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Peru

Grain and Feed

Annual

2004

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Report Highlights:

Wheat imports in marketing year 2003/2004 (July/June) are forecast at 1.4 MMT. On January 1, 2004, Peru reduced import tariffs for wheat to 17 percent. Corn production continues increasing and it is forecast at 1.6 MMT in MY2003/2004 (October/September), imports are expected at 800,000 MT for the same period. Rice imports continue falling and are expected at 20,000 MT for MY 2004 (January/December).

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

Executive Summary

Wheat imports for marketing year 2003/2004 (July/June) are forecast at 1.4 Million Metric Tons (MMT). Though wheat consumption has been rather steady at around 1.2 million MT for the past few years, it increased to 1.4 in 2001 and is expected to remain at that level next year. The increase in consumption is mainly due to increased demand for bread given an increase in population and a recovering economy. However, bread consumption continues to be low (39 kilograms per annum) and we expect growth in the coming years if the economy continues its recovery. On January 1, 2004, Peru reduced import tariff for wheat from 25 to 17 percent, still among the highest in the region.

In December 2003, MERCOSUR accepted Peru's request to become a member. While the tariff reduction schedule is still being negotiated, Argentine grains could become more competitive under this agreement.

Under the Andean Community of Nation's (CAN) Decision 414, Peru is committed to reduce import duties of several agricultural products, including wheat and wheat products, from CAN member countries. The implementation date of this decision was originally January 1, 2004, but the CAN has recently postponed the decision to March 1, 2004.

Post forecasts corn imports to reach 800,000 MT during MY (October/September) 2003/2004. Corn consumption is expected to increase as the Peruvian economy recovers, but local production is also expected to increase. The government's import substitution policy is encouraging corn production in Peru. Sponsored by the government, corn and poultry producers have signed an agreement to increase local purchases. These agreement aims to increase local production to a level of self-sufficiency within five years.

U.S. corn exports are expected to increase to 250,000 MT mainly. Lack of rain during the Argentine planting season will probably produce a small crop and higher prices.

Rice imports into Peru continue their downward trend. Imports for MY2004 are forecast at 20,000 MT. The decrease in imports, which began in 1996, is a result of a government's import substitution policy, which encourages rice production through credits for seeds and fertilizers.

PSD Table							
Country	Peru						
Commodity	Wheat						
					(1000 HA)(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Area Harvested	165	139	160	140	0	140	(1000 HA)
Beginning Stocks	200	193	200	265	200	282	(1000 MT)
Production	185	187	170	189	0	190	(1000 MT)
TOTAL Mkt. Yr. Imports	1200	1327	1300	1350	0	1400	(1000 MT)
Jul-Jun Imports	1200	1327	1300	1350	0	1400	(1000 MT)
Jul-Jun Import U.S.	406	320	0	720	0	650	(1000 MT)
TOTAL SUPPLY	1585	1707	1670	1804	200	1872	(1000 MT)
TOTAL Mkt. Yr. Exports	27	0	25	0	0	0	(1000 MT)
Jul-Jun Exports	27	0	25	0	0	0	(1000 MT)
Feed Dom. Consumption	120	130	125	140	0	140	(1000 MT)
TOTAL Dom. Consumption	1358	1442	1445	1522	0	1612	(1000 MT)
Ending Stocks	200	265	200	282	0	260	(1000 MT)
TOTAL DISTRIBUTION	1585	1707	1670	1804	0	1872	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Wheat
Time Period	CY2003
Imports for:	
U.S.	610185
Others	
Argentina	175484
Canada	142207
Ukraine	128493
Russia	103958
Total for Others	550142
Others not Listed	163256
Grand Total	1323583

Units: Metric Tons

Source: Peruvian Customs

Wheat

Production

Wheat is a minor crop in Peru. Production in MY2004 is forecast at 190,000 MT and is likely to remain around that level in the near future. Most wheat produced in Peru, grown in the southern highlands of the Andes under very rudimentary cultural practices, is soft, not suitable for milling and consumed directly in soups and purees.

Crop area will probably remain at current levels, 140,000 hectares, in MY2004. Wheat area in Peru may vary significantly from year to year depending on prices and producers' profit expectations. Average yields in 2002 were 1.15 MT per hectare, somewhat higher than the previous year due to better weather conditions.

Alicorp, Peru's largest wheat miller, has started a program to produce durum wheat in southern Peru. Currently they are producing around 8,000 MT but expect to reach 25,000 in the upcoming years. Alicorp provides improved seed and technical assistance to local producers and contracts production in advance.

