

U.S. – Panama Trade Promotion Agreement (PTPA) Analysis



Before discussing the economic impact analysis of the PTPA, an understanding of the agreement's content is important. Some important aspects of the agricultural sections of the PTPA are summarized below.

Major PTPA Provisions

Under the PTPA, more than half of current U.S. agricultural exports to Panama will become duty-free immediately. Items that receive immediate duty-free treatment include high-quality beef, mechanically de-boned chicken, frozen whole turkeys and turkey breast, pork variety meats, whey, soybeans and soybean meal, cotton, wheat, barley, most fresh fruits, almonds, walnuts and many processed products. In addition, the United States and Panama have worked to resolve sanitary and phytosanitary barriers to agricultural trade, including food safety inspection procedures for beef, pork and poultry. Some of the other specific provisions of the agreement are discussed further below.

All Commodities Included in the Agreement

The PTPA requires an eventual elimination of *all* tariffs on *all* agricultural products exported by the United States to Panama. Most agricultural products from Panama already enter the United States duty-free under the Caribbean Basin Initiative (CBI). The PTPA would level the playing field by ensuring the same open market access for United States exports to Panama as Panamanian exports currently receive in the United States. Tariffs on U.S. farm products are phased out completely over 20 years. The agreement not only eliminates the lower applied tariffs currently applied to agricultural imports from the United States, but would also preclude the possibility of Panama shifting to the much higher bound tariffs for farm products at anytime in the future. This elimination of both applied tariffs and bound tariffs ensures the United States open access regardless of market developments that might lead Panama to revert to their higher bound rates on record with the World Trade Organization.

Tariff Rate Quotas in the Agreement

In the PTPA, both parties utilized tariff rate quotas as a transition vehicle to open markets for a variety of agricultural products. A tariff rate quota, also known as a TRQ, is a two-leveled tariff, where the tariff rate charged on imports depends on the volume or quantity of imports. A lower tariff, also called an in-quota tariff, is charged on imports that fall within the quota volume. These tariffs are generally low and not very trade distorting. A higher tariff, also called an over-quota tariff, is imposed on imports in excess of the quota volume.

The United States will utilize TRQs to open its markets for cheeses, condensed and evaporated milk, ice cream and sugar. With the exception of sugar, all U.S. TRQs will be eliminated and the markets will be fully opened within 17 years. The sugar TRQ will grow by 60 metric tons per year for the first ten years of the agreement, with the over-quota tariff remaining in place. After year 10 of the agreement, the sugar quota "shall remain at 6,600 metric tons."

Panama will also utilize TRQs as a means of transition to completely open markets. Like the United States, nearly all Panamanian TRQs will be eliminated and markets will be fully opened, but within 20 years. In Panama's case, TRQs for fresh/chilled potatoes and fresh/chilled onions will grow by 2 percent per year into perpetuity, with the over-quota tariff remaining in place. The table below shows the commodities for which Panama will utilize a TRQ, the average U.S. export of these selected commodities (from 2002 to 2006) and the TRQ values for year one and year ten of the agreement's implementation. There are a few Panamanian TRQs to take note of. The TRQs for U.S. exports of yogurt, rough rice and processed tomatoes are smaller than the average U.S. exports to Panama of those commodities over the



last five years. In the case of yogurt, this was considered a small piece of an otherwise good dairy package where all other TRQs are well in excess of historical trade. In the cases of rough rice and processed tomatoes, these PTPA TRQs will be combined with already existing WTO TRQs. Rice is by far Panama's most sensitive commodity. When negotiating the rice TRQs, trade data from 2001 through 2003 was used (not the 2002 through 2006 seen in the table) because Panama felt those numbers represented more "normal" trade levels.

