



**Trade opportunities and challenges for the
coffee chain in Peru within the framework of
the Trade Promotion Agreement with the
United States**

July 2016



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Acronyms

ADEX	Association of Exporters
ADIL	<i>Asociación de Industriales Lácteos</i>
AGAP	Peru Association of Organizations of Agricultural Producers
AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation Forum
APEM	Peruvian Association of Mango Producers and Exporters
APHIS	Animal and Plant Health Inspection Service (U.S.)
ATPA	Andean Trade Preference Act
ATPDEA	Andean Trade Promotion and Drug Eradication Act
CAA	Environmental Affairs Council
CBP	Customs and Border Protection (U.S.)
CCA	Environmental Cooperation Commission
CCIDERURAL	<i>Cooperativa de Ahorro y Crédito para la Integración y el Desarrollo Rural</i>
CCL	Lima Chamber of Commerce
CECOVASA	<i>Central de Cooperativas Agrarias Cafetaleras de los Valles de Sandia</i>
CITE	Technological Research Center
CNA	National Agriculture Confederation
COMEX	Peru Foreign Trade Society
CONCYTEC	National Council for Science, Technology and Technological Innovation
CONVEAGRO	National Convention of Peruvian Agriculture
DGCA	General Directorate of Agricultural Competitiveness
DGPA	General Directorate of Agricultural Policy
DIGNA	General Agribusiness Directorate
EU	European Union
FOGAL	Latin American Guarantee Fund
FTA	Free trade agreement
INIA	National Agricultural Innovation Institute
INRENA	National Natural Resources Institute
IPEH	Peruvian Institute for Asparagus and Vegetables
ITC	International Trade Centre
JNC	National Coffee Council
MFN	Most-favored-nation
MINAGRI	Ministry of Agriculture and Irrigation
MINCETUR	Ministry of Foreign Trade and Tourism
MITINCI	Ministry of Industry, Tourism, Integration and International Trade Negotiations
MRREE	Ministry of Foreign Affairs
OCEX	Foreign Trade Offices
PROARANDANOS	Association of Peruvian Cranberry Producers
PROCITRUS	Association of Peruvian Citrus Fruits Producers
PRODUCE	Ministry of Production
PROGRAMADAS	Association of Peruvian Pomegranate Producers
PROHASS	Association of Peruvian Hass Avocado Producers
PROMPERU	Commission for the Promotion of Peruvian Exports and Tourism
PROVID	Association of Peruvian Dessert Grape Producers
PTPA	Peru Trade Promotion Agreement
SANIPES	National Fisheries Health Service
SCAA	Specialty Coffee Association of America
SENASA	National Agricultural Health Service of Peru
SERFOR	National Forest and Wildlife Service
SGP	Generalized System of Preferences
SNI	National Society of Industries

SPS	Sanitary and phytosanitary measures
SUNAT	National Customs and Tax Administration Authority
TBTs	Technical barriers to trade
U.S.	United States
USDA	United States Department of Agriculture
USTR	Office of the United States Trade Representative
WTO	World Trade Organization

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Introduction

It is important to highlight that this study forms part of a series of four documents prepared as a product of the project entitled “Strengthening bilateral trade between the USA and those countries in Latin America with which the United States has established Free Trade Agreements”, which was made possible through funding from the Foreign Agricultural Service of the United States Department of Agriculture (USDA-FAS), and through technical cooperation from the Agricultural Chains area of the Inter-American Institute for Cooperation on Agriculture (IICA), under the leadership of Dr. James French. Also participating were the IICA Delegation in Peru, with support from Dr. Javier García, and the Delegations in El Salvador and Dominican Republic.

In the 1990s, Peru was one of the first Latin American countries, after Chile, to open up its economy to the world in a unilateral and negotiated manner. At the start of the twenty-first century, within the framework of its commercial policy, Peru designed an international trade negotiation plan with its most important commercial partners in order to neutralize the advantages that other countries, and even neighboring countries, were possibly already enjoying after signing free trade agreements, particularly with the United States (U.S.) and the European Union (EU).

In this regard, the country prioritized the signing of a trade agreement with the U.S., with a view to increasing the bilateral trade of agricultural and non-agricultural products and taking advantage of the benefits afforded by this type of agreement. The Peru Trade Promotion Agreement (PTPA) was signed in 2006 and entered into effect in February 2009.

Seven years have now passed since the agreement became effective, and agricultural trade has increased steadily. Although imports from the U.S. have increased more than exports, exports have also increased and the trade balance still favors Peru. Nevertheless, trade in important products such as whole-bean coffee, the country’s number one export product for a long time, has stagnated.

This document seeks to identify, record, and disseminate obstacles, opportunities, and experiences throughout the period in which the PTPA has been in effect, to serve as input for the creation of strategies geared toward improving the access of Peruvian coffee to the North American market, and to strengthen capacities related to the administration and implementation of the PTPA with the U.S.

The methodology used to prepare this document was based on a series of files from the Ministry of Foreign Trade and Tourism (MINCETUR) and the Ministry of Agriculture and Irrigation (MINAGRI); additionally, interviews were conducted with staff members of the public and private sectors who possessed knowledge and experience related to negotiations with the U.S. and the implementation of the PTPA.

Additionally, a workshop held in the city of Lima, which was attended by public and private sector representatives, allowed for identifying some of the main causes of obstacles to the coffee trade, as well as proposing solutions or opportunities for improving the access of Peruvian coffee to the North American market and strengthening capacities for administering and implementing the trade agreement with the U.S. These limitations were systematized using data sheets, based on guides prepared by the general coordinating body.

The project also included the systematization of the most relevant experiences related to the access of coffee to the U.S. market, as exemplified by five coffee cooperatives. Additionally, the Headquarters of the Inter-American Institute for Cooperation on Agriculture (IICA) hosted a virtual seminar to provide an opportunity for the IICA Delegations in the Dominican Republic, El

Salvador and Peru to share their trade experiences with cassava, plantain and coffee, respectively; in addition to those three delegations, the IICA Delegation in Washington also participated.

The content of the present report is distributed as follows:

The first chapter provides an overview of the unilateral preferential trade mechanisms granted by the U.S. to Peru via the Trade Promotion and Drug Eradication Act. The chapter then details the characteristics of the PTPA signed between Peru and the U.S., specifically as it relates to the agriculture sector. The chapter also describes the institutional framework involved in the administration of the PTPA, pursuant to Section A of Chapter Twenty of the text of the agreement, and highlights the work carried out by the Free Trade Commission in that regard. This section also reports on the progress of different committees, subcommittees and work groups established by the agreement, and seeks to identify and offer solutions for any problems that may arise in the application of the PTPA.

The first chapter also includes a section detailing the role played by MINCETUR, the government body directly responsible for Peru's trade policy and all related trade negotiation processes. Another section details the role of MINAGRI in this agreement and the work conducted by the agencies that report to it. The final section of the chapter describes the work and trade promotion efforts carried out by the Commission for the Promotion of Peruvian Exports and Tourism (PROMPERU) of MINCETUR. This section provides evidence that the work PROMPERU has conducted to promote coffee trade, by showing the world that Peru produces high-quality specialty coffee, is very recent.

The second chapter reviews the good performance of agricultural exports to other countries in general, and to the U.S. in particular. A brief analysis of imports from the U.S. into Peru is included. Lastly, the chapter includes a paragraph that seeks to identify some limitations that hinder the good performance of Peruvian exports in general to the United States.

The third chapter details the most relevant characteristics of the production and commercialization of coffee bean in Peru, and the evolution of coffee exports to the United States and the countries with which Peru competes in that market. The chapter also describes the main constraints to increasing coffee trade with the U.S., which are divided into three types: cultural, institutional, and production-related.

The fourth chapter provides a brief overview of horizontal factors that play a role in improving the administration, implementation and use of the PTPA as it relates to coffee trade.

Finally, the fifth chapter provides several recommendations on ways to improve the administration of the PTPA and facilitate the access of coffee in particular, as well as agricultural products in general, to the U.S. market.

I. The Peru Trade Promotion Agreement (PTPA)

This section analyzes the general characteristics of the PTPA, the topics negotiated in the chapter on market access for agricultural products, and the mechanisms approved by means of the PTPA. The administration of the PTPA, the role played by the Free Trade Commission, and the performance of the committees, subcommittees and work groups created as part of the PTPA are described. The chapter also analyzes the role played by the institutions involved in the use of the PTPA, specifically MINCETUR as the liaison body and MINAGRI as the government body committed to the agricultural sector. Lastly, this chapter reviews the role of PROMPERU, the entity responsible for promoting Peruvian exports to the North American market.

1.1. Background and general characteristics

1.1.1. Background

Between 1992 and 2001, all the members of the Andean Community, with the exception of Venezuela, benefited from the unilateral preferences granted under the Andean Trade Preference Act (ATPA), which allowed them to export certain products to the United States without the payment of customs duties. In order to benefit from the mechanism, Peru had to meet a series of conditions, particularly political ones.¹

Under the agreement, 40% of Peru's exports did not have to pay tariffs, with the aim being to encourage farmers to replace coca leaf with other agricultural products that could be exported.

When the ATPA expired, the U.S. Congress enacted the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which the President signed into law on 6 August 2002. This act was similar to the preceding one, as it renewed the benefits of the ATPA and extended the trade preferences to include apparel, footwear, clocks and watches, and hides, among others. Around 45-48% of export products enjoyed tariff-free access to the U.S. market (CONVEAGRO 2006a). The ATPDEA was renewed periodically until December 2010, by which time the Trade Promotion Agreement (PTPA) between Peru and the United States had come into force.

The ATPA and ATPDEA proved insufficient for the long-term promotion and planning of exports and investment. The United States unilaterally granted specific terms and conditions for certain products but failure to comply with the requirements could result in the trade benefits being lost. Furthermore, the ATPDEA was temporary, set to expire on 31 December 2006. In contrast, the PTPA, or free trade agreement (FTA), guarantees permanent preferential access for almost all Peruvian exports, and provides for the elimination of nontariff barriers.

It was the U.S. Trade Representative, Ambassador Robert Zoellick, who announced that an FTA was to be negotiated with Colombia and Peru, as well as with Bolivia and Ecuador. Thirteen rounds of negotiations were held, with the last one concluding in December 2005.

Bolivia declined to take part in the process as it felt it would weaken the integration of the Andean Community and did not reflect the country's interests. The other three Andean countries decided to negotiate with the United States as a group, only negotiating separately issues of

¹ The text of this trade mechanism included some 18 conditions that the Andean countries had to meet in order to enjoy the benefits of the ATPA and the subsequent ATPDEA. Countries were eligible provided they did not have a communist system of government, had not nationalized or expropriated properties belonging to U.S. citizens, had not terminated existing agreements or annulled intellectual property rights, had not supported international terrorism, had complied with any arbitration decisions in favor of U.S. citizens, were at least party to an agreement permitting the extradition of U.S. citizens, and were taking steps to recognize workers' rights, among others.

specific importance to each one, and the various tariff reduction schedules. In the end, each country signed a bilateral agreement.²

The negotiations concluded in December 2005 and the PTPA was signed on 12 April 2006. Peru’s Congress ratified the agreement on 28 June 2006, and the U.S. House of Representatives did so on 2 November 2007, followed by the U.S. Senate on 4 December 2007. The entry into force of the agreement was set for 1 February 2009, after the two presidents, George W. Bush and Alan García Pérez, had signed it into law in Washington and Lima, respectively.

1.1.2. General characteristics

The PTPA is actually a bilateral FTA signed between Peru and the United States. Binding in nature, its main objectives are to eliminate barriers to trade, consolidate the access of goods and services, and promote private investment between the two countries. To deepen economic integration, the PTPA deals with economic and institutional issues as well as trade matters, and others related to intellectual property, labor rights and the environment, among others.³

Furthermore, the PTPA is designed to protect the most sensitive sectors of the economies of the two countries by providing for institution building and establishing forums and mechanisms for resolving trade disputes or protecting certain products deemed sensitive.

The PTPA consolidates the preferential tariff-free access that Peru enjoyed under the ATPDEA. The schedule includes additional products and also establishes a time frame for the elimination of tariffs on sensitive U.S. products, especially textiles and agricultural products. It also addresses around 20 trade issues that are consolidated in 23 chapters of the treaty, as shown in Table 1.

Table 1. Specific areas of trade on which the Peru-U.S. negotiations focused

National treatment and market access for goods (includes agricultural products)	Government procurement	Intellectual property rights
Textiles and apparel	Investment	Labor
Rules of origin and origin procedures	Cross-border trade in services	Environment
Customs administration and trade facilitation	Financial services	Transparency
Sanitary and phytosanitary measures (SPS)	Competition policy, designated monopolies, and state enterprises	Administration of the agreement and trade capacity building
Technical barriers to trade	Telecommunications	Dispute settlement
Trade remedies	Electronic commerce	

Source: Taken from the text of the Peru-U.S. Trade Promotion Agreement. (MINCETUR 2006).

The objectives include accessing the world’s largest economy, diversifying exports, attracting national and foreign investment, improving the quality of life for Peru’s citizens, establishing

² Ecuador withdrew when the negotiations with the United States were reaching a conclusion (Round X).
³ The text of the agreement, including its objectives, is available in the section of the MINCETUR website entitled “Sobre el Acuerdo”, Características generales del APC Perú-EE.UU. Available at <https://ustr.gov/trade-agreements/free-trade-agreements/peru-tpa/final-text>

clear rules for trade, and adding value to production (MINCETUR 2016). The existence of the agreement is enabling Peru to become more competitive in relation to countries that do not enjoy the same preferences, and placing it on an equal footing with others that do (Mexico, Canada, Israel, Singapore, Chile, and some Central American and Caribbean countries signed similar agreements before Peru).

1.1.3. Market access in the agriculture sector⁴

Matters with a bearing on agriculture are addressed in several chapters, including those dealing with national treatment and market access for goods, rules of origin for agricultural products, sanitary and phytosanitary measures, investments, intellectual property rights, and the environment.

The negotiations on access to agricultural markets led to the consolidation of the preferential tariff treatment that Peru enjoyed under the ATPDEA, and expanded it to include other products. As a result, 1629 agricultural products can enter the U.S. market free of tariffs and 388 lines are subject to 0% tariffs as part of Peru’s most-favored-nation (MFN) status. This is established in Annex 2.3, which contains the schedule of products subject to the elimination of tariffs within a specific time frame. The elimination of tariffs is dealt with in Article 2.3 of the agreement, in “Chapter Two - National Treatment and Market Access for Goods.”

Table 2. Distribution of the tariff headings under which the United States

Time frame	Number of headings	Percentage of headings	Products included
Immediate access	1629	89.7	Consolidation ATPDEA (asparagus, mango, artichoke, citrus fruits, eggs, among others).
Access in 5 years	3	0.2	Wool grease, crude.
Access in 10 years	1	0.1	Milk and cream, unconcentrated
Access in 15 years	77	4.2	Bovine meat, powdered milk, yogurt, butter, food preparations, tobacco, and others.
Access in 17 years	60	3.3	Other concentrated milks, evaporated milk, cheeses, margarines, etc.
MFN (quota)	47	2.6	Sugar, chocolates, extracts of tea/mate, food preparations in powder, dairy and other products.
	1817	100.0	

Source: Taken from Annex 2.3 - Tariff Schedule of the United States

Under the PTPA, 90% of Peru’s agricultural products were granted immediate access to the U.S. market. In monetary terms, this is equivalent to 99% of the value of the country’s agricultural exports to the United States.

- a) Section G of Chapter Two deals with a series of agricultural issues, such as tariff-rate quotas for sensitive products; the procedure for introducing export subsidies should one of the parties decide to do so; measures with respect to state trading enterprises (to prevent hidden export subsidies); agricultural safeguards; compensation mechanisms for the sugar subsector; and, consultations on trade in chicken, in the ninth year after the date of entry into force of the PTPA. The section also includes the administration and implementation of tariff-rate quotas for a small number of sensitive products, to ensure that the quotas will

⁴ By use and custom, the term “agriculture” in the Agreement on Agriculture of the World Trade Organization (WTO) includes crop and livestock products (chapters 1-24, except for 3). Thus, the correct term, when referring to both subsectors, is agriculture.

increase over time and, inversely, that the import duties will gradually decrease until they are eliminated completely.

- b) The parties are committed to not applying subsidies to the agricultural products they export to each other. If subsidies were to be applied, the other party would be entitled to suspend the tariff preference for as long as the subsidies remained in place.
- c) Measures are established for export state trading enterprises, to prevent the application of a mechanism that could become a hidden export subsidy. Peru does not have any export state trading enterprises.
- d) The agreement establishes an agricultural safeguard mechanism for a small list of very specific products, and the triggers for activating it.
- e) The U.S. government pledges to compensate Peruvian sugar exporters should the country deem it advisable to limit access for sugar under the PTPA. The specific circumstances in which such action is permitted are set out in the text of the agreement.
- f) The agreement calls for consultations on trade in chicken in the ninth year after the date of entry into force of the agreement (2018), as it is a sensitive issue for Peru's poultry sector.

