PERU – ADDITIONAL DUTY ON IMPORTS OF CERTAIN AGRICULTURAL PRODUCTS

AB-2015-3

Report of the Appellate Body
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1 INTRODUCTION

1.1. Peru appeals certain issues of law and legal interpretations developed in the Panel Report, Peru – Additional Duty on Imports of Certain Agricultural Products1 (Panel Report). The Panel was established to consider a complaint by Guatemala2 with respect to a measure taken by Peru affecting imports of certain agricultural products.

1.2. In its request for the establishment of a panel, Guatemala identified the measure at issue in this dispute as the additional duties imposed by Peru on imports of a number of agricultural products (certain types of milk, maize, rice, and sugar). As described by Guatemala, these duties are determined using a mechanism known as the “Price Range System” (PRS) (Sistema de Franja de Precios), which operates on the basis of: (i) a floor price and a ceiling price, respectively reflecting averages of international prices over a recent past period of 60 months for each of the specified products; and (ii) a cost, insurance, and freight (c.i.f.) reference price, reflecting the average international price over a recent past period of two weeks for each of the specified products. An additional duty is applied if the reference price of the specified product is lower than the floor price. If the reference price is above the floor price but below the ceiling price, no additional duty is applied. If the reference price exceeds the ceiling price, the applicable tariff is reduced.3

1.3. The factual aspects of this dispute are set forth in greater detail in paragraphs 2.1 to 2.3, 7.30 to 7.42, and 7.97 to 7.167 of the Panel Report.

1.4. Guatemala claimed before the Panel that the additional duties imposed as a result of Peru’s PRS are inconsistent with Article 4.2 of the Agreement on Agriculture because they constitute variable import levies and minimum import prices, or similar border measures. Moreover, Guatemala claimed that the duties at issue are duties or charges inconsistent with the second sentence of Article II:1(b) of the General Agreement on Tariffs and Trade 1994 (GATT 1994). Guatemala also claimed that Peru had acted inconsistently with Articles X:1 and X:3(a) of the GATT 1994 respectively by: (i) failing to publish certain essential elements of the measure at issue; and (ii) administering the PRS in a manner that is not reasonable. In addition, Guatemala raised alternative claims under Articles 1, 2, 3, 5, 6, and 7 of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 (Customs Valuation Agreement), in the event that the Panel were to consider the duties resulting from the PRS to be ordinary customs duties. Finally, Guatemala requested the Panel to suggest, under the second sentence of

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2 Request for the Establishment of a Panel by Guatemala, WT/DS457/2, 13 June 2013.
3 Panel Report, paras. 2.2 and 7.99.
Article 19.1 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), that Peru completely dismantle the measure at issue and eliminate the duties resulting from the PRS and the PRS itself.4

1.5. In response, Peru requested the Panel to find that Guatemala had not initiated these dispute settlement proceedings in good faith, contrary to Guatemala's obligations under Articles 3.7 and 3.10 of the DSU, because Guatemala had allegedly accepted the maintenance of the PRS in a free trade agreement (FTA) signed between Peru and Guatemala on 6 December 2011.5 Peru also asserted that the duties resulting from the PRS are: (i) ordinary customs duties within the meaning of the first sentence of Article II:1(b) of the GATT 1994; and (ii) outside the scope of Article 4.2 of the Agreement on Agriculture and the second sentence of Article II:1(b) of the GATT 1994. Peru contended that it had complied with the obligations under Articles X:1 and X:3(a) of the GATT 1994, and that Guatemala's claims under the Customs Valuation Agreement must be rejected because that Agreement does not apply to specific duties. Finally, in the event that the Panel were to find that the measure at issue is not WTO-consistent, Peru contended that this would generate an inconsistency between the covered agreements of the World Trade Organization (WTO) and the FTA between Peru and Guatemala, and that, in such a case, the terms of the FTA should prevail.6

1.6. In the Panel Report, circulated to WTO Members on 27 November 2014, the Panel found that:

a. there is no evidence that Guatemala had brought these dispute settlement proceedings in a manner contrary to good faith, and, therefore, there was no reason for the Panel to refrain from assessing the claims put forward by Guatemala7;

b. the duties resulting from the PRS constitute "variable import levies" or, at the least, share sufficient characteristics with variable import levies to be considered a border measure "similar" to a "variable import levy" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture8;

c. the duties resulting from the PRS do not constitute "minimum import prices" and do not share sufficient characteristics with minimum import prices to be considered a border measure "similar" to a "minimum import price" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture9;

d. by maintaining measures that constitute "variable import levies" or, at the least, are border measures "similar" to a "variable import levy", and which are thus "measures of the kind which have been required to be converted into ordinary customs duties", Peru is acting inconsistently with its obligations under Article 4.2 of the Agreement on Agriculture10;

e. the additional duties resulting from the PRS constitute "other duties or charges ... imposed on or in connection with the importation", within the meaning of the second sentence of Article II:1(b) of the GATT 1994; and, in applying measures that constitute "other duties or charges", without having recorded them in its Schedule of Concessions, Peru is acting inconsistently with its obligations under the second sentence of Article II:1(b) of the GATT 199411; and

f. inasmuch as the FTA between Peru and Guatemala had not entered into force, it was not necessary for the Panel to rule on whether the parties could, by means of the FTA,

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4 Panel Report, paras. 3.1-3.3.
5 Free Trade Agreement between the Republic of Peru and the Republic of Guatemala (Tratado de libre comercio entre la República del Perú y la República de Guatemala), 6 December 2011.
6 Panel Report, paras. 3.5-3.7.
7 Panel Report, para. 8.1.a.
8 Panel Report, para. 8.1.b.
9 Panel Report, para. 8.1.c.
10 Panel Report, para. 8.1.d.
11 Panel Report, para. 8.1.e.
1.7. In the light of these findings, the Panel did not consider it necessary to rule on Guatemala’s claims that:

a. Peru’s actions are inconsistent with its obligations under Article X:1 of the GATT 1994 because Peru had failed to publish certain elements of the measure at issue that Guatemala considers essential; and

b. Peru’s actions are inconsistent with its obligations under Article X:3(a) of the GATT 1994 because Peru administers the measure at issue in a manner that is not reasonable, given that Peru fails to observe the requirements of its own legislation.

1.8. Moreover, the Panel did not consider it relevant to address Guatemala’s claims that Peru has acted inconsistently with its obligations under Articles 1, 2, 3, 5, 6, and 7 of the Customs Valuation Agreement inasmuch as these claims were made by Guatemala as alternative claims, in case the Panel were to find that the additional duties resulting from the PRS are ordinary customs duties.

1.9. The Panel thus found that, pursuant to Article 3.8 of the DSU, and to the extent that Peru has acted inconsistently with the provisions of the Agreement on Agriculture and the GATT 1994, Peru has nullified or impaired benefits accruing to Guatemala under those Agreements.

1.10. With respect to Guatemala’s request under the second sentence of Article 19.1 of the DSU, the Panel did not consider it appropriate to suggest that the proper way of implementing its recommendation would be through the elimination of the underlying mechanism for calculating the additional duties. Pursuant to Article 19.1 of the DSU, and having found that Peru is acting inconsistently with the provisions of the Agreement on Agriculture and the GATT 1994, the Panel recommended that Peru bring the challenged measure into conformity with its obligations under those Agreements.

1.11. On 25 March 2015, Peru notified the Dispute Settlement Body (DSB), pursuant to Articles 16.4 and 17 of the DSU, of its intention to appeal certain issues of law covered in the Panel Report and certain legal interpretations developed by the Panel, and filed a Notice of Appeal and an appellant’s submission pursuant to Rules 20 and 21, respectively, of the Working Procedures for Appellate Review (Working Procedures). On 30 March 2015, Guatemala notified the DSB, pursuant to Articles 16.4 and 17 of the DSU, of its intention to appeal certain issues of law covered in the Panel Report and certain legal interpretations developed by the Panel, and filed a Notice of Other Appeal and an other appellant’s submission pursuant to Rule 23 of the Working Procedures. On 13 April 2015, Peru and Guatemala each filed an appellee’s submission. On 15 April 2015, Brazil, Colombia, the European Union, and the United States each filed a third participant’s submission. On the same day, Argentina, China, El Salvador, Honduras, and India each notified its intention to appear at the oral hearing as a third participant. On 22 May 2015, Ecuador and Korea also notified the Secretariat of their intention to appear at the oral hearing.

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12 Panel Report, para. 8.1.f.
13 Panel Report, para. 8.2.a.
14 Panel Report, para. 8.2.b.
15 Panel Report, para. 8.3.
16 Panel Report, para. 8.4.
18 WT/AB/WP/6, 16 August 2010.
19 Pursuant to Rules 22 and 23(4) of the Working Procedures.
20 Pursuant to Rule 24(1) of the Working Procedures.
21 Pursuant to Rule 24(2) of the Working Procedures.
22 Ecuador and Korea each submitted its delegation list for the oral hearing to the Appellate Body Secretariat and the participants and third participants in this dispute. For the purposes of this appeal, we have interpreted these actions as notifications expressing the intention of Ecuador and Korea to attend the oral hearing pursuant to Rule 24(4) of the Working Procedures.
1.12. The oral hearing in this appeal was held on 26-27 May 2015. The participants and four of the third participants (Argentina, Brazil, Colombia, and India) made oral statements. The participants and the third participants responded to questions posed by the Members of the Appellate Body Division hearing this appeal.

1.13. By letter dated 22 May 2015, the Chair of the Appellate Body notified the Chair of the DSB that the Appellate Body would not be able to circulate its Report in this appeal within the 60-day period stipulated in Article 17.5 of the DSU, or within the 90-day period pursuant to the same provision, and informed the Chair of the DSB that the Appellate Body report in this appeal would be circulated no later than 20 July 2015.23

2  ARGUMENTS OF THE PARTICIPANTS

2.1. The claims and arguments of the participants are reflected in their executive summaries, provided to the Appellate Body pursuant to its communication on "Executive Summaries of Written Submissions in Appellate Proceedings" and "Guidelines in Respect of Executive Summaries of Written Submissions in Appellate Proceedings".24 The Notices of Appeal and Other Appeal, and the executive summaries of the participants' claims and arguments, are contained in Annexes A and B of the Addendum to this Report, WT/DS457/AB/R/Add.1.

3  ARGUMENTS OF THE THIRD PARTICIPANTS

3.1. The arguments of Brazil, Colombia, the European Union, and the United States are reflected in their executive summaries, provided to the Appellate Body pursuant to its communication on "Executive Summaries of Written Submissions in Appellate Proceedings" and "Guidelines in Respect of Executive Summaries of Written Submissions in Appellate Proceedings"25, and are contained in Annex C of the Addendum to this Report, WT/DS457/AB/R/Add.1.

4  ISSUES RAISED IN THIS APPEAL

4.1. The following issues are raised in this appeal:

   a. with respect to Articles 3.7 and 3.10 of the DSU:

      i. whether Peru's arguments that Guatemala acted inconsistently with Articles 3.7 and 3.10 of the DSU are "new claims" that are not within the scope of this appeal (raised by Guatemala); and

      ii. whether the Panel erred in finding that there was "no evidence that Guatemala brought these proceedings in a manner contrary to good faith" under Articles 3.7 and 3.10 of the DSU, and that there was, therefore, "no reason for the Panel to refrain from assessing the claims put forward by Guatemala" (raised by Peru);

   b. with respect to the additional duties resulting from the PRS in connection with Guatemala's claim that the measure at issue constitutes a "variable import levy" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture:

      i. whether the Panel erred in its assessment of the "variability" of the measure at issue (raised by Peru);

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23 WT/DS457/9. The Chair of the Appellate Body explained that the Appellate Body had faced a substantial workload in the first half of 2015, with several appeals proceeding in parallel, and that there was overlap in the composition of the Divisions hearing these different appeals during this period. The Chair added that, due to scheduling issues arising from these circumstances and the number and complexity of the issues raised in this and concurrent appeal proceedings, together with the demands that these concurrent appeals placed on the WTO Secretariat's translation services, and the shortage of staff in the Appellate Body Secretariat, the Appellate Body would not be able to circulate its report in this dispute within the timeframe provided for in Article 17.5 of the DSU.


ii. whether the Panel erred in its assessment of the "additional features" of the measure at issue (raised by Peru); and

iii. whether the Panel failed to make an objective assessment of the matter before it, contrary to Article 11 of the DSU, by failing to properly compare the measure with "ordinary customs duties" and "variable import levies" when examining Guatemala's claim under Article 4.2 of the Agreement on Agriculture (raised by Peru);

c. with respect to the additional duties resulting from the PRS in connection with Guatemala's claim that the measure at issue is an "other duty or charge" inconsistent with the second sentence of Article II:1(b) of the GATT 1994:

i. whether the Panel erred in finding that the additional duties are not "ordinary customs duties" under the first sentence of Article II:1(b) of the GATT 1994 on the basis of its finding under Article 4.2 of the Agreement on Agriculture (raised by Peru); and

ii. whether the Panel failed to make an objective assessment of the matter before it, contrary to Article 11 of the DSU, by failing to examine evidence submitted in connection with Guatemala's claim under Article II:1(b) of the GATT 1994 (raised by Peru);

d. with respect to the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 in accordance with Article 31 of the Vienna Convention:

i. whether Peru's arguments that the Panel should have taken into account the FTA between Peru and Guatemala and ILC Articles 20 and 45 under Article 31(3) of the Vienna Convention are within the scope of this appeal (raised by Guatemala);

ii. whether the Panel erred by failing to take into consideration the FTA between Peru and Guatemala as a "subsequent agreement between the parties regarding the interpretation of the treaty" under Article 31(3)(a) of the Vienna Convention (raised by Peru); and

iii. whether the Panel erred by failing to take into consideration the FTA between Peru and Guatemala and ILC Articles 20 and 45 as "relevant rules of international law applicable in the relations between the parties" under Article 31(3)(c) of the Vienna Convention (raised by Peru);

e. whether the Panel erred in finding that, since the FTA between Peru and Guatemala had not entered into force, it was not necessary for the Panel to rule on whether the parties could, by means of the FTA, modify as between themselves their rights and obligations under the WTO covered agreements (raised by Peru);

f. with respect to the additional duties resulting from the PRS in connection with Guatemala's claim that the measure at issue constitutes a "minimum import price" or a "similar border measure" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture:

i. whether the Panel erred in its interpretation of "minimum import prices", within the meaning of footnote 1 of the Agreement on Agriculture, by adopting an excessively narrow legal standard (raised by Guatemala);

ii. whether the Panel erred in finding that Peru's measure does not constitute a "minimum import price" within the meaning of footnote 1 of the Agreement on Agriculture (raised by Guatemala);

iii. whether the Panel erred in its interpretation of "similar border measures", within the meaning of footnote 1 of the Agreement on Agriculture, by conflating the legal standard for "minimum import prices" with the legal standard for border measures "similar" to "minimum import prices" (raised by Guatemala); and
iv. whether the Panel erred in finding that Peru's measure is not a border measure "similar" to a "minimum import price" within the meaning of footnote 1 of the Agreement on Agriculture (raised by Guatemala).

5 ANALYSIS OF THE APPELLATE BODY

5.1 Background and overview of the measure at issue

5.1. Peru maintains a price range system (PRS)\(^{26}\) that may result in the imposition of additional duties or rebates on certain types of imported rice, sugar, maize, and milk. Peru applies the PRS in addition to the tariffs that, pursuant to Article II:1 of the GATT 1994, Peru has bound at 68\% \textit{ad valorem} for the products subject to the PRS.\(^{27}\) The PRS operates on the basis of the difference between (i) a floor price and a ceiling price and (ii) a reference price. The floor and ceiling prices are, respectively, averages of international prices in a specified international market\(^{28}\) over a recent past period of 60 months.\(^{29}\) The reference price is an average of international price quotations in the same international market over a recent past period of two weeks.\(^{30}\)

5.2. The PRS imposes an additional duty on the transaction value of imports when the reference price is below the floor price.\(^{31}\) The amount of the additional duty is based on the difference between the floor price and the reference price.\(^{32}\) The additional duties resulting from the PRS plus Peru's \textit{ad valorem} duties may not exceed Peru's bound tariff rate.\(^{33}\) The PRS also provides for tariff

\(^{26}\) Panel Report, para. 7.115 (referring to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4)). The parties disagree over the year in which the PRS was established. Peru maintains that it established a system of specific duties in 1991 and has applied it ever since, and that the PRS is merely a revised system. Guatemala rejects this assertion and maintains that Supreme Decree No. 115-2001-EF, from 2001, tacitly repealed the 1991 system of specific duties and established the PRS. (Panel Report, para. 7.101)

\(^{27}\) Panel Report, para. 7.166. Except for three tariff lines for maize, to which a 6\% \textit{ad valorem} tariff is applied, Peru does not impose an \textit{ad valorem} tariff on the products subject to the PRS. (Panel Report, para. 7.167 and fn 231 to para. 7.145)

\(^{28}\) The relevant international market for each product is specified in Supreme Decree No. 115-2001-EF. (Panel Report, paras. 7.128 and 7.136)

\(^{29}\) Before calculating the floor price, a confidence interval is applied to the monthly average free on board (f.o.b.) prices, which are adjusted for inflation. Outlier values above and below the confidence interval are discarded. The floor price is determined by calculating a new average with the values recorded within the confidence interval. (Panel Report, paras. 7.129-7.131) The ceiling price is obtained by adding to the floor price the standard deviation used to determine the confidence interval. (Panel Report, para. 7.132) Floor and ceiling prices, expressed in f.o.b. terms, are converted into c.i.f. terms by applying the freight and insurance costs specified in Annex V to Supreme Decree No. 115-2001-EF. (Panel Report, para. 7.133; Annexes II and V to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), pp. 204889-204890)

\(^{30}\) The reference prices are converted into c.i.f. terms by applying the freight and insurance costs specified in Annex V to Supreme Decree No. 115-2001-EF. (Panel Report, para. 7.137; Article 5 and Annex V to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), pp. 204888 and204890).

\(^{31}\) Panel Report, para. 7.140; Annex III to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), p. 204889. The PRS divides the tariff lines into "marker products" and "associated products". "Marker products" are defined as products whose international prices are used for calculating the floor, ceiling, and reference prices, while "associated products" are defined as products obtained by processing or mixing of marker products or those that are capable of replacing a marker product for industrial use or consumption. Each of the current four "marker products" corresponds respectively to a specific tariff line for maize, rice, sugar, and milk. Thus, pursuant to the PRS, the floor and reference prices, and ultimately the additional duty, are only calculated for each of the "marker products". The same additional duty applicable for each "marker product" is then applied to their respective "associated products". (Panel Report, paras. 7.121-7.122 and 7.125; Annexes I, II, and III to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4))

\(^{32}\) The precise amount of the additional duty is the difference between the floor price and the reference price multiplied by a factor associated with import costs. (Panel Report, paras. 7.140-7.141; Annex III to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), p. 204889)

\(^{33}\) Panel Report, para. 7.142 (referring to Article 4 of Supreme Decree No. 153-2002-EF of 26 September 2002 (Panel Exhibit GTM-5) p. 147).
rebates when the reference price is higher than the ceiling price.\textsuperscript{34} A detailed description of the Panel's understanding of the scope and content of the PRS is set forth in the Panel Report.\textsuperscript{35}

5.3. Guatemala filed a complaint against Peru claiming that Peru maintains: (i) "variable import levies" and "minimum import prices", or "similar border measures", prohibited under footnote 1 of Article 4.2 of the Agreement on Agriculture; and (ii) "other duties or charges" inconsistent with Article II:1(b) of the GATT 1994. The Panel found that the additional duties resulting from the PRS are: (i) "variable import levies", or at least a "similar border measure", inconsistent with Article 4.2 of the Agreement on Agriculture; and (ii) "other duties or charges" inconsistent with Article II:1(b) of the GATT 1994. Peru and Guatemala have appealed the Panel's findings.

5.4. Peru and Guatemala disagree on whether the measure at issue is limited to only the additional duties resulting from the PRS, or whether it also includes the PRS calculation methodology to determine the additional duties.\textsuperscript{36} Peru suggests that the Panel could not have examined the PRS calculation methodology because it was outside the Panel's terms of reference.\textsuperscript{37} In its request for the establishment of a panel, Guatemala identified the measure at issue as "[t]he additional duty imposed by Peru on imports of certain agricultural products".\textsuperscript{38} Guatemala also explained that, \textit{inter alia}, this additional duty "is determined by using a mechanism known as the 'Price Band System'[,] which ... operates on the basis of two components: (i) a band made up of a floor price and a ceiling price ... [and] (ii) a c.i.f. reference price".\textsuperscript{39} The PRS calculation methodology is thus included in Guatemala's request for the establishment of a panel. Moreover, as the additional duties result from the operation of the PRS, it is clear that the PRS calculation methodology is a key component of the system. We therefore consider that the measure before the Panel comprised both the additional duties resulting from the PRS and the PRS calculation methodology.\textsuperscript{40} We refer below to the measure at issue as the "additional duties resulting from the PRS" or the "additional duties".

5.2 \textbf{Good faith under Articles 3.7 and 3.10 of the DSU}

5.5. Peru appeals the Panel's conclusion that there was "no evidence that Guatemala brought these proceedings in a manner contrary to good faith" under Articles 3.7 and 3.10 of the DSU.\textsuperscript{41} According to Peru, Guatemala waived in the FTA\textsuperscript{42} its right to challenge the PRS through the WTO dispute settlement mechanism, and Guatemala thus acted contrary to its good faith obligations under Articles 3.7 and 3.10 when it initiated the present proceedings. We begin by first addressing Guatemala's contention that Peru's arguments in respect of good faith under Article 3.7 and 3.10 constitute "new arguments" or "new claims" that are not within the scope of this appeal. We then proceed to consider whether panels and the Appellate Body may review a Member's "exercise of its judgement as to whether action under these procedures would be fruitful" under Article 3.7. Thereafter, we determine whether the Panel erred in concluding that there was...
no evidence that Guatemala acted inconsistently with its good faith obligations under Articles 3.7 and 3.10.

5.2.1 Whether Peru advances new claims, arguments, or defences on appeal

5.6. Guatemala contends that, while Peru raised its challenge under Articles 3.7 and 3.10 of the DSU before the Panel as an issue of jurisdiction, Peru advances this argument on appeal as a substantive claim. In particular, Guatemala asserts that Peru had argued before the Panel that Articles 3.7 and 3.10 were relevant to the issue of whether the Panel was "procedurally barred from engaging in a substantive consideration of the claims made by Guatemala". Guatemala notes that Peru now states on appeal that "Peru does not consider that Guatemala is procedurally barred from bringing a WTO claim against the PRS". Guatemala thus argues that, "independently of the question of the Panel's jurisdiction" to hear Guatemala's claims, Peru appears to be advancing new and wholly different 'claims' of its own that Guatemala has acted inconsistently with Articles 3.7 and 3.10. Guatemala maintains that Peru is not appealing a finding by the Panel; rather, Peru's new "claim" is not an issue of law covered in the Panel Report or a legal interpretation developed by the Panel within the meaning of Article 17.6 of the DSU. Guatemala, therefore, contends that Peru's "claim" on appeal that Guatemala has acted inconsistently with Articles 3.7 and 3.10 of the DSU is "outside the competence of the Appellate Body to consider".

5.7. At the oral hearing, Peru maintained that its arguments on appeal do not raise issues different from those presented before the Panel and addressed in the Panel Report. According to Peru, it never questioned Guatemala's right to bring a case to the WTO, but instead pointed out that Articles 3.7 and 3.10 impose certain requirements that need to be met before Guatemala's case can be considered on the merits.