Consumption

With 10 kilograms per capita, Peru continues to be the second largest pasta consumer in South America. Bread consumption on the other hand, about 39 kilograms per annum, remains at very low levels compared with consumption in other countries in the area. The Peruvian cracker and cookie consumption is estimated at around 63,000 MT per year worth almost \$85 million.

A strong recession began in Peru in 1999, and continued throughout 2001. As a result, flour and pasta consumption remain flat. Flour and pasta consumption in 2003 were 960,000 MT and 280,000 MT respectively. The consumption increase is driven mainly by an increase of bread consumption due to population growth and a slight economic recovery.

Trade

Peru's wheat imports in CY2003 reached 1.32 MMT, about the same as the previous year. With 610,185 MT, the U.S. was the largest wheat exporter to Peru followed by Argentina with 175,484 MT and Canada with 142,207 MT.

Due to unusual high prices in MY 2002, Peru imported wheat from non traditional countries such as Pakistan and Ukraine. According to millers, the milling quality of that wheat was extremely poor and had to purchase quite a bit of the high end wheat to blend it. However, Peru returned to its traditional suppliers (U.S., Argentina and Canada) in MY 2003.

Policy

On January 1, 2004, the GOP reduced import tariffs for wheat from 25 percent to 17 percent, still among the highest in the region. Wheat is also assessed 19 percent value-added tax (VAT). Even though Peru's production of wheat suitable for milling is negligible, representatives of agricultural producers have expressed their concern about this tariff reduction and stated that this measure will allegedly harm 150,000 producers.

In December 2003, MERCOSUR accepted Peru's request to become a member. So far, the agreement has been signed but the annexes specifying the tariff reduction schedule is still

under negotiations. Grains will probably be one of the most important agricultural trade issues, especially for Argentina.

Under the Andean Community of Nation's (CAN) Decision 414, Peru is committed to reduce import duties of several agricultural products, including wheat and wheat products, from CAN member countries. Since none of the CAN countries are wheat producers, the relevance of this decision is the tariff reduction of wheat products.

This measure does not only grants tariff preferences to Andean countries, placing U.S. flour and pasta at a disadvantage, but is also threatening to destroy the Peruvian milling industry. Peru has the highest import duty for wheat in the region and it is not planning to reduce it any time soon. If Peru grants tariff preferences for wheat products and maintains high import duties for wheat, its market will soon be flooded with wheat products from neighboring countries and put the Peruvian milling industry out of business.

The implementation date of this decision was originally January 1, 2004, but the GOP has recently postponed it to March 1, 2004.

Peru's Commitment Under CAN's Decision 414
(Import Duties in Percentage)

Product	2003		2004 - 2005		2006	
	CAN	Other	CAN	Other	CAN	Other
Wheat	5	25	0	25	0	25
Flour	21.25	25	16	20	0	20
Pasta	21.25	25	16	20	0	20

PSD Table							
Country	Peru						
Commodity	Corn						
					(1000 HA)(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2002		10/2003		10/2004	MM/YYYY
Area Harvested	512	483	520	545	0	590	(1000 HA)
Beginning Stocks	91	16	96	15	96	35	(1000 MT)
Production	1355	1293	1500	1471	0	1600	(1000 MT)
TOTAL Mkt. Yr. Imports	900	922	750	895	0	800	(1000 MT)
Oct-Sep Imports	900	922	750	895	0	800	(1000 MT)
Oct-Sep Import U.S.	0	248	0	52	0	250	(1000 MT)
TOTAL SUPPLY	2346	2231	2346	2381	96	2435	(1000 MT)
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0	(1000 MT)
Oct-Sep Exports	0	0	0	0	0	0	(1000 MT)
Feed Dom. Consumption	2060	1962	2060	2081	0	2192	(1000 MT)
TOTAL Dom. Consumption	2250	2216	2250	2346	0	2405	(1000 MT)
Ending Stocks	96	15	96	35	0	30	(1000 MT)
TOTAL DISTRIBUTION	2346	2231	2346	2381	0	2435	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Corn
Time Period	2003
Imports for:	
U.S.	52500
Others	
Argentina	774385
Paraguay	65478
UK	14665
Bolivia	4763
Total for Others	859291
Others not Listed	556
Grand Total	912347

Units: Metric Tons

Source: Peruvian Customs

Corn

Production

Corn production in Peru is estimated at 1.6 MMT for MY (October/September) 2003/2004, an increase of nine percent compared to the previous year. Among the several types of corn produced in Peru, the most important varieties are starchy corn, with production estimated at 267,000 MT in 2003, which is consumed directly by humans, and yellow corn with production estimated at 1.18 MMT for the same period of time which is primarily used in the animal feed industry.