1.1.4. Use of the mechanisms agreed upon in the PTPA

It is important to mention that in the sixth year after the entry into force of the PTPA, the restrictions on Peruvian products subject to quotas that are sensitive for the United States ceased to be an issue, as Peru's exports are quite small, mainly because they are insufficiently competitive and the supply is limited. In conducting the study, the following examples were identified:

- Evaporated milk and condensed milk. Some 4712 tons were exported in 2015 (to the Latino community). The quota assigned by the United States in the sixth year after the entry into force of the agreement is 10,574 tons free of tariffs, less than 44% of the quota was used.
- Cheeses, of which no exports were recorded in 2015, even though the quota assigned for 2015 was 4406 tons.
- Processed dairy products, including yogurt, *dulce de leche* or *manjar blanco*, ice cream, milk chocolates, and others. Peruvian exports have not topped 500 tons, while the quota assigned for 2015 was 3221 tons, meaning that less than 15% of it was used.
- Sugarcane, which is exported by Peru by means of a unilateral quota assigned annually by the U.S. government within the framework of the World Trade Organization (WTO) to sugar-producing countries. In 2015, the volume of Peru's exports totaled 51,663 tons.
- Products made from sugar, such as glucose, fructose, maltose, as well as chocolates with cacao and sugar. Under the agreement, this quota increases by 180 tons per year and in 2015 was 9900 tons. According to figures from SUNAT (2015), some 600 tons were exported that year.

The Free Trade Commission has not received any complaints from the parties regarding export subsidies for agricultural products. Nor have observations been made about distortions to trade caused by state enterprises that enjoy subsidies or preferences of some kind. Similarly, neither party has invoked the agricultural safeguard or general safeguard mechanism. Recourse has not been made to any protection mechanism available under the agreement, as neither party has seen its production seriously affected by competition from imports following the elimination of tariffs.

1.2. Institutional framework involved in the administration and operation of the PTPA

1.2.1. Effect of the PTPA

Given the complexity of the agreement, the trading partners are obliged to carefully coordinate their respective national institutions to ensure they can meet their commitments.

In the case of agricultural products, MINCETUR –the body in charge of the PTPA– and other sectors involved, especially MINAGRI and the National Customs and Tax Administration Authority (SUNAT), have had to coordinate their efforts to implement special mechanisms, such as the administration of tariff-rate quotas for certain products (e.g., cheeses, yellow corn, powdered milk, etc.). It was also necessary to create new national tariff headings for the entry of some U.S. products, such as chicken leg quarters and mechanically separated chicken meat, the descriptions of which did not exist in the national nomenclature.

Work of this kind should not be confused with actions that form part of the “domestic agenda” designed to develop and improve the competitiveness of national agriculture so it can cope with the opening up of the domestic market to imports of similar or substitute agricultural products.

1.2.2. Institutional framework involved in the administration of the PTPA

The PTPA is administered through a cabinet-level Free Trade Commission whose functions include supervising implementation of the schedule of commitments and the further elaboration of the agreement, as well as resolving any disputes that may arise with respect to interpretation or application.⁵

The Free Trade Commission is comprised of representatives of MINCETUR and the Office of the United States Trade Representative (USTR). This commission is tasked with supervising the committees, councils, and working groups established under the agreement, among other functions. It may also set up and delegate responsibilities to committees and working groups, modify the schedules established for the elimination of tariffs (to speed up the process), the rules of origin established for textiles and specific rules of origin, and the rules regarding government procurement set out in Annex 9. Furthermore, it may issue interpretations on the provisions of the agreement and consider any amendments to the text that may be proposed. The commission meets in regular session once a year.

In addition, two coordinators (one appointed by each country) work together to prepare the agendas for Commission meetings and follow up on the decisions taken. Peru’s coordinator is currently the director for North America and Europe, while the U.S. official is the assistant to the USTR Trade Representative for the Americas.

The principal commissions linked to agriculture that have been established to administer the different areas of the agreement are as follows:

- **Committee on Trade in Goods**, to promote trade in goods (industrial, agricultural and textile products) between the parties; address obstacles to trade that arise, especially nontariff ones; and administer the scope of the chapter on national treatment and market access for goods. In addition to Chapter Two, its remit includes Chapter Four (Rules of origin and procedures of origin) and Chapter Five (customs administration and trade facilitation). The Commission usually reviews the matters dealt with by this committee periodically.

⁵ Section A of Chapter Twenty of the text of the agreement, “Administration of the Agreement and Trade Capacity Building.”

- **Committee on Agricultural Trade.** Section G (Agriculture) of Chapter Two of the agreement calls for the establishment of a Committee on Agricultural Trade, comprising representatives of each party, to provide a forum for monitoring and promoting cooperation on the implementation and administration of this section. This basically concerns the administration of the tariff-rate quotas for agricultural products, compliance with the non-application of export subsidies, follow-up to the application of agricultural safeguard measures, and the potential application of certain compensation mechanisms for sugar imports by the U.S. government, among other matters. The Committee is also required to coordinate with other committees, subcommittees, and working groups on matters related to this section.

The Committee on Agricultural Trade was formally set up at the first meeting of the Free Trade Commission but the coordinators have not invited the members of the Committee on Agricultural Trade to any of the five meetings that the Commission has held so far, as no matters have arisen that warranted their presence.⁶

- **Standing Committee on Sanitary and Phytosanitary Matters,** created to resolve any problems that arise in relation to trade in agricultural products resulting from the application of sanitary and phytosanitary standards, and thereby facilitate the entry of agricultural products.

This Committee is one of the most important and of special interest to Peru, since much of the fresh produce it exports does not have to pay tariffs but cannot enter the United States because it does not comply with the plant health protocols governing the entry of such agricultural products.

The objective of the Committee is to enhance consultation and cooperation between the parties on sanitary and phytosanitary measures. The Committee provides a forum for the authorities responsible for this topic, such as Peru's National Agricultural Health Service (SENASA) and the Animal and Plant Health Inspection Service (APHIS) and the Animal Health Authority of the U.S. Department of Agriculture (USDA), to address technical and scientific matters.

The standing committee may also establish *ad hoc* groups of specialists to deal with specific issues or problems that arise in relation to trade in goods.

- **Committee on Technical Barriers to Trade,** whose purpose is to monitor the implementation and administration of the chapter; enhance cooperation in the development and improvement of standards, technical regulations, and assessment procedures; facilitate sectoral cooperation between governmental and non-governmental conformity assessment bodies; establish working groups for the treatment of specific matters related to the chapter and with the WTO Agreement on Technical Barriers to Trade; and, serve as the forum for consultations on any matter related to the chapter.
- **Environmental Affairs Council,** whose function is to consider and discuss progress made with the implementation of the environmental chapter. It also submits periodical reports to the Free Trade Commission regarding the implementation of the chapter, provides for public participation in information exchange and the discussion of matters related to implementation of the chapter, and receives input in setting the agenda for Council meetings.
- **Environmental Cooperation Commission,** to facilitate implementation of the environmental cooperation agreement, prioritizing cooperation activities based on a work

⁶ This Committee is mentioned in the press releases published after each meeting of the Free Trade Commission.

program and areas of work to be defined. It also reviews and evaluates them, and carries out any other activity the countries decide upon under the cooperation agreement.

- **Sub-Committee on Forest Sector Governance**, to carry out periodic consultations and share information on bilateral trade in timber products (customs data) and efforts to combat illegal logging, among others. It reports to both the Committee on Trade in Goods and the Environmental Affairs Council.

The most recent meeting of the Free Trade Commission (V Meeting) was held on 12 November 2015 in Washington D.C. The respective heads of delegation were Peru's Deputy Minister for Foreign Trade, Édgar Vásquez, and Assistant U.S. Trade Representative for the Western Hemisphere, John Melle. Some of the important matters discussed were:

- a) Report of the Standing Committee on Sanitary and Phytosanitary Matters, with the participation of the representatives of SENASA, the National Fisheries Health Service (SANIPES), and APHIS. The matters dealt with were:
 - Access for products such as papayas, mangoes weighing more than 650 grams, and citrus fruits.
 - The status of the discussions designed to improve the access of quinoa to the United States.
 - Increase in the cost of APHIS sanitary inspections, which would especially affect Peruvian asparagus and fresh cranberries.
 - The United States promised to evaluate the steps involved to facilitate the access of the products concerned and thus soften the impact of the measures adopted.
 - Also discussed were the entry of U.S. poultry into Peru, and the entry of fishery products (bivalve molluscs) into the United States.
- b) Other matters discussed at the meeting of the TBT Committee included the distribution of the technical regulations, and the cooperation projects that Peru will undertake on standards and conformity within the framework of the Asia-Pacific Economic Cooperation Forum (APEC Peru 2016), and bilateral cooperation on good regulatory practices and other sectors of interest to Peru.
- c) The parties agreed to hold technical meetings on the matters mentioned above.
- d) The parties also discussed the implementation of the cooperation on environmental and labor matters, and the possibility of Peru receiving technical support for the workshops and activities to be carried out during the APEC Peru 2016 meeting.

Important work was carried out by the governmental representatives involved in the groups working on environmental matters. For example, they met in Lima from 8-9 June 2015 for the fifth meeting of the Environmental Affairs Council (EAC) and the Environmental Cooperation Commission (ECC), and the seventh meeting of the Sub-Committee on Forest Sector Governance. These meetings focused on the status of the implementation of the PTPA's environmental provisions, including the Annex on Forest Sector Governance, and environmental cooperation matters under the Environmental Cooperation Agreement.

Trade in coffee has not been addressed in any of the meetings of the different committees, subcommittees or *ad hoc* groups from the first meeting of the commission to the most recent one. No problems have been detected to suggest that implementation of the PTPA has limited the access of Peruvian coffee to the U.S. market.

1.2.3. Institutional framework involved in the operation of the PTPA

- **Ministry of Agriculture and Irrigation (MINAGRI)**

This has been one of the institutions most actively involved throughout, i.e., in the preparation of the negotiating position, in the negotiations themselves, and in the implementation and consolidation of the PTPA between Peru and the United States. It is a member of the multisectoral commission and the Negotiating Technical Committee, which have been in charge of the process dealing with agricultural issues under MINCETUR's leadership.

At the start of the process, MINAGRI established the sector's negotiating position after first identifying sensitive products, following consultations with the most representative producer groups, such as the National Convention of Peruvian Agriculture (CONVEAGRO), the Association of Users of Irrigation Districts, the National Agriculture Confederation (CNA), and others.

Furthermore, MINAGRI representatives spearheaded the negotiations on access to agricultural markets, and various agencies that report to the ministry took part in the negotiations on sanitary and phytosanitary measures, intellectual property, environment, and rules of origin.

Once the negotiations had concluded, MINAGRI prepared a technical document summarizing the most important benefits of the agreement for Peruvian exports, the commitments assumed with the United States, and the possible impact on agriculture in general and on sensitive products in particular.

Once the PTPA agreement had been signed, MINAGRI launched a national dissemination program to raise awareness among agricultural producers and civil society in general of the merits of the agreement and the prospects for exporting competitive products to the U.S. market adapted to the latter's requirements.

Law No. 29157 of 19 December 2007 was issued to facilitate implementation of the agreement. The Executive Branch was authorized to present legislation on various matters related to the implementation of the Peru–United States Trade Promotion Agreement, and given 180 days to introduce bills on the following matters:

- Trade facilitation.
- Improvement of the regulatory framework, institution building, and the modernization of the State and the simplification of its procedures.
- Improvement of the administration of justice related to commercial and administrative litigation, for which the opinion of the Judicial Branch was sought.
- Promotion of private investment.
- Promotion of technological innovation, quality improvement, and capacity building.
- Promotion of employment and micro, small and medium-sized enterprises.
- Institution building for environmental management.
- Improvement of the competitiveness of agricultural production.

Some 17 laws and legislative decrees were enacted or issued on agricultural matters. Many of their provisions have been implemented in full, some have been modified or improved, and others have since been withdrawn.

MINAGRI and the agencies that report to it were then directly involved in the process of implementing, monitoring and evaluating the areas of the PTPA within their remit. The various entities concerned were:

National Agricultural Health Service (SENASA):

- Took part in the preparation, negotiation and implementation of the PTPA (chapter on sanitary and phytosanitary measures).
- Currently a member of the Standing Commission on Sanitary and Phytosanitary Matters.

National Natural Resources Institute (INRENA) - National Forest and Wildlife Service (SERFOR):

- Participated in the preparation, negotiation and implementation of the PTPA (chapter on the environment).
- Currently participates in the work of the Environmental Cooperation Agreement and the Sub-Committee on Forest Sector Governance.
- Focuses mainly on the control of illegal logging and the protection of forest resources and wildlife.

National Agricultural Innovation Institute (INIA):

- Participated in the preparation, negotiation and implementation of the PTPA (chapter on intellectual property).
- Deals with matters related to biodiversity, genetic resources, and traditional knowledge.

The former General Directorate of Agricultural Competitiveness (DGCA), now the General Directorate of Agricultural Policy (DGPA):

- Participated in the process of preparing, negotiating, and implementing the PTPA (chapters on market access for agricultural products and chapter on rules of origin).
- These issues currently fall within the remit of the Committee on Trade in Goods.

- **Changes in the structure of MINAGRI to take better advantage of the PTPA**

As part of the lengthy process of modernizing the Peruvian State, the name of the ministry was changed to MINAGRI by means of Legislative Decree No. 997 of 12 March 2008 and then Law No. 3048 of 24 June 2013. The ministry's organizational structure and functions were also adapted to the changing times, as the country's formerly indicative economy is now totally open to the rest of the world.

- In March 2008, MINAGRI was assigned a number of new functions, including powers to promote national agricultural production, the supply of agricultural exports, and access to new markets for domestic agricultural products, in coordination with MINCETUR.
- The institution was also given responsibility for promoting private investment in the agriculture sector.
- It was tasked with expanding the amount of farmland in the country, while at the same time promoting the implementation of irrigation projects, among others.
- The General Directorate of Agricultural Competitiveness was created, with four sub-Directorates: the Directorate for the Promotion of Competitiveness, the Agricultural Capitalization Directorate, the Agribusiness Directorate, and the Agricultural Information Directorate.
- The Agribusiness Directorate included the International Negotiations Unit, devoted exclusively to the international trade negotiations.

In June 2013, the organization and functions of MINAGRI were tweaked still further and the following adjustments made:

There are now two deputy ministries, instead of one:

- The Deputy Ministry of Agricultural Policy, in charge of regulating agricultural policy through the General Directorate for Agricultural Policy. It is also responsible for seeking further

market opening through international trade negotiations, although the International Negotiations Unit was eliminated.

- The Deputy Ministry of Development and Agricultural Infrastructure and Irrigation. Its functions include promoting agribusiness and access to other markets for agricultural products, for which the General Agribusiness Directorate (DIGNA) was created. This new General Directorate is designed to boost MINAGRI's role in promoting agribusinesses.
- On 3 June 2016, the Ministry issued RM No. 0244-2016-MINAGRI, in which it approved a medium-term strategy (2016-2018) for the development of the coffee sector that focuses on the most important needs in the field of research (technical assistance, health, marketing, financing, and institutional planning), whose region-specific implementation must be prioritized over the coming months.

- **Ministry of Foreign Trade and Tourism (MINCETUR)**

Created on 10 July 2002, by means of Law No. 27779. It replaced the previous Ministry of Industry, Tourism, Integration and International Trade Negotiations (MITINCI).

Law No. 27790 of 23 July 2002 established the organization and functions of MINCETUR, complemented with supreme decree No. 005-2002-MINCETUR of 28 August 2002.

The structure remained in place until June 2012, when Law No. 29890 modified articles 3 and 5 of Law No. 27790. D.S. No. 002-2015-MINCETUR then established new regulations governing its organization and functions.

The changes to MINCETUR enhanced and consolidated its role as the Peruvian institution responsible for foreign trade policy. In 2014, it was assigned responsibility for the Foreign Trade Offices (OCEX), which previously reported to the Ministry of Foreign Affairs.

As MINCETUR is intensely involved in international trade negotiations aimed at the signing of FTAs, in June 2015 the Deputy Ministry of Foreign Trade was restructured to enable it to fulfill its international trade commitments properly, which include facilitating the implementation of such agreements.

The regulations governing its organization and functions were also amended, with its organizational chart being restructured, especially from the level of general directorates downwards. The new general directorates include:

- The General Directorate for the Facilitation of Foreign Trade, made up of the Directorate for Trade Facilitation, the Directorate for Special Economic Zones, the Directorate for the Single Window for Foreign Trade and Technological Platforms, and the Directorate for the Unit of Origin.
- The General Directorate for Foreign Trade Development Policies, whose line offices are the Directorate for Capacity Building and Export Promotion, the Directorate for International Market Development, the Directorate for Technical Requirements for Foreign Trade, and the Directorate for Foreign Trade Assistance.
- The Directorate for North America and Europe, part of the General Directorate for Trade Negotiations, was tasked with formulating, coordinating and implementing actions related to the implementation, evaluation, monitoring, and administration of trade agreements with the United States, Canada and Europe.
- Two new decentralized agencies were also set up: the Directorate for the Management and Monitoring of Overseas Trade Offices, and the OCEX.

1.3. Institutional framework for the promotion of exports, with emphasis on the U.S. market

Promoting Peru's exports is the responsibility of the **Commission for the Promotion of Peruvian Exports and Tourism (PROMPERU)**. This specialized technical agency reports to MINCETUR but operates with complete technical, financial and budgetary independence.

Its functions include the design, approval, implementation, and evaluation of institutional strategic and operational plans for the promotion of exports. It secures and channels non-reimbursable international technical and financial cooperation to enable it to carry out its work.