5.8. In previous disputes, the Appellate Body has considered that "new arguments are not per se excluded from the scope of appellate review, simply because they are new." While, in principle, new arguments are not excluded from the scope of appellate review, the ability of the Appellate Body to consider new arguments is circumscribed by its mandate under Article 17 of the DSU to address "issues of law covered in the panel report and legal interpretations developed by the panel". Thus, the Appellate Body has found that it would not be able to consider new arguments if such arguments required it "to solicit, receive and review new facts", or if a new argument did "not involve either an 'issue of law covered in the panel report' or 'legal

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43 Guatemala's appellee's submission, para. 322. (emphasis added)
44 Guatemala's appellee's submission, para. 323 (quoting Peru's appellant's submission, para. 41). Peru argued before the Panel that "Guatemala is not acting in good faith by having recourse to the WTO dispute settlement procedure". In Peru's view, Guatemala committed an "abuse of right" when it initiated the WTO dispute settlement proceedings challenging the PRS, which Guatemala expressly accepted in the FTA. Further, Peru contended that Guatemala frustrated the object and purpose of the FTA within the meaning of Article 18 of the Vienna Convention on the Law of Treaties, which gives expression to the principle of good faith. Thus, Peru asserted that "the conditions laid down by the DSU for initiating a dispute settlement procedure are not met in this case", and consequently "request[ed] the Panel not to continue with the analysis of Guatemala's claims". (Panel Report, Annex B-3, First Part of the Executive Summary of the Arguments of Peru, para. 3.9)
45 Guatemala's appellee's submission, para. 324. (emphasis added) Peru argues on appeal that: (i) the presumption of good faith enjoyed by Members can be rebutted; (ii) the legal status of the FTA had no relevance to the Panel's task of determining whether Guatemala's use of the WTO dispute settlement system to nullify a provision in the FTA was consistent with Articles 3.7 and 3.10 of the DSU; (iii) the Panel incorrectly limited its analysis to the situation in which Guatemala expressly waived its right to challenge the PRS before the WTO dispute settlement system, when waivers may be made explicitly or by necessary implication; and (iv) Articles 20 and 45 of the International Law Commission's Articles on Responsibility of States for Internationally Wrongful Acts (ILC Articles) support the position that Members may waive their rights expressly or by necessary implication, which Guatemala had done in this case. (Peru's appellant's submission, paras. 50, 54, 59, 67, and 69-92)
46 Guatemala's appellee's submission, para. 324.
47 Guatemala's appellee's submission, para. 324.
48 Peru's response to questioning at the oral hearing.
49 Appellate Body Report, Canada – Aircraft, para. 211. (emphasis added)
50 Emphasis added. See Appellate Body Reports, Canada – Aircraft, para. 211; US – FSC, paras. 102-103.
interpretations developed by the panel".51 Further, these principles have a due process dimension, in that a party must be given a fair opportunity to defend itself adequately.52

5.9. The questions before us in this respect are: (i) whether Peru's arguments on appeal relate to issues of law covered in the Panel Report and legal interpretations developed by the Panel; and (ii) whether these arguments require consideration of new facts. Before the Panel, Peru argued that Guatemala had not acted in good faith by "expressly accepting the [PRS] of Peru in the bilateral FTA and then resorting to the WTO dispute settlement system".53 Peru further contended that "[g]ood faith is a requirement for initiating proceedings under the DSU, in accordance with the provisions of Articles 3.7 and 3.10 of the DSU".54 Peru recognized that the FTA has not yet entered into force, and, therefore, referred to Article 18 of the Vienna Convention on the Law of Treaties55 (Vienna Convention) to assert that signatories could not act contrary to the object and purpose of a treaty prior to its entry into force. On the basis of its reading of Article 18 of the Vienna Convention and Articles 3.7 and 3.10 of the DSU, Peru maintained that "a claim that is inconsistent with good faith cannot proceed."56 Peru, therefore, requested the Panel "not to continue with the analysis of Guatemala's claims".57

5.10. In its Report, the Panel discussed the following issues: (i) the presumption of good faith on the part of Guatemala in exercising its judgement as to whether the initiation of this procedure would be fruitful in accordance with Article 3.7 of the DSU58; (ii) how to determine whether a Member initiated a procedure in a manner contrary to good faith within the context of Article 3.10 of the DSU59, including whether Guatemala "expressly waived the right to bring a case with respect to the PRS or recognized the consistency of that measure with the WTO agreements"60; and (iii) the implication of the fact that the FTA had not yet entered into force vis-à-vis Article 18 of the Vienna Convention.61 The Panel found, among other things, that: (i) Guatemala's good faith was presumed62; (ii) Peru's argument that Guatemala undertook in the FTA not to challenge the PRS was limited by the undisputed fact that the FTA was not yet in force63; (iii) the Panel was "not convinced that the violation by a Member of the obligation contained in Article 18 of the Vienna Convention with respect to a treaty that does not form part of the WTO covered agreements can constitute evidence of lack of the good faith required by Articles 3.7 and 3.10"64; and (iv) determining the object and purpose of the FTA would go beyond the Panel's terms of reference.65 The Panel concluded that it found no evidence that Guatemala acted inconsistently with its good faith obligations under Articles 3.7 and 3.10, and thus there was no reason for it to refrain from assessing Guatemala's claims.66

5.11. On appeal, while "Peru does not consider that Guatemala is procedurally barred from bringing a WTO claim against the PRS", Peru argues that "Guatemala's actions – using the

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51 Appellate Body Report, US – FSC, paras. 102-103. Similarly, in US – COOL (Article 21.5 – Canada and Mexico), the Appellate Body noted its report in US – FSC and declined to consider a new argument on appeal that would have required it "to address legal issues quite different from those which confronted the [p]anel and which may well [have] require[d] proof of new facts". (Appellate Body Reports, US – COOL (Article 21.5 – Canada and Mexico), para. 5.349 (quoting Appellate Body Report, US – FSC, para. 103.))
52 Appellate Body Report, US – Gambling, para. 270. Moreover, the Appellate Body has also ruled that, on appeal, "due process requires that the legal basis of a claim be sufficiently clear to allow an appellee to respond effectively." (Appellate Body Report, Canada – Wheat Exports and Grain Imports, para. 177) In US – COOL (Article 21.5 – Canada and Mexico), the Appellate Body also held that "[c]onsideration of a defence raised for the first time at interim review would give rise to due process concerns." Thus, a "defence raised for the first time" that would "require[] examination of an issue for which [the parties] have [not] provided specific evidence or arguments" should likewise be excluded. (Appellate Body Reports, US – COOL (Article 21.5 – Canada and Mexico), para. 5.379)
53 Panel Report, Annex B-3, First Part of the Executive Summary of the Arguments of Peru, para. 3.3.
54 Panel Report, Annex B-3, First Part of the Executive Summary of the Arguments of Peru, para. 3.5.
56 Panel Report, Annex B-3, First Part of the Executive Summary of the Arguments of Peru, para. 3.7.
57 Panel Report, Annex B-3, First Part of the Executive Summary of the Arguments of Peru, para. 3.9.
58 Panel Report, para. 7.75.
59 Panel Report, para. 7.80.
60 Panel Report, para. 7.84. (fn omitted)
61 Panel Report, paras. 7.88-7.92.
62 Panel Report, para. 7.75.
63 Panel Report, para. 7.88.
64 Panel Report, para. 7.92.
65 Panel Report, para. 7.92.
66 Panel Report, paras. 7.96 and 8.1.a.
WTO dispute settlement system to nullify a provision of the FTA — were contrary to Guatemala’s good faith obligations under DSU Article 3.7 and 3.10”.67 Peru contends, among other things, that: (i) the presumption of good faith can be rebutted68; (ii) Members may waive their rights explicitly or by necessary implication69; and (iii) the fact that the FTA has not yet entered into force is not dispositive of the issue of good faith.70

5.12. Comparing Peru’s arguments before the Panel and the Panel’s consideration thereof with the arguments raised by Peru on appeal, we find that the arguments challenged by Guatemala as new relate to the same legal issues that were before the Panel and were addressed in the Panel Report. In particular, the questions both before the Panel and on appeal relate to the scope of Guatemala’s good faith obligations under the DSU, the content of the FTA and its effect on Guatemala’s good faith obligations, the legal significance of international instruments that have not yet entered into force, and the extent to and manner in which Members may waive their rights to institute WTO dispute settlement proceedings. Based on our review of the Panel Report and the participants’ submissions on appeal, we consider that, regardless of whether Peru’s objections to Guatemala’s initiation of these proceedings before the Panel were viewed as procedural or substantive, Peru’s arguments on appeal relate to legal issues no different from those that were before the Panel and are covered by the Panel’s reasoning and findings in its Report. These arguments relate to whether Guatemala acted inconsistently with its good faith obligations under the DSU, the fact that the FTA has not yet entered into force, and the extent to and manner in which Members may waive their rights to institute WTO dispute settlement proceedings. Thus, these arguments do not constitute new "claims", as Guatemala alleges, or a new "defence" raised by Peru as the respondent.

5.13. In addition, while Guatemala contends that we would be required to consider new facts in addressing Peru’s arguments71, it does not appear that Peru’s arguments directly relating to good faith under Articles 3.7 and 3.10 involve new factual elements.72

5.14. In the light of the above, we find that Peru’s arguments on appeal that Guatemala acted inconsistently with Articles 3.7 and 3.10 of the DSU pertain to issues of law covered in the Panel Report and legal interpretations developed by the Panel. Since these arguments relate to the same issues that were before and considered by the Panel, they do not constitute "new claims" or a "new defence". Moreover, since Peru’s arguments on good faith under Articles 3.7 and 3.10 relate to the same legal issues and do not require us to solicit, receive, and review new facts, we are of the view that such arguments do not adversely affect Guatemala’s due process rights, and are thus properly raised on appeal.

### 5.2.2 Whether panels and the Appellate Body have the authority to examine a Member’s exercise of its judgement under Article 3.7 of the DSU

5.15. Citing Appellate Body jurisprudence, the Panel stated that good faith must be presumed, and in principle it is not for a panel to question a Member’s exercise of its judgement as to whether initiation of a procedure would be fruitful.73 Thus, the Panel concluded that it “did not find any support in the text of Article 3.7 of the DSU or in panel or Appellate Body reports that would

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67 Peru’s appellant’s submission, para. 41. (fn omitted)
68 Peru’s appellant’s submission, para. 50.
69 Peru’s appellant’s submission, subheading III.b.1. On this matter, Peru also argues that ILC Articles 20 and 45 (on "Consent" to an act of another state as precluding wrongfulness and the "Loss of the right to invoke responsibility") provide additional support for Peru’s contention that WTO Members may waive their rights under the DSU both expressly and by necessary implication. (Peru’s appellant’s submission, subheading III.b.1.b)
70 Peru’s appellant’s submission, subheading III.b.
71 Guatemala’s appellee’s submission, paras. 49-51 and 382.
72 According to Guatemala, these factual elements include statements or practice of WTO Members within and outside the WTO; facts relating to the negotiating history or circumstances of the conclusion of the Vienna Convention, or evidence of domestic practice and judicial decisions in the respective jurisdictions of WTO Members, especially as far as ILC Articles 20 and 45 are concerned. (Guatemala’s appellee’s submission, paras. 49 and 382) Guatemala, however, does not specifically identify any factual elements as far as Peru’s arguments regarding good faith and Articles 3.7 and 3.10 of the DSU are concerned.
73 Panel Report, para. 7.75 (referring to Appellate Body Report, Mexico – Corn Syrup (Article 21.5 – US), para. 74).
allow it ... to do anything other than presume that Guatemala duly exercised its judgement as to whether the initiation of this procedure would be fruitful.74

5.16. Peru argues on appeal that, contrary to the Panel’s ruling, dispute settlement panels have the authority to determine whether WTO Members have brought a claim contrary to the principle of good faith.75 In Peru’s view, the presumption of good faith can be rebutted.76 In response, Guatemala contends that, while there may be exceptional cases in which it may be clear that a Member failed to exercise its judgement, it is hard to envisage a situation in which a panel would be in a position to conclude that a Member did so, and there is no basis in the DSU for panels to engage in such an exercise.77

5.17. Article 3.7 of the DSU reads in relevant part:

Before bringing a case, a Member shall exercise its judgement as to whether action under these procedures would be fruitful. The aim of the dispute settlement mechanism is to secure a positive solution to a dispute. A solution mutually acceptable to the parties to a dispute and consistent with the covered agreements is clearly to be preferred.

5.18. The Appellate Body has previously held that Members enjoy discretion in deciding whether to bring a case, and are thus expected to be "largely self-regulating" in deciding whether any such action would be "fruitful".78 The "largely self-regulating" nature of a Member's decision to bring a dispute is "borne out by Article 3.3, which provides that the prompt settlement of situations in which a Member, in its own judgement, considers that a benefit accruing to it under the covered agreements is being impaired by a measure taken by another Member is essential to the effective functioning of the WTO".79 Moreover, the Appellate Body has interpreted the first sentence of Article 3.7 as "reflect[ing] a basic principle that Members should have recourse to WTO dispute settlement in good faith, and not frivolously set in motion the procedures contemplated in the DSU."80

5.19. In our view, although the language of the first sentence of Article 3.7 of the DSU states that "a Member shall exercise its judgement", the considerable deference accorded to a Member's exercise of its judgement in bringing a dispute is not entirely unbounded. For example, in order to ascertain whether a Member has relinquished, by virtue of a mutually agreed solution in a particular dispute, its right to have recourse to WTO dispute settlement in respect of that dispute, greater scrutiny by a panel or the Appellate Body may be necessary. This was the issue before the Appellate Body in EC – Bananas III (Article 21.5 – Ecuador II / Article 21.5 – US), where it ascertained whether a Member had relinquished its right to have recourse to the WTO dispute settlement mechanism. In that case, the Appellate Body had to determine whether that Member was precluded from initiating compliance proceedings.82 In this dispute, Peru alleges that Guatemala waived in the FTA its right to have recourse to WTO dispute settlement in respect of the PRS, and consequently acted contrary to good faith when it initiated the present proceedings. Thus, in assessing whether Guatemala acted in conformity with its good faith obligations under Articles 3.7 and 3.10 of the DSU, we address below the issue of whether Guatemala has waived or relinquished its right to challenge the PRS before the WTO dispute settlement mechanism.

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74 Panel Report, para. 7.75.
75 Peru’s appellant’s submission, para. 44.
76 Peru’s appellant’s submission, para. 50.
77 Guatemala’s appellee’s submission, paras. 344-345.
79 Appellate Body Reports, EC – Bananas III (Article 21.5 – Ecuador II / Article 21.5 – US), para. 211. (emphasis added)
80 Appellate Body Report, Mexico – Corn Syrup (Article 21.5 – US), para. 73.
81 Emphasis added.
5.2.3 Whether the Panel erred in finding that there was no evidence that Guatemala brought these proceedings in a manner contrary to good faith under Articles 3.7 and 3.10 of the DSU

5.20. The Panel stated that it would base its analysis on the question of "whether Guatemala, before engaging in this procedure, expressly waived the right to bring a case with respect to the PRS or recognized the consistency of that measure with the WTO agreements". The Panel did not "consider it appropriate to make a general statement intended to cover all possible situations in which it might be found that a Member engaged in a procedure in the absence of good faith". It did not find any reason to take other situations into consideration, given that no evidence suggested that Guatemala had engaged in this procedure with the intention of causing injury to another Member, or impairing its rights. The Panel, however, did not ultimately examine whether the FTA contained a waiver of Guatemala's right to initiate WTO dispute settlement proceedings. Instead, the Panel reasoned that Peru's argument that paragraph 9 of Annex 2.3 to the FTA contained Guatemala's undertaking not to challenge the PRS was limited by the undisputed fact that the FTA was not in force. Further, the Panel stated that it was not convinced that an alleged violation by a Member of Article 18 of the Vienna Convention – which imposes an obligation not to defeat the object and purpose of a treaty not yet in force – with respect to a treaty that is not a WTO covered agreement could constitute lack of good faith under Articles 3.7 and 3.10 of the DSU.

5.21. Peru argues on appeal that the Panel failed to interpret Articles 3.7 and 3.10 of the DSU correctly when it limited its analysis to the situation in which Guatemala "expressly waived the right to bring a case with respect to the PRS or recognized the consistency of that measure with the WTO agreements". According to Peru, rights under the WTO may be "waived (or modified) expressly or by necessary implication, provided that the language in the FTA reveals clearly that the parties intended to relinquish their rights." Peru contends that Articles 20 and 45 of the International Law Commission's Articles on Responsibility of States for Internationally Wrongful Acts (ILC Articles) provide additional support for this interpretation. Peru asserts that Guatemala "waived its right explicitly" when Guatemala agreed in the FTA that Peru may maintain the PRS. Peru further argues that, alternatively, Guatemala waived its rights by necessary implication since the WTO-consistency of the PRS had been the "subject of disagreement" between Peru and Guatemala, and they had agreed in the FTA that Peru may maintain its PRS, with the FTA prevailing over WTO agreements in the event of an inconsistency.

5.22. In response, Guatemala argues that the Panel took account of the possibility that a waiver of rights may be made explicitly or by necessary implication. Thus, the basis of Peru's appeal is merely its disagreement with how the Panel assessed the evidence in reaching the conclusion that the FTA does not contain a waiver. Moreover, Guatemala argues that Peru's arguments on the ILC Articles relating to valid consent and waiver do not add anything to Peru's case, given the absence of any dispute as to whether a waiver may be made both explicitly or by necessary implication.

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83 Panel Report, para. 7.84. (fn omitted)
84 Panel Report, para. 7.84.
85 Panel Report, para. 7.84.
86 Panel Report, para. 7.88.
87 Panel Report, para. 7.92.
88 Peru's appellant's submission, para. 59 (quoting Panel Report, para. 7.84).
89 Peru's appellant's submission, para. 67.
91 Peru's appellant's submission, para. 69.
92 Peru's appellant's submission, para. 89 (emphasis omitted). Peru contends that Guatemala had agreed to the continued application of the PRS in paragraph 9 of Annex 2.3 to the FTA, which provides that "Peru may maintain its Price Range System ... with regard to the products subject to the application of the system marked with an asterisk (*) in column 4 of Peru's Schedule as set out in this Annex".
93 Peru's appellant's submission, para. 92.
94 Guatemala's appellee's submission, paras. 368-369 and 381.
95 Guatemala's appellee's submission, para. 371.
96 Guatemala's appellee's submission, paras. 380-381.
5.23. Article 3.7 of the DSU reads, in relevant part:

Before bringing a case, a Member shall exercise its judgement as to whether action under these procedures would be fruitful. The aim of the dispute settlement mechanism is to secure a positive solution to a dispute. A solution mutually acceptable to the parties to a dispute and consistent with the covered agreements is clearly to be preferred.

5.24. Article 3.10 of the DSU reads, in relevant part:

It is understood that requests for conciliation and the use of the dispute settlement procedures should not be intended or considered as contentious acts and that, if a dispute arises, all Members will engage in these procedures in good faith in an effort to resolve the dispute.

5.25. In this dispute, we are called upon to determine whether Guatemala acted contrary to good faith under Articles 3.7 and 3.10 of the DSU on account of the alleged relinquishment of its right to challenge the PRS before the WTO dispute settlement mechanism. In EC – Bananas III (Article 21.5 – Ecuador II / Article 21.5 – US), the Appellate Body determined whether the Understandings on Bananas, which were notified to the DSB collectively as "a mutually agreed solution", contained a waiver by the parties of their right to have recourse to compliance proceedings under Article 21.5 of the DSU. The Appellate Body held that "the relinquishment of rights granted by the DSU cannot be lightly assumed", and that "the language in the Understandings must clearly reveal that the parties intended to relinquish their rights". Further, the Appellate Body emphasized that "irrespective of the type of proceeding, if a WTO Member has not clearly stated that it would not take legal action with respect to a certain measure, it cannot be regarded as failing to act in good faith if it challenges that measure." Thus, while we do not exclude the possibility of articulating the relinquishment of the right to initiate WTO dispute settlement proceedings in a form other than a waiver embodied in a mutually agreed solution, as in EC – Bananas III (Article 21.5 – Ecuador II / Article 21.5 – US), any such relinquishment must be made clearly. In any event, in our view, a Member's compliance with its good faith obligations under Articles 3.7 and 3.10 of the DSU should be ascertained on the basis of actions taken in relation to, or within the context of, the rules and procedures of the DSU. Thus, we proceed to examine in this dispute whether the participants clearly stipulated the relinquishment of their right to have recourse to WTO dispute settlement by means of a "solution mutually acceptable to the parties" that is consistent with the covered agreements.

5.26. Contrary to what Peru claims, it does not appear that – for purposes of the DSU – the FTA, and in particular paragraph 9 of Annex 2.3, constitutes a solution mutually acceptable to both parties within the meaning of Article 3.7 of the DSU. Aside from the fact that Peru and Guatemala negotiated the FTA before the initiation of the present dispute, the DSU emphasizes that "[a] solution mutually acceptable to the parties to a dispute" must be "consistent with the covered agreements and..."
agreements”. As we have found elsewhere in this Report, the additional duties resulting from the PRS are inconsistent with Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994. Moreover, as discussed in more detail in section 5.3.3.2, the participants have raised conflicting arguments on how to read paragraph 9 of Annex 2.3 to the FTA, which provides that “Peru may maintain its [PRS]”, in the context of other relevant provisions of the FTA, so that there appears to be ambiguity as to whether even the FTA itself, regardless of its legal status, allows Peru to maintain the PRS if it is found to be WTO-inconsistent.

5.27. Further, Peru recognizes that Guatemala is not “procedurally barred from bringing a WTO claim against the PRS”. Moreover, Article 15.3 of the FTA provides that, “[i]n the event of any dispute that may arise under this Treaty or under another free trade agreement to which the disputing Parties are party or the WTO Agreement, the complaining Party may choose the forum for settling the dispute.” Thus, even from the perspective of the FTA, parties to the FTA have the right to bring claims under the WTO covered agreements to the WTO dispute settlement system.

5.28. Based on the foregoing discussion, we do not consider that a clear stipulation of a relinquishment of Guatemala’s right to have recourse to the WTO dispute settlement system exists in this case in relation to, or within the context of, the DSU. We reach the above findings irrespective of the status of the FTA as not being ratified by both parties. Consequently, we do not see how Guatemala could be considered as having acted contrary to its good faith obligations under Articles 3.7 and 3.10 of the DSU when it initiated these proceedings to challenge the consistency of the PRS with the WTO covered agreements. Therefore, we uphold the Panel’s finding in paragraphs 7.96 and 8.1.a of the Panel Report, that there is “no evidence that Guatemala brought these proceedings in a manner contrary to good faith”.

5.3 Peru’s appeal: Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994

5.29. Peru challenges the Panel’s interpretation and application of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994. We examine these aspects of Peru’s appeal in sections 5.3.1 and 5.3.2 below. In addition, Peru claims that the Panel erred in its interpretation of Article 4.2 of the Agreement on Agriculture by failing to take into account the FTA between Peru and Guatemala and ILC Articles 20 and 45, in accordance with Article 31(3) of the Vienna Convention. We examine the aspects of Peru’s appeal concerning the FTA and the ILC Articles in section 5.3.3.

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104 See sections 5.3.1and 5.3.2of this Report.
105 Paragraph 9 of Annex 2.3 to the FTA provides:
Peru may maintain its Price Range System, established in Supreme Decree No. 1152001EF and the amendments thereto, with regard to the products subject to the application of the system marked with an asterisk (*) in column 4 of Peru’s Schedule as set out in this Annex.
Article 1.3 of the FTA provides:
1. The Parties confirm their existing mutual rights and obligations under the WTO Agreement and other agreements to which they may be parties.
2. In the event of any inconsistency between this Treaty and the agreements referred to in paragraph 1, this Treaty shall prevail to the extent of the inconsistency, unless otherwise provided in this Treaty.
106 While Article 3.7 of the DSU acknowledges that parties may enter into a mutually agreed solution, we do not consider that Members may relinquish their rights and obligations under the DSU beyond the settlement of specific disputes. In this respect, we recall that Article 23 of the DSU mandates that “[w]hen Members seek the redress of a violation of obligations or other nullification or impairment of benefits under the covered agreements or an impediment to the attainment of any objective of the covered agreements, they shall have recourse to, and abide by, the rules and procedures of this Understanding.”
107 Peru’s appellant’s submission, para. 41. (emphasis added)
108 Panel Report, para. 7.41. (emphasis original)
109 Given our conclusion that Guatemala has not clearly waived its right to have recourse to these dispute settlement proceedings, we see no reason to address further Peru’s arguments that ILC Articles 20 and 45 provide additional support for its argument that a WTO Member may waive its rights under the DSU explicitly or by necessary implication. In addition, in view of the ambiguity as to whether the FTA itself allows Peru to maintain the PRS if it is found to be WTO-inconsistent, we also do not see a reason to engage further with Peru’s argument that, by agreeing in the FTA to the maintenance of the PRS and thereafter challenging it in the present proceedings, Guatemala acted inconsistently with its obligation under Article 18 of the Vienna Convention not to defeat the object and purpose of the treaty. We note that Peru has neither elaborated on the object and purpose of the FTA, nor demonstrated how maintaining the PRS forms part thereof.
5.3.1 Article 4.2 of the Agreement on Agriculture – variable import levies

5.30. The Panel found that the additional duties resulting from the PRS are "variable import levies", or at least "similar border measures", within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture, and that, by maintaining them, Peru is acting inconsistently with Article 4.2.110 Peru challenges the Panel's findings, making three main claims of error. First, Peru contends that the Panel erred in its assessment of the "variability" of the measure at issue.111 Second, Peru contends that the Panel erred in its assessment of the "additional features" of the measure at issue.112 Finally, Peru claims that the Panel acted inconsistently with Article 11 of the DSU by failing to properly compare the measure at issue with "ordinary customs duties" and "variable import levies" when examining Guatemala's claim under Article 4.2 of the Agreement on Agriculture.113 Peru requests us "to reverse and declare moot and with no legal effect" the Panel's finding that the additional duties resulting from the PRS constitute "variable import levies", or a border measure "similar" to "variable import levies", within the meaning of footnote 1, and are thus inconsistent with Article 4.2.114 Below, we summarize the Panel's interpretation and application of Article 4.2 of the Agreement on Agriculture at issue, and set out our understanding of certain issues relating to the interpretation of Article 4.2. Thereafter, we examine each of Peru's claims.