The harvested area in MY2003 was 316,000 hectares and 229,000 hectares for yellow and starchy corn respectively compared with 270,000 hectares and 213,000 hectares in MY2002. Yields are expected to be around 3.36 MT per hectare for yellow corn and 1.17 MT per hectare for starchy corn. Corn is mainly grown along the Peruvian coast and in the range forest on the eastern slopes of the Andes. The sharp increase of corn production, which started in 1997, is driven by yellow corn, given the increasing demand from the poultry industry and the GOP's import substitution program.

Consumption

Peru has a 26 million chicken-per-month poultry market, which is the major user of yellow corn. Corn is about 65 percent of the chicken feed. Corn consumption is estimated at 2.405 MMT for 2004. Poultry meat continues to be one the cheapest source of protein in the Peruvian diet. A major problem poultry producers have to face is competition from informal producers, who account for about 30 percent of the poultry meat industry. Corn demand correlates strongly with poultry demand.

Trade

In CY2003, Peru imported 912,347MT of yellow corn, of which 774,385MT came from Argentina. The U.S. market in CY2003 was reduced significantly, to only 52,500 MT due mainly to lower prices from competitors. For most of CY2003, until October, Argentine corn has been around \$120 per MT and U.S. corn was about \$10 to 15 per MT higher. Of this differential, about \$5-7 per MT was caused by cheaper freight from Argentina and the rest from lower prices. In October, freight from Argentina increased to \$33-35 per MT placing both prices at about the same level \$148 per MT.

Post forecasts corn imports to fall to 800,000 MT in MY2004, this reduction is explained by higher local production. Nevertheless we expect U.S. corn exports to increase to 250,000 MT mainly due to lack of rain during the Argentine planting season, which will probably produce a small crop and consequently higher prices.

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. Poultry producers often pay a \$10 per MT premium for Peruvian corn. Average price of locally produced corn was around \$150 in the last quarter of 2003.

Policy

Though the GOP does not have any direct subsidy or assistance program to encourage corn production, there has been some support through rotating credit funds. The Ministry of Agriculture sponsored 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.

So far the program to encourage corn production has been successful. In some areas, particularly on the eastern slopes of the Andes, the few poultry producers in the area are 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, San Fernando, with about forty percent of total poultry production has started some trials to produce corn.

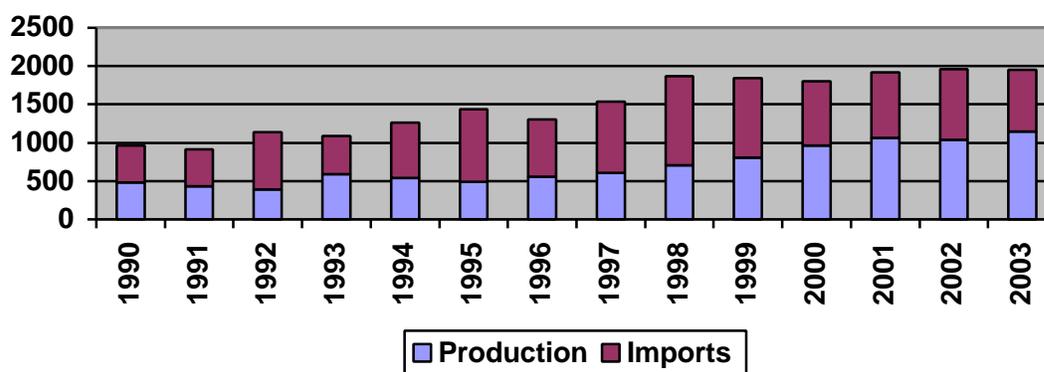
On November 7, the GOP published a supreme decree (N°161-2003-EF) dropping the 19 percent value added tax for both imported and locally produced corn. But on December 1, the GOP published another supreme decree (N°169-2003-EF) reinstating the VAT.

This measure, that would have cost the government around \$22 million in annual tariff revenues, was aimed at reducing informal corn production and encouraging livestock producers to purchase local corn. Most domestic corn producers in Peru operate in the informal economy. That is, they do not pay taxes, including the VAT, and they do not issue receipts to purchasers. On the other hand, companies that import corn, mainly poultry producers, operate in the formal economy and do pay taxes, including VAT.

While the domestic corn producers were not paying VAT, they were still selling their corn at the same price as imported corn. Since payments of VAT is tax deductible imported corn was more appealing, companies paying the same price as domestic corn could deduct the VAT from their taxes. By eliminating the VAT, the government was eliminating an advantage imported corn had.

Corn imports are assessed 12 percent import duty on CIF basis, plus a variable levy applied under the Price Band System. The Price Band System is an import tax, 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. Currently the variable levy for corn is zero.