PROMPERU has a unit that promotes agricultural products with specialists in four areas:

- a) Coffee and cacao (one specialist)
- b) Andean crops (one specialist)
- c) Processed food (two specialists), and
- d) Fresh produce (one specialist).

The Commission carries out a range of activities to promote exports of all kinds of agricultural products to the U.S. market. They include:

- Developing, organizing and supervising the execution of trade intelligence and market research activities in the U.S.
- Furnishing specialized information, and orienting, assisting, and training entrepreneurs to export to the U.S.
- Coordinating processes with the public and private sectors aimed at organizing the supply of exports of products and services.
- Promoting the participation of private enterprises in the different specialized fairs held each year in the United States and other countries, and support for exporting entrepreneurs on trade missions in search of new markets.

The following is an overview of the **activities geared specifically to the promotion of coffee exports**:

- Since coffee beans were a traditional export commodity, there was no need for the Peruvian authorities to adopt specific trade promotion actions designed to promote exports.
- Between 2008 and 2013, the National Coffee Council, with support from MINAGRI, promoted the participation of a small group of producers (an average of 18, drawn from associations, cooperatives and companies) in the fair of the Specialty Coffee Association of America (SCAA), one of the most important activities of its kind in the United States, held in April each year.
- From 2014 onwards, PROMPERU decided to promote trade in specialty coffees, with a view to consolidating Peru's image as a producer of coffees of that kind.
- That same year, Peru was a special guest and host at the aforementioned fair, which attracts a large group of representatives of producer organizations and companies, as well as other private enterprises.
- At the beginning of 2015, PROMPERU introduced a program for potential exporters of specialty coffees, entitled "Export Route for Specialty Coffee." This consists of four phases: orientation, training, business assistance, and commercial promotion. The first phase has been completed and the second is about to get under way.
- It is important to mention that no plan or policy exists at this time for the commercial promotion of coffee in the U.S. market. However, in 2014 PROMPERU began to implement specific, but as yet insufficient, actions to promote Peru's image as a producer of specialty coffees. As these efforts are still at the fledgling stage, the results are limited.

The **public entities** with which PROMPERU coordinates actions at the national level are as follows:

- MINCETUR, responsible for the promotion of exports, coordinates the design and implementation of export promotion activities.
- MINAGRI, which coordinates the participation of producer associations in trade fairs and missions.
- Ministry of Production (PRODUCE), which coordinates the participation of small and medium-sized industrial enterprises in trade fairs and missions.
- SENASA and the Ministry of Foreign Affairs (MRREE).

In the specific case of coffee, it coordinates Peru's participation in the SCAA fair with MINAGRI's DIGNA and the National Coffee Council.

With regard to **private sector entities**, PROMPERU coordinates general actions with the following organizations:

- Association of Exporters (ADEX)
- Lima Chamber of Commerce (CCL)
- Peru Foreign Trade Society (COMEX)
- National Society of Industries (SNI)
- Peru Association of Organizations of Agricultural Producers (AGAP)
- Other exporting companies in the country

It also coordinates efforts with **governmental and private U.S. entities**, such as the overseas trade offices, including those located in Los Angeles, New York, Washington, and Florida. It also coordinates actions with the Agricultural Trade Attaché of the Ministry of Foreign Affairs in Washington, and with the SCAA.

The principal national public and private institutions with which PROMPERU coordinates actions related to trade with the United States in coffee and other agricultural products are as follows:

- *Trade in coffee:*
 - SENASA
 - National Coffee Council
 - Peru Chamber of Coffee and Cacao
 - Central Café y Cacao
 - Municipality of Villarica
 - Municipality of Satipo
 - Municipality of Chanchamayo
 - Municipality of San Luis de Shuaro

- *Trade in other products:*

AGAP is an umbrella association of nine major groups of exporters with which PROMPERU coordinates efforts:

- Association of Peruvian Citrus Fruits Producers (PROCITRUS)
- Association of Peruvian Hass Avocado Producers (PROHASS)
- Association of Peruvian Dessert Grape Producers (PROVID)
- Peruvian Association of Mango Producers and Exporters (APEM)
- Peruvian Institute for Asparagus and Vegetables (IPEH)
- Association of Peruvian Pomegranate Producers (PROGRANADAS)
- Association of Peruvian Cranberry Producers (PROARANDANOS)
- ADEX
- CONVEAGRO

II. Agricultural trade in general between Peru and the United States

This section contains a brief analysis of the general evolution of Peru’s agricultural exports during the period 2000-2015, in order to determine the effect that the signing of the PTPA has had on Peruvian exports in general. It then focuses on Peru’s exports to the United States, particularly following the entry into force of the PTPA, to ascertain whether the signing of the PTPA gave agricultural exports a fillip. The section concludes with a succinct analysis of the evolution of U.S. imports, in order to determine how much advantage, the United States has taken of the PTPA, and the products involved.

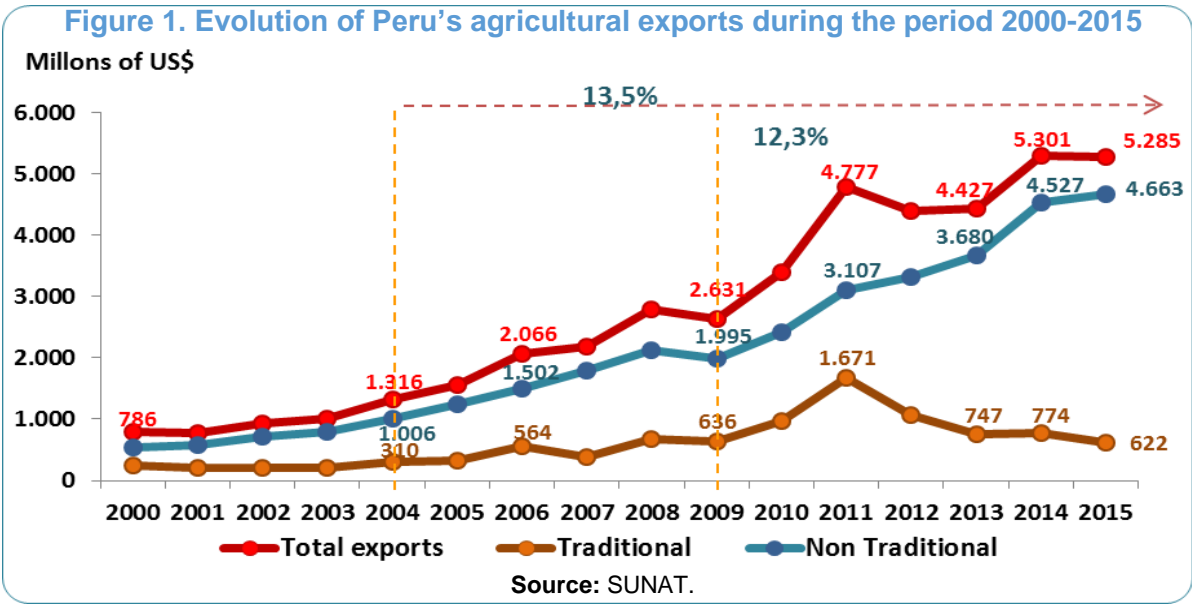
2.1. Peru’s agricultural exports to the rest of the world

In the early years of this century, Peru’s agricultural exports to the United States and other countries grew strongly but were too small in absolute values to have a major impact on the economy as a whole. The growth in exports was triggered by the entry into force of the ATPDEA with the United States and the Generalized Scheme of Preferences (GSP) with the European Union. Exports were also boosted by an upturn in the domestic economy, the institutional reform of the ministry responsible for defining Peru’s trade policy (MINCETUR), the gradual strengthening of the export promotion agency (PROMPERU), and, most importantly, the consolidation of democracy in the country.

Between 2003 and 2007, the international economic scenario was positive, with historically high growth rates and notably low levels of inflation. This was basically due to the buoyancy of emerging economies such as China, Brazil, India, and Russia, which recorded significantly higher rates of growth than those seen in the past. Developed economies also performed well, albeit less strongly.

This new global scenario led to increased demand for food and other raw materials, resulting in a rise in commodity prices and an improvement in the terms of trade.

In this positive context, Peruvian exports grew steadily and at increasingly faster rates. Nontraditional exports performed particularly well, as the effects of investment projects initiated in previous years began to be felt. The financial crisis hit the United States in 2008, however, and the following year its negative effects spread to the rest of the world, especially the markets of the developed countries. This resulted in a slight fall in Peru’s traditional and nontraditional exports.



The global crisis coincided with the entry into force of the PTPA signed by Peru and the United States in February 2009, which had a very positive impact on Peruvian exports.

The 2009 crisis continued to affect the European countries, but Peru’s exports grew more strongly as the situation began to ease in other parts of the world. Exports peaked in 2011, driven by demand from the United States and the emerging economies, which recovered strongly.

The growth of the emerging economies began to slow in 2012, however, leading to a fall in their imports and, as a result, in the prices of the principal raw materials. These developments coincided with a sharp drop in Peru’s number one agricultural export (coffee beans - a traditional product) due to a decline in domestic production caused by leaf rust disease, whose impact was greater because of the age of the nation’s coffee trees. Peruvian exports declined significantly in 2012 and 2013 as a result.

The volume of nontraditional exports had begun to grow much more quickly in 2009, making a big contribution to total exports and neutralizing the negative impact of the major decline in green coffee exports in the process. Driven by strong growth in nontraditional exports, Peru’s agricultural exports began to recover, with total exports in 2014 and 2015 surpassing the figures for 2012 and 2013.

The upturn was reflected in the rate of annual average growth of all traditional and nontraditional exports, with the European Union (EU) and the United States the biggest markets. The following table provides figures for both a longer period (before the entry into force of the agreement up to the present - 2004-2015) and for 2009-2015. See Table 3.

Table 3. Annual average growth in exports.

Period	Total exports	Traditional	Nontraditional
2004-2015	13.5%	6.5%	15.0%
2009-2015	12.3%	-0.4%	15.2%

Source: SUNAT

Table 4 shows Peru’s 20 most important exports or tariff sub-headings. In 2015, they made up 69% of total exports, with the eight fresh products alone accounting for 37.4%.

Global demand for fresh products is strongest, with consumers preferring them for health reasons or as part of a trend, and Peru’s exports have become well established.

The products include grapes, asparagus, avocados, mangoes, and bananas, which have performed exceptionally well and account for the evolution of agricultural exports to all parts of the world.

Table 4 also shows that unroasted coffee beans are the second most important product, even in 2015, despite the negative impact that leaf rust disease has had on the subsector since 2012. The effects of the disease, combined with falling international prices, have reduced the value of exports.

Table 4. Peru's main agricultural exports

Sub-heading	Description	2012	2013	2014	2015
TOTAL EXPORT		4.389.802	4.426.507	5.301.425	5.284.696
0806100000	Fresh grapes	353.636	441.376	632.453	690.379
0901119000	Coffee, not roasted, not decaffeinated	1.007.601	691.342	727.484	576.563
0709200000	Asparagus, fresh	339.987	409.219	383.435	416.225
0804400000	Avocados, fresh or dried	136.594	184.244	306.939	303.779
0804502000	Mangoes, and mangosteens, fresh	118.174	130.995	137.084	194.169
1801001900	Other cocoa beans, raw	64.133	81.370	151.770	183.092
0803901100	Bananas, fresh	79.749	88.136	119.232	145.096
1008509000	Other quinoa	29.898	77.826	196.380	143.334
2309909000	Other prepared animal feeds	111.969	108.708	141.338	133.122
2005600000	Asparagus, prepared or preserved	140.627	147.950	149.314	131.065
0402911000	Milk, concentrated, not sweetened	105.272	103.772	121.215	98.838
0810400000	Red cranberries, fresh	430	16.291	27.853	95.804
2005991000	Artichokes, preserved	111.672	85.935	92.038	87.596
2005999000	Vegetables, prepared or preserved	54.125	53.905	60.776	83.017
0811909100	Mangoes, frozen with sugar (<i>mangifera indica</i>)	29.857	40.088	48.817	72.832
0805201000	Mandarins, fresh	52.557	41.710	59.891	66.554
2001909000	Other fruits and vegetables, prepared or preserved by vinegar or acetic acid	48.888	49.871	68.768	64.660
0703100000	Onions and shallots, fresh	53.445	62.212	63.640	63.467
0904211090	Other paprika	64.237	48.171	45.697	52.193
5105391000	Fine hair, carded or combed, of alpaca	30.550	39.418	62.105	51.018
	Other products	1.456.403	1.523.968	1.705.199	1.631.896

Source: SUNAT

2.2. Peru's agricultural exports to the United States

Agricultural exports to mega-markets like the United States account for the trend in Peruvian exports.

Peruvian exports rose steadily between 2000 and 2004, but volumes were negligible as supplies were limited. Negotiations with the United States got under way in 2004 and concluded in December 2005, with the agreement being signed in April 2006. Peru then set in motion plans for a series of major reforms in various areas of the domestic economy, to create the conditions required for the country to take the best possible advantage of the PTPA. The way was also paved for the agreement's ratification by the congresses of the two countries, and arrangements made for its subsequent implementation. These actions created an enabling environment for the implementation of larger-scale investment projects, and provided a stimulus for the development of exports.

After the PTPA with the United States was signed, exports to that country began to diversify and their value and volume became more significant. According to the data shown in Figure 2, exports totaled USD 248 million in 2000, but after 2006 agricultural exports almost tripled, topping USD 655 million. A new record of USD 783 million was set in 2008, followed by a slight drop in exports in 2009 due to the financial crisis affecting the United States, one of Peru's most important trading partners (exports totaled USD 744 million).

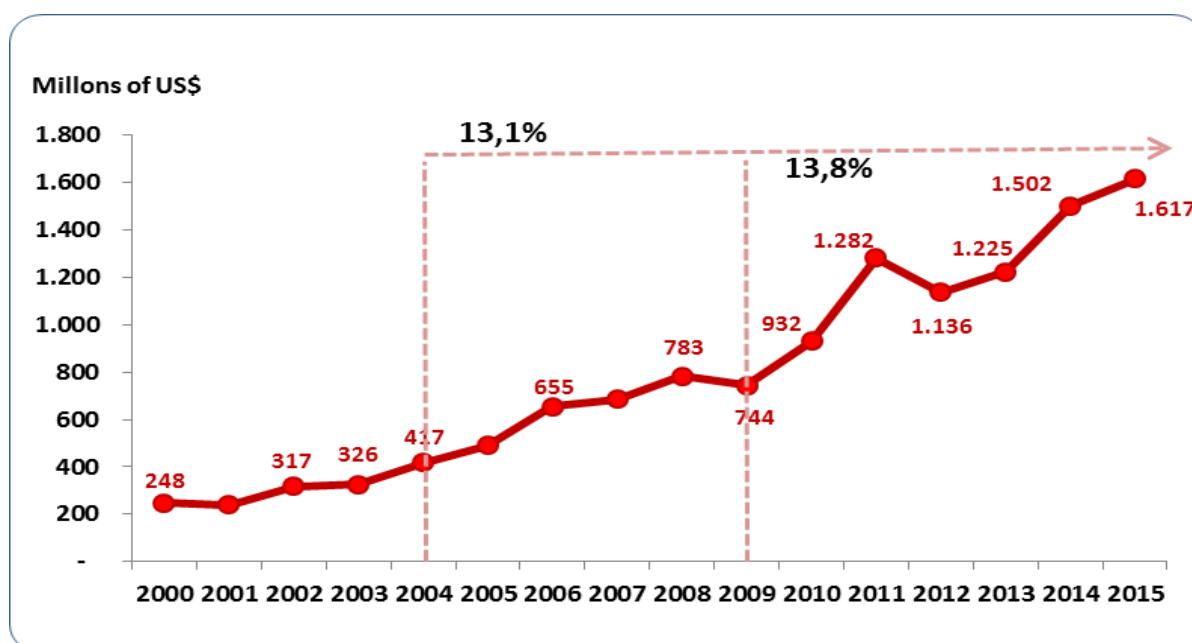
Table 5. Annual average growth of Peruvian exports.

Period	Annual growth rate
2000-2004	13.9%
2005-2009	11.0%
2009-2015	13.8%

Source: SUNAT.

In subsequent years, despite the global economic recession, the steep fall in international prices between 2012 and 2015, shrinking consumption in the emerging economies (especially China), and the sharp drop in coffee exports to the United States, Peru’s agricultural exports remained buoyant and grew even more strongly. The value of exports reached new highs, rising from USD 744 million in 2009 to USD 1282 million in 2011 (a 72.3% increase between the two peaks). It fell in 2012 due to the lower sales and prices of green coffee (exports totaled USD 1136 million), but recovered the following year, reaching USD 1225 million in 2013, and rising further, to USD 1502 million and USD 1617 million, in 2014 and 2015, respectively. Peru had never achieved such high figures in the U.S. market before.

Figure 2. Evolution of Peruvian exports to the United States (2000-2015).



Source: SUNAT.

The products that accounted for this strong performance include fresh produce and coffee, which has not declined in importance. A new product, quinoa in grain, appeared, which has now been joined by maca, an innovative product, and other prepared or preserved products.

Table 6 shows the level of concentration of exports: twenty 10-digit tariff sub-headings account for an average of around 80% of all Peruvian exports to the United States. All these products enter the market without paying customs duties.

Exports of fresh produce have grown in importance year on year. In 2012, they accounted for 37% of all exports and experienced significant growth in the following years. By 2015, the main fresh products accounted for 50% of all Peruvian exports to the United States.