5.3.1.1 The Panel's findings

5.31. Article 4.2 and footnote 1 of the Agreement on Agriculture provide:

Members shall not maintain, resort to, or revert to any measures of the kind which have been required to be converted into ordinary customs duties, except as otherwise provided for in Article 5 and Annex 5.

1 These measures include quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state-trading enterprises, voluntary export restraints, and similar border measures other than ordinary customs duties, whether or not the measures are maintained under country-specific derogations from the provisions of GATT 1947, but not measures maintained under balance-of-payments provisions or under other general, non-agriculture-specific provisions of GATT 1994 or of the other Multilateral Trade Agreements in Annex 1A to the WTO Agreement.115

5.32. Before the Panel, Guatemala claimed that the measure at issue is inconsistent with Article 4.2 of the Agreement on Agriculture. Guatemala argued that the additional duties resulting from the PRS constitute prohibited "variable import levies", or a prohibited "similar border measure", within the meaning of footnote 1 of Article 4.2 because the measure at issue: (i) exhibits inherent variability; (ii) lacks transparency and predictability; and (iii) obstructs the transmission of international price developments to Peru's domestic market.116 Peru responded that Article 4.2 is not applicable because the measure at issue is an ordinary customs duty, and is thus permissible provided the additional duties do not exceed Peru's bound rate for the relevant products. Peru also argued that the measure at issue does not exhibit characteristics of a "variable import levy", or a "similar border measure".117

111 Peru's appellant's submission, paras. 237-256.
112 Peru's appellant's submission, paras. 257-289.
113 Peru's appellant's submission, paras. 290-295.
114 Peru's appellant's submission, para. 297 (referring to Panel Report, paras. 7.316, 7.321, 7.324, 7.325, 7.328, 7.334-7.340, 7.345-7.347, 7.349, 7.350-7.352, 7.371-7.374, 7.526-7.528, 8.1.b, 8.1.d, and 8.1.f). In addition, should we find that the measure at issue is of the type prohibited by Article 4.2 of the Agreement on Agriculture, Peru requests us to "find that the application of the Article 4.2 obligation in light of the facts in this case must lead to the conclusion that Peru did not act inconsistently with this provision. (Peru's appellant's submission, para. 298) We examine this aspect of Peru's request in section 5.3.3 below, together with Peru's arguments concerning the impact that the FTA between Peru and Guatemala should have in the assessment of Guatemala's claims under Article 4.2.
115 Emphasis added.
5.33. The Panel began its analysis by setting out its understanding of "variable import levies" in footnote 1 of the Agreement on Agriculture. The Panel noted that "variability" within the meaning of footnote 1 and Article 4.2 of the Agreement on Agriculture requires that the measure itself, as a mechanism, impose the variability of the duties, and that variability will be inherent in a measure if it incorporates a scheme or formula that causes levies to change automatically and continuously. Furthermore, the Panel noted that certain additional features may differentiate "variable import levies" from "ordinary customs duties". These features include a lack of transparency and predictability as compared to an ordinary customs duty. The Panel noted that the additional features "may help to determine the type of measure in question when compared to an ordinary customs duty, but [they do] not constitute a necessary condition for qualifying the measure as a 'variable import levy'".

5.34. The Panel then turned to the relationship between "variable import levies" and "ordinary customs duties". The Panel stated that, if a measure is a "variable import levy" or a "similar border measure" that has been required to be converted into an "ordinary customs duty", it cannot be an "ordinary customs duty". Thus, if a panel finds that a measure is one of those listed in footnote 1 of the Agreement on Agriculture, it may conclude that such a measure is not an ordinary customs duty.

5.35. Turning to the measure at issue, the Panel noted that the PRS includes a series of steps and mathematical formulas for calculating the ceiling and floor prices every six months, and the reference prices every two weeks, and that they may result in the imposition of additional duties, or granting of tariff rebates. On this basis, the Panel found that the PRS, as a mechanism, contains a scheme or formula that causes and ensures automatic and continuous revision of the applicable duties or rebates, and thus the additional duties resulting from the PRS are "an inherently variable measure". In addition, the Panel noted that the PRS exhibits a certain degree of transparency and predictability in the way in which the additional duties are calculated, making it possible for private operators to predict with a certain margin of error the additional duties for a particular period. Nevertheless, the Panel found that the PRS lacks transparency and predictability regarding the level of duties when compared to the transparency and predictability afforded by ordinary customs duties. Finally, the Panel noted that the structure, design, and operation of the PRS show that the resulting additional duties act in such a way that they may distort the prices of

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118 Panel Report, paras. 7.273-7.281 (recalling the objectives of the Agreement on Agriculture and the scope of Article 4.2 of the same Agreement; and quoting Appellate Body Report, Chile – Price Band System, paras. 196, 200, 201, 212, 216, 217, 219, 221, and 227).
119 Panel Report, para. 7.287 (referring to Appellate Body Reports, Chile – Price Band System, paras. 233-234; Chile – Price Band System (Article 21.5 – Argentina), paras. 155-158; and Panel Report, Chile – Price Band System (Article 21.5 – Argentina), para. 7.28). The Panel also stated that "[a]n import levy that shows the inherent variability resulting from a scheme or formula that causes and ensures that the measure changes automatically and continuously is 'variable', not only in the sense that it varies or may vary, but even more so because it is a measure 'highly inclined or likely to vary'.” (Panel Report, para. 7.288. See also paras. 7.316 and 7.320)
121 Panel Report, para. 7.292. See also para. 7.290 (referring to Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 156). In addition, the Panel addressed the meaning of "similar border measures" in footnote 1 of the Agreement on Agriculture. Recalling the Appellate Body in past cases, the Panel explained that it is necessary to examine whether a measure, in its particular features, including its structure, design, and effects, shares sufficient features with the category of prohibited measures in footnote 1 to resemble, or be of the same nature or kind, and thus be prohibited by Article 4.2 of the Agreement on Agriculture. (Panel Report, paras. 7.297-7.305)
123 The Panel also noted that it is undisputed that the additional duties resulting from the PRS are border measures. (Panel Report, para. 7.315)
125 Panel Report, para. 7.325.
126 Panel Report, paras. 7.334 and 7.340. The Panel noted that "[t]he fact that specific additional duties are applied on the basis of an average reference price which changes every fortnight, rather than on the value or the volume of the imported goods, entails a systemic lack of transparency and predictability." (Panel Report, para. 7.338)
imports subject to the PRS and limit the transmission of international prices to Peru's domestic market, and, thus operate differently from ordinary customs duties.

5.36. The Panel considered that the additional duties resulting from the PRS constitute "variable import levies" or a "similar border measure" and, therefore, a measure other than "ordinary customs duties". Accordingly, the Panel concluded that, in maintaining this measure, Peru is acting inconsistently with Article 4.2 of the Agreement on Agriculture.

5.3.1.2 Article 4.2 of the Agreement on Agriculture

5.37. Peru's appeal requires us to interpret Article 4.2 of the Agreement on Agriculture. The preamble of the Agreement on Agriculture states that a key objective of that Agreement is "to establish a fair and market-oriented agricultural trading system", and to initiate a reform process "through the negotiation of commitments on support and protection and through the establishment of strengthened and more operationally effective GATT rules and disciplines". The preamble further states that, to achieve this objective, it is necessary "to provide for substantial progressive reductions in agricultural support and protection ... resulting in correcting and preventing restrictions and distortions in world agricultural markets," through achieving "specific binding commitments in market access".

5.38. Part III of the Agreement on Agriculture serves to correct and prevent certain restrictions and distortions of trade in agricultural products. It consists of Article 4 on market access and Article 5 on special safeguard provisions. The Appellate Body has observed that "Article 4 of the Agreement on Agriculture is appropriately viewed as the legal vehicle for requiring the conversion into ordinary customs duties of certain market access barriers affecting imports of agricultural products." The Appellate Body has explained the origin and function of Article 4 as follows:

During the course of the Uruguay Round, negotiators identified certain border measures which have in common that they restrict the volume or distort the price of imports of agricultural products. The negotiators decided that these border measures should be converted into ordinary customs duties, with a view to ensuring enhanced market access for such imports. Thus, they envisioned that ordinary customs duties would, in principle, become the only form of border protection. As ordinary customs duties are more transparent and more easily quantifiable than non-tariff barriers, they are also more easily compared between trading partners, and thus the maximum amount of such duties can be more easily reduced in future multilateral trade negotiations. The Uruguay Round negotiators agreed that market access would be improved – both in the short term and in the long term – through bindings and reductions of tariffs and minimum access requirements, which were to be recorded in Members' Schedules.

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127 The Panel stated that, in the short term, the system is designed to prevent any fall in prices from being transmitted to Peru's domestic market, as any change in international prices occurring during the six months in which the floor price is in effect will not be reflected in the price at which imports may enter Peru's market. If there is a fall in international prices, leading to a fall in the reference price, the PRS increases the resulting additional duties in the same amount as the fall in the average reference price, thereby covering the difference between the reference price and the floor price. In the medium term, the PRS may also distort the transmission of international prices to the domestic market because a decrease in the floor price will be much slower than that in the reference price and will be delayed by up to six months. If decreasing monthly prices fall outside the confidence interval and are eliminated, it is even possible that none of them will be incorporated into the floor price, whereas no value is omitted from the average reference price. (Panel Report, paras. 7.345-7.346)

128 Panel Report, para. 7.349. At the end of its analysis, the Panel found that the additional duties resulting from the PRS, by their structure, design, and operation, and in their particular features, share sufficient features with "variable import levies" to be considered as a border measure "similar" to a "variable import levy". (Panel Report, para. 7.351)

129 Agreement on Agriculture, preamble, recital 2.

130 Agreement on Agriculture, preamble, recital 2.

131 Agreement on Agriculture, preamble, recital 2.

132 Appellate Body Reports, China – Price Band System, paras. 201; China – Price Band System (Article 21.5 – Argentina), para. 145. (emphasis omitted)

5.39. Article 4.2 of the Agreement on Agriculture prohibits Members from maintaining, resorting to, or reverting to, "any measures of the kind which have been required to be converted into ordinary customs duties". The various measures identified in footnote 1 "have in common that they restrict the volume or distort the price of imports of agricultural products" and, therefore, frustrate a key objective of the Agreement on Agriculture, namely, "to achieve improved market access conditions for imports of agricultural products by permitting only the application of ordinary customs duties". Some of the measures specifically identified in footnote 1 entail the payment of duties at the border, while others do not. The mere fact that a measure results in the payment of duties that take the same form as ordinary customs duties does not, by itself, mean that the measure falls outside the scope of footnote 1. Thus, in order to determine whether a measure is among the "measures of the kind which have been required to be converted into ordinary customs duties", it may be necessary to conduct an in-depth examination of the design and structure of the measure itself, as well as its operation, in the light of the relevant language in Article 4.2 and footnote 1.

5.40. Turning to the term "variable import levies", the Appellate Body has explained that a levy is "variable" when it is "liable to vary". This characteristic alone, however, would not suffice to characterize a measure as a "variable import levy", given that an "ordinary customs duty" could also fit this description. Measures constituting "variable import levies" are "inherently" variable because they "incorporate[] a scheme or formula that causes and ensures that levies change automatically and continuously". This is a necessary and key element of "variable import levies". The presence of this underlying scheme or formula distinguishes "variable import levies" from "ordinary customs duties", which may also be subject to variation, but through "discrete changes in applied tariff rates that occur independently, and unrelated to such ... scheme or formula", and usually as a result of separate administrative or legislative action.

5.41. "Variable import levies" may also have additional features that compromise the objective of the Agreement on Agriculture "to achieve improved market access conditions for imports of agricultural products by permitting only the application of ordinary customs duties". Such additional features include "a lack of transparency and a lack of predictability in the level of duties that will result from such measures" when compared to the level of transparency and predictability of "ordinary customs duties". These additional features are not independent or absolute characteristics that a measure must display in order to be considered a "variable import levy";
rather, the additional features may serve to confirm that a measure is "inherently variable."\textsuperscript{148} Finally, the Appellate Body has stated that "variable import levies" may contribute to distorting the prices of imports by impeding the transmission of international prices to the domestic market.\textsuperscript{149}

5.42. With this understanding in mind, we examine below Peru's claims of error in respect of the Panel's interpretation of "variable import levies" in footnote 1 of Article 4.2 and the Panel's application of this term to the measure at issue.

**5.3.1.3 Peru's claim that the Panel erred in its assessment of the "variability" of the measure at issue**

5.43. Peru argues that the Panel's analysis of "variability" confuses the measure at issue – i.e. the additional duties resulting from the PRS – with the methodology used to calculate the reference price and the potential duty.\textsuperscript{150} By contrast, Guatemala argues that drawing a distinction between the additional duties and their calculation methodology would be inconsistent with the Panel's terms of reference.\textsuperscript{151} As explained above\textsuperscript{152}, we consider that the measure before the Panel comprised both the additional duties resulting from the PRS and the PRS calculation methodology. Moreover, "inherent variability" must be assessed on the basis of the overall configuration of a measure and the extent to which the changes are automatic, continuous, and based on an underlying mechanism or formula.\textsuperscript{153} Thus, we consider that the Panel was in fact required to examine the PRS calculation methodology when determining whether the additional duties resulting from the PRS are "variable import levies".

5.44. Peru also argues that the additional duties at issue "do not necessarily change as a result of the [PRS] calculation"\textsuperscript{154}, and do not vary with any regularity.\textsuperscript{155} According to Guatemala, the fact that, in certain periods, the PRS did not give rise to a variable additional duty is not relevant to the examination of the PRS and the resulting additional duties during the periods "when they were in fact imposed".\textsuperscript{156}

5.45. We first observe that Peru accepts that "[w]hat is inherent and automatic in the Peruvian system is the operation of a formula that calculates the relevant values for the upper and lower ranges and the reference prices."\textsuperscript{157} We note that the PRS calculation methodology is a necessary element in the calculation of the additional duties resulting from the PRS. Duties that are calculated based on an "inherently variable" system will themselves be "inherently variable".

5.46. Moreover, the Panel's finding of "variability" is not based on the frequency of change in the duties at issue. Rather, the Panel based its finding on the fact that the PRS contains a scheme or formula that causes and ensures automatic and continuous revision of the applicable duties.\textsuperscript{158} In addition, the Panel explicitly addressed the frequency of change, stating that "[t]he fact that the result may be the same for some or several fortnightly periods as a result of applying the formulas ... does not mean that the PRS, as a mechanism, does not impose fortnightly variability of duties."\textsuperscript{159} The Appellate Body has noted that the frequency of change effected by a measure may be relevant in determining whether such measure is "variable", but "[n]o specific frequency of change in resulting duties is required in order for a measure to be considered 'variable' within the

\textsuperscript{148} The Appellate Body has examined "transparency and predictability in tandem and in relation to the level of resulting duties, observing that 'an exporter is less likely to ship to a market if that exporter does not know and cannot reasonably predict what the amount of duties will be.'" (Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 156 (quoting Appellate Body Report, Chile – Price Band System, Article 21.5 – Argentina) para. 234)

\textsuperscript{149} Appellate Body Reports, Chile – Price Band System (Article 21.5 – Argentina), para. 234; Chile – Price Band System (Article 21.5 – Argentina), para. 156.

\textsuperscript{150} Peru's appellant's submission, para. 248.

\textsuperscript{151} Guatemala's appellee's submission, para. 112.

\textsuperscript{152} See para. 5.4 of this Report.

\textsuperscript{153} Appellate Body Reports, Chile – Price Band System, para. 233; Chile – Price Band System (Article 21.5 – Argentina), paras. 155 and 211.

\textsuperscript{154} Peru's appellant's submission, para. 250.

\textsuperscript{155} Peru's appellant's submission, paras. 249-251.

\textsuperscript{156} Guatemala's appellee's submission, para. 116. (emphasis omitted)

\textsuperscript{157} Peru's appellant's submission, para. 251.

\textsuperscript{158} Panel Report, para. 7.321.

\textsuperscript{159} Panel Report, para. 7.324.
meaning of footnote 1” of the Agreement on Agriculture.\textsuperscript{160} That a measure produces duties that vary with every transaction is not a necessary condition for a measure to be “variable”.\textsuperscript{161}

5.47. We also note Peru’s objection to the Panel’s statement that the variability imposed by the PRS cannot be compared to the fact that “ordinary customs duties” may occasionally vary. Peru argues that changes of both the additional duties resulting from the PRS and “ordinary customs duties” are neither constant nor mechanical.\textsuperscript{162} Guatemala responds that the evidence submitted by Peru reveals that the variation of the additional duties resulting from the PRS is significantly greater than the variation of “ordinary customs duties”.\textsuperscript{163}

5.48. In our view, the fact that a levy is “variable” is not sufficient for characterizing a measure as a “variable import levy” because an “ordinary customs duty” could also fit this description.\textsuperscript{164} Rather, “variable import levies” are distinct from “ordinary customs duties” because of the presence of an underlying scheme or formula in the measure at issue that causes those levies to change automatically and continuously.\textsuperscript{165} Thus, we consider that the Panel was correct in stating that the “variability imposed by thePRS, as a mechanism, which is the result of rules and formulas that form part of the system and are applied automatically and continuously, cannot be compared to the normal variability of ordinary customs duties”.\textsuperscript{166}

5.49. In addition, Peru contends that, while the Panel correctly identified the legal standard for “variable import levies”, the Panel relied “too heavily” on “inherent variability” in finding that the measure is a “variable import levy”.\textsuperscript{167} Guatemala argues that “the Panel did not rely entirely on the inherent variability” of the measure and that, in any event, inherent variability “is the key criterion for the finding of a variable import levy”.\textsuperscript{168} In our view, Peru’s argument does not find support in the Panel Report. The Panel examined certain “additional features” of the measure at issue to confirm its finding of “inherent variability”.\textsuperscript{169} Furthermore, the Panel found that “[t]he PRS ... contains a scheme or formula which causes and ensures automatic and continuous revision of the applicable duties or rebates, from one fortnight to the next” and that it is thus “clear that the PRS, as a mechanism, imposes the variability of the additional duties.”\textsuperscript{170} Such a finding of “variability” based on an underlying formula “that causes and ensures that levies change automatically and continuously”\textsuperscript{171} is a necessary and key element for a finding of “variable import levies” within the meaning of footnote 1 of the Agreement on Agriculture. We, therefore, disagree with Peru’s argument that the Panel erred by “relying too heavily” on this aspect in its analysis.

5.50. Finally, Peru submits an argument that relates the Panel’s findings concerning “variable import levies” with those concerning “minimum import prices”. Peru contends that the Panel’s finding, that the PRS floor price does not prevent the entry of imports priced below it\textsuperscript{172}, should

\textsuperscript{160} Appellate Body Report, \textit{Chile – Price Band System (Article 21.5 – Argentina)}, para. 211.
\textsuperscript{161} Rather, “variability” must be assessed on the basis of the overall configuration of a measure and the interaction of its specific features. (Appellate Body Report, \textit{Chile – Price Band System (Article 21.5 – Argentina)}, para. 211)
\textsuperscript{162} Peru’s appellant’s submission, paras. 252-255 (referring to Panel Report, para. 7.324).
\textsuperscript{163} Guatemala refers to evidence concerning boneless bovine meat, and argues that an ordinary customs duty that was changed “by discrete, discretionary and unannounced acts of the Peruvian authorities seven times over the past 23 years” is not the same as “a duty generated by an automatic, fortnightly mathematical formula that has changed over 400 times since 2001”. (Guatemala’s appellee’s submission, para. 117)
\textsuperscript{164} Appellate Body Reports, \textit{Chile – Price Band System}, para. 232; \textit{Chile – Price Band System (Article 21.5 – Argentina)}, para. 155. Moreover, we recall that no specific frequency of change in resulting duties is required in order for a measure to be considered “variable” within the meaning of footnote 1 of the Agreement on Agriculture. (Appellate Body Report, \textit{Chile – Price Band System (Article 21.5 – Argentina)}, para. 211)
\textsuperscript{165} In this context, the Appellate Body has noted that “ordinary customs duties” are subject to discrete changes in applied tariff rates that occur independently from and unrelated to an underlying scheme or formula, and as a result of separate administrative or legislative action. (See Appellate Body Reports, \textit{Chile – Price Band System}, para. 233; \textit{Chile – Price Band System (Article 21.5 – Argentina)}, para. 155)
\textsuperscript{166} Panel Report, para. 7.324.
\textsuperscript{167} Peru’s appellant’s submission, para. 247.
\textsuperscript{168} Guatemala’s appellee’s submission, para. 92. (emphasis original)
\textsuperscript{169} See Panel Report, paras. 7.326-7.349.
\textsuperscript{170} Panel Report, para. 7.321.
\textsuperscript{172} Peru’s appellant’s submission, para. 240 (referring to Panel Report, para. 7.357). See also paras. 237, 241, 242, and 245 (referring to Panel Report, paras. 7.361, and 7.366-7.369).
have led the Panel to conclude that the additional duties resulting from the PRS are not "variable import levies", nor "similar border measures". Peru argues that the legal standards for "variable import levies" and "minimum import prices" share common characteristics, in particular, the use of a minimum or threshold price. In contrast, Guatemala argues that the legal standard for "variable import levies" does not require a minimum-price component, and that "variable import levies" and "minimum import prices" are two distinct concepts.

5.51. We first note that Peru refers to a minimum or threshold price. The narrative of Peru's argument – in particular, the reference to the Panel's finding that the floor price used in the PRS does not act as a threshold preventing the entry of imports priced below it – suggests that Peru is not referring to just any threshold, but to a particular one, i.e. a minimum threshold. The term "variable import levies", within the meaning of footnote 1 of the Agreement on Agriculture, however, has not been interpreted as necessarily comprising a minimum import price threshold. Rather, as explained above, "variable import levies" are import levies characterized as "inherently variable" because they contain a mechanism that causes the levies to change automatically and continuously. A given measure may contain elements that are common to both "variable import levies" and "minimum import prices". A "variable import levy", however, need not necessarily contain a certain minimum threshold for it to be characterized as "variable", or more precisely as "inherently variable".

5.52. On the basis of the foregoing, we find that Peru has not established that the Panel erred in its assessment of the "variability" of the measure at issue.

5.3.1.4 Peru's claim that the Panel erred in its assessment of the "additional features" of the measure at issue

5.53. Peru claims that the Panel erred in its assessment of the "additional features" of the measure at issue when finding that the additional duties resulting from the PRS constitute "variable import levies" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture.

5.54. With respect to the Panel's assessment of the transparency and predictability of the measure at issue, Peru first contends that the Panel erred by conflating the ability to forecast duties with transparency and predictability. Guatemala disagrees and points out that, while the rate of ordinary customs duties can change, such rates are fixed and thus predictable until such change. Given the structure, design, and operation of the PRS, and in particular the recalculation of the potential additional duties every two weeks, we see no error in the Panel's explanation that the PRS lacks transparency and predictability regarding the level of the additional

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173 Peru's appellant's submission, para. 243.
174 Peru's appellant's submission, paras. 238 and 241 (referring to Appellate Body Report, Chile – Price Band System, paras. 236-238, 246, 252, and 262; and Panel Report, Chile – Price Band System, paras. 7.36(c) and 7.36(e)).
175 Guatemala's appellee's submission, paras. 100 and 104.
176 See paras. 5.40-5.41 above.
177 "Variable import levies" are also characterized by certain "additional features", which serve to confirm the finding of "inherent variability".
178 To the extent that Peru's argument may be understood as referring to any threshold, we note that the Panel explicitly referred to, inter alia, the fact that the PRS contains a "series of steps and mathematical formulas for calculating the ceiling and floor prices" when concluding that the PRS "contains a scheme or formula which causes and ensures automatic and continuous revision of the applicable duties or rebates". (Panel Report, para. 7.321) Thus, the Panel found "inherent variability" on the basis of, inter alia, the existence of a floor price threshold in the PRS. This floor price threshold, however, need not necessarily be akin to, or operate as, a "minimum import price" for a finding of "variable import levies" within the meaning of footnote 1 of the Agreement on Agriculture.
179 See Panel Report, paras. 7.318-7.325.
180 Peru's appellant's submission, paras. 258-266. Peru submits that data and formulas are "beneficial", as they enhance – rather than limit – predictability, particularly when compared to WTO-consistent ordinary customs duties that "can change without warning". (Peru's appellant's submission, paras. 258-260)
181 Guatemala submits that, in practice, ordinary customs duties remain unchanged over large periods of time. (Guatemala's appellee's submission, para. 119)
duties when compared to the transparency and predictability afforded by ordinary customs duties.  