Panama's TRQ Commitments

(Values in Metric Tons)

Commodity	Year 1 TRQ	Year 10 TRQ	Unlimited In
Fluid Milk	11	16	15 years
Nonfat Dry Milk	2,625	4,072	17 years
Whole Milk Powder	53	81	16 years
Yogurt	53	81	15 years
Butter	116	179	15 years
Cheddar Cheese	364	518	16 years
Other Cheese	364	518	17 years
Ice Cream	263	407	16 years
Other Dairy	137	212	15 years
Corn	298,700	389,736	15 years
Refined Corn Oil	368	Unlimited	10 years
Pork	1,600	3,212	15 years
Pig Fat	636	1,075	15 years
Some Processed Pork	318	537	15 years
Chicken Leg Quarters	660	1,556	18 years
Rough Rice*	7,950	13,431	20 years
Milled Rice	4,240	7,163	20 years
Fresh/Chilled Potatoes	765	914	Grows 2%/year
Frozen French Fries	3,640	Unlimited	5 years
Fresh/Chilled Onions	816	975	Grows 2%/year
Dried Kidney Beans	795	1,200	12 years
Processed Tomatoes*	798	1,042	15 years

** These TRQs are in addition to WTO TRQs, which the U.S. already utilizes*

To ensure that these TRQs are administered in a manner that facilitates opening these protected markets, the agreement provides specific guidelines on how to operate these TRQs. The agreement states, "Each Party shall make every effort to administer its TRQs in a manner that allows importers to fully utilize them." Specifically, the agreement requires that TRQ administration be transparent, that administration will be done by government authorities, and that TRQ quantities are made in commercially viable amounts.

Safeguard Mechanisms in the Agreement

The PTPA allows either country to impose a safeguard measure on selected agricultural commodities in the event that the domestic market for the commodity could be disrupted and producers could be harmed by a surge in imports. Panama has safeguard measures for beef other than prime and choice beef, pork, chicken leg quarters, fluid milk, whole milk powder, yogurt, butter, cheddar cheese, other cheese, ice



cream, other dairy products, rough rice, milled rice, certain vegetable oils, refined corn oil and processed tomatoes; the United States has safeguard measures for beef, condensed and evaporated milk, select cheeses, other cheeses and ice cream. A trigger level was set for each commodity in the text of the agreement and an additional duty (that varies by commodity) may be charged *temporarily* if this trigger is reached.

Sugar in the Agreement

The PTPA also requires the United States to expand its current sugar quota for Panama. Panama currently has authorization to export 37,168 metric tons of sugar to the United States each year. Under the PTPA, Panama's sugar quota would increase immediately by 6,060 metric tons up to 6,600 metric tons in the tenth year of implementation, and the quota will remain at that level.

However, the text of the agreement provides for a "sugar compensation mechanism." The United States has the right to compensate Panama for their increased sugar quotas in lieu of actually importing the sugar. This provision is similar to that provided in the Dominican Republic-Central American Free Trade Agreement. However, the PTPA explicitly explains how this compensation will occur. The agreement states, "Such compensation shall be equivalent to the estimated economic rents that Panama's exporters would have obtained on exports to the United States of any such amounts of sugar goods and shall be provided within 30 days after the United States exercise this option." Also similar to the DR-CAFTA, Panama must meet a "net-exporter" provision (or export more sugar than they import) in order to send any additional product to the United States market.

Analysis Methodology

On Tuesday, April 12, 2011, USDA-ERS released new trade numbers that estimated the overall impact that the pending FTAs would have on U.S. agricultural exports. Upon close review, it was determined that the USDA-ERS economic model and AFBF economic model share similar assumptions regarding trade margins of preference, population growth, GDP growth, per capita GDP growth, and base years with the ERS model. Given the similarity of our models, AFBF believes the figures projected by ERS to accurately project the gains U.S. agriculture would realize from the free trade agreements in the current economic climate. AFBF Economic Analysis staff further refined the commodity categories to more fully reflect U.S. agriculture on both a national- and state- level.

