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Annual

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Report Highlights:

Peruvian wheat imports are forecast at 1.51 MMT for MY 2009, with the U.S. holding a market share of 30 percent. Corn production in Peru continues growing and is forecast to reach 1.63 MMT in MY 2009. Rice production in MY 2009 is estimated at 1.7 MMT. The U.S. - Peru Trade Promotion Agreement will be implemented on February 1, 2009. The TPA grants duty free TRQs for U.S. corn and rice.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Lima [PE1]
[PE]

Executive Summary

Wheat is only a minor crop in Peru and is grown mostly in the southern highlands of the Andes (between 2,800 and 3,500 meters above sea level). Wheat production in MY 2009 (July/June) is forecast at 170,000 MT, almost a 7 percent decrease when compared to MY 2008, due to lower international wheat prices. Crop area for MY 2008 is forecast at 135,000 hectares, a small increase compared to the previous year. Peru's wheat imports in MY 2009 are forecast to reach 1.51 MMT. U.S. wheat exports to Peru decreased 27 percent to 381,463 MT in CY 2008, due to more competitive prices from Argentina. Wheat is imported into Peru duty free.

Corn production in Peru is forecast at 1.63 MMT for MY 2009 (October/September), a slight increase compared to the previous year. Harvested area in MY 2009 is estimated at 292,000 hectares and 219,000 hectares for yellow and starchy corn, respectively. Yields are expected to be around 3.9 MT per hectare for yellow corn and 1.2 MT per hectare for starchy corn. Peru's 35 million chicken-per-month poultry market is the major user of yellow corn. Corn consumption is forecast at 2.8 MMT in MY 2009. Peru imported 1.39 MMT in CY 2008, 6 percent less than the previous year. U.S. corn exports were 214,638 MT in CY 2008, down 27 percent compared to CY 2007. Import duties for corn are 9 percent on a c.i.f. basis. The U.S. – Peru TPA, which will be implemented on February 1, 2009, establishes a duty free Tariff Rate Quota (TRQ) of 500,000 MT for U.S. corn, with annual increases of 6 percent and full duty free access in 12 years.

Rice production for CY 2009 is forecast at 1.7 MMT (milled basis), unchanged from the previous year. Harvested area for MY 2009 is estimated at 310,000 hectares. Rice imports into Peru in CY 2008 more than doubled reaching 145,024 MT. This increase was driven by good supplier prices, especially Thailand, during the first quarter of 2008, before local harvest. Under the U.S.-Peru TPA U.S. rice will be granted a duty free TRQ of 72,000 MT, with annual increases of 6 percent and full duty free access in 17 years.

WHEAT PERU	2007			2008			2009			
	2007/2008			2008/2009			2009/2010			
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		New Post	UNITS
		Data			Data			Data		
Area Harvested	130	135	140	130	142	145			135	(1000 HA)
Beginning Stocks	228	228	228	269	169	204			236	(1000 MT)
Production	175	181	179	175	189	182			170	(1000 MT)
MY Imports	1,441	1,390	1,553	1,500	1,430	1,560			1,510	(1000 MT)
TY Imports	1,441	1,390	1,530	1,500	1,430	1,550			1,500	(1000 MT)
TY Imp. from U.S.	576	230	549	0	300	500			500	(1000 MT)
Total Supply	1,844	1,799	1,960	1,944	1,788	1,946			1,916	(1000 MT)
MY Exports	34	50	48	50	55	50			50	(1000 MT)
TY Exports	34	50	48	50	55	50			50	(1000 MT)
Feed Consumption	50	60	65	75	60	60			60	(1000 MT)
FSI Consumption	1,491	1,520	1,643	1,500	1,530	1,600			1,600	(1000 MT)
Total Consumption	1,541	1,580	1,708	1,575	1,590	1,660			1,660	(1000 MT)
Ending Stocks	269	169	204	319	143	236			206	(1000 MT)
Total Distribution	1,844	1,799	1,960	1,944	1,788	1,946			1,916	(1000 MT)
Yield	1.	1.	1.2786	1.	1.	1.2552			1.2593	(MT/HA)