5.55. Moreover, Peru contends that any "variability" of the measure is due to the fluctuations in world market prices. As the Panel concluded that "such fluctuations may ... become an additional factor in lack of transparency and predictability", Peru contends that the Panel incorrectly found that the measure lacked transparency and predictability because of its alleged "inherent variability". Guatemala responds that, while Peru may rely on international prices to adjust its ordinary customs duties "through discrete and independent acts of its authorities", Peru may not "design import charges whose level depends mathematically on international prices and that are updated periodically via an automatic mechanism". The Panel concluded that the "inherent variability" of the PRS relates to the "series of steps and mathematical formulas for calculating the ceiling and floor prices ... and the reference prices". By contrast, in its analysis of transparency and predictability, the Panel observed that, in the context of the PRS, the difficulty in estimating future international prices leads to a lack of transparency and predictability when compared to the level of transparency and predictability of ordinary customs duties. We disagree with Peru's argument that, in this part of the Panel's analysis, the Panel associated the lack of transparency and predictability of the PRS with the "inherent variability" of the measure at issue.

5.56. With respect to the Panel's assessment of whether the measure at issue distorts the transmission of international prices to Peru's market, Peru argues that the Panel failed to provide a reasonable basis for its finding because the Panel relied solely on a theoretical analysis, and did not include an empirical assessment of the "observable effects of the measure". Guatemala responds that there is nothing "theoretical" about the Panel's analysis, and that the Panel did not ignore, but was simply not convinced by, the evidence presented by Peru. The Panel examined the declared objective of the PRS; the structure and design of the PRS, including the short-term and medium-term effects; and statistical evidence on sugar and maize. We note that a panel is not required to focus its examination primarily on numerical or statistical data regarding the effects of the measure in practice. Rather, where it exists, "evidence on the observable effects of the measure should, obviously, be taken into consideration, along with information on the structure and design of the measure." The weight and significance to be accorded to such evidence will depend on the circumstances of each case.

5.57. In addition, Peru argues that the Panel's analysis appears to contradict the Panel's finding that the measure at issue is not a minimum import price. By contrast, Guatemala considers that a measure may "neutralize, distort, impede or cushion" the transmission of international prices regardless of whether it also qualifies as a "minimum import price". Peru's argument associates elements of the Panel's examination of whether the measure at issue is a "variable import levy" with elements of the Panel's examination of whether the measure at issue is a "minimum import
price”. According to the Panel, the question of whether the measure at issue is a "variable import levy" that distorts the transmission of international prices to the domestic market concerns the issue of whether the measure "insulates domestic prices from international price developments and thus impedes the transmission of world market prices to the domestic market." Conversely, the question of whether a measure qualifies as a "minimum import price" concerns the issue of whether it "refers generally to the lowest price at which imports of a certain product may enter a Member's domestic market". Even if these questions address features of "variable import levies" and "minimum import prices" that are related to each other, whether a measure falls within the scope of one or of another measure listed in footnote 1 of the Agreement on Agriculture nonetheless remains a separate question. Thus, we see no inconsistency in the Panel's analysis of "variable import levies" and its analysis of "minimum import prices" in this regard.

5.58. Peru also contends that the Panel overlooked the fact that the PRS is incapable of preventing the transmission of international prices to the domestic market for all products covered because it operates on the basis of only four "marker products". Guatemala argues that, even for "associated products", the PRS ensures that international price fluctuations are neutralized or distorted. According to Guatemala, "a variable duty will always tend to distort the transmission of price changes onto the destination market". Even if we were to assume, as suggested by Peru, that the prices of "associated products" and the relevant "marker product" are unrelated, Peru's argument fails to explain how an import levy, varying according to the international price of another agricultural product (i.e. the "marker product"), would not distort the transmission of international prices of "associated products" to Peru's market, or how the effects of such levy could nevertheless be considered equivalent to the impact of an "ordinary customs duty".

5.59. Finally, Peru contends that, in contrast to Chile's price band system, the PRS results in a close correlation between international and domestic prices. Guatemala responds that the differences between the PRS and Chile's price band system identified by Peru are inaccurate and, in any event, irrelevant. Simply stating, as Peru does, that the PRS is less distortive than the Chilean measure is insufficient to demonstrate that the PRS does not distort the transmission of international prices to Peru's domestic market. The Panel examined in detail the elements of the PRS, and specifically took into account the floor and reference prices when concluding that the short-term and medium-term effects of the PRS distort the transmission of international prices to the domestic market, differently from "ordinary customs duties". Furthermore, as the Panel found, the use of a floor price updated every six months, and the use of a reference price updated every two weeks, are key elements of a system that is designed to, and indeed does to a certain extent, "neutralize" or dilute fluctuations in international prices. As for Peru's argument that the PRS results in a close correlation between international and domestic prices because it lacks a minimum import price, we have explained above that the issue of whether a measure is a "variable import levy" that distorts the transmission of international prices to the domestic market is separate from the issue of whether such measure also qualifies as a "minimum import price".

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195 Panel Report, para. 7.343.
196 Appellate Body Reports, Chile – Price Band System, para. 236; Chile – Price Band System (Article 21.5 – Argentina), para. 152.
197 We note that Peru and Guatemala disagree on the extent to which the international price of the relevant "marker product" can be said reasonably to represent the international price of the "associated products". (See Peru's appellant's submission, para. 284; Guatemala's appeal, para. 285)
198 Guatemala's appellee's submission, para. 158.
199 Peru stresses that the PRS operates on the basis of only four "marker products", and that, "among [the] 47 tariff lines [subject to the PRS], the prices can vary significantly". (Peru's appellant's submission, para. 284. See also para. 285)
200 Peru's appellant's submission, paras. 286-289. Peru argues that the PRS results in a close correlation between international and domestic prices because: (i) the floor and ceiling prices are updated every six months (twice as often as in Chile's price band system); (ii) the reference price is updated every two weeks; and (iii) the PRS lacks a minimum import price (unlike Chile's price band system). (Peru's appellant's submission, para. 288)
201 Guatemala's appellee's submission, paras. 162-163.
203 Panel Report, paras. 7.344-7.349.
204 Panel Report, paras. 7.344 and 7.346.
205 See fn 200.
206 See para. 5.51 above.
5.60. Overall, we consider that the term "variable import levies" within the meaning of footnote 1 of the Agreement on Agriculture, refers to import levies characterized as being "inherently variable". "Variable import levies" are also characterized by certain "additional features" which serve to confirm a finding of "inherent variability", and are not independent or absolute characteristics that a measure must display in order to be considered a "variable import levy". Peru's appeal assigns too prominent a role to the assessments of a lack of transparency and predictability, and of distortion of the transmission of international prices to the domestic market, within the context of an analysis of whether a measure is a "variable import levy". Given that the "additional features" are not independent or absolute characteristics that a measure must display in order to be considered a "variable import levy", their assessment should not be given more prominence in a panel's analysis than the determination of whether a measure can be characterized as "inherently variable", which is a necessary and key element for a finding of "variable import levy". Peru's arguments do not suffice to show that the Panel erred in its approach to resolving this issue. In particular, Peru's arguments do not undermine the fact that the Panel's assessment of these additional features confirms the Panel's conclusion that the additional duties resulting from the PRS are "inherently variable".

5.61. In the light of the foregoing, we find that Peru has not established that the Panel erred in its assessment of the "additional features" of the measure at issue when it found that the additional duties resulting from the PRS were "variable import levies", or at least a "similar border measure".

5.3.1.5 Peru's claim that the Panel acted inconsistently with Article 11 of the DSU

5.62. Peru claims that the Panel acted inconsistently with Article 11 of the DSU by failing to properly compare the measure at issue with "ordinary customs duties" and "variable import levies" when examining Guatemala's claim under Article 4.2 of the Agreement on Agriculture.

5.63. We recall that the Panel found that the additional duties resulting from the PRS exhibit "inherent variability", which cannot be compared to the fact that "ordinary customs duties" may occasionally vary. In addition, the Panel noted that the PRS lacks transparency and predictability regarding the level of the additional duties when compared to the transparency and predictability of "ordinary customs duties". Finally, the Panel noted that the structure, design, and operation of the PRS show that the resulting additional duties act in such a way that they may distort the prices of imports subject to the PRS and limit the transmission of international prices to Peru's domestic market, and thus operate differently from ordinary customs duties. On this basis, the Panel considered that the additional duties resulting from the PRS constitute "variable import levies" or a "similar border measure", inconsistent with Article 4.2 of the Agreement on Agriculture.

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207 See paras. 5.40-5.41 above.
208 The Appellate Body has noted that these "additional features" include a lack of transparency and a lack of predictability in the level of duties that will result from such measures when compared to the level of transparency and predictability of ordinary customs duties. (See Appellate Body Reports, Chile – Price Band System, para. 234; Chile – Price Band System (Article 21.5 – Argentina), para. 156)
209 Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 156. The Appellate Body has also observed that "variable import levies" contribute to distorting the prices of imports by impeding the transmission of international prices to the domestic market. (Appellate Body Reports, Chile – Price Band System, para. 234; Chile – Price Band System (Article 21.5 – Argentina), para. 156)
210 In Chile – Price Band System (Article 21.5 – Argentina), the Appellate Body also noted that Chile had made extensive arguments regarding the alleged errors made by the panel in examining the "additional features" of the measure at issue, and that "Chile seem[ed] to [have] assign[ed] too prominent a role to these 'additional features'". (Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 214) In that case, the Appellate Body noted that those arguments rested on the mistaken assumption that the "additional features" were independent criteria that, if satisfied, conclusively establish that the measure cannot be a "variable import levy". Referring specifically to the assessment of "transparency" within the context of an examination of whether the measure is "similar" to a "variable import levy", see Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 220.
211 Peru's appellant's submission, paras. 290 and 295.
212 Panel Report, paras. 7.321-7.325. In particular, the Panel found that, since the PRS contains a series of steps and mathematical formulas for calculating the ceiling and the floor prices every six months, and the reference prices every fortnight, the PRS, as a mechanism, imposes the variability of the additional duties.
214 Panel Report, paras. 7.343-7.349. At the end of its analysis, the Panel also found that, in any event, the additional duties resulting from the PRS, by their structure, design, and operation, and in their particular features, are border measures "similar" to a variable import levy. (Panel Report, para. 7.351)
Agriculture.\textsuperscript{215} The Panel further observed that, if a measure is a "variable import levy" or a "similar border measure" that has been required to be converted into an "ordinary customs duty", such measure cannot be, at the same time, an "ordinary customs duty". The Panel held that, consequently, it is "not necessary ... to make a separate additional finding as to whether or not the measure is an ordinary customs duty."\textsuperscript{216} In the light of these findings, the Panel concluded that "the measure does not constitute an ordinary customs duty, and it is not necessary to undertake further analysis in this regard."\textsuperscript{217}

5.64. Peru contends that the Panel's finding, that Peru's additional duties are "variable import levies" or a "similar border measure", was based upon an incomplete analysis, given that the Panel failed to identify the relevant characteristics of an ordinary customs duty on a number of instances.\textsuperscript{218} Peru submits that the Appellate Body's jurisprudence should not be understood as meaning "that relevant characteristics of an ordinary customs duty need not be identified in order to properly conduct a comparative analysis as to whether specific characteristics of a measure are more similar to a variable import levy or to an ordinary customs duty".\textsuperscript{219} Thereby, Peru argues that the Panel's "attempted" comparative analysis of whether the measure at issue is more similar to a "variable import levy" than to an "ordinary customs duty" fails to meet the required standard under Article 11 of the DSU to make an objective assessment of the facts of the case.\textsuperscript{220}

5.65. Guatemala submits that the Panel did not fail to make an objective assessment of the matter before it, and that we should reject Peru's claim under Article 11 of the DSU.\textsuperscript{221} Guatemala contends that Peru's arguments address the legal standard applied by the Panel rather than any lack of objectivity in the Panel's assessment of the facts. Guatemala contends that, in any event, Peru is simply attempting to re-argue the facts, asking us to replace the Panel's assessment of facts, without explaining how the objectivity of the Panel's analysis was affected.\textsuperscript{222}

5.66. In previous disputes, the Appellate Body has noted that a panel is required to "consider all the evidence presented to it, assess its credibility, determine its weight, and ensure that its factual findings have a proper basis in that evidence".\textsuperscript{223} Within these parameters, "it is generally within the discretion of the [p]anel to decide which evidence it chooses to utilize in making findings."\textsuperscript{224} A claim that a panel has failed to conduct an "objective assessment of the matter before it" is "a very serious allegation".\textsuperscript{225} An appellant may not effectively recast its arguments before the panel under the guise of an Article 11 claim, but must identify specific errors\textsuperscript{226} that are so material that, "taken together or singly"\textsuperscript{227}, they undermine the objectivity of the panel's assessment of the matter before it.\textsuperscript{228} A challenge under Article 11 of the DSU must "stand by itself and be substantiated with specific arguments, rather than merely being put forth as a subsidiary
argument or claim in support of a claim of a panel's failure to construe or apply correctly a particular provision of a covered agreement.\footnote{Appellate Body Report, \textit{US – Anti-Dumping and Countervailing Duties (China)}, para. 337 (referring to Appellate Body Reports, \textit{US – Steel Safeguards}, para. 498; \textit{Australia – Apples}, para. 406). In case of similarly overlapping claims of error in the application of a legal standard to the relevant facts of a case and under Article 11 of the DSU, there is no basis to have a separate and additional examination of whether a panel has conducted an objective assessment of the facts under Article 11 of the DSU. (Appellate Body Report, \textit{China – Rare Earths}, para. 5.174 (referring to Appellate Body Report, \textit{China – GOES}, para. 184)).}

5.67. In essence, Peru takes issue with the nature and scope of the comparative analysis conducted by the Panel, under which the Panel allegedly failed to identify the characteristics of "ordinary customs duties", confining its analysis to an assessment of "variable import levies" and "similar border measures" only. We note, however, that, in \textit{Chile – Price Band System (Article 21.5 – Argentina)}, the Appellate Body found that an "inconsistency with Article 4.2 [of the Agreement on Agriculture]" can be established when it is shown that a measure is a border measure similar to one of the measures explicitly identified in footnote 1 [of the Agreement on Agriculture].\footnote{Appellate Body Report, \textit{Chile – Price Band System (Article 21.5 – Argentina)}, para. 171.} Although a panel may undertake "[a] separate analysis of whether, or an additional demonstration that, the measure is 'other than ordinary customs duties'\footnote{We recall that we have examined above Peru’s challenges to the legal standard adopted by the Panel under Article 4.2 of the Agreement on Agriculture, and the Panel’s application of such standard in this case.}, in order to confirm a finding of inconsistency with Article 4.2, such analysis is "not indispensable for reaching a conclusion on the categories listed in footnote 1".\footnote{Peru’s appeal’s submission, para. 294.} Nevertheless, Peru claims that the Panel's failure to provide the "other half" of the comparative analysis "by inadequately identifying the corresponding characteristic of an ordinary customs duty amounts to legal error and undermines the basis on which the conclusions rest".\footnote{Peru’s appeal’s submission, para. 294.} Peru’s challenge does not concern the Panel's proper weighing and appreciation of the evidence or the objectivity of the Panel’s assessment of the matter before it. Rather, Peru’s challenge relates to the legal standard applied by the Panel under Article 4.2.\footnote{Peru’s appeal’s submission, paras. 308-315.} Peru has not explained the basis for requesting an \textit{additional} examination of the Panel's assessment of the matter before it in the context of an Article 11 claim.

5.68. For the foregoing reasons, we find that the Panel did not act inconsistently with Article 11 of the DSU in its examination of Guatemala's claim under Article 4.2 of the Agreement on Agriculture.

\textbf{5.3.2 Article II:1(b) of the GATT 1994 and Article 4.2 of the Agreement on Agriculture}

5.69. We now turn to Peru's appeal in connection with the additional duties resulting from the PRS and Article II:1(b) of the GATT 1994. Overall, Peru raises two claims of error concerning the Panel's analysis of whether the additional duties are inconsistent with Article II:1(b). First, Peru contends that the Panel erred in finding that the additional duties are not "ordinary customs duties" under Article II:1(b) of the GATT 1994 on the basis of its finding under Article 4.2 of the Agreement on Agriculture.\footnote{Peru’s appeal’s submission, paras. 308-315.} Second, Peru claims that the Panel acted inconsistently with Article 11 of the DSU by failing to examine evidence submitted in connection with Guatemala’s claim under Article II:1(b) of the GATT 1994.\footnote{Peru’s appeal’s submission, para. 327} Peru requests us to reverse and "declare moot and inapplicable the Panel’s findings that the additional duties resulting from the PRS constitute 'other duties or charges ... imposed on or in connection with the importation', within the meaning of the second sentence of Article II:1(b).\footnote{Peru’s appeal’s submission, paras. 316-324.} Peru further requests us to complete the
legal analysis and find that Peru is acting consistently with its obligations under Article II:1(b) of the GATT 1994. We examine each of Peru’s claims below.

5.3.2.1 Peru’s claim that the Panel erred in finding that the measure at issue is not an “ordinary customs duty” under Article II:1(b) of the GATT 1994

5.70. Peru claims that the Panel erred in finding that the additional duties resulting from the PRS are not “ordinary customs duties” under Article II:1(b) of the GATT 1994 on the basis of its finding under Article 4.2 of the Agreement on Agriculture. While Peru argues that the Panel should have examined separately whether the measure at issue is an “ordinary customs duty” under Article II:1(b) of the GATT 1994, Guatemala contends that the Panel was correct to conclude that the measure at issue is not an “ordinary customs duty” under Article II:1(b) of the GATT 1994, having found that such measure falls under the scope of footnote 1 of Article 4.2 of the Agreement on Agriculture.

5.71. The question before us is whether the Panel erred by finding that the measure at issue is not an “ordinary customs duty” under the first sentence of Article II:1(b) of the GATT 1994 on the basis of the Panel’s earlier finding that the measure at issue is a “variable import levy” or a “similar border measure” within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture.

5.72. Article 4.2 of the Agreement on Agriculture and the first sentence of Article II:1(b) of the GATT 1994 contain different obligations. Article 4.2 of the Agreement on Agriculture provides that “Members shall not maintain, resort to, or revert to any measures of the kind which have been required to be converted into ordinary customs duties”. The first sentence of Article II:1(b) of the GATT 1994 provides that certain products shall “be exempt from ordinary customs duties in excess of those set forth and provided” in the relevant Schedule of Concessions. We note that both provisions refer to “ordinary customs duties”.

5.73. As explained above, footnote 1 of the Agreement on Agriculture provides a list of measures covered by the obligation under Article 4.2 of the Agreement on Agriculture. The list in footnote 1 includes “variable import levies”, “minimum import prices”, and “similar border measures”. We also recall that, with respect to footnote 1, the Appellate Body has stated that “the structure and logic of footnote 1 make clear that variable import levies and minimum import prices cannot be ordinary customs duties.” In the context of deciding the order of analysis in a case with claims under both Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994, the Appellate Body has stated that “the term ‘ordinary customs duties’ should be interpreted in the same way in both of these provisions.” In this dispute, both Peru and Guatemala agree with the Panel’s statement that “the term ‘ordinary customs duties’ must have the same meaning in Article 4.2 of the Agreement on Agriculture and the [first] sentence of Article II:1(b) of the GATT 1994.”

5.74. The Panel found that the additional duties resulting from the PRS constitute “variable import levies” or a border measure “similar” to a “variable import levy” within the meaning of footnote 1 of the Agreement on Agriculture. On this basis, the Panel concluded, when examining Guatemala’s claim under Article 4.2 of the Agreement on Agriculture, that the additional duties cannot at the same time constitute an “ordinary customs duty”, and stated that “it [was] not
necessary to undertake further analysis in this regard”. In the context of its analysis under Article II:1(b) of the GATT 1994, the Panel recalled the statement in *Chile – Price Band System* that "the term 'ordinary customs duties' must have the same meaning" in both Article 4.2 of the Agreement on Agriculture and the first sentence of Article II:1(b) of the GATT 1994. The Panel also recalled its earlier conclusion that the additional duties are not "ordinary customs duties" in the context of Article 4.2 of the Agreement on Agriculture. On the basis of the above considerations, the Panel concluded that the additional duties at issue are "other duties or charges" within the meaning of Article II:1(b) of the GATT 1994. Given the Panel's finding that the additional duties resulting from the PRS fall within footnote 1 of the Agreement on Agriculture and that "variable import levies" cannot be "ordinary customs duties" within the meaning of Article 4.2, we consider that the Panel was correct in finding that such additional duties are also not "ordinary customs duties" within the meaning of the first sentence of Article II:1(b) of the GATT 1994.

5.75. Contrary to Peru's argument, the Panel's approach and reasoning do not suggest that the Panel found an inconsistency with Article II:1(b) of the GATT 1994 "by implication" from a finding of inconsistency with Article 4.2 of the Agreement on Agriculture. Article 4.2 prohibits "measures of the kind which have been required to be converted into ordinary customs duties". In turn, the first sentence of Article II:1(b) of the GATT 1994 provides that certain products shall "be exempt from ordinary customs duties in excess of those set forth and provided" in the relevant Schedule of Concessions. The second sentence of Article II:1(b), read together with the Understanding on the Interpretation of Article II:1(b) of the GATT 1994, prohibits the imposition of "other duties or charges" in excess of those recorded in the relevant Member's Schedule of Concessions. In line with the understanding that Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 contain "distinct legal obligations arising under ... two different legal provisions", the Panel examined both provisions separately in different sections of its Report, and did not make a consequential finding of inconsistency with the second sentence of Article II:1(b) based on its earlier finding under Article 4.2.

5.76. On the basis of the foregoing, we find that Peru has not established that the Panel erred in finding that the measure at issue is not an "ordinary customs duty" under the first sentence of Article II:1(b) of the GATT 1994.

5.3.2.2 Peru's claim that the Panel acted inconsistently with Article 11 of the DSU

5.77. Peru claims that the Panel acted inconsistently with Article 11 of the DSU by failing to examine evidence relevant to the determination of whether Peru correctly scheduled the additional duties resulting from the PRS as "ordinary customs duties" within the meaning of Article II of the
GATT 1994.\textsuperscript{252} Peru contends that, instead, the Panel found an inconsistency with the second sentence of Article II:1(b) of the GATT 1994 "by implication" of its finding of inconsistency with Article 4.2 of the Agreement on Agriculture.\textsuperscript{253} Guatemala argues that, to the extent that the Panel failed to consider any facts, this was a result of the Panel's use of the correct legal standard, rather than any failure to conduct an objective assessment within the meaning of Article 11 of the DSU.\textsuperscript{254} Thus, Guatemala submits that we need not complete the legal analysis in this regard.\textsuperscript{255}

5.78. We have addressed above the standard articulated by the Appellate Body concerning a panel's duty under Article 11 of the DSU\textsuperscript{256} and, in particular, that a challenge under Article 11 of the DSU must "stand by itself and be substantiated with specific arguments, rather than merely being put forth as a subsidiary argument or claim in support of a claim of a panel's failure to construe or apply correctly a particular provision of a covered agreement."\textsuperscript{257}

5.79. We note that the Panel did not "deem it necessary" to rule on the impact of certain facts submitted by Peru.\textsuperscript{258} The Panel, however, made this statement following its understanding that: (i) the term "ordinary customs duties" must have the same meaning in both Article 4.2 of the Agreement on Agriculture and the first sentence of Article II:1(b) of the GATT 1994\textsuperscript{259}; and (ii) "the structure and logic of footnote 1 make clear that variable import levies and minimum import prices cannot be ordinary customs duties".\textsuperscript{260} Thus, the Panel concluded that examination of the evidence presented by Peru was not necessary for its analysis of whether the measure at issue is an "ordinary customs duty". To that end, Peru's claim does not challenge any lack of objectivity in the Panel's assessment of the facts, but the correctness of the Panel's legal analysis. The Panel expressly acknowledged that "the parties differ as to whether there are elements in the Peruvian legislation that could characterize the duties resulting from the PRS as ordinary customs duties"\textsuperscript{261}, but chose to rely only on those pieces of evidence that it considered relevant in the light of the articulated legal standard. Moreover, we observe that Peru put forward an analogous claim of error concerning the legal standard applied by the Panel when examining Guatemala's claim under the second sentence of Article II:1(b) of the GATT 1994. We have rejected Peru's claim above.\textsuperscript{262} As we have noted, a challenge under Article 11 of the DSU should not merely be put

\textsuperscript{252} Peru lists three "relevant facts" that the Panel did not "deem necessary to examine": (i) "the specific duties ... were created in 1991, not in 2001", and were therefore part of Peru's customs tariff at the time of the Uruguay Round negotiations; (ii) during the Uruguay Round, the modalities agreed for the negotiation allowed developing countries to schedule "ordinary customs duties" by setting a tariff ceiling, "which is precisely what Peru did with respect to the tariff items subject to the specific duties"; and (iii) Peru confirmed, in the final days of the negotiations, that "its specific duties were not 'other duties or charges' required to be scheduled as such". (Peru's appellant's submission, para. 321.)

