Grain Trade Policy

June 10, 2004

Peru

Summary

Peru is a net grain importer. Grains (specifically wheat, corn, dry peas, lentils, and rice) compose nearly half of U.S. agricultural exports to Peru. U.S. exports of grain accounted for $114 million in 2003, up 24 percent from the previous year; wheat accounted for 88 percent of the total.

Market Access

Tariffs

Peru established a two-tier tariff system for agricultural products in 1990, as part of a general economic reform and trade opening. Most agricultural products were assessed tariffs of either 12 or 20 percent. An additional surcharge of five percent was imposed on some agricultural products immediately. Since the Peruvian bound levels under WTO range from 30 percent to 68 percent for grains, none of these products exceed the maximum levels of the Peruvian commitment to the WTO.

Import duties on U.S. grains and products

Harmonized Code	Products	Present Duties (%)
0713	Dried leguminous vegetables, shelled, whether or not skinned or split	25
1001.10.90	Hard wheat	17
1001.90.20	Other wheat	17
1005.90.11.00	Corn (yellow)	12
1005.90.90.90	Other corn	17
1006.10.90	Rice (paddy or rough)	25
1006.20	Rice (brown)	25
1006.30	Rice (semi-milled or milled)	25
1006.40	Rice (broken)	25
1007.00.90	Grain sorghum	17
1101	Wheat flour	25

Price Band

The price band is a variable import tax, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products such as corn and rice, is expressed in dollars per metric ton. The levy is the difference between the *Floor Price* and the *Reference Price* plus an adjustment for insurance, freight and other inflationary factors. Both the floor price and the reference price are published by the Ministry of

Economy and Finance every fifteen days in the official gazette (El Peruano). The price band also has a ceiling price, which protects the industry against an increase of international prices. The floor and ceiling prices create a band (price range):

· If the international price falls under the band, the product is assessed an additional tax that will increase the price at least at floor price level.

· If the international price is above the band then there is a tariff reduction.

· If the international price is within the band then the product is only assessed the import tariff

Grain Products Affected by the Peruvian Price Band System

"Marker" product	**Related products**	
Yellow corn 1005.90.11.00	1005.90.12.00 1005.90.90.90 1007.00.90.00 1103.13.00.00 1108.12.00.00	1108.13.00.00 1702.30.20.00 2309.90.90.00 3505.10.00.00
Rice 1006.30.00.00	1006.10.90.00 1006.20.00.00	1006.40.00.00

In first half of 2004, the surcharge paid by product under the price band were in the following ranges:

- Corn: from $–22 to $0 per MT (with an average of - $10.9 per MT)
- Rice: from $27 to $85 per MT (with an average of $54 per MT)

Sanitary and Phytosanitary Measures

The Servicio Nacional de Sanidad Agraria (SENASA), an autonomous agency within the Ministry of Agriculture, is responsible for developing and implementing Peru's sanitary and phytosanitary regulations. Peru continues to ban rice imports from 51 countries, especially Asian countries, due to the alleged presence of khappra beetle. Pending the results of a Pest Risk Assessment that SENASA has been conducting for over a year, Peru has banned U.S. paddy rice on the grounds that the hulls could transmit pests not currently present in the country. This is more likely to occur if the paddy rice is sold as seed rather than milled, but Peru claims it cannot control the use of the rice, and thus the total ban. On March 12, 2004, Peru issued a 90-day ban on rice from Asian countries affected by High Pathogen Avian Influenza, as Peruvian authorities are concerned that wild birds may contaminate rice fields.

Other Terms and Conditions

Peru does not have any direct export subsidies, but it does have a five percent drawback on taxes for exporters.

The GOP continues supporting the Agricultural Promotion Law, an import substitution program which grants tax incentives to local food producers that use 90 percent or more local inputs, such as corn by poultry producers. Sponsored by the government, corn and poultry producers have signed an agreement to increase local purchases. This agreement aims to increase local production to a level of self-sufficiency within five years.

Since CY1998 the GOP has been encouraging rice production through input credits and rotating credit funds. Though production has grown sharply during the last 6 years, it has been an economic disaster for producers. Having flooded the market with rice and with large carry over stocks and no possibility of exporting, other than what is smuggled into Ecuador through the northern border, prices have plummeted making almost impossible the recovery of producers' investment. As a consequence, farmers are not able to honor their credits and in many cases are losing their land. Banks are more reluctant than ever to grant credits to rice producers who have to turn to millers or other informal lenders for credits at much higher interest rates.

Bilateral Agreements with the United States

A Consultative Committee on Agriculture (CCA) agreement was signed in October of 2002 during the visit of USDA Under Secretary Penn to Lima. In March 2003, Peru's Ministry of Agriculture and USDA specified the working groups and priority issues each will address in the next months under the auspices of the CCA. Four distinct working groups, animal and animal products; plant and plant products; capacity building; and, trade policy; and 40 issues were identified, several of them priorities to both governments. At stake are market access improvements for agricultural trade in both directions, principally fruits and vegetables for Peru, and live animals and animal products and grains for the U.S.