Import Trade Matrix (Metric Tons)	
Commodity	Wheat
Time Period	CY 2008
Imports from:	
U.S.	381,463
Others	
Argentina	686,908
Canada	287,240
Total for Others	974,148
Others not Listed	112,885
Grand Total	1,468,496

WHEAT

Production

Wheat production in MY 2009 (July/June) is forecast at 170,000 MT, almost a 7 percent decrease when compared to MY 2008, due to lower international wheat prices. Wheat is only a minor crop in Peru and is grown mostly in the southern highlands of the Andes (between 2,800 and 3,500 meters above sea level). Wheat producers are usually poor and apply rudimentary cultural practices. Most of the wheat produced in Peru is soft wheat that is consumed directly in soups and purees. This type of wheat is not suitable for milling.

Crop area for MY 2008 is forecast at 135,000 hectares, a small increase compared to the previous year. Wheat area in Peru varies significantly from year to year depending on prices, profit expectations, and conditions of alternative crops such as barley and oats. Average yields in CY 2008 were around 1.27 MT per hectare.

Peru's largest wheat miller, Alicorp, has established a program to encourage producers to grow durum wheat for their pasta plant in Arequipa (about 1,000 kilometers south of Lima). Currently, they are producing around 11,000 MT but expect to reach 25,000 MT in the upcoming years. Alicorp provides improved seed and technical assistance to local producers and contracts production in advance.

Consumption

The wheat milling industry in Peru is highly concentrated. Of the 23 mills in the country, the largest one accounts for over 60 percent of total wheat processed, and the top four mills are responsible for about 85 percent of the wheat milled in the country. While Argentina has over 200 mills for 33 million people, Peru only has 23 for 28 million people. Revenues of the milling industry are estimated at around \$810 million.

Bread consumption in Peru continues to be very small, with per capita consumption at 28 kilograms per annum. Most bread is purchased fresh in bakeries, and only 250 grams of bread per year are consumed in loaves, which is a two-fold increase over the last seven years. At 10 kilograms per

capita, Peru continues to be the second largest pasta consumer in South America. Lima accounts for half of the pasta consumption in Peru, but growth of pasta consumption in the provinces is increasing at a faster rate. Peruvian cracker and cookie consumption is still very low, around 70,000 MT per year and worth about \$100 million.

Peru produces about 1.3 MMT of flour per year. Of this flour 63 percent is used in the baking industry, 20 percent in pasta manufacturing, 12 percent in the cookies and crackers sector, and 5 percent for domestic use. About 70 percent of domestic flour is sold in traditional markets, with 20 percent sold in supermarkets and 10 percent sold through other distribution channels.

Trade

Peru's wheat imports in MY 2009 are forecast to reach 1.51 MMT. U.S. wheat exports to Peru decreased 27 percent to 381,463 MT in CY 2008, due to more competitive prices from Argentina. Argentine wheat exports increased 48 percent to 686,908 MT. Canadian wheat exports were 287,240 MT (what % increase or decrease is that?).

Peru's wheat milling industry has become very sophisticated. The industry has evolved in the last 15 years from only buying HRW to importing many different types of wheat (such as soft, spring, white and DNS) for blending. The U.S. Wheat Associates has been instrumental in improving Peru's milling standards through its marketing and trade servicing programs.

Policy

Due to high international wheat prices in CY 2007, and in an effort to keep inflation under control, the GOP eliminated the 17 percent import duty assessed on wheat. The 19 percent value-added tax (VAT) remains in place.

The GOP, particularly the Ministry of Agriculture (MOA), is currently dealing with disgruntled consumers that are aware of a sharp reduction in international wheat prices that has not translated in cheaper flour or other wheat products. According to MOA, wheat prices fell from \$406 per MT in March 2008 to \$205 per MT in January 2009, while flour only fell 22 percent in the same period of time. MOA is encouraging bakers to organize and begin importing flour.