\textsuperscript{253} "Peru's appellant's submission, paras. 319 and 322-323. Peru takes issue with the Panel's statement that it "[did] not deem it necessary to rule on the impact of the elements of the Peruvian legislation on the characterization of the duties resulting from the PRS as ordinary customs duties." (Peru's appellant's submission, para. 319 (referring to Panel Report, para. 7.423))"

\textsuperscript{254} Guatemala's appellee's submission, para. 307. See also paras. 308-309 (referring to Appellate Body Report, US – Carbon Steel (India), para. 4.80). According to Guatemala, the Panel acknowledged that Peru had made certain factual assertions relating to the measure at issue, but found that their examination was unnecessary given its previous characterization of the measure as a "variable import levy". Guatemala submits that any error in the Panel's approach would therefore be an error of law, not an inconsistency with Article 11 of the DSU. (Guatemala's appellee's submission, para. 400)

\textsuperscript{255} Guatemala's appellee's submission, paras. 310-311.

\textsuperscript{256} See para. 5.66 above.

\textsuperscript{257} Appellate Body Report, US – Anti-Dumping and Countervailing Duties (China), para. 337 (referring to Appellate Body Reports, US – Steel Safeguards, para. 498; and Australia – Apples, para. 406.) In case of similarly overlapping claims of error in the application of a legal standard to the relevant facts of a case and under Article 11 of the DSU, there is no basis to have a separate and additional examination of whether a panel has conducted an objective assessment of the facts under Article 11 of the DSU. (Appellate Body Reports, China – Rare Earths, para. 5.174 (referring to Appellate Body Report, China – GOES, para. 184))

\textsuperscript{258} Panel Report, para. 7.423.

\textsuperscript{259} Panel Report, para. 7.419 (referring to Panel Report, Chile – Price Band System, para. 7.104, and Appellate Body Report, Chile – Price Band System, para. 188 (where the Appellate Body agreed that "ordinary customs duties' should be interpreted in the same way in both [Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994]).")

\textsuperscript{260} Panel Report, para. 7.422 (emphasis omitted) (quoting Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 167).

\textsuperscript{261} Panel Report, para. 7.423.

\textsuperscript{262} See paras. 5.70-5.76 above.
forth as a subsidiary argument or claim in support of a claim that a panel failed to construe or apply correctly a particular provision.\textsuperscript{263}

5.80. On the basis of the foregoing, we find that the Panel did not act inconsistently with Article 11 of the DSU in its examination of Guatemala's claim under Article II:1(b) of the GATT 1994. Having found that the Panel did not err in finding that the measure at issue is not an "ordinary customs duty" under the first sentence of Article II:1(b) of the GATT 1994, and having found that the Panel did not act inconsistently with Article 11 of the DSU, we need not address Peru's request to complete the legal analysis.

5.3.3 Relationship between WTO and FTA provisions

5.3.3.1 New arguments

5.81. Guatemala contends that Peru's arguments that the Panel erred in its interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 by failing to take into account Article 31(3) of the Vienna Convention were not raised before the Panel and are accordingly not properly within the scope of the appeal.\textsuperscript{264} Guatemala objects that it is confronted for the first time on appeal with these arguments and with extensive supporting materials.\textsuperscript{265} Guatemala thus requests us to exclude from the scope of this appeal these arguments, which, according to Guatemala, would require us to consider new facts\textsuperscript{266} and to address issues that are not issues of law covered in the Panel Report or legal interpretations developed by the Panel. Guatemala contends that our consideration of Article 31(3)(a) and (c) of the Vienna Convention, either with respect to the FTA or ILC Articles 20 and 45, would thus be contrary to Article 17.6 of the DSU\textsuperscript{267} and would violate Guatemala's due process rights.\textsuperscript{268}

5.82. At the oral hearing, Peru responded that the Appellate Body's jurisprudence does not support the conclusion that all issues must be raised at each stage of the proceedings. Rather, according to the jurisprudence, WTO Members have the right to raise new arguments on appeal, provided these do not require the Appellate Body to solicit or review new facts.

5.83. In previous disputes, the Appellate Body has considered that, while in principle new arguments are not excluded from the scope of appellate review, its ability to consider new arguments is circumscribed by Article 17.6 of the DSU.\textsuperscript{269} In particular, the Appellate Body has found that it would be able to consider new arguments if: (i) they do not require it "to solicit, receive and review new facts"\textsuperscript{270}; and (ii) they "involve either an 'issue of law covered in the panel report' or 'legal interpretations developed by the panel'".\textsuperscript{271} In any event, such consideration must not compromise a party's due process rights to have a fair opportunity to defend itself adequately.\textsuperscript{272}

5.84. Peru claims on appeal that the Panel erred in the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 because it failed to take into account the FTA between Peru and Guatemala and ILC Articles 20 and 45, in accordance with Article 31(3) of the Vienna Convention. Nevertheless, Peru also requests us "to declare moot and with no legal effect" the Panel's findings in paragraphs 7.525-7.528 and to reverse the Panel's findings in paragraph 8.1.f of the Panel Report,\textsuperscript{271} which are not those findings concerning the interpretation of Article 4.2 and Article II:1(b), but rather those concerning the question of whether, by means of the FTA, the parties modified their WTO rights between themselves. We thus note that, while Peru's arguments on appeal focus on the interpretation of Article 4.2 and Article II:1(b) under Article 31(3)(a) and (c) of the Vienna Convention, Peru also requests the reversal of the Panel's findings on the alleged modification of WTO provisions by means of the FTA.

\textsuperscript{263} Appellate Body Report, \textit{US – Anti-Dumping and Countervailing Duties (China)}, para. 337.
\textsuperscript{264} Guatemala's appellee's submission, paras. 42-44.
\textsuperscript{265} Guatemala's appellee's submission, para. 44.
\textsuperscript{266} Guatemala's appellee's submission, para. 49.
\textsuperscript{267} Guatemala's appellee's submission, para. 53.
\textsuperscript{268} Guatemala's appellee's submission, para. 65.
\textsuperscript{269} Appellate Body Report, \textit{Canada – Aircraft}, para. 211.
\textsuperscript{273} Peru's appellant's submission, para. 204.
5.85. We note that, before the Panel, Peru did not raise arguments in respect of the FTA or ILC Articles 20 or 45 under Article 31(3)(a) or (c) of the Vienna Convention. Its arguments in respect of the FTA were that, even assuming that Peru's PRS was WTO-inconsistent, Peru and Guatemala had modified between themselves the relevant WTO provisions to the extent that the FTA allowed Peru to maintain the PRS. Peru referred to Article 41 of the Vienna Convention in support of its argument that parties to a multilateral treaty may modify their obligations as between themselves. 274

5.86. Although, before the Panel, Peru did not raise arguments on the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 on the basis of Article 31(3)(a) or (c) of the Vienna Convention, it did raise arguments concerning the interpretation of Article 4.2 and Article II:1(b). Peru’s arguments on appeal, albeit new, are framed as concerning the interpretation of WTO provisions, namely, Article 4.2 and Article II:1(b), which were raised before the Panel and are covered in the Panel Report. Therefore, Peru’s new arguments on appeal can be considered as relating to "issues of law covered in the panel report" or "legal interpretations developed by the panel". 275 We consider that although arguments relating to the FTA and the ILC Articles 20 and 45 under Article 31(3) of the Vienna Convention were not raised before the Panel, those arguments can be addressed in this appeal to the extent they concern issues of law and legal interpretations covered in the Panel Report, and without prejudicing Guatemala’s due process rights. In addition, we are of the view that the consideration of provisions of an FTA for the purpose of determining whether a Member has complied with its WTO obligations involves legal characterizations that fall within the scope of appellate review under Article 17.6 of the DSU. 276

5.87. We now turn to Guatemala’s contention that, in order to address the new arguments raised by Peru, we would have to consider facts that were not presented to the Panel. 277 We agree that if Peru’s new arguments on appeal required us to review new facts, we would not be able to address such arguments to that extent. However, to the extent Peru’s arguments would require us to consider the provisions of the FTA and ILC Articles 20 and 45 to determine the consistency of the PRS with Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994, we are not persuaded that consideration of Peru’s arguments on appeal would require us to review new facts.

274 Panel Report, para. 7.508.

275 Before the Panel, Peru also claimed that, if the Panel were to conclude that the PRS is inconsistent with the WTO agreements, the terms of the FTA should be considered as having modified as between the parties to the FTA their WTO rights and obligations. (Panel Report, para. 7.507) Thus, even if one were to take the view, as Guatemala does, that such arguments do not in fact concern interpretations but rather modifications of WTO provisions, they could be considered as relating to “issues of law covered in the panel report” or “legal interpretations developed by the panel”, to the extent they concern the Panel’s finding on the alleged modification of WTO rights and obligations by means of the FTA.

276 In respect of the provisions of the FTA at issue, we note that FTAs among WTO Members are permitted by Article XXIV of the GATT 1994 and by Article V of the General Agreement on Trade in Services (GATS) provided they fulfil specific conditions set forth in these provisions of WTO law. Article XXIV of the GATT 1994 and Article V of the GATS necessitate consideration of relevant FTA provisions and thus provide a basis for panels and the Appellate Body to determine the meaning of the provisions in such FTAs in order to determine their consistency with WTO law. We further recall that, in EC – Bananas III, the Appellate Body was confronted with the issue of whether the panel erred in conducting an objective examination of the requirements of the Fourth ACP-EC Convention of Lomé, Decision of the CONTRACTING PARTIES of 9 December 1994, L/7604, 19 December 1994; extended by EC – The Fourth ACP-EEC Convention of Lomé, Extension of Waiver, Decision of the WTO General Council of 14 October 1996, WT/L/186 (Lomé Convention). In that dispute, the GATT Contracting Parties granted the European Communities a waiver from Article 1 of the GATT 1947. (The EC – The Fourth ACP-EC Convention of Lomé, Extension of Waiver, Decision of the WTO General Council of 14 October 1996, WT/L/186 (Lomé Waiver) to permit the European Communities to provide preferential treatment to products originating from the African, Caribbean, and Pacific Group of States (ACP) to the extent required under the Lomé Convention.) The Appellate Body agreed with the panel that, since the GATT Contracting Parties "incorporated a reference to the Lomé Convention into the Lomé Waiver, the meaning of the Lomé Convention became a GATT/WTO issue" to the extent necessary to interpret the Lomé Waiver. (See Appellate Body Report, EC – Bananas III, para. 167)

277 In particular, Guatemala refers to statements or practice by WTO Members in WTO bodies or outside the WTO, facts pertaining to the negotiating history or circumstances of the conclusion of the Vienna Convention, and evidence of domestic practices and judicial decisions as well as the provisions of the FTA. (Guatemala’s appellee’s submission, paras. 49-50)
5.88. In the light of the above, we are of the view that Peru's arguments on appeal regarding the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 in accordance with Article 31(3)(a) and (c) of the Vienna Convention are new, but concern "issues of law covered in the panel report" or "legal interpretations developed by the panel". Therefore, to the extent that consideration of these arguments does not require us to consider new facts, we are of the view that such arguments do not adversely affect Guatemala's due process rights and were properly raised on appeal.

5.89. Guatemala further contends that, even accepting that Peru can raise its new arguments on appeal, the Panel was not obliged to address these arguments on its own motion, considering that Peru did not raise them before the Panel. Guatemala contends that the Panel cannot be faulted because it failed to address arguments that Peru did not raise in the Panel proceedings. In Guatemala's view, in the absence of arguments by Peru, the Panel was not required to develop on its own motion an interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 under Article 31(3) of the Vienna Convention that took into account the FTA and ILC Articles 20 and 45.

5.90. These arguments by Guatemala do not concern the admissibility of Peru's arguments on appeal, but, rather, the merits of the Panel's findings on the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994. Therefore, these arguments should not be considered separately from the issue of whether the Panel committed an error in its interpretation of Article 4.2 and Article II:1(b).

5.3.3.2 Peru's arguments under Article 31 of the Vienna Convention

5.91. Peru contends that the Panel should have interpreted the term "shall not maintain" in Article 4.2 of the Agreement on Agriculture in the light of the provisions of the FTA between Peru and Guatemala as allowing Peru to maintain the PRS. More specifically, Peru argues that paragraph 9 of Annex 2.3 to the FTA, providing that "Peru may maintain its Price Range System" with regard to imports of certain products, is relevant to the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 in accordance with Article 31(3)(a) and (c) of the Vienna Convention. Peru also contends that, according to ILC Article 20, Guatemala's approval and ratification of the FTA amounts to "consent" precluding the wrongfulness of Peru's maintenance of the PRS, and that "Guatemala's ratification of the FTA amounts to a waiver in the sense of Article 45(a) of the ILC Articles". Peru makes, mutatis mutandis, the same arguments in respect of Article II:1(b) of the GATT 1994.

5.92. Guatemala responds that Peru is misusing Article 31 of the Vienna Convention, which is about the interpretation of a treaty, and that Peru does not want us merely to interpret Article 4.2 in the light of the FTA or the ILC Articles. Rather, in Guatemala's view, Peru wants us to modify and amend Article 4.2, and to apply the provisions of the FTA or certain ILC Articles. Guatemala submits that a treaty interpreter is constrained, in the interpretative exercise, by the natural limits of the treaty language being interpreted and that Peru is requesting us to modify or amend WTO law and apply it in a manner that no longer corresponds to its wording.

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278 Guatemala's appellee's submission, para. 179.
279 Article 31 of the Vienna Convention, entitled "General rule of interpretation", states in relevant part:
   1. A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.
   3. There shall be taken into account, together with the context:
      (a) any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions;
      (b) any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation;
      (c) any relevant rules of international law applicable in the relations between the parties.
280 Peru's appellant's submission, paras. 213-215. Peru refers to ILC Articles 20 and 45 (on the validity of "consent" by a state that precludes wrongfulness of an act of another state within the limits of that consent and the "loss of the right to invoke responsibility of a state" in circumstances where the injured state has validly waived the claim).
281 Peru's appellant's submission, paras. 301, 303, 305, and 307.
282 Guatemala's appellee's submission, para. 182.
283 Guatemala's appellee's submission, para. 197.
5.93. We note that Peru argues that, by relying on paragraph 9 of Annex 2.3 to the FTA and on ILC Articles 20 and 45, the Panel should have interpreted the terms "shall not maintain" in Article 4.2 of the Agreement on Agriculture as meaning "may maintain" in the relationship between Peru and Guatemala. By the same token, we understand Peru to suggest that, by relying on paragraph 9 of Annex 2.3 to the FTA and on ILC Articles 20 and 45, the Panel should have interpreted Article II:1(b) of the GATT 1994 as allowing Peru to maintain the PRS. Article 31 – included in Part III, Section 3 of the Vienna Convention, entitled "Interpretation of Treaties" – is meant to assist an interpreter in ascertaining the ordinary meaning of treaty terms, reflecting the common intention of the parties to the treaty. Under Article 31, treaty terms should be interpreted in accordance with their ordinary meaning in their context and in the light of the object and purpose of the treaty.

5.94. While context is a necessary element of an interpretative analysis under Article 31 of the Vienna Convention, its role and importance in an interpretative exercise depends on the clarity of the plain textual meaning of the treaty terms. If the meaning of treaty terms is difficult to discern, determining the ordinary meaning under Article 31 may require more reliance on the context and the object and purpose of the treaty and possibly other elements considered "together with the context" and the tools mentioned in Article 32. However, we do not see how, in an interpretative exercise under Article 31, elements considered "together with the context" can be used to reach the conclusion that the textual terms "shall not maintain" in Article 4.2 of the Agreement on Agriculture should be read as meaning "may maintain" based on a particular provision found in the FTA. We do not consider that Article 31 can be used to develop interpretations based on asserted subsequent agreements or asserted "relevant rules of international law applicable in the relations between the parties" under Article 31(3)(a) and (c) that appear to subvert the common intention of the treaty parties as reflected in the text of Article 4.2 and Article II:1(b).

5.95. Moreover, Peru clarified at the oral hearing that it is advocating an interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 as permitting the PRS exclusively in the relations between Peru and Guatemala, who are the parties to the FTA. Article 31(1) of the Vienna Convention states that "[a] treaty shall be interpreted" such that the object of the interpretative exercise is the treaty as a whole, not the treaty as it may apply between some of its parties. We thus understand that, with multilateral treaties such as the WTO covered agreements, the "general rule of interpretation" in Article 31 of the Vienna Convention is aimed at establishing the ordinary meaning of treaty terms reflecting the common intention of the parties to the treaty, and not just the intentions of some of the parties. While an interpretation of the treaty may in practice apply to the parties to a dispute, it must serve to establish the common intentions of the parties to the treaty being interpreted.

5.96. Therefore, although Peru submits on appeal that the Panel erred in the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994, in our view, these arguments are beyond the scope of an interpretative exercise as envisaged in Article 3.2 of the DSU and in Article 31 of the Vienna Convention. They are essentially the same arguments Peru made before the Panel when it argued that, by virtue of the FTA, Peru and Guatemala modified between themselves their obligations under the relevant WTO provisions. This is also confirmed by the fact that, in concluding its arguments that Article 4.2 and Article II:1(b) should be interpreted taking into account the FTA under Article 31(3)(a) and (c) of the Vienna Convention, Peru requests us to reverse the Panel's findings concerning the alleged modification of WTO provisions by means of the FTA.

5.97. Having concluded that Peru's arguments in fact amount to arguments about alleged modifications of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 as between Peru and Guatemala, and not to their interpretations under Article 31 of the Vienna Convention, we now turn to consider whether other arguments made by Peru on the basis of

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284 Paragraph 9 of Annex 2.3 to the FTA states that "Peru may maintain its Price Range System".
285 Peru is not arguing that its interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 based on Article 31(3)(a) and (c) of the Vienna Convention would equally apply to other WTO Members. As considered above in sections 5.3.1 and 5.3.2, Peru advocates a "multilateral" interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 in arguing that the measure at issue in an "ordinary custom duty" and does not constitute a "variable import levy" or "similar border measure".
287 Peru's appellant's submission, para. 204.
Article 31(3)(a) and (c) of the Vienna Convention would confirm or change our conclusion that Peru's arguments do not concern interpretations within the meaning of Article 31.

5.98. Peru's argues that the FTA and ILC Articles 20 and 45 constitute relevant rules of international law applicable in the relations between the parties within the meaning of Article 31(3)(c) of the Vienna Convention and that, in addition, the FTA constitutes a "subsequent agreement between the parties" under Article 31(3)(a). In this respect, Peru's arguments require us to address the threshold question of whether the FTA and ILC Articles 20 and 45 are instruments that could be taken into account "together with the context" under Article 31(3)(a) and (c) of the Vienna Convention in the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994.

5.99. In particular, Peru contends that the both the FTA and the ILC Articles are "rules of international law", that they are "applicable" between the parties, that they are "relevant" to the interpretation of the above-mentioned WTO provisions, and that "parties" in Article 31(3)(c) of the Vienna Convention should be understood to mean the parties to the dispute.\textsuperscript{288} Similarly, Peru argues that the FTA is a "subsequent agreement", that it is "regarding the interpretation" of a treaty, and that the term "parties" in Article 31(3)(a) should be understood to mean the parties to the dispute.\textsuperscript{289} Guatemala rejects all these arguments by Peru.\textsuperscript{290}

5.100. We begin by examining, without addressing whether they are rules of international law applicable between the parties, whether the FTA and ILC Articles 20 and 45 can be considered as "relevant" to the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 within the meaning of Article 31(3)(c) of the Vienna Convention, and whether the FTA can be considered as a subsequent agreement "regarding the interpretation" of these WTO provisions within the meaning of Article 31(3)(a) of the Vienna Convention.

5.101. In order to be "relevant" for purposes of interpretation, rules of international law within the meaning of Article 31(3)(c) of the Vienna Convention must concern the same subject matter as the treaty terms being interpreted.\textsuperscript{291} In \textit{EC and certain member States – Large Civil Aircraft}, the Appellate Body considered that Article 4 of the 1992 Agreement between the EEC and the United States on Trade in Civil Aircraft\textsuperscript{292} was not relevant to the interpretation of "benefit" in Article 1.1(b) of the Agreement on Subsidies and Countervailing Measures (SCM Agreement), because, while imposing certain quantitative limits on the amount of government support that may be provided for the development of large civil aircraft programmes, it did not "speak to the market-based concept of 'benefit' as reflected in Article 1.1(b) of the SCM Agreement and the market-based benchmark reflected in Article 14(b)."\textsuperscript{293} The Appellate Body has also considered that agreements "regarding the interpretation of the treaty or the application of its provisions" within the meaning Article 31(3)(a) of the Vienna Convention are "agreements bearing specifically upon the interpretation of a treaty".\textsuperscript{294}

5.102. Paragraph 9 of Annex 2.3 to the FTA states that "Peru may maintain its Price Range System". ILC Article 20 addresses the issue of validity of consent by a State that precludes the correctness of a given act by another State within the limits of that consent. ILC Article 45,

\textsuperscript{288} See Peru’s appellant’s submission paras. 161-198 and 205-212.
\textsuperscript{289} See Peru’s appellee’s submission paras. 226-233.
\textsuperscript{290} Guatemala’s appellee’s submission paras. 206-287.
\textsuperscript{291} Appellate Body Reports, \textit{US – Anti-Dumping and Countervailing Duties (China)}, para. 308; \textit{EC and certain member States – Large Civil Aircraft}, para. 846.
\textsuperscript{293} Appellate Body Report, \textit{EC and certain member States – Large Civil Aircraft}, para. 851.

In \textit{US – Clove Cigarettes}, the Appellate Body found that it was not possible to discern a function of paragraph 5.2 of the 2001 Doha Ministerial Decision "other than to interpret the term 'reasonable interval'" in the Agreement on Technical Barriers to Trade (TBT Agreement), and it was therefore considered to "bear specifically upon the interpretation" of that term. (Appellate Body Report, \textit{US – Clove Cigarettes}, para. 266 (emphasis original)) In \textit{US – Tuna II (Mexico)}, the Appellate Body found that a TBT Committee Decision could be considered as a "subsequent agreement" within the meaning of Article 31(3)(a) of the Vienna Convention. The Appellate Body considered that the extent to which the Decision would inform the interpretation and application of a term or provision of the TBT Agreement would depend on the degree to which it "bears specifically" on the interpretation and application of a term or provision "in a specific case". (Appellate Body Report, \textit{US – Tuna II (Mexico)}, para. 372)
paragraph (a) concerns the loss of right to invoke responsibility of a State, in circumstances where the injured State has validly waived the claim.

5.103. The specific interpretative issues arising under Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 in question in this dispute are not whether Peru "may maintain" its PRS with regard to designated products, or whether Guatemala has consented to the maintenance of the PRS or waived its right to challenge it. Rather, in order to determine whether Peru could maintain its PRS, the Panel had to interpret the meaning of the terms in Article 4.2 and footnote 1 of the Agreement on Agriculture, and find whether the additional duties resulting from the PRS could be characterized as "variable import levies", "minimum import prices" or "similar border measures" rather than "ordinary customs duties" within the meaning of footnote 1. With respect to Article II:1(b) of the GATT 1994, the Panel had to determine whether the additional duties resulting from the PRS could be characterized as "other duties or charges" or "ordinary customs duties". Paragraph 9 of Annex 2.3 to the FTA and ILC Articles 20 and 45 do not provide "relevant" interpretative guidance in this respect. Thus, we do not see how the FTA and ILC Articles 20 and 45 can be considered as rules concerning the same subject matter as Article 4.2 and Article II:1(b), or as bearing specifically upon the interpretation of these provisions.