The most dynamic fresh products include asparagus, grapes, avocados, mangoes, bananas, cranberries, onions and mandarins. The value of each of these exports has grown strongly and steadily.

Table 6. Main Peruvian exports to the United States (in thousands of USD, FOB).

Sub-heading	Description	2012	2013	2014	2015	PTPA Tariff for Peru
TOTAL EXPORTED TO THE UNITED STATES		1.136.230	1.224.887	1.502.099	1.617.093	For Peru
0709200000	Asparagus, fresh or chilled	208.688	252.291	234.673	267.969	Free
0806100000	Fresh grapes	67.815	97.464	118.679	199.670	Free
0901119000	Coffee, not roasted, not decaffeinated	185.628	155.374	174.455	147.284	Free
0804400000	Avocados, fresh or dried	25.887	38.649	125.097	83.152	Free
1008509000	Other quinoa	19.707	42.518	100.074	66.437	Free
2005991000	Artichokes, preserved	57.523	47.631	60.937	57.998	Free
2005999000	Vegetables, prepared or preserved, not frozen	41.801	39.035	45.232	57.669	Free
0804502000	Mangoes, fresh	35.156	40.939	42.839	54.961	Free
0803901100	Bananas, fresh	16.426	15.932	32.714	53.749	Free
0810400000	Red cranberries, fresh	2	6.275	11.459	52.928	Free
0703100000	Onions and shallots, fresh	38.161	42.783	46.286	50.646	Free
2001909000	Other vegetables and fruits, and other edible parts	29.705	26.921	38.506	39.291	Free
0811909100	Mangoes, frozen	14.873	21.994	25.615	33.879	Free
1701140000	Sugar*	29.376	11.665	28.088	26.522	Quota/Free*
0805201000	Mandarins, fresh	10.926	9.627	18.385	25.317	Free
0801220000	Brazil nuts, fresh, shelled	15.288	19.066	20.720	21.963	Free
0904221000	Paprika, crushed or ground	21.684	17.470	20.472	21.915	Free
0710801000	Asparagus, frozen	21.775	26.693	17.899	17.769	Free
0904211090	Other paprika	21.825	16.166	14.719	15.698	Free
2005600000	Asparagus, prepared or conserved, not frozen	32.863	31.729	14.476	15.624	Free
OTHER PRODUCTS		241.122	264.664	310.775	306.654	

Source: SUNAT

2.3. Peru's agricultural imports from the United States

As shown in Table 7, agricultural imports from the United States between 2000 and 2015 can be divided into three periods. The first is 2000-2005, when growth was fairly moderate (an annual average increase of 5.7%). The value of imports was between USD 200 and USD 300 million per year.

The second period begins in 2006, the year in which the presidents of the two countries signed the PTPA and the process of ratifying it got under way in each congress. It was a time of enormous expectation for both Peru and the United States. Despite the burgeoning financial crisis, which then became a global economic crisis, Peru's imports from the United States grew strongly, increasing by an average of 34% per year, even between 2006 and 2009.

The PTPA entered into force in 2009, opening up the Peruvian market to products from the United States. Between 2009 and 2015, annual growth was 9.9%, considerably weaker in percentage terms, due to a fall in imports in 2012 that marked the end of the sustained growth witnessed in previous years.

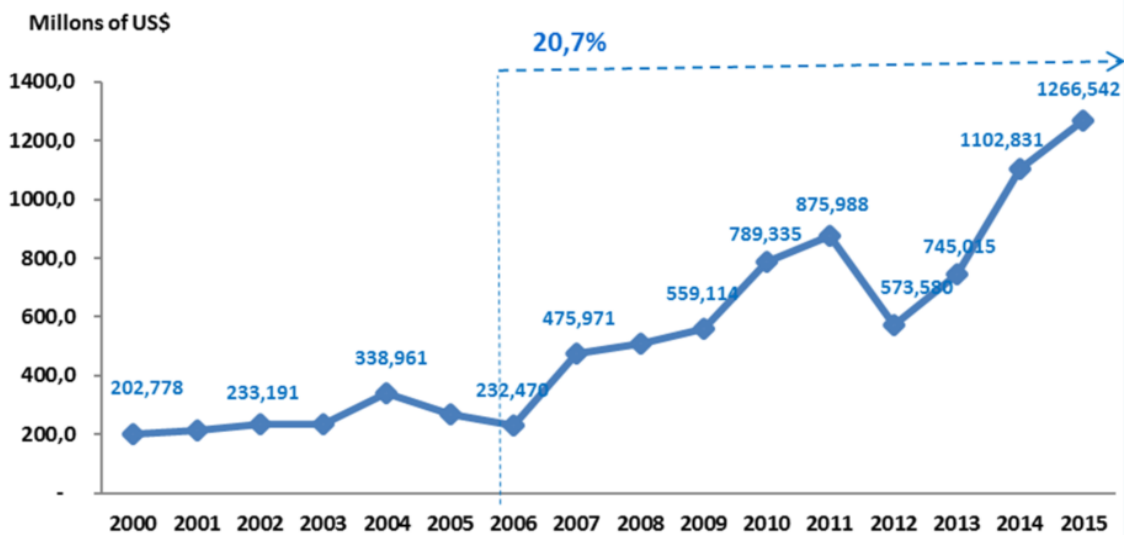
Table 7. Annual average growth of Peruvian imports from the United States

Period	Annual rate of growth
2000-2005	5.7%
2006-2009	34.0%
2009-2015	9.9%

Source: SUNAT

Figure 3 shows the evolution of Peruvian imports from the United States between 2000 and 2015. The values recorded until 2005 were quite modest (an average of USD 250 million per year), but a sustained increase in Peruvian imports occurred from 2006 onwards, with annual average growth of 20.7% over a ten-year period – from USD 232 million that year to USD 1267 million in 2015. This very considerable rate of growth could have been even bigger but for the sharp drop in 2012 in imports of products like yellow corn, the main imported product subject to quotas, and a tariff reduction program that has still not concluded, as well as fewer imports of crude soybean oil and hard grain wheat, with supplies obtained more cheaply from Argentina and Brazil.

Figure 3. Evolution of Peruvian imports from the United States (2000-2016)



Source: SUNAT

The twenty products that drove the strong growth of Peruvian imports (and accounted for 84% of the total in 2015) are shown in Table 8. They made up only 68% of the total in 2012 but grew in importance in subsequent years as the tariff reduction program progressed. All but three of these products are exempt from paying tariffs on entering the Peruvian market.

Table 8. Main products imported by Peru from the United States

TOTAL IMPORT		573.580	745.015	1.102.831	1.266.542	For EEUU
1005901100	Yellow dent corn	-	52.318	391.198	443.994	Quota/Free*
5201000000	Cotton, not carded or combed	142.764	127.067	135.366	107.839	Free
1001000000	Wheat, not milled	84.765	223.842	110.719	107.351	Free
1507100000	Crude soybean oil	-	-	68.576	104.036	Free
2304000000	Oilcake and other soybean residues	40.587	21.423	5.970	88.648	Free
1201900000	Soybeans	1.515	0	24.484	57.900	Free
0402109000	Milk and cream, concentrated containing added sugar, in powder	33.688	33.262	36.286	25.384	Quota/Free*
2309902000	Premixes	15.421	16.169	19.612	16.015	Free
2207100000	Undenatured ethyl alcohol	3.172	25	18	14.504	Free
2106907900	Other food supplements	11.259	8.908	14.444	12.770	Free
2106900000	Food preparations not elsewhere specified	5.658	8.163	13.951	14.248	Free
2106101900	Other protein concentrates	1.880	3.949	8.955	11.206	Free
0713109020	Split peas, except for sowing	9.619	11.289	12.639	11.085	Free
0713409000	Lentils, except for sowing	10.052	9.889	6.113	10.249	Free
0808100000	Apples, fresh	5.036	8.593	7.913	8.435	Free
0504001000	Animal stomachs	12.322	11.834	12.043	7.291	Quota/Free*
2202900000	Other waters and non-alcoholic beverages	1.209	2.262	5.799	7.163	Free
2101200000	Extracts, essences or concentrates of tea	5.718	5.079	6.320	6.801	Free
0602200000	Trees, shrubs and bushes of kinds which bear edible fruit or nuts	1.063	1.007	5.937	6.518	Free
1517900000	Other edible mixtures or preparations of animal or vegetable fats or oils	2.234	3.810	5.690	6.390	Free
OTHER PRODUCTS		185.618	196.126	210.798	198.715	

* Product subject to a tariff-free quota; tariff liberalization program applies.

Source: SUNAT

In terms of the impact on Peru's agricultural sector, only imports of cotton not carded or combed have had a major impact on domestic production (whose competitiveness is limited). The other products are either not produced in Peru, or produced in very small quantities. More imports are needed to meet domestic demand, especially as inputs for the food industry. Some cases in point are yellow dent corn and oilcake for the balanced foods industry, hard grain wheat for the flour industry, soybean oil and soybeans for the oilseed industry, and powdered milk with sugar for the pharmaceutical industry.

2.4. Constraints to the commercial exploitation of the PTPA with the United States

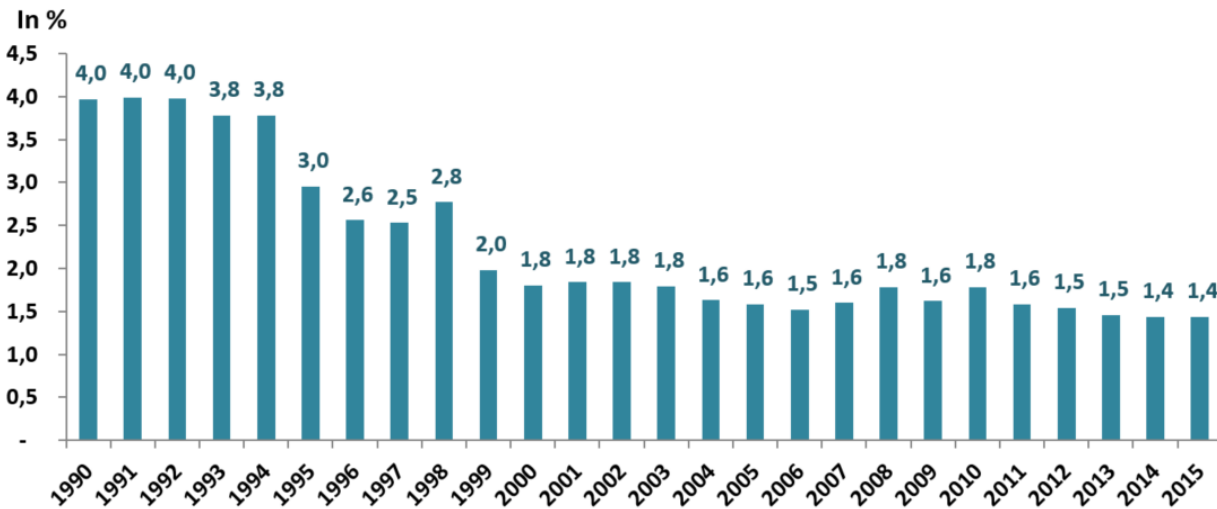
2.4.1. Tariffs

Tariffs are one of the mechanisms accepted by the WTO that, among other things, make it possible to protect domestic production of a similar product or substitute from the impact of imports. They are used to regulate the access of imported products within the framework of a country's multilateral commitments.

However, tariffs are decreasing in importance, as most countries have gradually been reducing them unilaterally, or as a result of negotiations.

The United States is a case in point. Figure 4 shows how the weighted mean tariff has decreased in recent decades, falling from 4% in the early 1990s to 1.8% between 2000 and 2010, and to only 1.4% in 2015.

Figure 4. Evolution of the (weighted) mean tariff applied by the United States to all its imported products (1990-2015)



Source: World Bank 2013. Available at <http://data.worldbank.org/indicator/TM.TAX.MrCH.WM.AR.ZS>.

The situation with regard to U.S. agricultural imports is shown in Table 9. Many, including animal products, coffee, tea, cotton, beverages and seeds, are free from tariffs, but certain products considered highly sensitive are required to pay high import duties in order to protect U.S. producers. These include dairy products, coffee byproducts, cigarettes, sugars, and confectionery, among others.

On the other hand, the United States has granted preferential treatment to more than one hundred developing countries under programs like the GSP, through legislation such as the African Growth and Opportunities Africa Act (AGOA) and the Caribbean Basin Initiative (CBI) that grant tariff-free access for agricultural and industrial products. These unilateral measures can be suspended at any time, or are applied for a specific period of time.

Furthermore, countries with which the United States has signed free trade agreements either do not have to pay customs duties, or will not have to do so after a specific period of tariff reduction. Twenty FTAs of this kind are in place with countries such as Chile, Colombia, Australia, Israel, Korea, Mexico, Canada, a number of Central American nations, Jordan, Morocco, Panama and Peru.⁷

⁷ Review of U.S. trade policies, secretariat report WT/TPR/S/307/Rev.1 of 13 March 2015.

Table 9. Bound and MFN tariffs applied by the U.S. to agricultural products.

Category	BOUNDS TARIFFS				NMF APLICATED			IMPORTS	
	Average	Exempt in %	Max	Consolidate in %	Average	Exempt in %	Max	Sector in %	Exempt in %
Animal products	2,3	30,8	26	100	2,2	30,8	26	0,4	24,9
Dairy products	16,6	0,3	188	100	17,2	0,3	188	0,1	14,2
Fruit, vegetables, plants	4,9	20,2	132	100	4,7	21,1	132	1,3	28,8
Coffee, tea	3,3	53,5	44	100	3,3	53,5	44	0,5	74,4
Cereals and other preparations	3,5	21	44	100	3	20,1	44	0,7	31,5
Oil seeds, fats and oils	4,4	23,9	164	100	7,3	25,9	164	0,4	36,5
Sugars and confectionary	12,3	2,9	55	100	11,7	2,7	55	0,2	6,3
Beverages and tobacco	14,8	27,8	350	100	18,6	26,2	350	1,1	48,2
Cotton	4,8	38,3	18	100	4,8	38,3	18	0	79
Other agricultural products	1,1	58,9	52	100	1	61	52	0,3	67,5

Source: WTO/TC/UNCTAD-World Tariff Profiles 2015.

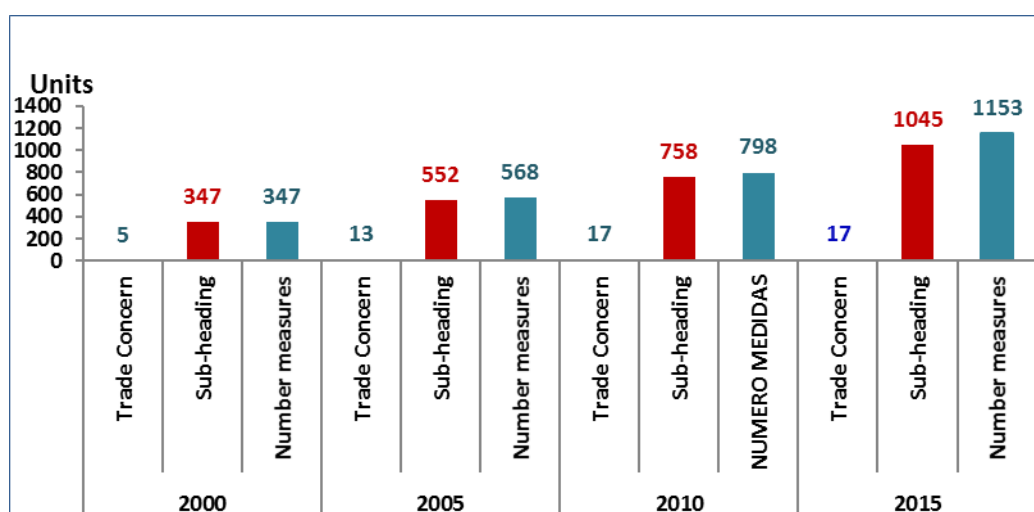
It is fair to say that, generally speaking, tariffs are becoming less important as mechanisms that the United States employs to restrict imports, except for certain very specific products.

2.4.2. Nontariff measures

On the other hand, according to the figures provided by the countries themselves through the WTO's Integrated Trade Intelligence Portal, there has been a large increase in the nontariff measures that the United States applies to imports, especially of agricultural products.

As can be seen in Figure 5, in 2000 the United States was applying, or planning to apply, 347 measures to its imports, but this number had risen to 568 by 2005 (an increase of 63.7%). As many as 798 measures were registered in the WTO database in 2010, and the figure continued to rise, reaching 1153 in 2015 (an increase of 44.5%). Furthermore, the number of product lines affected (i.e., the number of tariff sub-items subject to such restrictive measures) rose from 347 items in 2000 to 1045 in 2015.

Figure 5. Nontariff measures applied by the U.S. to its agricultural imports (2000-2015)



Source: WTO 2016.

Sanitary and phytosanitary standards (either already in place or in the process of being introduced for all WTO members) are the most common type of measures employed by the United States (547 in 2015, 47% of all notified measures). The next most frequently used are technical barriers to trade (259 in 2015, or 22.5% of the total) and special safeguards (171 measures applied to agricultural products within the framework of the WTO in 2015, or 14.8% of the total). Other nontariff measures applied to a lesser extent are general safeguards, export subsidies, and quantitative restrictions, in addition to 77 bilateral SPS measures (applied to one country in particular).