CORN PERU	2007			2008			2009			
	2007/2008			2008/2009			2009/2010			
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		New Post	UNITS
			Data			Data			Data	
Area Harvested	540	560	560	540	565	570			575	(1000 HA)
Beginning Stocks	271	262	262	211	250	230			200	(1000 MT)
Production	1,500	1,550	1,546	1,500	1,600	1,600			1,630	(1000 MT)
MY Imports	1,400	1,410	1,538	1,500	1,350	1,400			1,500	(1000 MT)
TY Imports	1,400	1,410	1,571	1,500	1,350	1,400			1,500	(1000 MT)
TY Imp. from U.S.	333	350	422	0	350	450			400	(1000 MT)
Total Supply	3,171	3,222	3,346	3,211	3,200	3,230			3,330	(1000 MT)
MY Exports	10	10	10	10	10	10			10	(1000 MT)
TY Exports	10	10	10	10	10	10			10	(1000 MT)
Feed Consumption	2,700	2,712	2,854	2,750	2,720	2,750			2,800	(1000 MT)
FSI Consumption	250	250	252	250	260	270			280	(1000 MT)
Total Consumption	2,950	2,962	3,106	3,000	2,980	3,020			3,080	(1000 MT)
Ending Stocks	211	250	230	201	210	200			240	(1000 MT)
Total Distribution	3,171	3,222	3,346	3,211	3,200	3,230			3,330	(1000 MT)
Yield	3.	3.	2.7607	3.	3.	2.807			2.8348	(MT/HA)

Import Trade Matrix (Metric Tons)	
Commodity	Yellow Corn
Time Period	CY 2008
Imports from:	
U.S.	214,638
Others	
Argentina	1,069,558
Brazil	54,022
Total for Others	1,123,580
Others not Listed	51,876
Grand Total	1,390,094

CORN

Production

Corn production in Peru is forecast at 1.63 MMT for MY 2009 (October/September), a slight increase compared to the previous year. Yellow corn production has been increasing steadily since international prices began rising and continues increasing despite the ongoing price nosedive. Increasing demand for poultry is driving this production boost.

There are several types of corn grown in Peru; the most important varieties are starchy corn (with production estimated at 254,000 MT in MY 2008), which is used directly for human consumption, and yellow corn (with production estimated at 1.2 MMT, which is primarily used in the animal feed industry).

Harvested area in MY 2009 is estimated at 292,000 hectares and 219,000 hectares for yellow and starchy corn, respectively. Yields are expected to be around 3.9 MT per hectare for yellow corn and 1.2 MT per hectare for starchy corn. However, yellow corn yields vary greatly depending on the production region and the technology level of producers. On the coastal region these yields have increased from 6.5 MT per hectare to 8.6 MT per hectare in the past eight years. The use of improved seeds and better cultural practices are the main drivers for this increase. In the rainforest, on the eastern slopes of the Andes, yellow corn yields drop to 2.1 MT per hectare due to poor soil and less developed producers.

Consumption

Chicken has become a staple product in the Peruvian diet, with per capita consumption reaching about 30 kilograms per annum. Peru's 35 million chicken-per-month poultry market is the major user of yellow corn, with corn accounting for about 68 percent of the chicken feed. Corn consumption is forecast at 2.8 MMT in MY 2009.

There are about 20 poultry operations in Peru, which control around 1,000 farms. The largest producer, San Fernando, controls about 35 percent of the market. Total market size for CY 2008 is estimated at \$1.2 billion.

Informal producers (producers who are not legally established and do not pay taxes) are a major problem for the poultry sector in Peru. These producers, which account for about 25 percent of the poultry meat industry, are not able to import corn due the lack of appropriate registration with the tax authority and therefore rely solely on local corn. Informal producers are constantly undermining the industry profitability with their lower prices, which result from not paying taxes.