5.104. Thus, without reaching the questions of whether the FTA and ILC Articles 20 and 45 are "rules of international law applicable in the relations between the parties" within the meaning of Article 31(3)(c) of the Vienna Convention and whether the FTA is an "agreement" within the meaning of Article 31(3)(a), we disagree with Peru that the FTA and ILC Articles 20 and 45 are "relevant" rules of international law within the meaning of Article 31(3)(c) and that the FTA is a subsequent agreement "regarding the interpretation" of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 within the meaning of Article 31(3)(a) of the Vienna Convention.

5.105. Having concluded that the FTA and ILC Articles 20 and 45 are not "relevant" to the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 within the meaning of Article 31(3)(c) of the Vienna Convention, and that the FTA does not qualify as a subsequent agreement "regarding the interpretation" of these provisions within the meaning of Article 31(3)(a), there is no need for us to address whether the FTA and ILC Articles 20 and 45 are "rules of international law applicable in the relations between the parties", or the meaning of the term "parties" in both Article 31(3)(a) and (c) of the Vienna Convention. Similarly, there is no need for us to address whether the FTA can be considered as an "agreement" within the meaning of Article 31(3)(a) for purposes of Article 4.2 and Article II:1(b).

295 We further note that, even from the perspective of the FTA, other FTA provisions seem to give priority to WTO law and can be read as qualifying paragraph 9 of Annex 2.3. Thus, under Article 1.3, paragraph 1, of the FTA, "[p]arties confirm their existing mutual rights and obligations under the WTO Agreement". In the context of tariff elimination, Article 2.3, paragraph 2 provides that "[e]xcept as otherwise provided in this Treaty, each Party shall eliminate its customs tariffs on goods originating in the other Party, in accordance with Annex 2.3." If paragraph 9 of Annex 2.3 is considered to be "relevant" to the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994, we fail to see why these other FTA provisions could not be "relevant" as well. To the extent that these other provisions of the FTA are also "relevant" to the interpretation of Article 4.2 and Article II:1(b), they point to a conclusion contrary to Peru’s contention that, by means of the FTA, Guatemala has consented to Peru maintaining a PRS that is not WTO-consistent. While noting these discrepancies between various FTA provisions, we see no need to resolve them here.

296 We also note that the relevance of the ILC Articles to Peru’s interpretation of Articles 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 appears to be premised on the assumption that the FTA allows Peru to maintain a PRS that would otherwise be in breach of WTO obligations, considering that ILC Article 20 addresses the issue of validity of consent by a State that precludes the wrongfulness of a given act by another State within the limits of that consent and that ILC Article 45, paragraph (a) concerns the loss of right to invoke responsibility of a State, in circumstances where the injured State has validly waived the claim. As we have already considered above, it is not clear whether paragraph 9 of Annex 2.3 of the FTA, which states that Peru may maintain the PRS, can be construed as allowing Peru to maintain a WTO-inconsistent PRS, when read together with other provisions of the FTA, such as paragraph 1 of Article 1.3 of the FTA which states that the parties confirm their existing rights and obligations under the WTO Agreement. Thus, in the absence of clarity as to whether the FTA rules allow Peru to depart from its WTO obligations, we do not see how the ILC Articles that address consent to wrongful acts and consent to a waiver can be relevant to the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994.
5.106. We note, however, that Peru has not yet ratified the FTA. In this respect, it is not clear whether Peru can be considered as a "party" to the FTA. Moreover, we express reservations as to whether the provisions of the FTA (in particular paragraph 9 of Annex 2.3), which could arguably be construed as to allow Peru to maintain the PRS in its bilateral relations with Guatemala, can be used under Article 31(3) of the Vienna Convention in establishing the common intention of WTO Members underlying the provisions of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994. In our view, such an approach would suggest that WTO provisions can be interpreted differently, depending on the Members to which they apply and on their rights and obligations under an FTA to which they are parties.

5.107. In the light of the above, we consider that, while Peru has brought arguments on appeal under Article 31(3)(a) and (c) of the Vienna Convention concerning the Panel's interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994, in fact, Peru's arguments go beyond the interpretation of these provisions in accordance with Article 3.2 of the DSU and Article 31 of the Vienna Convention, and amount to arguing that, by means of the FTA, Peru and Guatemala actually modified these WTO provisions between themselves.

5.108. We further observe that Peru's arguments regarding the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994, on the basis of relevant provisions of the FTA, presuppose that the FTA provisions permit the maintenance of the PRS and the resulting additional duties, even if they are found to be WTO-inconsistent. We have upheld the Panel's findings that the duties resulting from the PRS constitute "variable import levies" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture and "other duties or charges" within the meaning of Article II:1(b) of the GATT 1994, which were not recorded in Peru's Schedule of Concessions, and that Peru is therefore acting inconsistently with these provisions. We further note that the parties to this dispute disagree on whether the provisions of the FTA indeed permit Peru to maintain a WTO-inconsistent PRS.

5.109. In this respect, we note that paragraph 1 of Article 1.3 of the FTA states that the parties confirm their existing rights and obligations under the Marrakesh Agreement Establishing the World Trade Organization (WTO Agreement), while paragraph 2 of the same provision states that, in the event of any inconsistency between the FTA and the WTO covered agreements, the provisions of the FTA shall prevail to the extent of the inconsistency. A reading of these provisions on their face reveals that it is not clear whether paragraph 9 of Annex 2.3, which states that Peru may maintain the PRS, should necessarily be construed as allowing Peru to maintain a WTO-inconsistent PRS.

5.110. As we have considered above, modifying or interpreting the obligations in Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 in the light of the FTA presupposes that the FTA provisions permit the maintenance of a WTO-inconsistent PRS. However, having concluded that, even under the FTA itself, there is ambiguity as to whether the FTA allows Peru to maintain a WTO-inconsistent PRS, we do not consider that it can be argued that, by means of the FTA, the parties have agreed between themselves to modify Article 4.2 and Article II:1(b).

5.111. In any event, even assuming arguendo that the provisions of the FTA allowed Peru to maintain a WTO-inconsistent PRS, we are not convinced that, as Peru suggested before the Panel, such alleged modification as between the FTA parties would be subject to Article 41 of the Vienna Convention. Part IV of the Vienna Convention, which is entitled "Amendment and Modification of Treaties", provides rules for the modifications of treaty terms. In particular, Article 41 concerns

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297 On the one hand, paragraph 9 of Annex 2.3 to the FTA, when read together with paragraph 2 of Article 1.3 of the FTA, seems to suggest that the FTA would prevail over WTO law to the extent that these provisions permit a WTO-inconsistent PRS; on the other hand, when paragraph 9 of Annex 2.3 is read together with paragraph 1 of Article 1.3, which confirms the parties' WTO rights and obligations, it seems to suggest that the FTA would only permit a WTO-consistent PRS. Moreover, paragraph 2 of Article 2.3 states that, except as otherwise provided in this Treaty, each Party shall eliminate its customs tariffs on goods originating in the other Party, in accordance with Annex 2.3. (Emphasis added) Paragraph 2 of Article 2.3 and paragraph 9 of Annex 2.3 could be read together so that the phrase "except as otherwise provided" in paragraph 2 of Article 2.3 refers also to paragraph 9 of Annex 2.3, which states that "Peru may maintain its Price Range System". The PRS would thus represent an exception to the obligation in paragraph 2 of Article 2.3 to the FTA that requires the elimination of all customs tariffs; at the same time it would have to remain consistent with WTO rights and obligations, as provided for in paragraph 1 of Article 1.3 of the FTA.
"Agreements to modify multilateral treaties between certain of the parties only." 298 Before the Panel, Peru seemed itself to rely on the distinction that the Vienna Convention draws between rules of interpretation and rules concerning modifications, when it referred to Article 41 of the Vienna Convention in making its arguments that the FTA provisions modified the relevant WTO provisions between Peru and Guatemala. 299

5.112. Nevertheless, we note that the WTO agreements contain specific provisions addressing amendments, waivers, or exceptions for regional trade agreements 300, which prevail over the general provisions of the Vienna Convention, such as Article 41. This is particularly true in the case of FTAs considering that Article XXIV of the GATT 1994 specifically permits departures from certain WTO rules in FTAs. However, Article XXIV conditions such departures on the fulfilment of the rule that the level of duties and other regulations of commerce, applicable in each of the FTA members to the trade of non-FTA members, shall not be higher or more restrictive than those applicable prior to the formation of the FTA.

5.113. In the light of the above, we consider that the proper routes to assess whether a provision in an FTA that may depart from certain WTO rules is nevertheless consistent with the covered agreements are the WTO provisions that permit the formation of regional trade agreements – namely: Article XXIV of the GATT 1994, or the Enabling Clause 301 as far as agreements between developing countries are concerned, in respect of trade in goods; and Article V of the General Agreement on Trade in Services (GATS) in respect of trade in services.

5.114. While it did not invoke Article XXIV of the GATT 1994 as a defence, in its appellant’s submission, Peru recalls that the Appellate Body in Turkey – Textiles had made clear that “Article XXIV may justify a measure which is inconsistent with certain other GATT provisions”, provided that certain conditions are met. 302 Before the Panel, Peru had argued that “Article XXIV of the GATT 1994 demonstrates that Members may modify their WTO rights by means of regional trade agreements”. 303 Guatemala responds that “Peru … makes no attempt to justify the departure from Article 4.2 using the test applied by the Appellate Body in Turkey – Textiles”. 304 In Guatemala’s view, the consequence of Peru’s arguments is that “Article XXIV is redundant or, at a minimum, overridden by an alleged principle of ‘systemic integration’” and that “WTO Members could rely on provisions of bilateral agreements … as amending their obligations under WTO law,”

298 Article 41 of the Vienna Convention, entitled “Agreements to modify multilateral treaties between certain of the parties only”, states:

1. Two or more of the parties to a multilateral treaty may conclude an agreement to modify the treaty as between themselves alone if:
   (a) the possibility of such a modification is provided for by the treaty; or
   (b) the modification in question is not prohibited by the treaty and:
      (i) does not affect the enjoyment by the other parties of their rights under the treaty or the performance of their obligations;
      (ii) does not relate to a provision, derogation from which is incompatible with the effective execution of the object and purpose of the treaty as a whole.
2. Unless in a case falling under paragraph 1(a) the treaty otherwise provides, the parties in question shall notify the other parties of their intention to conclude the agreement and of the modification to the treaty for which it provides.

299 Panel Report, para. 7.508 (referring to Peru’s first written submission to the Panel, para. 4.28; and second written submission to the Panel para. 2.59).

300 Article X of the WTO Agreement sets out detailed procedures “to amend the provisions of this Agreement or the Multilateral Trade Agreements”. Article IX of the WTO Agreement gives the Ministerial Conference and the General Council the exclusive authority to adopt interpretations of the WTO Multilateral Trade Agreements and to waive obligations imposed on Members under these agreements. Importantly, Article XXIV of the GATT 1994 and Article V of the GATS provide for regional trade exceptions, allowing WTO Members to depart from specific rights and obligations under the WTO covered agreements when they form customs unions, free trade areas or agreements liberalizing trade in services. Developing countries entering into regional trade agreements covering trade in goods with other developing countries may also avail themselves of the exception provided by the Enabling Clause. We note, however, that neither participant has invoked or relied upon the Enabling Clause in respect of the FTA at issue.

301 GATT 1979 Decision o Differential and More Favourable Treatment, Reciprocity, and Fuller Participation of Developing Countries, L/4903, 28 November 1979, BISD 26S, P. 203.

302 Peru’s appellant’s submission, para. 197 (referring to Appellate Body Report, Turkey – Textiles, para. 58).

303 Panel Report, para. 7.508 (referring to Peru’s first written submission to the Panel, para. 4.28).

304 Guatemala’s appellee’s submission, para. 204.
regardless of whether the conditions for exceptions or defences under WTO law under Articles XXIV or XX of the GATT 1994 have been established.”

5.115. In Turkey – Textiles, the Appellate Body considered that Article XXIV of the GATT 1994 may provide justification for measures that are inconsistent with certain other GATT 1994 provisions, provided that two cumulative conditions are fulfilled: (i) the party claiming the benefit of this defence must demonstrate that the measure at issue is introduced upon the formation of a customs union or FTA that fully meets the requirements of Article XXIV; and (ii) that party must demonstrate that the formation of that customs union or FTA would be prevented if it were not allowed to introduce the measure at issue.

5.116. In setting out the above cited conditions for a GATT 1994-inconsistent measure to be justified as part of a customs union or FTA under paragraph 5 of Article XXIV of the GATT 1994, in Turkey – Textiles, the Appellate Body relied also on paragraph 4 of this provision, which states that the purpose of a customs union or FTA is “to facilitate trade” between the constituent members and "not to raise barriers to the trade" with third countries. We further note that paragraph 4 qualifies customs unions or FTAs as "agreements, of closer integration between the economies of the countries parties to such agreements". In our view, the references in paragraph 4 to facilitating trade and closer integration are not consistent with an interpretation of Article XXIV as a broad defence for measures in FTAs that roll back on Members' rights and obligations under the WTO covered agreements.

5.117. In the present dispute, Peru has not invoked Article XXIV of the GATT 1994 in order to justify the inconsistency of the PRS with Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 and the parties agree that the FTA has not entered into force. At the oral hearing, Peru and Guatemala agreed that an agreement that is not yet in force cannot benefit from the defence of Article XXIV. Moreover, as we have considered above, it is not clear whether the FTA allows Peru to maintain a WTO-inconsistent PRS. In the light of this, we do not need to consider whether the PRS is consistent with the requirements set forth in Article XXIV.

5.3.3.3 Conclusions

5.118. In the light of all of the above, we find that Peru's arguments, that the Panel erred in its interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 because it failed to take into account under Article 31(3) of the Vienna Convention the FTA between Peru and Guatemala and ILC Articles 20 and 45, go beyond the interpretation of Article 4.2 and Article II:1(b) in accordance with Article 3.2 of the DSU and Article 31 of the Vienna Convention and amount to arguing that, by means of the FTA, Peru and Guatemala actually modified these provisions between themselves. Moreover, we find that the FTA between Peru and Guatemala and ILC Articles 20 and 45 are not "relevant" to the interpretation of Article 4.2 and Article II:1(b) within the meaning of Article 31(3)(c) of the Vienna Convention and that the FTA is not a subsequent agreement "regarding the interpretation" of these provisions within the meaning of Article 31(3)(a). We, therefore, find that the Panel did not commit an error by not interpreting Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 taking into account the provisions of the FTA and ILC Articles 20 and 45 under Article 31(3) of the Vienna Convention.

5.119. Moreover, while Peru is asking us to reverse the Panel's findings that, "inasmuch as the Free Trade Agreement signed by Peru and Guatemala in December 2011 ha[d] not entered into force, it [was] not necessary for [the] Panel to rule on whether the parties [could], by means of the FTA, modify as between themselves their rights and obligations under the covered agreements,” on appeal, Peru has not challenged the Panel's finding that an agreement that has not yet entered into force, such as the FTA, cannot modify the rights and obligations under the

305 Guatemala's appellee's submission, para. 204.
306 Appellate Body Report, Turkey – Textiles, para. 58.
308 Emphasis added.
309 The Article XXIV defence applies also in respect of "an interim agreement necessary for the formation of a customs union or of a free-trade area". We understand, however, that also such "interim agreement" would need to be in force for the defence to apply.
310 Panel Report, para. 8.1.f. See also para. 7.528.
covered agreements.\textsuperscript{311} In the light of this, we find that the Panel did not err in declining to make findings as to whether the FTA modified the WTO rights and obligations between Peru and Guatemala because the FTA was not in force.

\textbf{5.3.4 Overall conclusions}

5.120. On the basis of the foregoing, we find that Peru has not established Peru's claim that the Panel erred in finding that the additional duties resulting from the PRS are "variable import levies" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture.\textsuperscript{312} Thus, we uphold the Panel's findings, in paragraph 8.1.b of the Panel Report, that the additional duties resulting from the PRS constitute "variable import levies" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture, and in paragraph 8.1.d of the Panel Report, that, by maintaining a measure that constitutes a "variable import levy", Peru acts inconsistently with its obligations under Article 4.2 of the Agreement on Agriculture.

5.121. On the basis of the foregoing, we also find that Peru has not established Peru's claim that the Panel erred in finding that the measure at issue is not an "ordinary customs duty" under the first sentence of Article II:1(b) of the GATT 1994.\textsuperscript{313} Thus, we uphold the Panel's findings, in paragraph 8.1.e of the Panel Report, that the additional duties resulting from the PRS constitute "other duties or charges ... imposed on or in connection with the importation", within the meaning of the second sentence of Article II:1(b) of the GATT 1994, and that, by applying such measure without having recorded it in its Schedule of Concessions, Peru acts inconsistently with its obligations under the second sentence of Article II:1(b) of the GATT 1994.

5.4 Guatemala's appeal: Article 4.2 of the Agreement on Agriculture – minimum import prices

5.122. We now turn to Guatemala's other appeal in connection with the additional duties resulting from the PRS, and Article 4.2 and footnote 1 of the Agreement on Agriculture. Overall, Guatemala questions the Panel's interpretation and application of the terms "minimum import prices" and "similar border measures" in footnote 1 of Article 4.2 of the Agreement on Agriculture.\textsuperscript{314} Guatemala requests us to reverse the Panel's finding that the measure at issue constitutes neither a "minimum import price" nor a "similar border measure".\textsuperscript{315} In addition, Guatemala requests us to complete the legal analysis and find that the measure at issue constitutes a "minimum import price" or at least a "similar border measure".\textsuperscript{316} Below, we summarize the Panel's interpretation and application of Article 4.2 and footnote 1 of the Agreement on Agriculture at issue. Thereafter, we examine each of Guatemala's claims.

\textbf{5.4.1 The Panel's findings}

5.123. Before the Panel, Guatemala claimed that the additional duties resulting from the PRS constitute "minimum import prices", or measures "similar" to minimum import prices, within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture, because the PRS prevents goods from entering Peru at a price below the PRS floor price. Guatemala also argued that the PRS ensures that no import will enter Peru at a price below the sum of the relevant lowest international

\textsuperscript{311} Panel Report, para. 7.527. At the oral hearing Peru acknowledged that "an agreement that is not in force could not ... constitute a treaty that could modify obligations in the sense of Article 41 of the Vienna Convention".

\textsuperscript{312} See Panel Report, paras. 7.352, 7.371-7.372, 8.1.b, and 8.1.d. The Panel found that the additional duties resulting from the PRS "constitute variable import levies or, at the least, share sufficient characteristics with variable import levies to be considered a border measure similar to a variable import levy". (Panel Report, para. 8.1.b) We note that Peru does not appeal separately the Panel's finding that the additional duties resulting from the PRS constitute at least a border measure "similar" to "variable import levies". Thus, our analysis is limited to the Panel's finding that the additional duties constitute "variable import levies".

\textsuperscript{313} See Panel Report, paras. 7.423, 7.425, and 8.1.e.

\textsuperscript{314} Guatemala's other appellant's submission, paras. 65-118.

\textsuperscript{315} Guatemala's other appellant's submission, paras. 119 and 141 (referring to Panel Report, paras. 7.370, 7.371, and 8.1.c).

\textsuperscript{316} Guatemala's other appellant's submission, paras. 120-141.
price and the additional duty, thus establishing a de facto minimum import price threshold.\textsuperscript{317} Peru replied that the PRS does not operate as to impose a minimum import price, either by impeding the entry of goods at a price below a specified minimum level, or by varying the levy to equalize import prices with a minimum threshold. Peru further argued that the measure at issue has neither the objective nor the capacity to arrive at an indicative target price, and applies the same additional duty regardless of the transaction value.\textsuperscript{318}

5.124. The Panel noted that the term "minimum import price" refers generally to the lowest price at which imports of a certain product may enter a Member’s domestic market.\textsuperscript{319} Referring to the original and compliance panels in \textit{Chile – Price Band System}, the Panel noted that "minimum import prices" are schemes that generally or normally operate in relation to the actual transaction value of imports, so that, if the transaction price of an import is below a specified minimum import price, an additional charge is imposed corresponding to the difference.\textsuperscript{320}

5.125. The Panel also examined the meaning of "similar border measures" in footnote 1 of the Agreement on Agriculture. The Panel noted that the word "similar" suggests a comparison with the types of measures listed in footnote 1.\textsuperscript{321} The Panel considered that a measure is "similar" to a "minimum import price" when it shares a sufficient number of characteristics with, and has a design, structure, and effects similar to, a "minimum import price".\textsuperscript{322}

5.126. The Panel then turned to examine whether the measure at issue constituted a "minimum import price". It found that there was "no evidence at all" that the additional duties resulting from the PRS directly impede the entry of products at prices below a certain threshold in a way different from what would occur with ordinary customs duties and, in particular, with a specific import tariff.\textsuperscript{323}

5.127. Having concluded that the measure at issue does not constitute a "minimum import price", the Panel went on to consider whether the measure at issue nonetheless constitutes a border measure "similar" to a "minimum import price". Despite the fact that the additional duties resulting from the PRS have some similarity to the measure that was at issue in \textit{Chile – Price Band System}\textsuperscript{324}, the Panel noted that Peru had presented evidence that the additional duties do not impede the entry of imports into the Peruvian market at transaction values below the PRS floor.

\textsuperscript{317} Panel Report, paras. 7.354-7.355 (referring to Guatemala’s first written submission to the Panel, paras. 4.84-4.95, 4.141; second written submission to the Panel, paras. 4126-4.141; opening statement at the first meeting of the Panel, paras. 37-39; and response to Panel question No. 126, paras. 135-152).

\textsuperscript{318} Panel Report, para. 7.356 (referring to Peru’s first written submission to the Panel, paras. 5.58-5.68; second written submission to the Panel, paras. 3.36 and 3.41).

\textsuperscript{319} Panel Report, para. 7.295 (referring to Appellate Body Report, \textit{Chile – Price Band System}, para 236). The Panel observed that the ordinary meaning of "minimum" is "[t]he smallest amount or quantity possible, usual, attainable, etc." (Panel Report, para. 7.293 (referring to \textit{Shorter Oxford English Dictionary}, 6th edn (Oxford University Press, 2007), Vol. 1, p. 1789))

\textsuperscript{320} Panel Report, para. 7.295 (referring to Panel Reports, \textit{Chile – Price Band System}, para 7.36(e); and \textit{Chile – Price Band System} (\textit{Article 21.5 – Argentina}, para. 7.30; and Appellate Body Report, \textit{Chile – Price Band System}, paras. 236-237).

\textsuperscript{321} Panel Report, para. 7.302 (referring to Appellate Body Report, \textit{Chile – Price Band System}, para. 228). The Panel also noted that the determination of whether a measure is similar to something else must be approached on an empirical basis. (Panel Report, paras. 7.298-7.299 (referring to Appellate Body Reports, \textit{Chile – Price Band System}, para 226; \textit{Chile – Price Band System} (\textit{Article 21.5 – Argentina}, para. 189))

\textsuperscript{322} Panel Report, para. 7.359 (referring to Appellate Body Report, \textit{Chile – Price Band System} (\textit{Article 21.5 – Argentina}), para. 193). According to the Panel, for a measure to qualify as a border measure "similar" to a minimum import price, it must, in its particular features, share "sufficient features with [this] category[v] of prohibited measure[] to resemble, or be of the same nature or kind and thus be prohibited by \textit{Article 4.2} of the Agreement on Agriculture. (Panel Report, para. 7.303 (referring to Appellate Body Report, \textit{Chile – Price Band System}, para 239)) The Panel observed that the term "similar" means "having a resemblance or likeness", "of the same nature or kind", and "having characteristics in common". (Panel Report, para. 7.297 (referring to Appellate Body Report, \textit{Chile – Price Band System}, para 226))

\textsuperscript{323} Panel Report, paras. 7.360-7.361.

\textsuperscript{324} The Panel observed that the measure at issue in \textit{Chile – Price Band System} was considered to be "similar" to a minimum import price inasmuch as it operated in practice as a "proxy" or "substitute" for a minimum import price. According to the Panel, this conclusion was "based on the fact that the measure operated in such a way as to impede the entry of imports ... at prices below the lower threshold in the band". (Panel Report, para. 7.362 (referring to Appellate Body Report, \textit{Chile – Price Band System} (\textit{Article 21.5 – Argentina}), paras. 194-195))
Moreover, the Panel was not convinced that the additional duties resulting from the PRS lead to the establishment of a minimum import price with a *de facto* threshold consisting of the sum of the lowest transaction price and the duty resulting from the PRS. According to the Panel, this situation is not different from a specific tariff. On this basis, the Panel found that the PRS does not share sufficient characteristics with "minimum import prices" to make it a border measure "similar" to a "minimum import price".

