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Peru

Grain and Feed

Annual

2005

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Report Highlights:
Wheat production in MY 2005 (July/June) is forecast at 162,000 MT. Wheat imports in CY 2004 reached 1.4 MMT, the U.S. was the largest wheat supplier with 885,325 MT. Corn production is estimated at 1.6 MMT for MY 2004 (October/September). Corn consumption in CY is estimated at 2.45 MMT. Rice production in MY 2005 (January/December) is forecast at 1.45 MMT.

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

Executive Summary

Wheat production in MY2005 (July/June) is forecast at 162,000 MT and will probably remain around that level in the near future. At about 39 kilograms per year, bread consumption remains at very low levels compared with consumption in other countries in the area. Flour production in CY 2004 is estimated at 980,000 MT, of which 65 percent was used for bread flour and the rest for pasta and crackers. Pasta production in CY 2004 was around 290,000 MT. Peru's wheat imports in CY 2004, reached 1.4 MMT, a slight increase compared to the previous year. With 885,325 MT, the U.S. was, for the second year in a row, the largest wheat exporter to Peru.

Corn production in Peru is estimated at 1.6 MMT for MY (October/September) 2004/2005, an increase of ten percent compared to the previous year. Harvested area in CY 2004 is estimated at 255,000 hectares and 180,000 hectares for yellow and starchy corn respectively. Corn consumption is estimated at 2.45 MMT in CY 2005. Peru imported 1.018 MMT of yellow corn in CY 2004, of which 820,830 MT came from Argentina. U.S. corn imports recovered almost four fold to 188,900 MT.

Rice production for MY (January/December) 2005 is forecast at 1.45 MMT (milled basis), an increase of 3.6 percent compared to the previous year. The severe drought that affected Peru in CY 2004 caused a significant reduction in rice production (14 percent). Nevertheless, this reduction was not as sharp as estimated at the beginning of the year due to planting in new areas. Peru imported 52,217 MT of rice in CY 2004, a significant increase from the 15,000 MT imported the previous year.

MERCOSUR officially accepted Peru's request to become an associated member (country with which MERCOSUR is interested in signing an FTA) in December 2003. Though 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 MERCOSUR agreement Peru could grant tariff preferences to Argentine wheat and corn, and Uruguayan rice making U.S. grains less competitive in this market.

PSD Table							
Country	Peru						
Commodity	Wheat				(1000 HA)(1000 MT)		
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	MM/YYYY
Area Harvested	140	140	140	128	0	135	(1000 HA)
Beginning Stocks	200	265	200	253	200	177	(1000 MT)
Production	189	189	190	151	0	162	(1000 MT)
TOTAL Mkt. Yr. Imports	1488	1357	1400	1400	0	1450	(1000 MT)
Jul-Jun Imports	1488	1357	1400	1400	0	1450	(1000 MT)
Jul-Jun Import U.S.	984	908	0	900	0	900	(1000 MT)
TOTAL SUPPLY	1877	1811	1790	1804	200	1789	(1000 MT)
TOTAL Mkt. Yr. Exports	36	36	35	37	0	40	(1000 MT)
Jul-Jun Exports	36	36	35	37	0	40	(1000 MT)
Feed Dom. Consumption	125	55	125	30	0	25	(1000 MT)
TOTAL Dom. Consumption	1641	1522	1555	1590	0	1600	(1000 MT)
Ending Stocks	200	253	200	177	0	149	(1000 MT)
TOTAL DISTRIBUTION	1877	1811	1790	1804	0	1789	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Wheat
Time Period	CY 2004
Imports for:	
U.S.	885,325
Others	
Argentina	182,312
Canada	318,447
France	5,966
Total for Others	506,725
Others not Listed	3,999
Grand Total	1,396,049

Units: Metric Tons

WHEAT

Production

Wheat is a minor crop in Peru. Production in MY2005 (July/June) is forecast at 162,000 MT. 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 for MY 2005 is forecast at 135,000 hectares. Wheat area in Peru may vary significantly from year to year depending on prices and producers profit expectations and alternative crops such as barley and oats. Average yields in 2004 were 1.12 MT per hectare, somewhat lower than the previous year due to the lack of rain.

Though Peru is not an important wheat producer, Alicorp, Peru's largest wheat miller, has started a program to produce durum wheat in Arequipa (about a thousand kilometers south of Lima). 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 about 39 kilograms per annum, bread consumption remains at very low levels compared with consumption in other countries in the area. Most bread is purchased fresh in bakeries, and only 250 grams of bread per annum are consumed in loafs. With 10 kilograms per capita, Peru continues to be the second largest pasta consumer in South America. The Peruvian cracker and cookie consumption is still very low, around 65,000 MT per year worth almost $90 million.

There are 22 wheat mills in Peru, which operate at about 62 percent of their milling capacity. Flour production in CY 2004 is estimated at 980,000 MT, of which 65 percent was used for bread flour and the rest for pasta and crackers. Pasta production in CY 2004 was around 290,000 MT.

Post estimates that wheat consumption will gradually increase accompanying population growth. Another source of increased wheat consumption will be an increase of bread consumption due to economic recovery.