Trade

Peru imported 1.39 MMT in CY 2008, 6 percent less than the previous year. With 1.07 MMT, Argentina continued to be the lead corn supplier to Peru in CY 2008. U.S. corn exports were 214,638 MT in CY 2008, down 27 percent compared to CY 2007. Better price from the competition and cheaper freight costs, as well as increased local supply, resulted in the U.S. loss of the market share. Feed producers and large poultry operations prefer to use Argentine or Peruvian corn over U.S. corn. They claim that Argentine and Peruvian corn is harder and comes with less broken kernels. Average price of locally produced corn was around \$245 per MT in CY 2008.

Post believes that alternative corn products such as DDGS have an interesting potential and should be promoted in this market. Post has worked closely with Peruvian authorities to lift import restrictions to DDGS.

Policy

Import duties for corn are 9 percent on a c.i.f. basis. Corn is also subject to a variable levy applied under the Price Band System. The Price Band System is a variable levy that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. Under the U.S. – Peru Trade Promotion Agreement, Peru has committed to eliminate the price band system for all U.S. products.

The U.S. – Peru TPA, also establishes a duty free TRQ of 500,000 MT for U.S. corn, with annual increases of 6 percent and full duty free access in 12 years. As a result of the U.S. – Peru TPA, the GOP will implement a compensation program for corn producers. Though specific details of this program have not been announced yet, it is known that this will not consist of direct payments to individual producers, but rather a fund to promote competitiveness of the sector and improve its efficiency.

Corn production began increasing sharply in 1997 due to a GOP's import substitution program. This program, which granted tax benefits to livestock operations outside of Lima that used only local corn, has been successful so far. In some areas, particularly on the eastern slopes of the Andes, the few poultry producers are planting and purchasing local corn. On the coast, the third largest poultry producer in the country is purchasing only local corn, through an agreement signed with corn producers in the area. The largest poultry producer in Peru has begun producing part of the corn it demands. This program and continued high international prices will encourage domestic production and, therefore, import substitution.

The GOP does not have any direct subsidy or assistance program to encourage corn production. However, there has been some support through rotating credit funds. The Ministry of Agriculture continues to support an agreement between corn and poultry producers to encourage corn production in the eastern region of the country. This area is excellent for corn production, but transportation infrastructure is poor and in some cases does not exist.

RICE, MILLED PERU	2007			2008			2009			
	2007/2008			2008/2009			2009/2010			
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		New Post	UNITS
			Data			Data			Data	
Area Harvested	350	335	313	350	335	310			310	(1000 HA)
Beginning Stocks	426	570	426	396	540	571			506	(1000 MT)
Milled Production	1,700	1,700	1,862	1,700	1,700	1,700			1,700	(1000 MT)
Rough Production	2,464	2,464	2,699	2,464	2,464	2,464			2,464	(1000 MT)
Milling Rate (.9999)	6,900	6,900	6,900	6,900	6,900	6,900			6,900	(1000 MT)
MY Imports	70	70	138	72	72	100			80	(1000 MT)
TY Imports	70	70	168	72	72	100			80	(1000 MT)
TY Imp. from U.S.	0	2	5	0	3	5			5	(1000 MT)
Total Supply	2,196	2,340	2,426	2,168	2,312	2,371			2,286	(1000 MT)
MY Exports	20	20	15	20	20	15			15	(1000 MT)
TY Exports	20	20	15	20	20	15			15	(1000 MT)
Total Consumption	1,780	1,780	1,840	1,812	1,812	1,850			1,850	(1000 MT)
Ending Stocks	396	540	571	336	480	506			421	(1000 MT)
Total Distribution	2,196	2,340	2,426	2,168	2,312	2,371			2,286	(1000 MT)
Yield (Rough)	7.	7.	8.623	7.	7.	7.9484			7.9484	(MT/HA)

Import Trade Matrix (Metric Tons)	
Commodity	Rice
Time Period	CY 2008
Imports from:	
U.S.	5,440
Others	
Uruguay	83,943
Thailand	44,545
Vietnam	8,435
Total for Others	136,923
Others not Listed	2,661
Grand Total	145,024

RICE

Production

Rice production for CY 2009 is forecast at 1.7 MMT (milled basis), unchanged from the previous year. Harvested area for MY 2009 is estimated at 310,000 hectares. Rice in Peru is surface irrigated and dependent upon the supply of water draining from rivers in the Andes Mountains. Most of the rice in Peru is harvested April through July. Average price paid to producers for rice in 2008 was \$349 per MT of rough rice.