It should be noted that 17 countries raised trade concerns with the WTO in 2015 with respect to measures that the United States is using to restrict imports.

Table 10. Types of nontariff measures applied by the U.S.

Country affected	Requirement	Status	2000		2005		2010		2015	
			Trade concern	No. of measures	Trade concern	No. of measures	Trade concern	No. of measures	Trade concern	No. of measures
WTO member countries	TRQ	In effect	0	46	0	46	0	46	0	46
	SPS	In preparation	4	127	9	266	9	367	9	496
	SPS	In effect	0	1	0	1	0	29	0	51
	TBT	In preparation	1	41	3	88	6	149	6	188
	TBT	In effect	-	-	1	2	2	26	2	71
	QR	In effect	-	-	-	-	-	-	0	19
	SS	In preparation	-	-	-	-	-	-	-	-
	SS	In effect	0	111	0	142	0	158	0	171
	GS	In preparation	0	3	0	3	0	3	0	3
	GS	In effect	0	2	0	2	0	2	0	2
XS	In effect	0	13	0	13	0	13	0	13	
Subtotal all members			5	344	13	563	17	793	17	1060
Bilateral measure	ADP	In preparation	0	2	0	1	-	-	-	-
	ADP	In effect	0	1	0	4	0	5	0	6
	CV	In preparation	-	-	-	-	-	-	0	9
	CV	In effect	-	-	-	-	-	-	0	1
	SPS	In preparation	-	-	-	-	-	-	0	72
	SPS	In effect	-	-	-	-	-	-	0	5
Bilateral subtotal			0	3	0	5	0	5	0	93
Total nontariff measures			5	347	13	568	17	798	17	1153

Abbreviations: TRQ = tariff-rate quota, TBT = technical barriers to trade, CV = countervailing duties, QR = quantitative restrictions, SS = special safeguard, GS = general safeguard, XS = export subsidies, ADP = antidumping measures, SPS = sanitary and phytosanitary measures.

Source: WTO 2015b. Available at <http://i-tip.wto.org/goods/Forms/TableView.aspx?mode=modify&action=search>

According to the most recent review of trade policies applied within the framework of the WTO, the quantitative restrictions basically have to do with the tariff quotas that the U.S. applies to some 200 agricultural tariff lines (beef, dairy products, peanuts, sugar, chocolate and cacao, olives, mandarins, animal feed, tobacco and cotton products). Roughly half of them affect dairy products, including milk, cream, butter, ice cream, and cheeses.

The PTPA between Peru and the United States also provides for the application of measures of this kind, but the tariffs and quotas are gradually being eliminated in accordance with the schedule established in the tariff elimination program.

Another type of para-tariff measure that could be burdensome for exporters is the Merchandise Processing Fee of between USD 25 and USD 485 that every shipment is required to pay. User

fees are also charged under the Consolidated Omnibus Budget Reconciliation Act, to cover the inspection costs involved in complying with customs regulations for imports. For example, commercial vessels pay between USD 437 and USD 5955. In addition, imported goods arriving by sea must pay a harbor maintenance tax (HMT), among other taxes.⁸

U.S. Customs and Border Protection (CBP) collects special fees charged on agricultural products on behalf of the Department of Agriculture, with the income being used to fund research, promotion and consumer information activities related to beef, milk, honey, pork, cotton, potatoes, and mushrooms, among others. In addition, the United States requires that import permits be obtained for many agricultural products, and certain imports are actually prohibited. Other restrictions that may also apply are the limiting of entry through certain ports, or restrictions on certain routes. Measures of this kind inevitably affect the flow of trade.⁹

The situation regarding imports from Peru is very similar to the one described above. In 2015, a total of 1064 nontariff measures were either in place or in the process of being implemented. The number has increased since 2000, when the figure was 344 (almost all these measures apply to all WTO member countries, including Peru).¹⁰

In 2015, only four bilateral sanitary and phytosanitary measures were about to be implemented that would affect Peruvian imports.

Table 11. Types of nontariff measures applied by the United States to agricultural imports from the rest of the world

Country affected	Requirement	Status	2000		2005		2010		2015	
			Trade concern	No. of measures	Trade concern	No. of measures	Trade concern	No. of measures	Trade concern	No. of measures
WTO member countries	TRQ	In effect	0	46	0	46	0	46	0	46
	SPS	In preparation	4	127	9	266	9	266	9	496
	SPS	In effect	0	1	0	1	0	1	0	51
	TBT	In preparation	1	41	3	88	3	88	6	188
	TBT	In effect	-	-	1	2	1	2	2 *	71
	QR	In effect	-	-	-	-	-	-	0	19
	SS	In preparation	-	-	-	-	-	-	-	-
	SS	In effect	0	111	0	142	0	142	0	171
	GS	In preparation	0	3	0	3	0	3	0	3
	GS	In effect	0	2	0	2	0	2	0	2
XS	In effect	0	13	0	13	0	13	0	13	
Subtotal all members			5	344	13	563	13	563	17	1060
Bilateral measure	SPS	In preparation	-	-	-	-	-	-	0	4
	SPS	In effect	-	-	-	-	-	-	-	-
Bilateral subtotal			0	0	0	0	0	0	0	4
Total nontariff measures			5	344	13	563	13	563	17	1064

Abbreviations: TRQ = tariff-rate quota, TBT = technical barriers to trade, CV = countervailing duties, QR = quantitative restrictions, SS = special safeguard, GS = general safeguard, XS = export subsidies, ADP = antidumping measures, SPS = sanitary and phytosanitary measures. (*) Peru has raised a trade concern with respect to a TBT applied by the United States.

Source: WTO 2015b. Available at <http://i-tip.wto.org/goods/Forms/TableView.aspx?mode=modify&action=search>

As can be observed in tables 9 and 10, the nontariff measures that the United States applied to Peru in 2015 mainly involved sanitary and phytosanitary standards; second in number were

⁸ Review of U.S. trade policies, secretariat report WT/TPR/S/307/Rev.1, of 13 March 2015.

⁹ Idem.

¹⁰ See https://www.wto.org/english/res_e/statis_e/itip_e.htm.

those related to TBT. There were 551 SPS measures altogether (51 already applied, 500 in preparation). TBT measures numbered 259, only 71 of which were being applied in full.^{11 12}

However, intentionally or not, when such measures are applied incorrectly they can pose an obstacle to the free flow of products between countries. The United States' efforts to ensure that its foodstuffs are safe can lead to an unintentional restriction on the access of agricultural products to its market. Sometimes, SPS and TBT are used as a hidden form of protectionism, to shield producers from foreign competition. The cost of such measures for food and agricultural producers and exporters can be considerable, as expensive changes in production or marketing processes are sometimes needed to meet new requirements.

In extreme cases, SPS and TBT measures may lead to imports of a product being halted, which can result in significant losses for producers, exporters, and the exporting country as a whole.

On the other hand, the importing country may benefit from measures of this kind if, as a result, it obtains a safer supply of food with fewer of the pests and diseases associated with imports of certain agricultural products, and natural resource degradation is reduced.

If Peru manages to meet the requirements of standards like these, it will be able to export new products to the U.S. market and join the select group of countries that can access the market on even more advantageous terms, if the benefits of the PTPA are included. Otherwise, some of its exports will be excluded from the United States.

The PTPA may free agricultural exports (especially fresh produce) from all kinds of tariff restrictions but if Peru is to take advantage it will have to comply with the new nontariff measures that the United States is implementing, including sanitary and phytosanitary standards.

Peru is currently unable to export many fresh fruits and vegetables to the U.S. market. The products affected include tomato, broccoli, cauliflower, olive, Chinese onion, sweet potato, cabbage, aniseed, custard apple, apples, pears, kiwi, sweet cucumber, lucuma, passion fruit, star fruit, apricots, and mamey sapote.

Table 12 lists some of the many products that cannot enter the U.S. market from Peru. This information was taken from the APHIS database. A surprisingly large number of countries are able to export their agricultural products to the United States: 65 export tomatoes, 20 export sweet potatoes, 23 export apples, and 18 export pears to that market. All the countries concerned have a plant health protocol. Having so many suppliers makes the market very competitive.

On the other hand, some fruits and vegetables are supplied by only one or two countries, e.g., broccoli (two countries), olives (one country), Chinese onion (two countries), kiwis (one country), lucuma (one country), and mamey sapote (one country), among others. Thus, some nations almost enjoy a monopoly in the U.S. market. This situation can create advantages for countries, or discriminate against them. Some have signed trade agreements with the United States but cannot access its huge market because they do not have a protocol and a corresponding work plan.¹³

Therefore, the national authorities should make it a priority to sign protocols for products such as lucuma, olives, kiwis, mamey sapote, Chinese onion, and sweet cucumber, among others. Of course, other criteria will be used to establish priorities, such as the volume that the United

¹¹ Sanitary and phytosanitary measures are laws, regulations, standards and procedures that governments use to protect the life or health of people, animals, and plants from the risks associated with the spread of pests and diseases, organisms that carry and transmit diseases, and additives, toxins, or contaminants in food, beverages or animal feed (CEDRSSA 2014).

¹² TBT include technical rules (standards and regulations), product quality standards, environmental regulations and voluntary procedures designed to safeguard human health and animal well-being (CEDRSSA 2014).

¹³ Calculations performed by the consultant.

States imports, the supply available in the exporting country, and the capacity to fulfill the requirements of the corresponding protocol, among others.

Table 12. Peruvian products not exported to the United States because quarantine treatment is required

Product	Other countries	Main countries whose products have access to the market
Tomatoes	65	Spain, Chile, Canada, Australia, Barbados, Cape Verde, etc.
Broccoli	2	Canada, Philippines
Cauliflower	4	Canada, Hong Kong, Philippines, Venezuela
Olives	1	Mexico
Chinese onion	2	Canada, Spain
Sweet potato	20	Canada, Cuba, Dominican Rep., Grenada, Barbados, etc.
Cabbage	5	Canada, Venezuela, Japan, etc.
Aniseed	1	Mexico
Custard Apple	3	Chile, Grenada, New Zealand
Apples	23	Argentina, Canada, Australia, Ecuador, China, Chile, France, etc.
Pears	18	Canada, Chile, Argentina, Australia, Israel, etc.
Kiwi	1	Chile
Sweet cucumber	2	Chile, New Zealand, Australia, Bermuda
Apricots	16	Argentina, Belgium, Canada, Chile, Israel, Mexico, Zimbabwe, etc.
Lucuma	1	Chile
Passion Fruit	4	Chile, New Zealand, Australia, Bermuda
Mamey sapote	1	Grenada
Star fruit	7	Grenada, Mexico, Malaysia, etc.

Source: USDA-APHIS-Fruits and Vegetables Import Requirements. See <https://epermits.aphis.usda.gov/manual/index.cfm>.

There is another long list of fresh products that can enter the U.S. market from Peru under the PTPA without paying tariffs and for which the corresponding plant health protocols exists. Some of these products can be observed in the next table, i.e., artichokes, carrots, green corn, lettuce, asparagus, peeled cloves of garlic, oregano, cilantro, grapes, cranberries, figs, avocados, bananas, mangoes, limes, watermelon, and oranges, among others.

In the case of figs and watermelon, few countries are in a position to meet the plant health requirements; four and ten countries, respectively, supply the market, and Peru is among them. There may be 20 other countries that can export certain other products to the United States and meet the corresponding plant health requirements. And far more countries supply certain other products: 75 export bananas to the United States, 53 export grapes, 55 export asparagus, and around 120 export green corn.

In that scenario, the conditions will be favorable only for those countries that have free trade agreements with the United States under which they have tariff-free access to its market, offer a quality product and good prices, and, in the case of Peru, take advantage of the counter-season, when countries in the northern hemisphere do not have production available for export, including the United States.

Table 13. Peruvian products that enter the United States with quarantine treatment.

Products	Other countries	Main countries whose products have access to the market
Artichoke	31	Argentina, Chile, Colombia, Mexico, New Zealand, South Africa, etc.
Carrot	52	Australia, Barbados, Chile, Colombia, Costa Rica, Israel, Mexico, etc.
Corn, green	120	Austria, Belgium, Brazil, Costa Rica, Cuba, Dominica, El Salvador, etc.
Lettuce	50	Australia, Brazil, Canada, Chile, Israel, Korea, Mexico, Thailand, etc.
Asparagus	55	Argentina, Bolivia, Brazil, Colombia, Costa Rica, Mexico, etc.
Garlic (peeled cloves)	46	Canada, Spain, France, Russia, Morocco, Portugal, Lebanon, etc.
Oregano	36	Argentina, Canada, Chile, Colombia, Italy, Mexico, New Zealand, etc.
Cilantro	31	Bahamas, Canada, Colombia, El Salvador, Israel, Mexico, Panama, etc.
Grape	53	Argentina, Australia, Canada, Chile, Italy, Mexico, Ukraine, etc.
Cranberry	24	Argentina, Canada, Chile, Mexico, Guatemala, South Africa, etc.
Fig	4	Belgium, Chile, Mexico, New Zealand
Avocado	28	Barbados, Spain, Mexico, Tahiti, New Zealand, Israel, Philippines, etc.
Banana	75	Argentina, Colombia, Brazil, Costa Rica, Ivory Coast, Mexico, etc.
Mango	24	Brazil, Costa Rica, India, Pakistan, Philippines, Thailand, Nicaragua, etc.
Limon	40	Australia, Chile, Colombia, Ecuador, Guatemala, Mexico, Spain, etc.
Watermelon	10	Brazil, Chile, Ecuador, Korea, Mexico, Spain, New Zealand, etc.
Orange, sweet	40	Barbados, Colombia, Ecuador, El Salvador, Mexico, South Africa, etc.

Source: USDA-APHIS-Fruits and Vegetables Import Requirements. See <https://epermits.aphis.usda.gov/manual/index.cfm>.

On the other hand, a case has been confirmed of a measure that could restrict not only bilateral, but also multilateral, trade. On 27 December 2015, the United States began charging a fee for quarantine inspections.

As already noted, Peru exports large quantities of fresh produce. Hitherto, the U.S. authorities carried out the corresponding quarantine inspection and supervision at the ports of entry to the United States free of charge, but APHIS began charging quite high fees for quarantine inspection as of 28 December 2015. The cost involved will rise gradually over a five-year period. The fee of USD 47 presently being charged for each inspection will increase to USD 95 in the second year, USD 142 in the third, USD 190 in the fourth, and USD 237 in the fifth.

Table 14. User fees for agricultural quarantine and inspection services in the United States

User category	Current fee (in effect until 27-12-2015)	New fee (in effect from 28-12-2015)
Air passenger	USD 5.00	USD 3.96
Commercial aircraft	USD 70.75	USD 225.00
Commercial vessel	USD 496.00	USD 825.00
Commercial truck	USD 5.25	USD 7.55
Commercial truck with transponder (one annual payment)	USD 105.00	USD 301.67
Commercial railcar	USD 7.75	USD 2.00
Cruise passenger	USD 0.0	USD 1.75
Treatment (quarantine inspection)	USD 0.0	* First year: USD 47 * Second year: USD 95 * Third year: USD 142 * Fourth year: USD 190 * Fifth year: USD 237

Note: Approved by Docket No. APHIS-2013-0021, of 29 October 2015; in effect from 28 December 2015.
Source: USDA-APHIS.

The Lima Chamber of Commerce (CCL) has called this measure unjustified and says it is bound to have a negative impact, as the new fee comes on top of the investment that Peruvian exporters have had to make in prior treatment (fumigation) in order to obtain authorization for their products to access the U.S. market. This latest development could affect the competitiveness of many Peruvian products, as exports such as fresh asparagus from other markets (e.g., Israel, Mexico or Chile) do not necessarily require inspections of this kind.

The matter was discussed at the V Meeting of the Free Trade Commission, held in November 2015. So far, there has so been no indication that an alternative measure has been adopted or that flexibility will be allowed.

By way of conclusion, it has been confirmed that SPS and TBT measures have increased year on year as mechanisms that restrict U.S. imports.

The challenge for the Peruvian government, operators and exporters is to detect when these measures become serious obstacles to trade, so that the issue can be raised with the competent body of the PTPA or the WTO, which have dispute settlement mechanisms created for that purpose. A more suitable forum for achieving an effective, immediate solution could be the committees, subcommittees and working groups set up under the Free Trade Commission in charge of administering the PTPA.

2.5. Chief constraints to the administration of the PTPA

The MINCETUR staff in charge of coordinating the work of the Free Trade Commission report that the Commission has met continuously since 2010. The Commission's function is to supervise implementation of the agreement, ensuring that the commitments assumed are carried out according to schedule. The Commission held its most recent meeting in Washington D.C. on 12 November 2015, and no constraints to the smooth administration of the PTPA have been encountered.

A series of committees, councils, and working groups have been established under the PTPA to monitor and implement the commitments related to each subject or chapter. It was confirmed that these committees meet periodically to deal with specific issues within their remit. However, some segments of civil society, especially producer associations in the countryside, have no knowledge of these meetings, the issues addressed at them, or the outcome. This shows how weak the institutional framework of the national agriculture sector is. Producer organizations should be properly represented and act as spokespersons for the sector, defending its interests.

III. The Coffee Chain in Peru

Coffee is Peru's main agricultural export, supporting approximately 220,000 families. Its production, transformation and sale involve organized and non-organized growers, as well as public and private institutions.