Agriculture Shares in General Gains

Focusing specifically on the farm-sector impact indicates that U.S. agriculture would be a net gainer with the PTPA in place. The PTPA ensure the United States the same open access to Panama's market that the United States has extended to Panama for more than a decade. In this setting, PTPA-related expansion in United States farm exports to Panama is likely to significantly outpace expansion in United States imports of farm products from Panama.

Looking at the major commodities, the United States faces a small increase in sugar imports related to Panama's quota increase. The table below illustrates that by the 2027 end of the implementation period, the PTPA 6,600 ton increase in the U.S. sugar quota, if filled, would translate into a \$3.3 million increase in sugar imports.



Impact of PTPA on U.S. Sugar Imports

	<u>Without an Agreement</u>		<u>With an Agreement</u>	
	2007	2027	2007	2027
In 1,000 MT				
Export Quotas ¹	37.2	37.2	37.2	37.2
Increase in Quota w/ PTPA	0.0	0.0	6.1	6.6
Total Panama Quota	37.2	37.2	43.2	43.8
In \$1,000,000 ²				
Export Quotas ¹	18.8	18.8	18.8	18.8
Increase in Quota w/ PTPA	0.0	0.0	3.1	3.3
Total Panama Quota	18.8	18.8	21.8	22.1

1 Assumes import quotas for other countries and allocation to Panama does not change from 2007 levels

2 Priced at 1999-2001 average of 22.9¢ per pound or \$505 per ton

However, the PTPA will provide an opportunity for the U.S. to expand exports of grains, oilseeds, fiber and livestock products. The increased total U.S. agricultural exports likely with a PTPA in place could exceed \$45 million. The table below shows the value of these increased exports, by commodity.

Summary of PTPA Benefits to U.S. Agriculture

Agricultural Product	Current Imports from U.S.		Estimated Gains
	2006-2008 Avg	2009-2010 Avg	
<i>(Values in U.S. Dollars)</i>			
Rice	22,947,500	25,326,600	13,810,300
Wheat	35,268,700	36,633,200	1,999,500
Corn	64,321,200	75,949,700	6,776,000
Other Grains	1,614,400	789,900	124,200
Fruits, Vegetables and Nuts	46,745,000	60,730,300	8,190,000
Soybeans & Products	52,418,100	66,164,300	5,100,000
Other Oilseeds & Products	12,001,400	14,613,300	893,000
Cotton	2,400	4,500	3,800
Beef	662,700	2,651,700	1,200,800
Poultry	13,290,800	18,662,100	2,035,300
Pork	5,550,900	9,334,200	1,301,200
Other Livestock Products	6,945,500	11,063,400	39,900
Dairy	16,814,600	19,236,900	737,600
Processed Food and Fish Products	60,153,100	88,478,300	3,497,200
Other Agriculture	19,829,300	23,482,700	0
Total	358,565,600	453,121,100	45,708,800



Lost opportunities

In addition to detailing the potential gains to U.S. agriculture, a review of the PTPA would be incomplete without discussing the potential losses of continued inaction on the PTPA. In 2009, AFBF's Economic Analysis Department estimated that the increased total U.S. agricultural exports likely with the PTPA in place could exceed \$195 million. AFBF models used at that time accurately reflected the potential gains from trade that would have been experienced given the agricultural trade situation of the 2005 to 2008 base period.

However, since that time, there have been several significant global economic changes affecting trade, including increased energy and agricultural commodity prices, a worldwide financial crisis, newly enacted SPS and TBT measures, and considerably shifted global trade patterns. These changes, and the continued inaction on the PTPA, led to continuing and considerable losses for U.S. agricultural exports to the Panamanian market.

While passage of the PTPA has languished in the United States, our competitors – Chile, Costa Rica, El Salvador and Honduras, among others – have secured agreements with Panama, granting preferential access to this growing market, at the expense of U.S. exporters. Additionally, Panama has completed trade agreement negotiations with Canada and the EU. If these agreements enter into effect before the U.S. agreement, the United States will lose an important competitive advantage in the market for products such as beef, frozen potato products, beans, lentils, pork, malt and other processed foods.

