included and analyzed as a member of the Andean Community. The authors, Josefina Monteagudo and Masakazu Watanuki,[30] use a trade-focused CGE model with variables that represented three kinds of trade barriers: ad valorem tariff equivalents, export subsidies, and domestic supports. The effects of the following FTAs were analyzed: a South American Free Trade Agreement, an Andean FTA with the United States, and the Free Trade Area of the Americas (FTAA). The results show a high correlation between the size of the trade agreement and the potential economic gains. For example, the FTAA produces the largest benefits for the Andean Community[31] in terms of both GDP and total export growth[32] (3.0 percent and 8.3 percent, respectively). The Andean FTA with the United States produces small gains for the United States (0.2 percent GDP growth and 0.3 percent total export growth) because of existing ATPA preferences and Peru's export structure, which includes mining, energy products, and chemicals that already face low or no barriers into the U.S. market. The authors note a large trade diversion effect in the Andean-U.S. FTA because of the Andean countries' shift from third parties to U.S. sources for imports, increasing U.S. exports by 4.0 percent and U.S. imports by 0.2 percent.

The fourth study, conducted by the American Farm Bureau Federation (AFBF), assesses the effect of the TPA on the U.S. agricultural sector.[33] The AFBF's general conclusion is that, despite the increase in U.S. sugar imports, the TPA will have a positive effect on the U.S.

---

[29] Roningen's report was designed to examine specific sectors in detail for Peru, subsequent to a GTAP/CGE-based study commissioned by Peru's Ministry of Commerce and Tourism.

[30] Monteagudo and Watanuki, "What Kind of Trade Integration Helps Latin America the Most?"

[31] The results separate Colombia and Venezuela from the "rest of the Andean Community," and so the results listed here are for Bolivia, Ecuador, and Peru combined.

[32] The effect on exports and imports is measured by changes in trade in goods and excludes trade in services.

[33] American Farm Bureau Federation, *Implications of a Peru Trade Promotion Agreement on U.S. Agriculture.*

agricultural sector. The AFBF's methodology compares two scenarios: "the first assumes no agreement is implemented and the second assumes that the current agreement is put in place."[34] This methodology was conducted for four commodities: major grain, oilseed, livestock, and fiber products. For scenario one (without the TPA), the AFBF estimates Peruvian demand for imports in 2025 by projecting current demand and supply based on historical production trends and estimates for population and economic growth. To estimate U.S. exports of these products, the authors assume the U.S. market share in Peru remains at its current value of 8 percent. For scenario two (with the TPA), the authors adjust projected Peruvian demand and supply in 2025 using supply, demand, price, and income elasticities developed by the Food and Agricultural Organization of the United Nations.[35] To estimate the gain in U.S. exports of these products, the authors assume an across-the-board increase of 25 percent in U.S. market share in the Peruvian market.[36] The difference between estimates from these two scenarios is the estimated increase in U.S. exports to Peru, or $477 million for the four commodities combined. Although the four sectors represent those facing the most restrictions in the Peruvian economy, the authors estimate the overall increase in other agricultural products by applying the same growth rate to all U.S. agricultural exports to Peru for an additional increase of $229 million, and an overall increase for all U.S. agricultural exports to Peru of $706 million. In a separate analysis, the AFBF estimates an increase of more than $6 million in U.S. sugar imports from Peru based on the quota increases provided for in the TPA. Consequently, the AFBF's analysis "suggests a total surplus of [TPA-related] gains in exports over imports of $699 million."[37]

[34] Ibid., 12.

[35] The elasticities used in the AFBF assessment are not Peru specific, but based on regional estimates from the mid-1990s.

[36] For example, the U.S. aggregate agricultural market share increases from 8 to 10 percent, and the U.S. wheat market share increases from 32 to 40 percent. The AFBF did not provide the basis for employing this increase in market share.

[37] American Farm Bureau Federation, *Implications of a Peru Trade Promotion Agreement on U.S. Agriculture*, 15.