The coffee chain begins with growers, who may or may not be organized in cooperatives or associations. They harvest the coffee bean, which undergoes a number of processes to become green coffee, which in turn is sold on national and international markets. Approximately 95% of the coffee produced in Peru is exported to international markets.

Peruvian export coffee is of the "Other Mild" variety, and is sold as conventional, organic, fair-trade and specialty coffee. Twenty-two percent is exported to the United States.

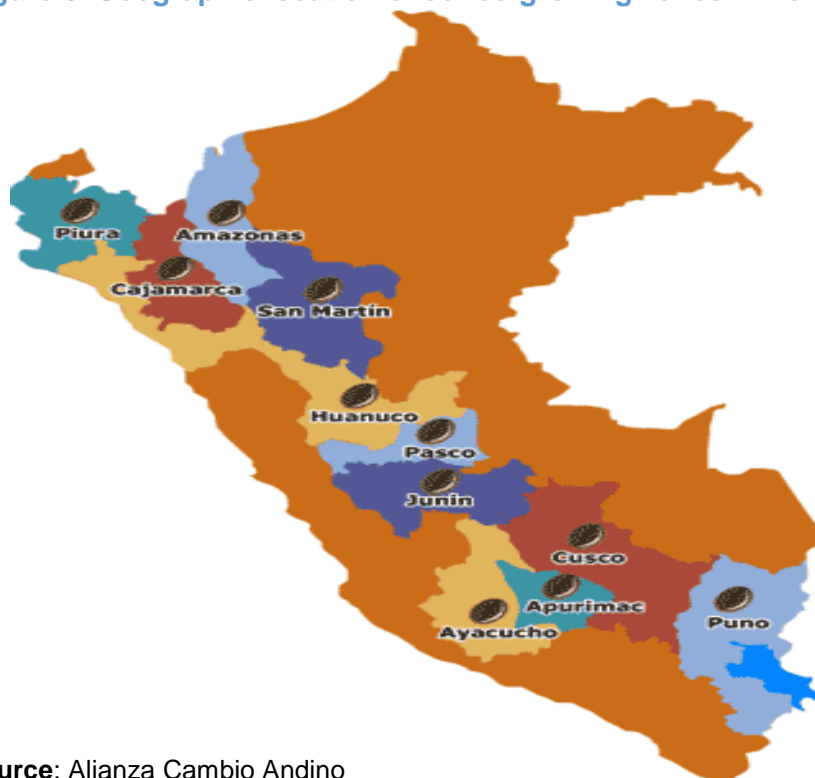
Coffee is exported by two types of stakeholders: export firms and grower associations. The latter have seen their share of the export market increase as a result of the PTPA.

Peruvian coffee's main competitors on the U.S. market are countries that produce "Mild" and "Other Mild" varieties. It reaches the final consumer after being imported through brokers or roasters. Distribution channels vary and follow consumer trends.

3.1. Description of the chain

Approximately 425,000 hectares of land are devoted to coffee production. Most farms are located in the country's highland jungles, in the regions of Piura, Amazonas, Cajamarca, San Martín, Huánuco, Junín, Pasco, Ayacucho, Apurímac, Cusco and Puno. Peruvian coffee is grown at 600 to 2,000 meters above sea level. It is of the Arabica variety, and is classified as "Other Mild" – a term created by the International Coffee Organization (ICO) in 1965, as a means of setting representative prices for the main types of coffee traded on the commodities exchange: mild Arabicas, washed Arabicas and Robustas. These classifications are used as a basis for distinctions in price, quality, bean size, growing method and origin. Peru is a member of the ICO.

Figure 6. Geographic location of coffee-growing zones in Peru



Source: Alianza Cambio Andino

As shown in figure 6, coffee is grown in 11 regions, and is distributed as follows:

- North: Piura, Amazonas, Cajamarca and San Martín
- Center: Huánuco, Pasco and Junín
- South: Cusco, Ayacucho, Apurímac and Puno

According to the study *Caracterización de las Zonas Cafetaleras en Perú* ("Coffee-growing Areas in Peru" - MINAGRI and PROAMAZONIA, 2003), coffee-growing areas in Peru display the following environmental features:

- North: average rainfall varies between 750 and 1800 mm/year. Fifty-four percent of farms are over 15 years old, 32% are between 5 and 15 years old, and 14% are less than 5 years old.

- Central: average rainfall varies between 1600 and 2000 mm/year. Forty-one percent of farms are over 15 years old, 31% are between 5 and 15 years old, and 28% are less than 5 years old.
- South: average rainfall varies between 1600 and 3000 mm/year. Fifty percent of farms are more than 15 years old, 35% are between 5 and 15 years old, and 15% are less than 5 years old.

These values influence coffee productivity and production, giving rise to differences other than those that exist between varieties.

In terms of grower organization, the cooperative movement took hold in the central and southern regions after growers organized to facilitate production and marketing. Growers in the north are organized primarily in associations. In 2012, they began shifting toward cooperatives, for tax purposes.

While the area planted in coffee has increased by 18% over the last 10 years, yields began to decline in 2012, due to rust, which affected 60% of the country's coffee farmland and reduced production to levels similar to those of 2007. Growers have suffered as a result (table 15).

Table 15. Coffee growing in Peru (2005-2015)

Year	Area (ha)	Production (thousand kg)	Yield (kg/ha)
2005	336	189	560
2006	339	273	810
2007	347	226	650
2008	359	274	760
2009	374	255	680
2010	350	279	800
2011	367	332	900
2012	390	314	810
2013	399	255	640
2014	361	222	600
2015 (*)	380	229	602

(*) Estimated. **Source:** Adapted from information supplied by MINAGRI (see <http://frenteweb.minag.gob.pe/sisca/>).

Organized and non-organized growers, as well as public- and private-sector institutions, are the **stakeholders** that comprise the coffee chain in Peru, as shown in table 16.

Table 16. Public and private stakeholders in the Peruvian coffee chain, by type and activity

Actor	Type	Activity
Non-organized producers	Private	Individuals, representing 70% of individual producers.
Organized producers	Private	Legal entities. Groups comprised of cooperatives and associations; it is estimated that there are 120 organizations in the country, representing 30% of coffee producers.
Peruvian Coffee and Cacao Chamber	Private	Exporters' trade association, made up of 18 private companies that sell coffee and cacao on the foreign market.
JNC	Private	Producers' trade organization made up of associations and cooperatives. Made up of 55 cooperatives. Represents the interests of organized small-scale coffee producers.
Ministry of Agriculture and Irrigation	Public--Government	Carries out activities in support of organized and non-organized producers, through the National Plan for the Renovation of Coffee Farms, as a program of the Directorate-General for Agribusiness.
Ministry of Production	Public--Government	Promotes technological innovation, supports the establishment of the Center for Technological Research (CITE)
SENASA	Public-Government	Carries out specific activities in support of producers, especially non-organized producers.
INIA	Public-Government	Conducts research on genetics aimed at breeding coffee varieties not currently grown in the country,
National Council of Science, Technology and Technological Innovation (CONCYTEC)	Public--Government	Supports research on postharvest practices and processing of green coffee through roasting and grinding processes, to develop appropriate technologies.
PROMPERU	Public--Government	Agency responsible for promoting the sale of Peruvian products on the foreign market .
National Financial System	Private	Made up of banks, rural credit unions, municipal credit unions.
Agrobanco	Public-Government	Second-tier bank for the agriculture sector.
Central Café y Cacao del Perú	Private	Non-governmental organization (NGO) that provides technical services to producer cooperatives. It is made up of 12 cooperatives.
Universities	Public	Universities offer training courses for specific circumstances. These include the National Agrarian University, the National University of La Selva, the National University of San Martín.
Certification companies	Private	These companies certify cooperatives that sell organic, fair-trade and other products.
Savings and Loan Cooperative for Integration and Rural Development (CIDERURAL)	Private	This cooperative is comprised of 15 cooperatives in the rural sector. It promotes a solidary rural economy and provides quality financial and non-financial services, with the aim of promoting the sustainable development of the rural sector.
Latin American Guarantee Fund (FOGAL)	Private	FOGAL provides guarantees so as to provide access to credit for organizations that carry out economic activities, especially in the rural areas of the Andean region of Latin America.
National Fund for Worker Training and Job Promotion (FONDOEMPLEO)	Public-Government	An institution that finances projects to promote the development of job skills.
Program on Compensation for Competitiveness	Public-Government	A non-reimbursable fund designed to improve competitiveness in agriculture. It supports the organized sector and conducts competitions to allocate economic resources.
Regional Governments	Public-Government	Under Act 27867, article 9, Regional Governments promote agricultural, agro-industrial, tourism and mining activities, among others.
Local Governments	Public-Government	Promote economic activities in their local areas.
Middlemen/brokers	Private	Middlemen usually represent export companies, mainly selling conventional coffee. During the production process, they offer advance financing to producers and then discount the funds loaned when farmers deliver their production; in some cases, they provide inputs such as fertilizer and agrochemicals.

Source: MINAGRI.

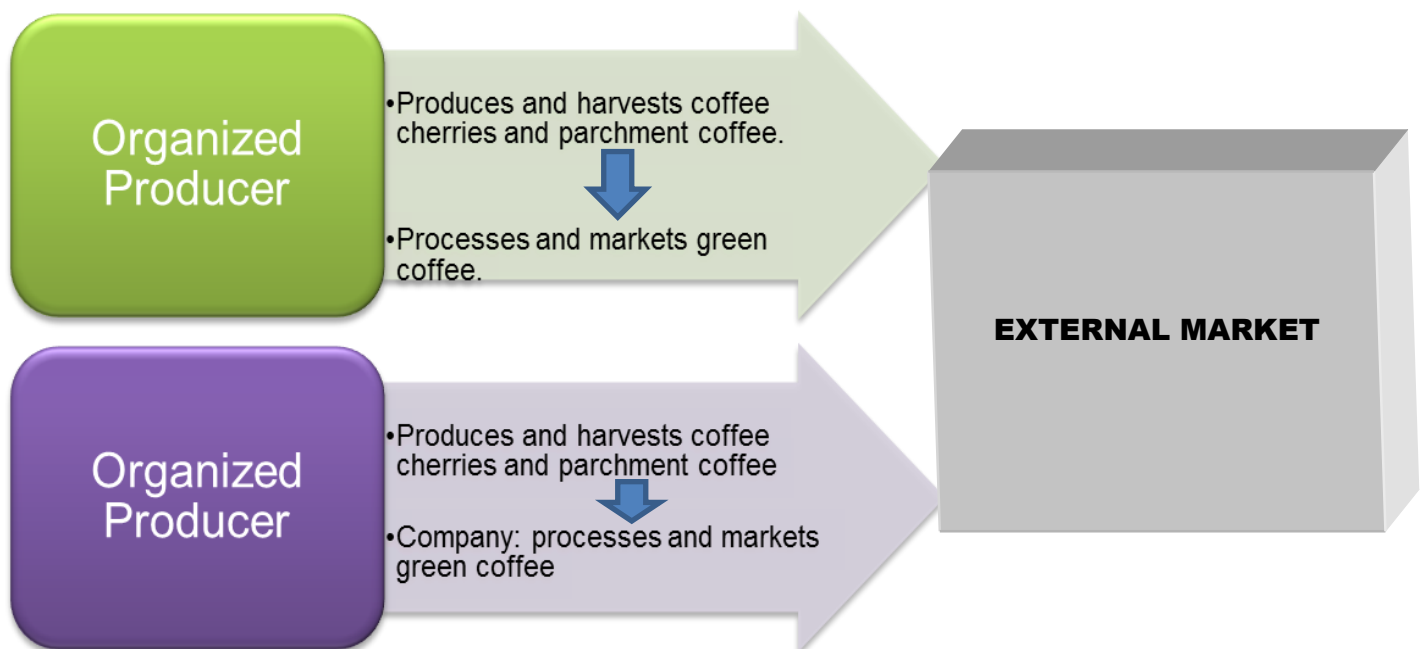
3.2. Characterization of the coffee chain

According to the 2012 agricultural census, coffee plantations cover 425,000 hectares of land. There are 224,000 growers, each of them cultivating an average area of 1.9 hectares. Coffee is thus a predominantly small-grower crop. As noted in the description of the coffee chain, growers may be classified as organized or non-organized (see figure 7).

Both groups share the following characteristics:

- They grow different types of coffee: conventional, organic, fair-trade, and specialty.
- The main varieties are *típica* and *caturra*, which have earned Peruvian coffee a reputation for high quality.
- Ninety-five percent of production is exported to the international market. The country's primary export markets are Germany, the United States and Belgium.

Figure 7. The coffee value chain



Source: MINAGRI.

3.2.1. Non-organized growers

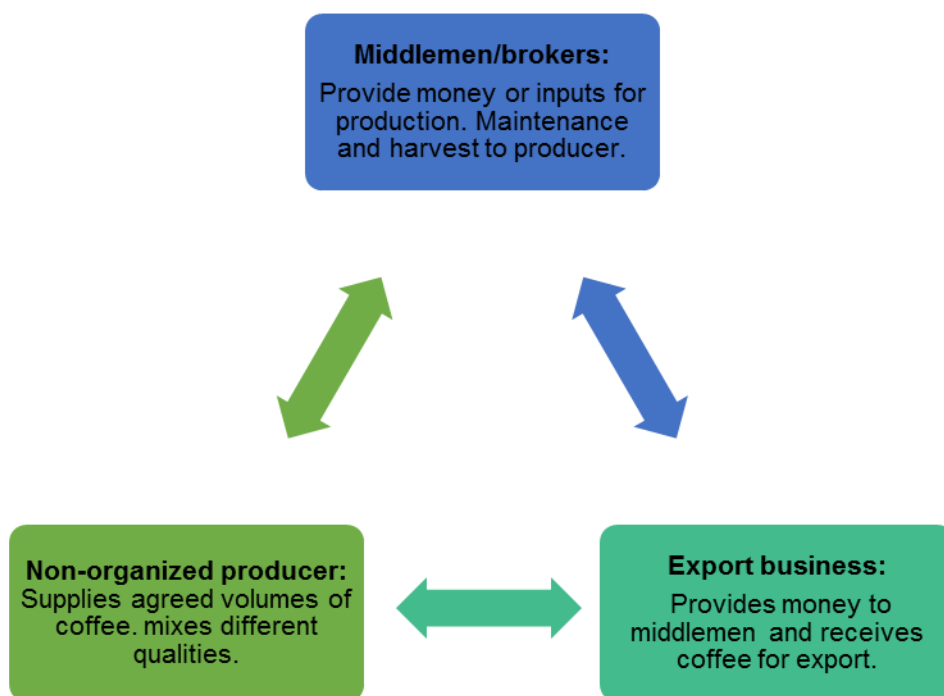
Non-organized growers generally produce conventional coffee and access the market through relationships with brokers or exporters.

In 2015, according to export reports (SUNAT, 2015), 44 export firms shipped 137,000 tons of coffee, valued at US\$ 425 million and priced, on average, at US\$3.10 per kilogram, to the international market. Thirty-one thousand tons, valued at US\$100 million, were exported to the U.S. (SUNAT 2015).

Non-organized growers sell their product through brokers or middlemen working on commission. The commercial relationship between the parties begins before the harvest and is resumed after it is complete.

The relationship begins when the broker delivers the funds required to support the operation. It goes through several phases. Funds are delivered in cash. The product obtained by the broker – green coffee – is delivered to export firms for shipment abroad (figure 8).

Figure 8. Marketing by non-organized producers



Source: MINAGRI.

3.2.2. Organized growers

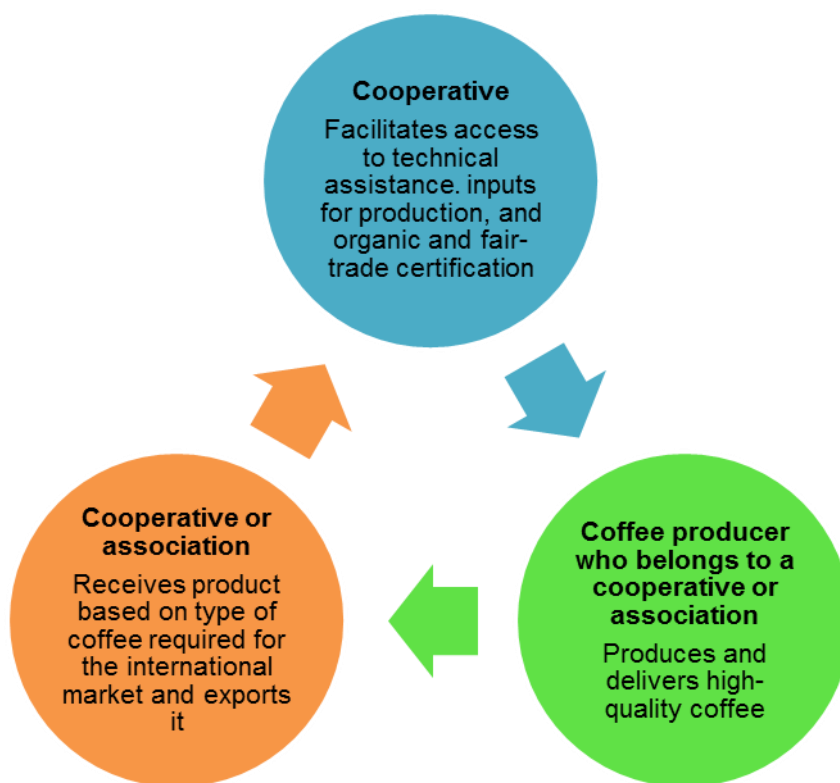
Organized growers generally produce conventional, organic, fair-trade and specialty coffee, and access the market by dealing directly with importers.