Corn: Historic Production and Imports



PSD Table							
Country	Peru						
Commodity	Rice, Milled						
					(1000 HA)(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Area Harvested	315	317	320	326	0	330	(1000 HA)
Beginning Stocks	243	92	298	98	353	77	(1000 MT)
Milled Production	1550	1482	1555	1597	0	1600	(1000 MT)
Rough Production	2246	2148	2254	2314	0	2319	(1000 MT)
MILLING RATE (.9999)	6900	6900	6900	6900	0	6900	(1000 MT)
TOTAL Imports	40	34	40	15	0	20	(1000 MT)
Jan-Dec Imports	40	34	40	15	0	20	(1000 MT)
Jan-Dec Import U.S.	0	1	0	0	0	1	(1000 MT)
TOTAL SUPPLY	1833	1608	1893	1710	353	1697	(1000 MT)
TOTAL Exports	10	30	5	135	0	40	(1000 MT)
Jan-Dec Exports	10	30	5	135	0	40	(1000 MT)
TOTAL Dom. Consumption	1525	1480	1535	1498	0	1562	(1000 MT)
Ending Stocks	298	98	353	77	0	95	(1000 MT)
TOTAL DISTRIBUTION	1833	1608	1893	1710	0	1697	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Rice, Milled
Time Period	CY2003
Imports for:	
U.S.	134
Others	
Uruguay	13861
Total for Others	13861
Others not Listed	1000
Grand Total	14995

Units: Metric Tons

Source: Peruvian Customs

Rice

Production

Rice production for MY (January/December) 2004 is forecast at 1.6 MMT (milled basis), about the same as the previous year. Rice in Peru is surface irrigated and depends on the supply of water draining from rivers in the Andes Mountains. Most of the rice in Peru is harvested May through September. Harvested area for MY2004 is forecast as 330,000 hectares.

Major rice production areas in Peru are Lambayeque and Piura in the northern region, and Arequipa in the south. Average yields are 7.07 metric tons per hectare, but some farmers have yields as high as 14 metric tons per hectare (paddy rice). 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.

Consumption

Per capita rice consumption is estimated at about 52 kilograms. Rice is sold traditionally in small markets, weighed out and bagged from 50 kilos sacks. In recent years, with the expansion of supermarket chains in Peru, several consumer habits, including the purchase of rice, has changed. There is a growing demand for prepackaged one-kilogram bags of rice, and recently in $\frac{3}{4}$ kilogram bags, which now total 20 percent of all rice sales. Higher quality rice, including U.S. rice, is generally marketed in this way.

In 1999, a Peruvian importer began distributing Uncle's Ben precooked rice, which he sold to the supermarket chains. But due to the high prices and lack of product knowledge he had to halt imports. Currently there is some aromatic rice in the market but they are very expensive and are targeted for exclusive restaurants.

Trade

Peru imported about 14,995 MT of rice in CY2003, less than fifty percent of the previous year. Most of the imported rice, about 13,861 MT came from Uruguay. The U.S. was a minor supplier with less than 1,000 MT. The largest rice importer, who owns the leading brand for bagged rice, has a long term relationship with an Uruguayan rice exporter which not only provides good quality rice at a competitive price, but also grants them credit. Since the GOP implemented a ban on Asian rice based on phytosanitary issues, the imported rice market has been shared by the U.S. and Uruguay, but now is been taken over almost entirely by Uruguay.

Small rice importers are interested in purchasing paddy rice from the U.S., which is currently banned for phytosanitary 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 control the use of the rice, thus the total ban. Post is working closely with the industry and SENASA to 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.

Although there are no official statistics, Post estimates that about 130,000 MT of Peruvian rice will be smuggled to Ecuador in 2003, a major increase from last year's estimated 30,000 MT. Rice is smuggled into Ecuador as paddy rice, which is then milled and sent to Colombia. Ecuadorian rice has an import duty preference in Colombia, which makes it very competitive. Rice imports for MY2004 are forecast to reach 20,000 MT.

Policy

Since CY1998 the GOP has been encouraging rice production through input credits and rotating credit funds. Though production has grown sharply during the last 6 years, it has been an economic disaster for producers. Having flooded the market with rice and with large carry over stocks and no possibility of exporting, other than what is smuggled into Ecuador through the northern border, prices have plummeted making almost impossible the recovery of producers' investment. Average prices for rough rice in 2003 at farm gate were around \$170 per MT.

As a consequence, farmers are not able to honor their credits and in many cases are losing their land. Banks are more reluctant than ever to grant credits to rice producers who have to turn to millers or other informal lenders for credits at much higher interest rates.

Rice imports are assessed 25 percent import duty on CIF plus a variable levy applied under the Price Band System. The Price Band System is an import tax, 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. The current levy for rice is \$105 per MT.

Rice: Historic Production and Imports