5.4.2 Guatemala's claim that the Panel erred in its interpretation and application of "minimum import prices"

5.4.2.1 Interpretation of "minimum import prices"

5.128. Guatemala claims that the Panel erred in its interpretation of "minimum import prices", in footnote 1 of Article 4.2 of the Agreement on Agriculture, by adopting an excessively narrow legal standard, requiring that such a measure must impose duties based on the transaction value of imports, and must prevent each and every import from entering below a specified threshold. Peru argues that the Panel adopted the correct legal standard for "minimum import prices". Peru contends that the Panel neither stated that, under such a measure, each and every import must be prevented from entering the market below a specified threshold, nor suggested that a measure relying on reference prices, instead of transaction values, cannot be considered a "minimum import price" scheme.

5.129. The Appellate Body explained in *Chile – Price Band System* that "[t]he term 'minimum import price' refers generally to the lowest price at which imports of a certain product may enter a Member's domestic market." It further noted that "no definition has been provided by the drafters of the Agreement on Agriculture." The Appellate Body has also referred to the explanation given by the panel in that dispute that "minimum import price" schemes "generally operate in relation to the actual transaction value of the imports", and that, under such a scheme, "[i]f the price of an individual consignment is below a specified minimum import price, an additional charge is imposed corresponding to the difference." Moreover, the Appellate Body has further stated that "in a typical minimum import price scheme the value to which the minimum import price or target price is compared is the transaction value of a particular shipment, rather than a calculated reference price." While the Appellate Body has noted that minimum import prices schemes "generally operate" in relation to the actual transaction value of imports and that a "typical" minimum import price scheme would involve such a comparison, we consider that these qualifications suggest that there can be other examples of benchmarks for determining "the lowest price at which imports ... may enter a ... market". The Appellate Body has not excluded the possibility that measures that define in a different manner the lowest price at which imports may enter a market could nevertheless qualify as a "minimum import price" scheme or as a "similar border measure". Such an assessment would have to be made on the basis of the total configuration of the measure. Thus, in our view, a panel's examination of whether a measure is a "minimum import price" within the meaning of footnote 1 of the Agreement on Agriculture should consider whether it imposes duties based on the transaction value of imports and prevents each and every import from entering below a specified threshold.
be based on evidence, where available, concerning the operation and impact of the measure, as well as an analysis of the design and structure of the measure.  

5.130. As stated above, with respect to the meaning of the term "minimum import prices" in footnote 1 of the Agreement on Agriculture, the Panel relied on the relevant passages of the Appellate Body report in Chile – Price Band System. In particular, the Panel noted that the term "minimum import price" refers generally to the lowest price at which imports of a certain product may enter a Member's domestic market. The Panel noted that "minimum import prices" are schemes that generally or normally operate in relation to the actual transaction value of imports, so that, if the price of an individual import is below a specified minimum import price, an additional charge is imposed corresponding to the difference. Turning to the measure at issue, the Panel found that there was "no evidence at all" that the additional duties resulting from the PRS directly impede the entry of products at prices below a certain threshold, in a way different from what would occur with ordinary customs duties, and, in particular, with a specific import tariff.

5.131. Guatemala argues that the Panel's finding "appears to be premised on the fact that the duties resulting from the PRS are not linked to the transaction price of individual shipments, but to a reference price, based on an average of world prices". Guatemala contends that the Appellate Body has not indicated "categorically that minimum import prices must always be applied to the actual transaction value of imports". Thus, Guatemala submits that the Panel "erroneously held ... that the definition of a minimum import price includes only measures that are applied with respect to the actual transaction value of each shipment of imports." Peru responds that the Panel did not adopt the legal standard, as suggested by Guatemala, to "disqualify any system using a reference price 'based on an average of world prices' from being a minimum import price within the meaning of Article 4.2 of the Agreement on Agriculture".

5.132. Contrary to Guatemala's submission, the Panel did not interpret the term "minimum import prices" in footnote 1 of the Agreement on Agriculture to mean that a measure must necessarily operate in relation to the transaction values of imports. Moreover, we do not consider the Panel to have adopted such a standard when examining the measure at issue. In particular, the Panel did not find that the additional duties resulting from the PRS cannot constitute "minimum import prices" because the PRS operates in relation to reference prices instead of transaction values. Rather, the Panel noted statistical evidence submitted by Peru showing that certain transactions entered Peru's market at a price below the PRS floor price. The Panel also noted that there was no evidence at all that the additional duties resulting from the PRS directly impede the entry of...

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335 In the context of different WTO provisions, the Appellate Body has noted that, in assessing a measure, a panel should take into account its design, and structure, as well as the operation of a measure. (See e.g. Appellate Body Reports, Japan – Alcoholic Beverages II, p. 29; China – Raw Materials, para. 5.96)
336 See paras. 5.123-5.127 above.
338 Panel Report, para. 7.295 (referring to Panel Reports, Chile – Price Band System, para. 7.36(e); Chile – Price Band System (Article 21.5 – Argentina), para. 7.30; and Appellate Body Report, Chile – Price Band System, paras. 236-237).
339 Guatemala's other appellant's submission, para. 70.
340 Guatemala's other appellant's submission, paras. 71-74 (referring to Appellate Body Reports, Chile – Price Band System (Article 21.5 – Argentina), para. 153; Chile – Price Band System, para. 236). (emphasis original)
341 Peru's appellee's submission, para. 12.
342 Guatemala's other appellant's submission, para. 74. (emphasis original)
343 The Panel noted that, inter alia, Peru submitted statistical evidence to the Panel for the period between 2001 and 2013, demonstrating that, in approximately 57% of the two-week periods since Supreme Decree No. 115-2001-EF came into force, "various trade transactions entered Peru at a price lower than the reference price and the floor price in the range, accounting for more than one third of trade transactions recorded over these periods." (Panel Report, para. 7.357 (referring to Peru's first written submission to the Panel, paras. 5.62-5.68; response to Panel question No. 123, paras. 98-99; and Panel Exhibit PER-90))
products at prices below a certain threshold, in a way different from what would occur with ordinary customs duties.\textsuperscript{345}

5.133. In addition, Guatemala contends that "the Panel adopted an excessively narrow legal standard, requiring that, in order to constitute a minimum import price, a measure...has to prevent, in each and every import, that a product enter below a given threshold."\textsuperscript{346} Guatemala argues that "the correct legal characterization of a measure is not affected by the fact that the measure may not produce its intended effects with respect to 100 per cent of imports."\textsuperscript{347} Peru contends that the Panel did not adopt the excessively narrow legal standard suggested by Guatemala. Rather, according to Peru, the Panel followed the understanding of "minimum import prices" set out in past reports, where such excessively narrow legal standard was not used.\textsuperscript{348}

5.134. We fail to see, and Guatemala has not explained, where in the Panel Report the Panel required that, for a measure to constitute a "minimum import price" scheme, such measure must prevent each and every import transaction from entering at prices below a specified threshold. The Panel noted evidence submitted by Peru demonstrating that a certain percentage of imports entered the domestic market at a price below the PRS floor price.\textsuperscript{349} We do not consider the Panel to have interpreted "minimum import prices" as implying that a measure requires that "each and every import" enter at or above a specified threshold.

5.135. On the basis of the foregoing, we find that Guatemala has not established that the Panel erred in its interpretation of "minimum import prices", in footnote 1 of Article 4.2 of the Agreement on Agriculture, by requiring that a measure must impose duties based on the transaction value of imports, and must prevent each and every import from entering below a specified threshold.

5.4.2.2 Application of "minimum import prices"

5.136. Guatemala claims that the Panel erred in finding that Peru's measure is not a "minimum import price" despite the existence of an implicit or \textit{de facto} threshold.\textsuperscript{350} According to Guatemala, the PRS contains an implicit or \textit{de facto} threshold, which consists of the lowest international price of the relevant product in the previous two-week period plus the additional duty resulting from the PRS.\textsuperscript{351} In essence, Guatemala argues that, without regard to the floor price, transaction prices of imports will always reach the implicit threshold of the PRS, "except in highly unlikely and unproven circumstances".\textsuperscript{352} Guatemala contends that, since basically no import can enter the Peruvian market below the implicit threshold, the measure at issue qualifies as a "minimum import price", and is thus inconsistent with Article 4.2 of the Agreement on Agriculture.\textsuperscript{353}

5.137. Peru submits that the implicit threshold identified by Guatemala is based upon a calculation that is not part of the PRS, and that the Panel was correct to find that there is no

\textsuperscript{345} Panel Report, paras. 7.360-7.361. In our view, simply because a measure operates in relation to a reference price, instead of the transaction value of imports, does not \textit{necessarily} mean that it is incapable of preventing the entry of imports priced below a certain threshold. The measures at issue in \textit{Chile – Price Band System} operated in relation to a reference price, and, in those cases, the panels and the Appellate Body accepted that it was "highly improbable" that a product would enter the Chilean market below the lower threshold price of those measures. (See Appellate Body Report, \textit{Chile – Price Band System (Article 21.5 – Argentina)}, paras. 202 and 224; and Panel Reports, \textit{Chile – Price Band System (Article 21.5 – Argentina)}, para. 7.89; \textit{Chile – Price Band System}, para. 7.41 and fn 607 thereto) In both the original and compliance proceedings in \textit{Chile – Price Band System}, the measures at issue were found to be "similar" to a minimum import price. We examine in paras. 5.136-5.142 below Guatemala's claim that the Panel erred in its application of Article 4.2 of the Agreement on Agriculture, including the term "minimum import prices" in footnote 1 of the Agreement on Agriculture, to the measure at issue.

\textsuperscript{346} Guatemala's other appellant's submission, para. 61.

\textsuperscript{347} Guatemala's other appellant's submission, para. 75.


\textsuperscript{349} See Panel Report, para. 7.357 (referring to Peru's first written submission to the Panel, paras. 5.62-5.68; and response to Panel question No. 123, paras. 98-99).

\textsuperscript{350} Guatemala's other appellant's submission, paras. 84-85.

\textsuperscript{351} Guatemala's other appellant's submission, paras. 44, 48, 84, 97 and 111. See also Guatemala's second written submission to the Panel, para. 4.141.

\textsuperscript{352} Guatemala's other appellant's submission, para. 100. See also paras. 87-88.

\textsuperscript{353} Guatemala's other appellant's submission, para. 101.
de facto or implicit threshold in the PRS.\textsuperscript{354} Peru contends that operators are free to transact at any price. Peru argues that, if transaction prices are unlikely to be below the lowest international price contemplated in the PRS reference price, this is a result of the tendency of import prices to follow international prices, and not a result imposed by the PRS.\textsuperscript{355}

5.138. The Panel noted statistical evidence submitted by Peru showing that certain transactions entered Peru's market at a price below the PRS floor price.\textsuperscript{356} The Panel stated that, "[t]aking into account the structure and design of the measure at issue, as well as the details concerning its operation, there is no evidence at all that the additional duties resulting from ... the PRS directly ensure that imported products subject to the PRS will not enter the Peruvian market at a price lower than a certain threshold."\textsuperscript{357} The Panel then compared the operation of the additional duties resulting from the PRS with the operation of ordinary customs duties, in particular, specific import tariffs. According to the Panel, "a specific tariff (for example a tariff of USD 100 per metric ton on a product) could indirectly ensure that imports of that product do not enter at a price lower than a certain threshold (in the case of the example, it would be ensured that the specific tariff would operate as the lower threshold)."\textsuperscript{358} With respect to this example, the Panel concluded that this effect "would not convert the specific tariff into a minimum import price or a measure other than ordinary customs duties."\textsuperscript{359} Finally, the Panel turned to examine the de facto threshold of the PRS, as identified by Guatemala. The Panel was not convinced that "the duties resulting from the PRS lead to the establishment of a minimum import price with a de facto threshold."\textsuperscript{360} According to the Panel, the situation involving an alleged de facto threshold is also not different from "a specific tariff, where the entry price might be no lower than the amount of the tariff itself, irrespective of the way in which the authorities of a Member determine the amount of the specific duty."\textsuperscript{361}

5.139. Where available, statistical evidence concerning the impact of the measure is relevant to a panel's examination.\textsuperscript{362} There may be, however, additional elements relevant to a panel's examination of whether a measure is a "minimum import price" within the meaning of footnote 1 of the Agreement on Agriculture. For purposes of such examination, a panel should also analyse the design, structure, and operation of a measure. In this case, the Panel's finding was based on the statistical evidence submitted by Peru. The Panel stated that, "[t]aking into account the structure and design of the measure at issue, as well as the details concerning its operation", there is no evidence that the measure ensures that imports will not enter below a certain threshold.\textsuperscript{363} Beyond this sentence, the Panel did not explain any further how it had analysed the design and structure of the measure at issue. Thus, the Panel did not sufficiently engage with the relevant elements of the design, structure, and operation of the measure at issue that could have supported the conclusion the Panel drew.

5.140. The only element concerning the operation of the measure examined by the Panel, in the context of Guatemala's claim relating to "minimum import prices", was the operation of the additional duties resulting from the PRS in comparison with the operation of ordinary customs duties. The Panel concluded that the additional duties operate similarly to a specific tariff "irrespective of the way in which the authorities of a Member determine the amount of the specific duty."\textsuperscript{364} We consider that the Panel could not have reached such a conclusion without conducting a more thorough examination of the design, structure, and operation of the measure in its relevant context. The mere fact that a measure results in the payment of duties that may take the same form as ordinary customs duties does not necessarily mean that the measure falls outside the

\begin{itemize}
  \item \textsuperscript{354} Peru’s appellee’s submission, paras. 24-25.
  \item \textsuperscript{355} Peru’s appellee’s submission, para. 28.
  \item \textsuperscript{356} See fn 348 above.
  \item \textsuperscript{357} Panel Report, para. 7.360.
  \item \textsuperscript{358} Panel Report, para. 7.361.
  \item \textsuperscript{359} Panel Report, para. 7.361.
  \item \textsuperscript{360} Panel Report, para. 7.368.
  \item \textsuperscript{361} Panel Report, para. 7.368.
  \item \textsuperscript{362} The weight and significance to be accorded to such evidence will, as is the case with any evidence, depend on the circumstances of each case. In this regard, with respect to an examination of whether a measure is a "similar border measure" within the meaning of footnote 1 of the Agreement on Agriculture, see Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 189.
  \item \textsuperscript{363} Panel Report, para. 7.360.
  \item \textsuperscript{364} Panel Report, para. 7.368.
\end{itemize}
A measure may result in the imposition of specific duties that resemble ordinary customs duties and nevertheless comprise a scheme imposing an explicit or implicit minimum import price. For these reasons, the "way in which the authorities of a Member determine the amount of the … duty" together with the design, structure, and operation of the measure, are relevant elements that must form part of a panel's examination because they assist in distinguishing "minimum import prices" from "ordinary customs duties".

5.141. Thus, the Panel did not sufficiently examine the explicit or the implicit threshold identified by Guatemala. In particular, the Panel did not properly examine to what extent the implicit threshold, as identified by Guatemala, can be said to form part of the design and structure of the PRS. Furthermore, the Panel did not determine whether the reference price of the PRS serves as an appropriate proxy for transaction values of imports entering the Peruvian market. In this regard, there was no examination of: (i) the relationship between the prices of "marker products" and the prices of "associated products"; (ii) the fact that the reference price is calculated on the basis of only a particular specified international market; and (iii) the impact, if any, of the two-week gap in time between the international prices used to calculate the reference price and the transaction values of imports entering the Peruvian market.

5.142. On the basis of the foregoing, we find that the Panel erred in its analysis of whether the measure at issue is a "minimum import price" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture because the Panel did not properly examine the design, structure, and operation of the measure when addressing Guatemala's claim. Consequently, we reverse the Panel's finding, in paragraphs 7.371 and 8.1.c of the Panel Report, that the additional duties resulting from the PRS do not constitute "minimum import prices" within the meaning of footnote 1 of Article 4.2.

5.4.3 Guatemala's claim that the Panel erred in its interpretation and application of "similar border measures"

5.4.3.1 Interpretation of "similar border measures"

5.143. Guatemala claims the Panel erred in its interpretation of "similar border measures", in footnote 1 of Article 4.2 of the Agreement on Agriculture, by conflating the legal standard for "minimum import prices" with the legal standard for border measures "similar" to minimum import prices. In Guatemala's view, the Panel failed to give effect to the term "similar" in footnote 1 of the Agreement on Agriculture. Peru contends that the Panel applied the correct legal test in determining that the additional duties are not "similar" to "minimum import prices".

5.144. Article 4.2 of the Agreement on Agriculture prohibits Members from maintaining, resorting to, or reverting to, "any measures of the kind which have been required to be converted into ordinary customs duties". Footnote 1 of the Agreement on Agriculture provides a list of measures covered by the obligation under Article 4.2. The various border measures identified in footnote 1, which include "minimum import prices" and "variable import levies", have different forms and structures and apply to imports in different ways. Yet, these measures "have in common that they restrict the volume or distort the price of imports of agricultural products". Footnote 1 includes a category of "similar border measures other than ordinary customs duties". The Appellate Body has endorsed the definition of "similar" as "having a resemblance or likeness", "of the same nature or

\[\text{365} \text{ Appellate Body Reports, Chile – Price Band System (Article 21.5 – Argentina), para. 149.}\]
\[\text{366} \text{ Panel Report, para. 7.368.}\]
\[\text{367} \text{ According to Guatemala, this de facto or implicit threshold consists of the sum of the lowest relevant international price and the additional duty resulting from the PRS. (Guatemala's other appellant's submission, paras. 44-48, 84, 97, 111-113, and 115. See also Guatemala's second written submission to the Panel, para. 4.141.)}\]
\[\text{368} \text{ We note that the floor and reference prices, and ultimately the additional duty resulting from the PRS, are calculated only for the four "marker products". The same additional duty applicable for each "marker product" is then also applied to the respective "associated products". See fn 31 and para. 5.163 below.}\]
\[\text{369} \text{ Guatemala's other appellant's submission, paras. 63 and 107-109.}\]
\[\text{370} \text{ Peru's appellee's submission, paras. 32-34.}\]
\[\text{371} \text{ Appellate Body Report, Chile – Price Band System, para. 200.}\]
kind", and "having characteristics in common". Similarity must be established by undertaking a comparative analysis between an actual measure and one or more of the measures explicitly listed in footnote 1, and such a task must be approached on an empirical basis. A measure need not be identical to one of the prohibited categories of measures in footnote 1 to fall nevertheless within the scope of this provision. Rather, in order to be a "similar border measure", a measure must, in its specific configuration, have sufficient "resemblance or likeness to" or be "of the same nature or kind" as at least one of the specific categories of measures listed in footnote 1. Thus, a measure is "similar" to a "minimum import price" scheme when it shares a sufficient number of characteristics with, and has a design, structure, operation, and impact similar, to a minimum import price, even if it is not "identical" to such a scheme in all respects.

5.145. In setting out its understanding of "similar border measures" in footnote 1 of the Agreement on Agriculture, the Panel relied on the Appellate Body reports in the original and compliance proceedings in Chile – Price Band System. Recalling that Article 4 of the Agreement on Agriculture prohibits border measures that do not constitute "ordinary customs duties", the Panel found it "necessary also to examine whether the particular features of the measure, taking into account its structure and design as well as its effects, make it similar to the categories of measures prohibited by footnote 1 ... or to an ordinary customs duty".

5.146. Guatemala asserts that, by definition, a measure that is "similar" will not be exactly the same as a measure that is a minimum import price, and does not need to be "identical" to such scheme in all respects. Guatemala contends that the Panel ignored the fact that "minimum import prices" and measures "similar" to minimum import prices are two different types of measures. In Guatemala's view, under the Panel's logic, a measure would qualify as a "similar border measure" only if it shared all necessary attributes with one of measures enumerated under footnote 1 of the Agreement on Agriculture.

5.147. In our view, the Panel did not find that, for a measure to qualify as a "similar border measure", within the meaning of footnote 1 of the Agreement on Agriculture, it must share all necessary attributes with "minimum import prices". Rather, quoting from the Appellate Body Report in Chile – Price Band System (Article 21.5 – Argentina), the Panel stated that "[a] measure is 'similar' to a minimum import price when it shares a sufficient number of characteristics with, and has a design, structure, and effects similar to, a minimum import price, even if it is not 'identical' to such a scheme in all respects." As stated above, a proper interpretation of "similar border measures" requires a panel to examine whether a measure shares a sufficient number of characteristics with at least one of the specific categories of measures listed in footnote 1. In its examination, a panel must analyse the design, structure, and operation of the measure at issue. In this regard, the Panel's interpretation of "similar border measures" is an accurate rendering of the meaning of this expression, as interpreted by the Appellate Body.

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372 Appellate Body Reports, Chile – Price Band System (Article 21.5 – Argentina), paras. 225-226; Chile – Price Band System (Article 21.5 – Argentina), para. 163.
373 Appellate Body Reports, Chile – Price Band System, paras. 226-228; Chile – Price Band System (Article 21.5 – Argentina), para. 163. In the compliance proceedings in Chile – Price Band System, the Appellate Body explained that, in advocating that the approach be taken "on an empirical basis", the Appellate Body in the original proceedings was contrasting this to, and counselling against, an approach that focused on the fundamental nature of the shared characteristics. In the compliance proceedings, the Appellate Body concluded that the panel was not required to focus its examination primarily on numerical or statistical data regarding the effects of that measure in practice. Rather, where available, evidence on the "observable effects of the measure" should, obviously, be taken into consideration, along with information on the structure and design of the measure. (Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 198).
374 Appellate Body Reports, Chile – Price Band System, para. 227; Chile – Price Band System (Article 21.5 – Argentina), para. 163.
376 See para. 5.125 above.
377 Panel Report, para. 7.305.
378 Guatemala's other appellant's submission, para. 106 (quoting Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), para. 193). (emphasis omitted)
379 Guatemala's other appellant's submission, paras. 106-107.
380 Guatemala's other appellant's submission, para. 108.
382 See para. 5.144 above.
5.148. On the basis of the foregoing, we find that Guatemala has not established that the Panel erred in its interpretation of "similar border measures" in footnote 1 of Article 4.2 of the Agreement on Agriculture by conflating the legal standard for "minimum import prices" with the legal standard for border measures "similar" to minimum import prices. We note, however, that the Panel stated that "it [is] necessary .... to examine whether the particular features of the measure ... make it similar to the categories of measures prohibited by footnote 1 ... or to an ordinary customs duty." 383 Footnote 1 of the Agreement on Agriculture, however, does not refer to measures "similar" to "ordinary customs duties". Rather, footnote 1 includes within the scope of the prohibition in Article 4.2 of the Agreement on Agriculture certain types of measures including "similar border measures other than ordinary customs duties". Thus, we disagree with this statement by the Panel to the extent that the Panel suggested that it is necessary to examine whether a measure is "similar" to an "ordinary customs duty".

5.4.3.2 Application of "similar border measures"

5.149. Guatemala claims that the Panel erred in finding that Peru's measure is not "similar" to a "minimum import price" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture. Guatemala argues that, contrary to what the Panel implies, the measure contains two mechanisms preventing imports from entering the Peruvian market at prices below certain thresholds, namely, the explicit threshold and the implicit threshold. Thus, in Guatemala's view, Peru's measure is at least "similar" to a "minimum import price". 384 Peru responds that Guatemala failed to submit examples of any shared characteristics that would make the Peruvian measure "similar" to a minimum import price, and has simply re-stated its arguments regarding the explicit and implicit thresholds that were presented to the Panel. 385

5.150. After concluding that the additional duties resulting from the PRS do not constitute a "minimum import price", the Panel considered whether the duties nonetheless constitute a border measure "similar" to a "minimum import price". The Panel observed that, similarly to the measure at issue in Chile – Price Band System 386, the additional duties resulting from the PRS are calculated on the basis of the difference between the floor price and the reference price. 387 The Panel also noted that, under the PRS, "[t]he lower the reference price in comparison with the floor price, the higher the specific duty and the greater its protective impact." 388 The Panel noted, however, that Peru had presented evidence that the additional duties resulting from the PRS do not impede the entry of imports into the Peruvian market at transaction values below the PRS floor price. 389 Moreover, the Panel was not convinced that the additional duties resulting from the PRS lead to the establishment of a minimum import price with a de facto threshold consisting of the sum of the lowest transaction price and the duty resulting from the PRS. According to the Panel, this situation was no different from a specific tariff, where the entry price might be no lower than the amount of the tariff itself, irrespective of the way in which the authorities determine the amount of the specific duty. 390 On this basis, the Panel found that the PRS does not share sufficient characteristics with minimum import prices to make them a border measure "similar" to a "minimum import price". 391

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383 Panel Report, para. 7.305. (emphasis added)
384 Guatemala's other appellant's submission, paras. 111-113. Guatemala also alleges that the Panel conflated and thus misapplied the concept of "similar border measures" because, in its view, the Panel's factual basis for finding that the measure at issue is not "similar" to a minimum import price is essentially the same as the factual basis for finding that the measure is not a "minimum import price". (Guatemala's other appellant's submission, paras. 102-103)
385 Peru's appellee's submission, para. 35.
386 The Panel observed that the measure at issue in Chile – Price Band System was considered to be "similar" to a "minimum import price" inasmuch as it operated in practice as a "proxy" or "substitute" for a "minimum import price". According to the Panel, "[t]his conclusion was based on the fact that the measure operated in such a way as to impede the entry of imports ... at prices below the lower threshold in the band." (Panel Report, para. 7.362 (referring to Appellate Body Report, Chile – Price Band System (Article 21.5 – Argentina), paras. 194-195))
387 Panel Report, para. 7.364.
388 Panel Report, para. 7.365.
389 Panel Report, para. 7.366.
391 Panel Report, para. 7.370.
5.151. As we have stated above\(^{392}\), the Panel's comparison between the operation of the additional duties resulting from the PRS and the operation of ordinary customs duties is inadequate, since the Panel did not sufficiently examine the design, structure, and operation of the measure in its relevant context. Despite having distinct legal standards, the same or equivalent factual elements or aspects of the design, structure, or operation of a measure may be relevant for an assessment of whether such measure constitutes a "minimum import price" or a "similar border measure". As the Panel relied on the same comparison to reach its finding concerning whether the measure at issue is "similar" to a minimum import price\(^{393}\), our earlier analysis is also relevant here.