In 2015, according to export reports (SUNAT, 2015), 106 cooperatives and associations shipped 35,000 tons of coffee, valued at US\$144 million and priced, on average, at US\$4.09 per kilogram, to the international market. Eleven thousand tons, valued at US\$44 million and priced, on average, at US\$4.20 per kilogram, were exported to the United States.

Organized growers, both cooperatives and associations, sell their product by dealing directly with the import sector. Being organized enables them to negotiate prices and volumes and improves access to the formal financial sector.

These organizations, which in practice operate as service institutions, provide technical assistance during the pre-harvest, harvest and post-harvest phases. They focus on meeting the quality standards of importers.

Figure 9. Marketing by organized producers



Source: MINAGRI.

3.3. Coffee trade with the United States

While Peruvian coffee bean exports have been notably uneven, they have generally followed an upward trend, peaking in 2011. This includes sales to the European Union and the United States, which together account for 79% of total exports (E.U. – 57%; U.S. – 22%).

Exports declined steadily from 2012 onward, both in terms of value and of volume, reaching their lowest level in 2015. The decline has been reflected in exports to both markets, albeit to a lesser extent those sent to the United States.

According to a horizontal analysis of the last 11 years – 2005 to 2015 – coffee exports to the United States have, on average, accounted for 22% of total exports, reaching their highest value in 2007, at 26% (table 17).

A vertical analysis of the same period shows that Peruvian coffee exports increased by 21% (27% to the United States).

A vertical analysis also shows that, as a result of the PTPA with the U.S. (2009-2015), Peruvian coffee exports to the rest of the world fell by 13%, while exports to the United States suffered no decline. Peak volume was reached in 2011, when coffee production was at its highest.

Table 17. Volume of coffee exports from Peru to the world and to U.S. during the period 2005-2015 (in thousands of metric tons)

Year	World	U.S.	Percentage
2005	142	33	23
2006	233	51	22
2007	144	38	26
2008	224	56	25
2009	197	42	21
2010	229	48	21
2011	295	65	22
2012	266	44	17

Source: SUNAT.

Coffee is exported to the U.S. by two types of **stakeholders**: a) traders or export firms, and b) growers' associations.

As shown in table 18, non-organized exporters accounted for 77% of coffee exported to the United States between 2007 and 2015, while the remaining 23% was exported by cooperatives and associations.

Table 18. Volume of coffee exported from Peru to U.S. by type of stakeholders during the period 2007-2015 (in thousands of metric tons)

Year	U.S.	Type of stakeholders	
		Exporters	Organizations
2007	38	32	6
2008	56	47	9
2009	43	34	9
2010	48	38	10
2011	65	51	14
2012	44	29	15
2013	50	37	13
2014	44	32	12
2015	42	31	11

Source: Adapted from SUNAT.

A vertical analysis by stakeholder brings two issues to light. Firstly, export firms grew by 6.25% between 2007 and 2009, while organized growers grew by 50%; secondly, total Peruvian coffee exports dropped by 3% between 2009 and 2015, the PTPA implementation period. Export firms declined by 9%, while organized growers increased by 22%.

The growth of the latter can be attributed to the fulfillment of quality standards in the organic, fair-trade and specialty coffee markets. Some organizations also export conventional coffee.

A specific number of stakeholders are responsible for coffee exports to the United States, as shown by table 19, which also shows that between 2007 and 2009, export firms and growers' organizations grew by 42% and 50%, respectively.

Table 19. Number of stakeholders, by type, who exported coffee from Peru to U.S. during the period 2007-2015 (in units)

Year	Type of stakeholders		Total
	Exporters	Organizations	
2007	28	24	52
2008	35	29	64
2009	40	36	76
2010	33	42	75
2011	36	41	77
2012	31	48	79
2013	32	41	73
2014	26	59	85
2015	33	56	89

Source: Adapted from SUNAT.

Following implementation of the PTPA, the number of companies linked to growers' organizations surpassed that of export firms, leading to a scattering in supply; while the number of companies exporting coffee in 2015 increased by 17% compared to 2007, exports themselves did not increase. Export prices were influenced as a result.

United States Department of Commerce reports show that imports of organic coffee – the type exported by organized Peruvian growers – began to increase in 2009, following the entry into force of the PTPA. As shown in table 20, the ratio between conventional coffee and organic coffee was 81% to 19% in 2011, compared to 73% to 27% in 2015.

Table 20. Imports of conventional coffee by U.S. from Peru during the period 2011-2015 (in metric tons)

Tariff item	Type of coffee	2011	2012	2013	2014	2015
0901110025 0901110055	Conventional	48 969	36 923	37 530	36 669	31 338
0901110015 0901110045	Organic	11 428	11 775	11 725	10 642	11 409
Total		60 397	48 698	49 255	47 311	42 747

Tariff item	Type of coffee	Share				
0901110025 0901110055	Conventional	81%	76%	76%	78%	73%
0901110015 0901110045	Organic	19%	24%	24%	22%	27%
Total		100%	100%	100%	100%	100%

Tariff items – conventional coffee	
0901110025	Coffee, Arabica, not certified organic, not decaffeinated, not roasted
0901110055	Coffee, not certified organic, not Arabica, not decaffeinated, not roasted
Tariff items – organic coffee	
0901110015	Coffee, certified organic, Arabica, not decaffeinated, not roasted
0901110045	Coffee, certified organic, Arabica, not decaffeinated, not roasted

Source: United States Department of Commerce

The prices negotiated by each stakeholder are a reflection of the type of coffee they bring to market. Prices negotiated by exporters during the 2007-2015 period (US\$ FOB/kg) were below average and lower than those obtained by organizations, as shown in table 21. Organizations were able to secure better prices by dealing primarily in organic, fair-trade and (to a lesser extent) conventional coffee.

Table 21. Price received by type of stakeholder (US\$ FOB/kg) during the period 2007-2015

Year	Average	Type of stakeholder	
		Exporters	Organizations
2007	2.47	2.35	3.06
2008	2.82	2.72	3.37
2009	2.96	2.85	3.35
2010	3.90	3.79	4.32
2011	5.71	5.48	6.55
2012	4.29	4.07	4.73
2013	3.03	2.71	3.95
2014	4.04	3.69	4.95
2015	3.46	3.20	4.19

Source: Adapted from SUNAT.

3.4. Main competitors of Peruvian coffee in the United States

In 1965, the ICO agreed to consider harvesting method and bean size and quality, among other criteria, when setting indicator prices for coffee traded on commodities exchanges. Four price groups were established: Colombian Mild Arabicas, Other Mild Arabicas, Brazilian Arabicas and Robustas. The first two are Arabicas, while Brazilian coffees include Arabicas and Robustas. Peruvian coffee is classified as Other Mild, as shown in table 22.

Table 22. Composition of coffee-producing countries, by type

Type	Producer countries
Colombian Mild Arabicas	Colombia, Kenya, United Republic of Tanzania
Other Mild Arabicas	Bolivia, Burundi, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, India, Jamaica, Malawi, Mexico, Nicaragua, Panama, Papua New Guinea, Peru, Rwanda, Venezuela, Zambia, Zimbabwe
Brazilian Arabicas and other natural Arabicas	Brazil, Ethiopia, Paraguay
Robustas	Angola, Benin, Cameroon, Central African Republic, Côte d'Ivoire, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Ghana, Indonesia, Liberia, Madagascar, Nigeria, Philippines, Sierra Leone, Sri Lanka, Thailand, Togo, Trinidad and Tobago, Uganda, Viet Nam

Source: ICO (www.ico.org – section 01.05).

As shown in table 23, 30% of coffee consumed in the U.S. is Robusta. The remaining 70% is Arabica.

Table 23. Consumer profiles

Country	Ratio Arabica species/Robusta species
United States	76/24
Canada	75/25
Germany	76/24
France	50/50
Italy	56/44
United Kingdom	50/50
Japan	74/26
Russia	35/65
Brazil	65/35

Source: CCI 2004.

Peruvian coffee is classified as Arabica, and it competes primarily with Colombia and Central America. As shown in table 24, Peru is currently not among the main exporters to the U.S.

Table 24. Leading suppliers of coffee to U.S.

Country	% share
Brazil	21
Colombia	16
Viet Nam	11
Mexico	10
Guatemala	8
Others	34
Total	100

Source: Adapted from ICO.

As shown in table 25, Peru ranks third in terms of exports of Other Mild coffees to the United States, behind Colombia and Central America, which export Mild and Other Mild varieties.

Table 25. Share of exports of Mild and Other Mild varieties to U.S. market during the period 2005-2015

Coffee variety	Country	%
Mild	Colombia	16.70
Other Mild	Guatemala	7.00
	Peru	3.70
	Costa Rica	3.30
	Nicaragua	2.92
	Honduras	2.86
	El Salvador	1.92

Source: U.S. Department of Commerce s. f.

3.5. Coffee distribution channels in the United States

According to *Perfil de café en los EE.UU. 2015* (“Outlook of Coffee in the U.S., 2015”, Figure 5), a study published by the Ecuadoran Ministry of Foreign Trade, the coffee chain is comprised of the following stakeholders:

Brokers – work on commission, and account for 2% to 5% of the trade, in terms of sales.

Importers – enjoy a profit margin of approximately 30%; determine the type of coffee imported and the market segment targeted; also identify clients (supermarkets, distributors, chain stores).

Distributors – earn an average commission of 30% over import price; sell to restaurants, hotels, retailers, catalogue companies.

Roasters – play a crucial role, as coffee must be roasted before distribution; distributors, importers and/or brokers usually complete this step before delivering the product.

Importer-distributor-roasters – are responsible for importing the product, clearing customs, procuring and identifying clients and handling distribution. Their profit margin is approximately 40% to 50% over the grower’s price, thanks to their dual role. Working with importer-distributor-roasters allows growers to negotiate more competitive prices.

Airlines – acquire coffee from distributors, in addition to health and gourmet foods.

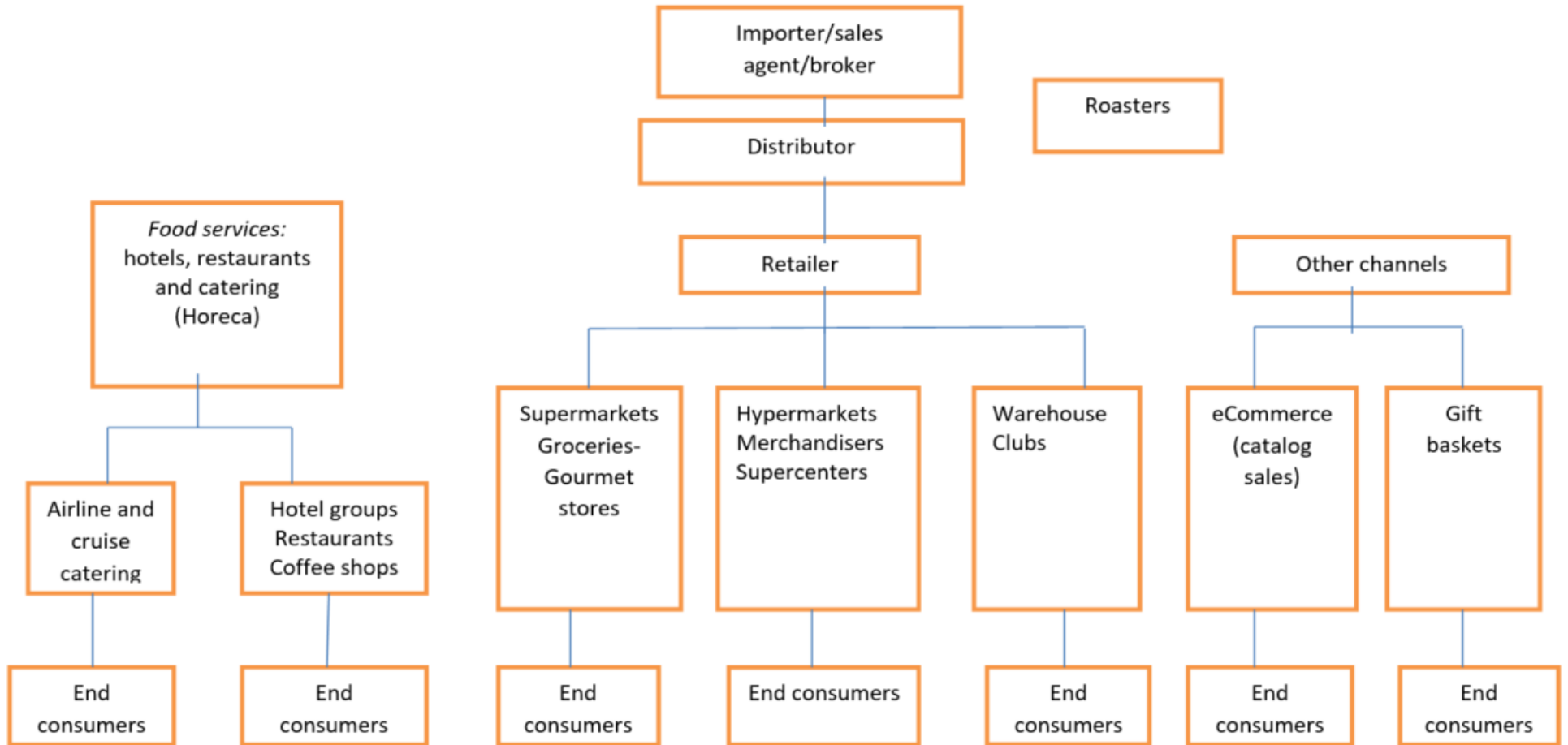
Warehouse clubs – develop their own brands, for which they acquire gourmet products, including coffee.

Coffee shops – purchase specialty coffees.

Retailers – include supermarkets and specialty stores.

Restaurants – offer customers coffees of various types and origins

Figure 10. Coffee marketing channels in the U.S.



Source: Adapted from PROECUADOR 2015

3.6. Coffee consumption trends

In 2015, Procolombia conducted a study on coffee consumption around the globe, and identified seven trends which may also be observed in the U.S. They are as follows:

- Consumers want higher-quality, more natural coffees
- The number of coffee shops has increased
- Consumers want sustainable and certified coffees
- Coffeemakers have grown in popularity, in homes and offices
- Clients wish to trace the origins of the product
- The *barista* culture has gone mainstream
- Consumption is on the rise among young people

IV. Main constraints to increasing coffee trade with the United States

Peru's coffee production consists mostly of conventional, organic, fair-trade and specialty coffees. Although these four types of coffee are in demand on the international market, there are no up-to-date studies focusing specifically on the United States market. This adds to the uncertainty that prevents Peruvian exporters from increasing the volume of their exports.

The diversity of public and private stakeholders in the coffee chain, who pursue different goals and do not coordinate their activities, makes it impossible to orient or develop non-financial services for the benefit of coffee producers. There is a lack of strong institutions, and inadequate non-financial services, along with limited financial services, hinder efforts to improve the production, harvesting, post-harvest handling and processing of coffee. This all works to the detriment of output, productivity and quality of Peruvian coffee.

In addition, the absence of a sound institutional framework means that a sector of stakeholders in the coffee chain, i.e., the producers, is not aware of the trade benefits of the PTPA. Thus, they miss the opportunities offered by the PTPA to improve their economy.

The replies received to questions that were sent to commercial operators indicate that Peruvian exports of raw coffee beans, either conventional or specialty coffees, have not been faced with significant tariff or non-tariff restrictions to entry into the U.S. market. Before negotiations on the PTPA had been concluded, Peruvian coffee was already being imported tariff-free by the United States, given that the tariff for members of WTO, including Peru, was 0% (MFN tariff).

Once the PTPA entered in force, in February 2009, since raw coffee beans from Peru were on the United States schedule of products to be imported tariff-free from Peru, Peruvian coffee exports to that market were assured of stability, since the relevant provision could not be modified unilaterally. In other words, the tariff measure favoring Peru could not be changed without prior consultation. Thus, one of the most important contributions made by the PTPA to Peruvian exports of raw coffee beans is the assurance of continued stability of access to the United States market.

Some questions might be raised as to why Peruvian exporters have not taken more advantage of the United States market. In fact, except for 2011, sales of coffee beans remained at less than 50,000 tons per year, and even dropped between 2012 and 2015.

The field work conducted for this project, as well as the workshops carried out, led to the identification of three general types of constraints (cultural, institutional and production-related), from a total of seven specific constraints, along with the related causes and effects.

4.1. Cultural constraints

The following table shows some of the cultural constraints, which include the lack of training of coffee growers, from primary and secondary school and even university- level education, on issues relating to foreign trade and international business. There are also prejudices about the opportunities that are available through PTPA. These factors have limited the awareness of growers and prevented them from taking advantage of the opportunities offered by the PTPA.