As a member of the Andean Community of Nations, Peru enjoys tariff preferences for nearly all exports to the U.S. granted under the U.S. Andean Trade Preference and Drug Eradication Act (ATPDEA).

The U.S. has begun negotiates on a bilateral free trade agreement with the Andean Countries, including Peru. The FTA with Peru will most likely absorb the CCA work and other cooperation forums.

U.S. Non-Party Agreements

Peru grants tariff reductions through bilateral trade agreements signed with the Latin American Integration Agreement (ALADI) countries and with the Andean Community. Since the U.S. does not participate in these agreements, some of its products have become relatively less competitive.

In December 2003, Peru signed a free trade agreement with MERCOSUR. The annexes with tariff reductions, time frame and products have not been published yet, but it is assumed that the tariff preferences will be enhanced, placing the U.S. in a relatively disadvantaged position.

Peru is also seeking to sign a free trade agreement with the European Community. Peru currently benefits from the EU's General System of Preferences, which unilaterally grants preferential tariff treatment to a broad range of Peruvian products. Peru has also signed an MOU with Thailand, by which both countries agree to work together towards a free trade agreement.

Andean Community of Nations

Peru is a member of the Andean Community of Nations (CAN), comprised of Bolivia, Colombia, Ecuador, Peru and Venezuela. However, Peru does not participate in the Common External Tariff Schedule and is able to unilaterally negotiate trade agreements with other countries. The Andean Community approved, through Decision 414 in July 1997, a schedule by which Peru will progressively grant tariff preferences to the other Community members. The implementation date of this decision was originally January 1, 2004, but the GOP postponed it to March 1, 2004. Annex VI of the schedule, which contains the 16 “sensitive” agricultural products, including corn, wheat flour, and pasta, is the last to enter into duty free trade, scheduled for December 31, 2005. This measure not only grants tariff preferences to Andean countries, but is also threatening to destroy the Peruvian milling industry. Peru has the highest import duty for wheat in the region and it is not planning to reduce it any time soon. If Peru grants tariff preferences for wheat products and maintains high import duties for wheat, its market will soon be flooded with wheat products from neighboring countries and put the Peruvian milling industry out of business. Peru has signed a Free Trade Agreement with Bolivia, by which almost every product is imported into Peru duty free.

Latin American Integration Agreement (ALADI)

As a member of ALADI, Peru has negotiated bilateral tariff preference schedules with Mexico, Paraguay, Argentina, Brazil, Uruguay, Chile and Cuba.

Peru and Chile signed an Economic Complement Agreement in July 1998, which calls for the creation of a free trade area between these two countries. Under this agreement, both countries have developed a schedule by which they will grant trade preferences progressively; the most sensitive products will become duty free within 18 years.

Impact On U.S. Trade

The following tables show the tariff preferences and ad valorem levels assessed to imported products relevant to U.S. grain trade interests.

Wheat

Import tariff by country of origin (%) – Wheat

U.S.	Argentina	Bolivia	Brazil	Chile	Paraguay	Uruguay
12	12	0	12	12	12	12

In 2003, the GOP lowered the import duty for wheat from 20 to 12 percent. There still is an extra 5 percent “temporary” import duty assessed on wheat coming from any origin, which raises the total import duty to 17 percent. Wheat is in Annex IV of ALADI, thus should have a 10 percent preference. However, this reduction has not been implemented. Wheat was scheduled to be duty free by December 31, 2003, but this has not happened.

Corn

Import tariff by country of origin (%) - Corn

U.S.	Argentina	Bolivia	Brazil	Chile	Paraguay	Uruguay
12	11.28	0	11.28	11.28	0.85	11.28

Corn is assessed the variable levy implemented by the Ministry of Agriculture depending on the international price. The reference price as of February 2004 ($143 per metric ton) resulted in a $6 per mt reduction in duties for imported corn. Corn is in the Annex VI of ALADI and is scheduled to be duty free by December 31, 2005.

Rice

Import tariff by country of origin (%) - Rice

U.S.	Argentina	Bolivia	Brazil	Chile	Paraguay	Uruguay
20	18.80	0	18.80	20	17.20	20

There is an extra 5 percent "temporary" import duty assessed on rice coming from any origin. Rice is also assessed the variable levy implemented by the Ministry of Agriculture depending on the international price. The reference price as of February 2004 ($252 per metric ton) resulted in a $59 per mt duty assessment on imported milled rice. Rice is in the Annex V of ALADI and is scheduled to be duty free by December 31, 2004.

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