5.152. Moreover, the Panel considered that the additional duties resulting from the PRS operate in a manner similar to the measure that was at issue in *Chile – Price Band System*. In particular, the Panel noted that the additional duties resulting from the PRS are calculated on the basis of the difference between the floor price and the reference price, and that, under the PRS, the lower the reference price in comparison with the floor price, the higher the specific duty and the greater its protective impact.\(^{394}\) Despite the fact that the measure in *Chile – Price Band System* was found to be "similar" to a minimum import price, the Panel gave prominence to statistical evidence submitted by Peru showing that certain transactions entered Peru's market at a price below the PRS floor price.\(^{395}\) The Panel then concluded that the statistical evidence presented by Peru "shows that the measure at issue does not impede the entry of products subject to the PRS into the Peruvian market at a transaction value below the floor price".\(^{396}\)

5.153. As we have noted above in our analysis of whether the PRS is a "minimum import price"\(^{397}\), where available, statistical evidence concerning the impact of the measure is relevant to a panel's examination.\(^{398}\) There may be, however, additional elements relevant to a panel's examination of whether a measure is a border measure "similar" to a "minimum import price" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture. For purposes of this examination, a panel should also analyse the design, structure, and operation of a measure. This is particularly important for an examination of whether a measure is "similar" to one of the prohibited categories of measures listed in footnote 1. Also as stated above\(^{399}\), a measure is "similar" to a minimum import price scheme when it shares a sufficient number of characteristics with, and has a design, structure, operation and impact similar to, a minimum import price, even if it is not "identical" to such a scheme in all respects.\(^{400}\) The Panel's finding was based essentially on the statistical evidence submitted by Peru. Thus, by failing to analyse sufficiently the design, structure and operation of the measure at issue, the Panel did not conduct a proper analysis as to whether the additional duties resulting from the PRS, even if not identical to a "minimum import price" scheme, may nonetheless constitute a "similar border measure" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture.

5.154. As noted earlier\(^{401}\), the Panel did not sufficiently examine the explicit or the implicit threshold identified by Guatemala. The Panel also failed to determine whether the reference price of the PRS serves as an appropriate proxy for transaction values of imports entering the Peruvian market. These factual elements or aspects of the design, structure, and operation of the PRS are relevant for both an assessment of whether the measure at issue meets the legal standard for "minimum import prices" or the legal standard for "similar border measures".\(^{402}\)

5.155. On the basis of the foregoing, we find that the Panel erred in its analysis of whether the measure at issue is a border measure "similar" to a "minimum import price" within the meaning of

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\(^{392}\) See para. 5.139 above.

\(^{393}\) See Panel Report, paras. 7.368-7.369.


\(^{395}\) Panel Report, para. 7.366 (referred to Panel Exhibit PER-90).

\(^{396}\) Panel Report, para. 7.366.

\(^{397}\) See para. 5.139 above.

\(^{398}\) The weight and significance to be accorded to such evidence will, as is the case with any evidence, depend on the circumstances of each case. (See Appellate Body Report, *Chile – Price Band System (Article 21.5 – Argentina)*, para. 189)

\(^{399}\) See para. 5.144 above.


\(^{401}\) See para. 5.141 above.

\(^{402}\) See para. 5.151 above.
footnote 1 of Article 4.2 of the Agreement on Agriculture because the Panel did not properly examine the design, structure, and operation of the measure at issue when addressing Guatemala's claim. Consequently, we reverse the Panel's finding, in paragraphs 7.370 and 8.1.c of the Panel Report, that the measure at issue does not share sufficient characteristics with "minimum import prices" to be considered a border measure "similar" to a "minimum import price" within the meaning of footnote 1 of Article 4.2.

5.4.4 Guatemala's request for completion of the legal analysis

5.156. Guatemala requests that we complete the legal analysis and find that Peru's measure is inconsistent with Article 4.2 of the Agreement on Agriculture because, as Guatemala argues, the measure is either a "minimum import price" or a measure "similar" to a minimum import price. Guatemala's request is contingent on whether we reverse the Panel's findings on "minimum import prices" or on "similar border measures". Having reversed both of these findings, we now consider whether we can complete the legal analysis as requested by Guatemala.

5.157. In previous disputes, the Appellate Body has completed the legal analysis with a view to facilitating the prompt settlement and effective resolution of the dispute. The Appellate Body has, however, held that it can do so only if the factual findings of the panel and the undisputed facts on the panel record provide it with a sufficient basis for its own analysis. Reasons that have prevented the Appellate Body from completing the legal analysis include the absence of full exploration of the issues before the panel, and, consequently, considerations for parties' due process rights.

5.158. Guatemala submits that the measure at issue is a "minimum import price" or a "similar border measure" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture because the measure prevents imports from entering the Peruvian market at prices below the explicit threshold of the PRS, namely, the floor price. Alternatively, even if Peru's measure does not raise, in all instances, the entry prices of imports to the level of the floor price, Guatemala contends that the measure raises the entry price for the specified imports at least to the level of a de facto or implicit threshold. According to Guatemala, this de facto or implicit threshold consists of the sum of the lowest relevant international price and the additional duty resulting from the PRS.

5.159. Pursuant to Guatemala's request for completion, the issue before us is whether the measure at issue contains a "minimum import price" or a "similar border measure" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture. As stated above, the term "minimum import price" in footnote 1 "refers generally to the lowest price at which imports of a

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403 Guatemala's other appellant's submission, para. 120.
404 See e.g. Appellate Body Reports, Australia – Salmon, paras. 117-118; US – Wheat Gluten, paras. 80-92; Canada – Aircraft (Article 21.5 – Brazil), paras. 43-52.
407 Guatemala's other appellant's submission, paras. 44, 48, 83, 111-113, and 115.
408 Guatemala's other appellant's submission, paras. 44-48, 84, 97, 111-113, and 115. See also Guatemala's first written submission to the Panel, para. 4.140.
409 See para. 5.129 above.
certain product may enter a Member's domestic market. With respect to "similar border measures" in footnote 1, a measure is "similar" to a "minimum import price" scheme when it shares a sufficient number of characteristics with, and has a design, structure, operation and impact similar to, a "minimum import price", even if it is not identical to such a scheme in all respects. Thus, in order to determine whether a measure contains either a "minimum import price" or a "similar border measure", a panel's analysis should include a thorough assessment of the design, structure, and operation of the measure at issue considered in its relevant context. The mere fact that a measure results in the payment of duties that take the same form as ordinary customs duties does not, alone, mean that the measure falls outside the scope of footnote 1.

Thus, we are required to examine whether, and to what extent, either of the two thresholds served, even if not in all instances, as a minimum price threshold for imports entering the Peruvian market, so as to qualify the measure as at least a "similar border measure" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture.

5.160. As summarized in the Panel Report, the PRS imposes an additional duty on imports of certain products when the reference price is below the floor price. The floor price is based on an average of international prices in a specified international market over a recent past period of 60 months. The reference price is based on an average of international price quotations in the same specified international market over a recent past period of two weeks. The additional duty is the difference between the floor price and the reference price multiplied by a factor associated with the import costs. The Panel found that "[t]he lower the reference price in comparison with the floor price, the higher the specific duty and the greater its protective impact." Under Peru's regulations, the additional duties resulting from the PRS, plus Peru's ad valorem duties, may not exceed Peru's bound tariff rate.

5.161. We have found that the Panel did not sufficiently examine the explicit or the implicit threshold identified by Guatemala. The Panel record also does not contain undisputed facts concerning to what extent, in the light of the design, structure and operation of the measure, either of these thresholds serves, even if not in all instances, as a minimum price threshold for imports entering the Peruvian market, so as to qualify the measure as at least a "similar border measure" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture.

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410 Appellate Body Reports, Chile – Price Band System (Article 21.5 – Argentina), para. 152. The Appellate Body has also explained that, generally speaking, under a minimum import price scheme, "[i]f the price of an individual consignment is below a specified minimum import price, an additional charge is imposed corresponding to the difference". (Appellate Body Reports, Chile – Price Band System (Article 21.5 – Argentina), para. 152; Chile – Price Band System, para. 236 (referring to Panel Report, Chile – Price Band System, para. 7.36(e)))

411 See also para. 5.144 above.


413 Appellate Body Reports, Chile – Price Band System, para. 216; Chile – Price Band System (Article 21.5 – Argentina), para. 149.

414 Panel Report, para. 7.140; Annex III to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4, p. 204889).

415 The floor price is to be updated every six months. (Panel Report, para. 7.135; Article 6 of Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4, p. 204888) The floor prices, which are expressed in f.o.b. terms, are converted into c.i.f. terms by applying the freight and insurance costs specified in Annex V to the Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), pp. 204889-204890) Annex V indicates the applicable freight and insurance costs for each "marker product" and identifies the General Secretariat of the Andean Community as the source of these costs. The Panel observed that these values coincide with the costs indicated in Annex 3 to Decision 371 of the Andean Price Band System. (Panel Report, para. 7.134; Commission of the Cartagena Agreement, Decision 371: Andean price Band System, 1994 (Panel Exhibit PER-27), Annex 3) The Panel noted that Decision 371 contains no explanation as to how these values were determined. (Panel Report, para. 7.134)

416 The reference price is to be updated every two weeks. (Panel Report, para. 7.136; Article 4 of Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), p. 204888) The reference prices are to be converted into c.i.f. terms by applying the freight and insurance costs specified in Annex V to the Supreme Decree No. 115-2001-EF (Panel Report, para. 7.137; Article 5 and Annex V to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), pp. 204888 and 204890)


418 Panel Report, para. 7.365.


420 See paras. 5.139-5.142 and 5.151-5.155 above.
5.162. Moreover, the Panel record does not contain undisputed facts concerning whether the reference price of the PRS serves as an appropriate proxy for transaction values of imports entering the Peruvian market. Guatemala argues that the reference price is designed to operate as an accurate and reliable proxy for typical transaction values of current imports entering the Peruvian market in any given two-week period.\footnote{Peru's other appellant's submission, paras. 10, 20, 33-34, 48, 52, 77, 111, 118, and 126-127. Guatemala contends that statistical evidence on the Panel record supports its argument. In particular, with respect to sugar imports since 2001, Guatemala contends that 97% of imports have entered at or above the floor price. (Guatemala's other appellant’s submission, paras. 81 and 131)} In contrast, Peru contends that the reference price is not a proxy for transaction values of current imports entering the Peruvian market.\footnote{Guatemala's other appellant's submission, paras. 10, 20, 33-34, 48, 52, 77, 111, 118, and 126-127. Guatemala contends that statistical evidence on the Panel record supports its argument. In particular, with respect to sugar imports since 2001, Guatemala contends that 97% of imports have entered at or above the floor price. (Guatemala’s other appellant’s submission, paras. 81 and 131)} Without examining this issue, the Panel simply concluded that the statistical evidence submitted by Peru revealed that “the measure at issue does not impede the entry of products subject to the PRS into the Peruvian market at a transaction value below the floor price.”\footnote{Panel Report, para. 7.366. See also paras. 7.360-7.361. The Panel also stated that, “because of its design and structure, the PRS does not operate in relation to the true transaction value of imports but on the basis of international prices.” (Panel Report, para. 7.367) In our view, the Panel’s statement does not constitute a conclusion on whether the reference price operates as a proxy for transaction values of imports entering the Peruvian market, in the light of the evidence on the Panel record and the design, structure, and operation of the PRS. Rather, the Panel’s statement at issue merely recalls that the reference price is based on international prices, instead of transaction values of imports entering the Peruvian market.}\footnote{Peru's other appellant's submission, paras. 10, 20, 33-34, 48, 52, 77, 111, 118, and 126-127. Guatemala contends that statistical evidence on the Panel record supports its argument. In particular, with respect to sugar imports since 2001, Guatemala contends that 97% of imports have entered at or above the floor price. (Guatemala’s other appellant’s submission, paras. 81 and 131)}

5.163. We note that the floor and reference prices, and ultimately the additional duty resulting from the PRS, are calculated only for the four “marker products” at issue.\footnote{The relevant international market for each product is specified in Supreme Decree No. 115-2001-EF. (Panel Report, paras. 7.128 and 7.136)} The same additional duty applicable for each “marker product” is then also applied to the respective “associated products”.\footnote{Supreme Decree No. 115-2001-EF divides the tariff lines subject to the PRS into two groups: (i) four “marker products” and (ii) several “associated products”. “Marker products” are defined as products whose international prices are used for calculating the floor, ceiling and reference prices, while “associated products” are defined as products obtained by processing or mixing of marker products or those that are capable of replacing a “marker product” for industrial use or consumption. Each of the four “marker products” corresponds to a specific tariff line for rice, maize, milk, and sugar, respectively. Several “associated products” are grouped under each “marker product”. (Panel Report, paras. 7.120-7.122; Annexes I and II to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), pp. 204888-204889)\footnote{Supreme Decree No. 115-2001-EF divides the tariff lines subject to the PRS into two groups: (i) four “marker products” and (ii) several “associated products”. “Marker products” are defined as products whose international prices are used for calculating the floor, ceiling and reference prices, while “associated products” are defined as products obtained by processing or mixing of marker products or those that are capable of replacing a “marker product” for industrial use or consumption. Each of the four “marker products” corresponds to a specific tariff line for rice, maize, milk, and sugar, respectively. Several “associated products” are grouped under each “marker product”. (Panel Report, paras. 7.120-7.122; Annexes I and II to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), p. 204890.)\footnote{Supreme Decree No. 115-2001-EF divides the tariff lines subject to the PRS into two groups: (i) four “marker products” and (ii) several “associated products”. “Marker products” are defined as products whose international prices are used for calculating the floor, ceiling and reference prices, while “associated products” are defined as products obtained by processing or mixing of marker products or those that are capable of replacing a “marker product” for industrial use or consumption. Each of the four “marker products” corresponds to a specific tariff line for rice, maize, milk, and sugar, respectively. Several “associated products” are grouped under each “marker product”. (Panel Report, paras. 7.120-7.122; Annexes I and II to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), p. 204890.)\footnote{Supreme Decree No. 115-2001-EF divides the tariff lines subject to the PRS into two groups: (i) four “marker products” and (ii) several “associated products”. “Marker products” are defined as products whose international prices are used for calculating the floor, ceiling and reference prices, while “associated products” are defined as products obtained by processing or mixing of marker products or those that are capable of replacing a “marker product” for industrial use or consumption. Each of the four “marker products” corresponds to a specific tariff line for rice, maize, milk, and sugar, respectively. Several “associated products” are grouped under each “marker product”. (Panel Report, paras. 7.120-7.122; Annexes I and II to Supreme Decree No. 115-2001-EF (Panel Exhibit GTM-4), p. 204890.)}} There is, however, no undisputed evidence on the Panel record concerning the relationship between the prices of "marker products" and the prices of "associated products". In addition, the reference price is calculated on the basis of only a particular specified international market.\footnote{See chart submitted by Peru showing statistical data of product entries below the minimum price (Panel Exhibit PER–90).} There is no undisputed evidence on the Panel record concerning to what extent such market can be said to adequately reflect global prices of a particular "marker product". Furthermore, there is no evidence on the Panel record concerning the impact, if any, of the two-week gap in time between the international prices used to calculate the reference price and the transaction values of imports entering the Peruvian market. Finally, the main statistical evidence referred to by Peru and Guatemala, and relied on by the Panel\footnote{See chart submitted by Peru showing statistical data of product entries below the minimum price (Panel Exhibit PER–90).}, reveals, with respect to specific two-week periods, only the number of import transactions with a value below the floor price and the percentage that this number represents against the total number of import transactions within the same two-week period. It is not possible to conclude from this evidence overall how representative or close the reference price is to the actual import transaction values entering the Peruvian market. Without these factual elements, it is not possible to consider, on the basis of the Panel record, whether, and to what extent, the reference price serves as an...
appropriate proxy for transaction values of imports entering the Peruvian market. This consideration is also relevant for examining the de facto or implicit threshold identified by Guatemala.\footnote{There is also no undisputed facts on the Panel record concerning whether the design, structure, and operation of the PRS incorporates, or at least could reveal, the de facto or implicit threshold identified by Guatemala. Moreover, there are no Panel's findings or undisputed facts on the Panel record – and in many respects there is no evidence on the record – concerning the relationship between the lowest relevant international price and the transaction values of imports entering the Peruvian market.} This is because one of the two components of the implicit threshold is the additional duty resulting from the PRS, which is, in turn, dependent on the reference price.\footnote{We recall that the additional duty resulting from the PRS is calculated on the basis of the difference between the reference price and the floor price of the PRS. In turn, the implicit threshold is the sum of the additional duty resulting from the PRS, and the lowest relevant international price.}

5.164. Without knowing whether the reference price serves, even if only to a certain degree, as a proxy for transaction values of imports entering Peru's market, it is not possible to determine whether either of the thresholds identified by Guatemala constitutes a "minimum import price" threshold, referring generally to the lowest price at which imports of a certain product may enter the Peruvian market. Being unable to undertake such an examination ourselves, we are also unable to determine whether the measure at issue shares a sufficient number of characteristics with, and has a design, structure, operation and impact similar to, a "minimum import price" to make it "similar" to a "minimum import price".

5.165. In the light of the above, we are unable to complete the legal analysis and reach a conclusion as to whether the measure at issue is inconsistent with Article 4.2 of the Agreement on Agriculture because it is either a "minimum import price" or a border measure "similar" to a minimum import price within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture.

6. FINDINGS AND CONCLUSIONS

6.1. For the reasons set out in section 5.2 of this Report, with respect to Articles 3.7 and 3.10 of the DSU, the Appellate Body:

a. finds that Peru's arguments on appeal are not "new claims" or a "new defence" and are within the scope of this appeal;

b. finds that Guatemala has not relinquished its right to have recourse to the WTO dispute settlement mechanism in respect of Peru's PRS; and

c. consequently, upholds the Panel's finding, in paragraph 8.1.a of the Panel Report, that there is "no evidence that Guatemala brought these proceedings in a manner contrary to good faith", and that there was, therefore, "no reason for the Panel to refrain from assessing the claims put forward by Guatemala".

6.2. For the reasons set out in section 5.3.1 of this Report, with respect to "variable import levies" in footnote 1 of Article 4.2 of the Agreement on Agriculture, the Appellate Body:

a. finds that Peru has not established that the Panel erred in its assessment of the "variability" of the measure at issue;

b. finds that Peru has not established that the Panel erred in its assessment of the "additional features" of the measure at issue; and

c. finds that the Panel did not act inconsistently with Article 11 of the DSU in its examination of Guatemala's claim under Article 4.2 of the Agreement on Agriculture.
6.3. For the reasons set out in section 5.3.2 of this Report, with respect to Article II:1(b) of the GATT 1994, the Appellate Body:

a. finds that Peru has not established that the Panel erred in finding that the measure at issue is not an "ordinary customs duty" under the first sentence of Article II:1(b) of the GATT 1994; and

b. finds that the Panel did not act inconsistently with Article 11 of the DSU in its examination of Guatemala's claim under Article II:1(b) of the GATT 1994.

6.4. For the reasons set out in section 5.3.3 of this Report, with respect to the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 in accordance with Article 31 of the Vienna Convention, the Appellate Body:

a. finds that Peru's arguments regarding the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 in accordance with Article 31(3)(a) and (c) of the Vienna Convention are within the scope of this appeal;

b. finds that Peru's arguments, that the Panel erred in its interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 because it failed to take into account under Article 31(3) of the Vienna Convention the FTA and ILC Articles 20 and 45, go beyond the interpretation of Article 4.2 and Article II:1(b) in accordance with Article 3.2 of the DSU and Article 31 of the Vienna Convention and amount to arguing that, by means of the FTA, Peru and Guatemala actually modified these WTO provisions between themselves;

c. finds that the FTA between Peru and Guatemala and ILC Articles 20 and 45 are not "relevant" to the interpretation of Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 within the meaning of Article 31(3)(c) of the Vienna Convention and that the FTA is not a subsequent agreement "regarding the interpretation" of these WTO provisions within the meaning of Article 31(3)(a); and, therefore,

d. finds that the Panel did not commit an error by not interpreting Article 4.2 of the Agreement on Agriculture and Article II:1(b) of the GATT 1994 taking into account the provisions of the FTA and ILC Articles 20 and 45 under Article 31(3) of the Vienna Convention.

6.5. For the reasons set out in section 5.3.3 of this Report, the Appellate Body:

a. finds that the Panel did not err in declining to make findings as to whether the FTA modified the WTO rights and obligations between Peru and Guatemala.

6.6. For the reasons set out in section 5.3 of this Report, the Appellate Body:

a. upholds the Panel's findings, in paragraph 8.1.b of the Panel Report, that the additional duties resulting from the PRS constitute "variable import levies" within the meaning of footnote 1 of the Agreement on Agriculture, and in paragraph 8.1.d of the Panel Report, that, by maintaining a measure that constitutes a "variable import levy", Peru acts inconsistently with its obligations under Article 4.2 of the Agreement on Agriculture; and

b. upholds the Panel's findings, in paragraph 8.1.e of the Panel Report, that the additional duties resulting from the PRS constitute "other duties or charges ... imposed on or in connection with the importation", within the meaning of the second sentence of Article II:1(b) of the GATT 1994, and that, by applying such measure without having recorded it in its Schedule of Concessions, Peru acts inconsistently with its obligations under the second sentence of Article II:1(b) of the GATT 1994.
6.7. For the reasons set out in section 5.4 of this Report, with respect to the Panel's interpretation and application of "minimum import prices" and "similar border measures" in footnote 1 of Article 4.2 of the Agreement on Agriculture, the Appellate Body:

a. finds that Guatemala has not established that the Panel erred in its interpretation of the term "minimum import prices" in footnote 1 of Article 4.2 of the Agreement on Agriculture;

b. reverses the Panel's finding, in paragraph 8.1.c of the Panel Report, that the measure at issue does not constitute a "minimum import price" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture;

c. finds that Guatemala has not established that the Panel erred in its interpretation of the term "similar border measures" in footnote 1 of Article 4.2 of the Agreement on Agriculture;

d. reverses the Panel's finding, in paragraph 8.1.c of the Panel Report that the measure at issue does not share sufficient characteristics with "minimum import prices" to be considered a border measure "similar" to a "minimum import price" within the meaning of footnote 1 of Article 4.2 of the Agreement on Agriculture; and

e. is unable to complete the legal analysis under Article 4.2 and footnote 1 of the Agreement on Agriculture and determine whether the measure at issue constitutes a "minimum import price" or a border measure "similar" to a "minimum import price" within the meaning of footnote 1.

6.8. The Appellate Body recommends that the DSB request Peru to bring its measure found in this Report, and in the Panel Report as modified by this Report, to be inconsistent with the Agreement on Agriculture and the GATT 1994 into conformity with those Agreements.

Signed in the original in Geneva this 29th day of June 2015 by:

_________________________
Ujal Singh Bhatia
Presiding Member

_________________________  _______________________
Thomas Graham Yuejiao Zhang
Member Member