Table 26. Cultural constraints

Causes	Constraints	Effects
<ul style="list-style-type: none"> • Producers are accustomed to selling through middlemen and brokers on the farm • Most leaders of cooperatives have little training in foreign trade • Lack of awareness about opportunities offered by the U.S. market, through PTPA, for conventional or organic coffees 	Lack of awareness about foreign trade techniques and the PTPA with the U.S., so as to identify business opportunities for coffee on the U.S. market	<ul style="list-style-type: none"> • Lower share of cooperatives in the U.S. coffee market • Producers take little or no advantage of opportunities offered by the U.S. market, particularly for specialty coffees
<ul style="list-style-type: none"> • Coffee has always been considered a traditional export commodity, with established foreign markets • Coffee has not been considered a strategic commodity, so priority has not been given to developing it, and no incentives have been offered 	Lack of a trade promotion strategy for Peruvian coffee in the U.S.	<ul style="list-style-type: none"> • Coffee exports have remained stagnant; as the annual volume exported to U.S. over the last 15 years, except in 2011, was approximately 50,000 tons. Exports consisted mainly of conventional coffee.

4.2. Institutional constraints

There are no well-established institutions representing the coffee sector which can work with the public sector to design policies for supporting the production of high-quality coffee and increasing awareness of market preferences for different types of coffee (conventional, organic, fair-trade, specialty), both in terms of supply and of demand. This has led to uncertainty among coffee producers about the possibility of selling exportable coffee on the U.S. market.

The fact that there is no agency or institution to coordinate the exportable supply with the demand for each type of coffee and to pass that information on to the parties concerned limits the continuity and sustainability of the exportable supply of Peruvian coffee.

This affects small-scale producers, as the prices they obtain usually do not cover the cost of producing, harvesting and processing their coffee.

Table 27. Institutional constraints

Causes	Constraints	Effects
<ul style="list-style-type: none"> The largest trade association, the National Coffee Board (JNC), only represents 20 % of coffee organizations. Producers are disconnected from marketers or exporters and from processors or industries. There is no coordination. There is no interest in developing a forum for the chain through the National Coffee Board (inactive). 	Lack of coordination and weak institutional framework of the coffee value chain	<ul style="list-style-type: none"> Producers are not able to take advantage of the opportunities offered by the U.S. coffee market. The lack of coordination between producers and traders causes saturation on the U.S. market for organic coffee, making it necessary to sell it as conventional coffee. The lack of an institutional framework prevents producers from demanding incentives that are available to other traditional sectors (such as sugar).
<ul style="list-style-type: none"> The prevalence of <i>minifundios</i> (very small holdings) is a problem for the agriculture sector in Peru, where 82% of farm units are under 5 hectares in size. Most of these units have not been properly legalized and therefore are not eligible for loans. Eighty percent of coffee producers do not have title deeds to their properties. 	Limited access to formal financial services.	<ul style="list-style-type: none"> Many coffee producers, lacking access to formal financial services, obtain informal loans at onerous rates. Many organizations are unable to start exporting to the U.S. because they lack resources to invest in equipment, quality-testing laboratories, etc. This makes it impossible to improve the quality of Peruvian coffee.
<ul style="list-style-type: none"> Economic limitations of producers and lack of information, as well as a weak State presence and a lack of institutions in the chain, hinder access to non-financial services. 	The lack of non-financial services limits the positioning of Peruvian coffee on the U.S. and other International markets.	<ul style="list-style-type: none"> Low productivity, the poor quality of coffee and low profits are reflected in a meager supply of exportable Peruvian coffee for the U.S. market. Lower prices are transferred to producers. The image of Peruvian coffee as synonymous with quality suffers.

4.3. Production-related constraints

The coffee sector is continually faced with problems that affect the entire chain, thus limiting its yield, quality and competitiveness on the U.S. market.

Table 28. Production-related constraints

Causes	Constraints	Effects
<ul style="list-style-type: none"> There is no protocol for quality control or for keeping a record of post-harvest handling, especially the stages of pulping, fermentation and drying, which are indispensable. 	Limited implementation of good practices for harvesting and post-harvest handling.	<ul style="list-style-type: none"> These issues are reflected in disparate qualities and a shortage of exportable coffee of uniform quality. Coffee with lower levels of quality (on the SCAA scale) can only be sold for blends. Lower prices are transferred to the producers. The image of Peruvian coffee as synonymous with quality suffers.
Most plants that process raw or green coffee are obsolete, and they have not made an effort to modernize and apply good manufacturing practices. There is no interest in applying technical standards.	Plants that process raw or green coffee for export do not contribute to coffee quality.	<ul style="list-style-type: none"> Physical yields of coffee differ, and samples have serious defects, which are reflected in prices. Lower prices will be transferred to the producers. The image of Peruvian coffee as synonymous with quality suffers.

V. Important experiences with coffee exports that can lead to improvements in the management, implementation and operation of the PTPA

Table 29 outlines five experiences, involving four cooperatives and a producers' organization, that provide significant insights into the coffee trade with the United States. Three are in the Junín region, one in the Apurímac region and another in the Puno region.

The common denominator of the five cooperatives, which were created in different years, is that they began their foreign trade activities through middlemen because they did not have management experience and were unfamiliar with technology. They also lacked the economic and financial resources necessary to enter the international coffee market.

Peru has produced coffee for export since the late nineteenth century. Its coffee has always been known for its good quality, but it only became an established player on the international market between 1950 and 1960.

The agrarian reform that was begun in 1968 by the military government that was in power at the time affected the structure of production on all coffee farms. After a number of experiments with organization, the small-scale individual coffee growers became, and remain, the mainstay of the coffee sector. Only around 30% of coffee producers are organized under different arrangements.

At that time, only conventional coffee was produced, and the reference price was the price quoted on the New York commodities exchange. Since those prices were highly volatile and were subject to speculation, by the late 1990s, the coffee sector faced a serious crisis in terms of prices. Many producers were forced to turn to alternative crops, even some illicit crops, and that situation was aggravated with the rise of terrorism and armed violence in many coffee-producing areas. Those problems are being overcome, but price volatility on the international market is still an issue.

In the late 1990s and early 2000s, some coffee growers tried producing non-conventional coffees, with the aim of obtaining better prices. Thus, they started to grow organic coffees and eventually, specialty coffees, although on a lesser scale.¹⁴

Those efforts have increased in recent years, with government providing support through PROMPERU, in the area of trade, and MINAGRI, in the area of production. The goal is to promote the image of Peru as a country that produces high-quality coffee.

The increase in the value of coffee exports has mitigated the sharp drop in production of different types of coffee, especially conventional coffees, which represent approximately 75% of the total produced.

With regard to the five experiences shown in table 29, it should be noted that two cooperatives (Pichanaki and Incahuasi), which began during the 2000s, represent the cooperatives that are in the process of getting set up for trade. Three of the cooperatives, which were started around the 1970s, are well-established commercially (Pangoa, CECOVASA and La Florida) and have been exporting regularly to the U.S., especially conventional coffee.

All the cooperatives are faced with most of the same problems, such as the instability of international prices, constraints to obtaining credit, lack of technological innovation, and economic difficulties; these issues are reflected in the fact that members live in poverty and work in the informal economy. This situation has a direct impact on the newer cooperatives and, to a lesser extent, even on the well-established ones.

For several years, non-governmental organizations from Europe and the United States have been working in Peru with social investment funds, granting or guaranteeing loans for small producer organizations at preferential rates much lower than those prevailing in the national financial system.

It is vital that small cooperatives form strategic partnerships with such organizations so as to gain access to special financing for their efforts to store and improve their crops of conventional and organic coffee.

It is also important for developing cooperatives to participate in trade fairs, including the SCAA Expo, the most important specialty coffee fair in the United States. The Expo opens a door to the world market, as it enables producers to establish strategic partnerships with marketing companies and roasters and export directly to the United States and other parts of the world. It also helps them learn about market trends and consumer preferences.

In the mid-2000s, world markets, especially those in the United States, showed a marked tendency to prefer organic, fair-trade and specialty coffees. This meant that cooperatives had to improve the

¹⁴ Under the Act on Andean Tariff Preferences (ATPA), which was replaced by the Act on Trade Promotion and Drug Eradication (ATPDEA), the United States (1992-2010) had taken a number of measures to promote access for coca-substitution crops, with coffee being one of the star products in the program.

technologies applied throughout the coffee value chain in order to offer high-quality products. Economic limitations, however, prevented them from improving their processing techniques.

Until 2006, the developing cooperatives had not yet exported their coffee to the United States, while the established cooperatives were already exporting directly. However, with the entry into force of the PTPA in 2009, the newer cooperatives made their first exports, while the others were consolidating and expanding exports of different types of coffee.

In 2008, the national Government began to make non-reimbursable funds available, on a competitive basis. This enabled some duly organized cooperatives, including the five cooperatives mentioned above, to begin or continue improving their technologies.

The decline in production which occurred between 2012 and 2015 affected, to a greater or lesser degree, the supply of exportable coffee from all the cooperatives. It is hoped that the Government's National Plan for the Renovation of Coffee Farms, along with small-scale programs started by the cooperatives themselves with funding from other sources, will lead to a gradual recovery of production, and that by 2018, all coffee farms will be producing at maximum capacity.

As high-quality coffee crops become established, the new supply of exportable Peruvian coffees should make it possible to regain the United States and European markets that had been lost. This will call for a concerted marketing effort.

Table 29. Experiences of coffee undertakings in Peru

	Cooperatives in development		Established cooperatives		
	Cooperativa Agraria Cafetalera ACPC Pichanaki, Junín Region (2000)	Cooperativa Agraria Cafetalera Valle de Incahuasi, Apurímac Region (2005)	Central de Cooperativas Agrarias Cafetaleras de los Valles de Sandia (CECOVASA), Puno Region (1970)	Cooperativa Agraria Cafetalera La Florida, Junín Region (1966)	Cooperativa Agraria Cafetalera Pangoa Ltda., Junín Region (1977)
Initial situation (up to 2005)	Marketing activities carried out through middlemen		Market their product directly		
	Context of volatile prices leads to a crisis in the sector, affecting the stability of producer organizations (critical situation between late 1990s-early 2000s). The situation remains unchanged.				
	Lack of credit to enable organizations to adopt technological innovations				
Initial situation (after 2006)	Did not export to U.S. in 2006	Did not export to U.S. in 2006	719 t (19% total) exported to U.S. in 2006	12,10 t (33% total) exported to U.S. in 2006	358 t conventional coffee (59% total) exported to U.S. in 2006
	In 2012, coffee rust disease causes a sharp decline in production				
Results	In 2015, exported 228 t to U.S., representing 25 % of total exports (Part organic and specialty coffees)	In 2015, exported 45 t to U.S., representing 11 % of total exports (Part organic and specialty coffees)	In 2015, exported 208 t to U.S., representing 19 % of its exports (Part organic and specialty coffees)	In 2015, exported 178 t to U.S., representing 49 % of its exports (Part organic and specialty coffees)	In 2015, exported 365 t to U.S., representing 56 % of its exports (Part organic and specialty coffees)
	The supply of exportable coffee is recovering (20 % per year), as production of new coffees is started, after launching of the National Plan for the Renovation of Coffee Farms. A 100% recovery is expected by 2018.				

Table 30. Experiences of coffee cooperatives in Peru

	Cooperatives in development		Established cooperatives		
	Cooperativa Agraria Cafetalera ACPC Pichanaki, Junín Region (2000)	Cooperativa Agraria Cafetalera del Valle de Incahuasi, Apurímac Region (2005)	Central de Cooperativa Agrarias Cafetaleros de los valles de Sandia (CECOVASA), Puno Region (1970)	Cooperativa Agraria Cafetalera La Florida, Junín Region (1966)	Cooperativa Agraria Cafetalera Pangoa Ltda., Junín Region (1977)
Process of change	Establish strategic partnerships with organizations that manage social investment funds and social safety net funds in the United States and Europe				
	Search for permanent clients, participation in the SCAA specialty coffee expo in the U.S. This makes it possible to initiate trade contacts and identify consumer market trends.				
	Public institutions issue tenders for financing of technological innovation projects (Agroideas, Procompite, among others)				
	Development of technological innovation (renovation of coffee farms, quality-control laboratories, drying tables)				
	Permanent development of institutional and personal capacities of partners				
Factors of success	Establish strategic partnerships with private and government financial entities, especially those with social purposes, in order to obtain loans and guarantees to implement production and commercial improvements				
	Establish partnerships with public and private entities that promote participation in fairs and trade missions, in order to have direct contact with potential clients and learn about new trends in specialty coffee consumption				
	Be respectful of commitments undertaken in contracts with coffee importers				

VI. Recommendations for developing a strategy of improvement

6.1. Recommendations on management of the PTPA

- a) The structure of MINAGRI should be changed, and legislation should be enacted to create a unit or directorate specializing in international trade negotiations so as to promote continued participation of the sector in different multilateral and bilateral trade negotiation forums and in the implementation and monitoring of trade agreements signed by Peru, so that adequate funds are allocated for such activities.¹⁵

This recommendation is related to one of the issues holding back efforts to take better advantage of the benefits of the PTPA, i.e., the lack of a strategy for promoting coffee in the United States. This is linked to the failure of government authorities and high-ranking officials of MINAGRI to give priority to promoting, disseminating and participating in the benefits offered by the PTPA for exports to the United States of coffee and other products from Peru.

- b) The specialized unit to be created should coordinate its work with private institutions such as AGAP, CONVEAGRO, Asociación de Industriales Lácteos (ADIL), Asociación Nacional de Fongales del Perú, Asociación de Productores Ecológicos del Perú, and sugar and rice entrepreneurs, as well as the regional directorates of agriculture, among others, with a view to disseminating the key provisions of the PTPA and gathering the observations, concerns and suggestions made by those institutions regarding implementation of the PTPA. Their remarks should then be presented at committee and subcommittee meetings in the context of meetings of the Free Trade Commission.

These recommendations are related to other constraints faced by the coffee sector, namely, the lack of coordination and the weak institutional framework of the coffee value chain, as well as the lack of awareness about the usefulness of the PTPA in terms of identifying business opportunities for coffee on the United States market.

6.2. Recommendations on market access

- a) Two of the measures which the United States applies to its imports of agricultural products are Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT).

With regard to SPS, priority should be given to obtaining technical and financial cooperation from the United States for implementation of work plans and protocols that are not yet available for other fresh produce that might be exported to the United States market.

With regard to TBT, technical and financial cooperation should be sought from the United States Government in order to avoid unnecessary barriers to trade by hiring experts to explain the technical specifications that must be met in order to obtain approval for certain products, in accordance with the technical standards or regulations of that country.

- b) A special coffee research program should be established at INIA, with the necessary budget and a qualified staff.

¹⁵ As of this date, Peru is party to 20 trade agreements that are currently in force. It has concluded five trade agreements the entry into force of which is pending, and is in the process of negotiating four trade agreements. Fifty-seven countries are covered.

This recommendation is intended to address, among other issues, the need to deal with the lack of non-financial services, which hinders efforts to position coffee on the United States and other International markets.

- c) The National Coffee Board, which was created by Supreme Resolution No. 005-2002-AG, should be reactivated by means of a new law declaring its reactivation and restructuring to be of national interest. Membership of the Board should include representatives of all the sectors involved in production and of private trade associations.
- d) In addition, a program should be created to promote and strengthen cooperatives and associations of coffee growers.
- e) A levy should be imposed to benefit the coffee sector in particular and producer associations in general, so as to generate funds to help them become self-sustaining and to strengthen the institutional framework.

Recommendations b), c) and d) have to do with the need to strengthen the institutional framework of the coffee sector, which is currently disorganized and has little response capacity; the National Coffee Board is not adequately funded and thus has a limited scope. In this regard, these proposals are intended to address the lack of coordination and the weak institutional framework of the coffee value chain.

- f) MINCETUR and MINAGRI should enter into agreements with specialized training centers with a view to training managers, officials and professional staff of associations and cooperatives in areas such as foreign trade, business opportunities, administration and financial management.
- g) An observatory on coffee should be set up to collect, analyze and interpret important information on the coffee market in general and the United States market in particular.

This recommendation refers to the need to implement a training program in the area of foreign trade and International trade negotiations. A program is also needed to identify business opportunities on the United States market. These two proposals are intended to address the lack of awareness about the usefulness of the PTPA in terms of identifying business opportunities for coffee on the United States market.

- h) Technical standards or regulations should be drawn up for the harvesting, post-harvest handling and processing (milling) of coffee.
- i) A training program should be set up for small-scale producers in areas such as harvesting, post-harvest handling and processing of coffee. In view of the economic circumstances of small-scale coffee growers, who are the great majority, compliance with the quality standards (technical standards) developed in Peru is not compulsory. There are no technical standards for coffee processing. These proposals are intended to address the problem of limited implementation of good practices for harvesting and post-harvest handling.
- j) A financial product should be created, through AGROBANCO, as a promotional mechanism that is flexible enough to be accessible to organizations and independent producers.
- k) The awarding of titles to coffee producers' lands should be accelerated, so that they can become subjects of credit in the national financial system.

One of the most serious constraints faced by coffee producers is their lack of access to credit. Thus, recommendations j) y k) are intended to address their limited access to formal financial services.

- l) Legislation should be passed to create the Coffee Institute, which should have public-private legal status and should be responsible for generating coffee policy and carrying out research, innovation, technology transfer, training and industrialization activities pertaining to the coffee value chain.
- m) The medium-term strategy of MINAGRI for development of the coffee sector in Peru 2016-2018 (Ministerial Resolution No. 0244-2016-MINAGRI of 03 June 2016) should be implemented.

These are comprehensive proposals for the development of national and International coffee markets. In that regard, the first proposal reflects an unfulfilled wish of the country's coffee producers. The second proposal is a measure published by MINAGRI that calls for an intervention that must have an adequate budget and pre-established time limits.

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