The government continues encouraging producers to move rice production to the eastern slopes of the Andes, due to the lack of water on the coast. This effort has been successful in increasing rice production in this area, especially in the San Martin region. However, it has failed to move rice production out of the northern coast. Coastal rice producers have no incentive for changing crops, water is almost free and returns on investment are high, particularly with current international prices.

Historical rice producing areas in Peru are Lambayeque and Piura in the northern region and Arequipa in the south. Average yields in CY 2008 were around 7.2 metric tons of paddy rice per hectare, but some farmers have yields as high as 14 metric tons per hectare. Since most of the production is carried out by small producers, rice quality and yields vary greatly depending on input levels, which in turn depend on prices and economic conditions.

The Inter American Development Bank has a project in the San Martin province to promote a rice intensification system (SRI). The SRI goal is to give the plant more space to develop and obtain its nutrients. This system proposes 40 cm between plants (instead of the traditional 25 cm) and recommends planting one to two seeds instead of five. This project, which started two years ago, has already increased yields from 8 to 10 MT per hectare. There are about a thousand hectares under this system currently; its goal is to raise yields to an average of 14 MT per hectare.

Consumption

Rice is a staple product in the Peruvian diet, with per capita rice consumption estimated at about 55 kilograms per year. Rice is traditionally sold in small markets, weighed out and bagged in 50 kg sacks. , With the expansion of supermarket chains in Peru in recent years several consumer habits, including the purchase of rice, have changed. There is a growing demand for prepackaged one-kilogram bags of rice. Higher quality rice, including U.S. rice, is generally marketed in this way.

Trade

Rice imports into Peru in CY 2008 more than doubled, reaching 145,024 MT. This increase was driven by good supplier prices before local harvest, especially Thailand, during the first quarter of 2008. Peru had an import ban on Thai rice due to the Khapra beetle, which was lifted in 2008. Uruguay continued to be the leading exporter to the Peruvian market with 83,943 MT, followed by Thailand with 44,545 MT. Rice exports from the United States also increased significantly, reaching 5,440 MT. The largest rice importer, who owns the leading brand for bagged rice, has a long-term relationship with a Uruguayan rice exporter who provides good quality rice at a competitive price.

Though it is difficult to measure, Post estimates that approximately 15,000 MT of Peruvian rice was smuggled into Ecuador in 2008.

Some Peruvian importers are interested in purchasing paddy rice from the United States, which is currently banned for SPS reasons by SENASA (the Peruvian SPS authority). Peru has banned paddy rice for many years on the ground that the hulls could transmit pests that are not present in Peru. Khapra Beetle is the principal pest of concern to Peru. This is more likely to occur if the paddy rice is sold as seed rather than milled, but Peru claims it cannot lift this ban. Currently a pest risk assessment is being done which will hopefully result in elimination of the ban and additional sales of U.S. rice.

Policy

Rice imports are assessed a 9 percent import duty on c.i.f. plus a variable levy applied under the Peruvian Price Band System. The Price Band System is an import tax that depends on international prices and ensures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. The current levy for milled rice is zero due to high international prices. Under the TPA, the Price Band System will be eliminated for products from the United States. It will remain in place for products from other countries, including MERCOSUR.

Under the U.S.-Peru TPA, U.S. rice will be granted a duty free TRQ of 72,000 MT, with annual increases of 6 percent and full duty free access in 17 years. Since Uruguay will not receive the same level of tariff preference for rice under the Peru-MERCOSUR trade agreement, this could be an opportunity for U.S. rice exporters to recover their market share in Peru.