Trade

Peru's wheat imports in CY 2004, reached 1.4 MMT, a slight increase compared to the previous year. With 885,325 MT, the U.S. was, for the second year in a row, the largest wheat exporter to Peru followed by Canada with 318,447 and Argentina with 182,312 MT. The average price of U.S. wheat in CY 2004 was $185.07 (c.i.f. basis), about 4.2 percent over the price of Argentine wheat and 4.4 percent below the price of Canadian wheat. Until a few years ago, Peru imported mostly hard red winter wheat, but due to the industry's development they have become a sophisticated customer and are now purchasing soft, spring, white and DNS wheat for blending.

In CY 2004, Peru exported 9,500 MT of wheat flour, of which 44 percent went to Argentina, 32 percent was exported to Bolivia and 24 percent to Brazil; 19,400 MT of pasta, mostly to Chile and Haiti; and 14,700 MT of cookies and crackers.

Policy

Wheat is assessed 17 percent import duty, one the highest in the region. Wheat is also assessed 19 percent value-added tax (VAT). Import duties for wheat is a highly political issue in Peru. Agricultural producers are constantly urging the government to maintain high levels of protection alleging that wheat and wheat products are substitutes of potato, which is Peru's staple product. Nevertheless producers have not been able to support their point with sound and reliable studies.

MERCOSUR officially accepted Peru's request to become an associated member in December 2003. Though 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 MERCOSUR agreement Peru could grant tariff preferences to Argentine wheat, making U.S. wheat less competitive in this market.

PSD Table							
Country	Peru						
Commodity	Corn				(1000 HA)(1000 MT)		
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2003		10/2004		10/2005	MM/YYYY
Area Harvested	545	525	590	580	0	590	(1000 HA)
Beginning Stocks	96	15	167	110	117	90	(1000 MT)
Production	1471	1448	1600	1600	0	1630	(1000 MT)
TOTAL Mkt. Yr. Imports	1100	1097	1000	950	0	900	(1000 MT)
Oct-Sep Imports	1100	1097	1000	950	0	900	(1000 MT)
Oct-Sep Import U.S.	0	153	0	250	0	250	(1000 MT)
TOTAL SUPPLY	2667	2560	2767	2660	117	2620	(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	2300	2210	2450	2300	0	2320	(1000 MT)
TOTAL Dom. Consumption	2500	2450	2650	2570	0	2540	(1000 MT)
Ending Stocks	167	110	117	90	0	80	(1000 MT)
TOTAL DISTRIBUTION	2667	2560	2767	2660	0	2620	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Corn
Time Period	CY 2004
Imports for:	
U.S.	188,900
Others	
Argentina	820,830
Bolivia	5,504
Total for Others	826,334
Others not Listed	2,300
Grand Total	1,017,534

Units: Metric Tons

CORN

Production

Corn production in Peru is estimated at 1.6 MMT for MY (October/September) 2004/2005, an increase of ten 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 218,000 MT in CY 2004, which is used directly in human consumption, and yellow corn with production estimated at 1.2 MMT which is primarily used in the animal feed industry.

Harvested area in CY 2004 is estimated at 255,000 hectares and 180,000 hectares for yellow and starchy corn respectively compared with 280,000 hectares and 207,000 hectares in CY 2004. This reduction in harvested area is the result of a dry year, especially in the northern region of Peru. Yields are expected to be around 3.9 MT per hectare for yellow corn and 1.2 MT per hectare for starchy corn. Corn is mainly grown along the Peruvian coast and in the rainforest on the eastern slopes of the Andes.

Consumption

Peru's 26 million chicken-per-month poultry market is the major user of yellow corn. Corn is about 65 percent of the chicken feed. Corn consumption is estimated at 2.45 MMT in CY 2005. With a consumption of about 642,235 MT in CY 2004, poultry meat continues to be one the cheapest source of protein in the Peruvian diet. Nevertheless, poultry consumption fell 2.3 percent in CY 2004 compared to the previous year due to a supply contraction originated by higher input prices during the first semester. Poultry consumption is expected to recover in CY 2005 to at least 270,000 MT.

A major problem poultry producers have to face is competition from informal producers, who account for about 30 percent of the poultry meat industry. Informal producers, who are not able to import corn due the lack of appropriate registration with the tax authority, rely solely in local corn. These producers are constantly undermining formal producers profitability with their lower prices, which result from not paying taxes.

Trade

Peru imported 1.018 MMT of yellow corn in CY 2004, of which 820,830 MT came from Argentina. U.S. corn imports recovered almost four fold to 188,900 MT. In the recent past, Argentine corn has been around $10 to $15 cheaper than U.S. corn, about a third of that price difference was due to cheaper freight from Argentina. Since October 2003, freights from Argentina increased sharply, almost disappearing the price difference.

Post forecasts corn imports to fall to 900,000 MT in MY 2005, this reduction is explained by higher local production. Nevertheless we expect U.S. corn exports to increase to 250,000 MT mainly due to increased freight prices from Argentina.

Peru imported about 3,000 MT of dry distillers grain (DDG) in 2004 for feed trials. According to the industry the trials were satisfactory. Post believes that DDG could become an interesting product to recapture some of the feed protein and energy market (soybean and corn).

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 $152 in the last quarter of 2004.

Policy

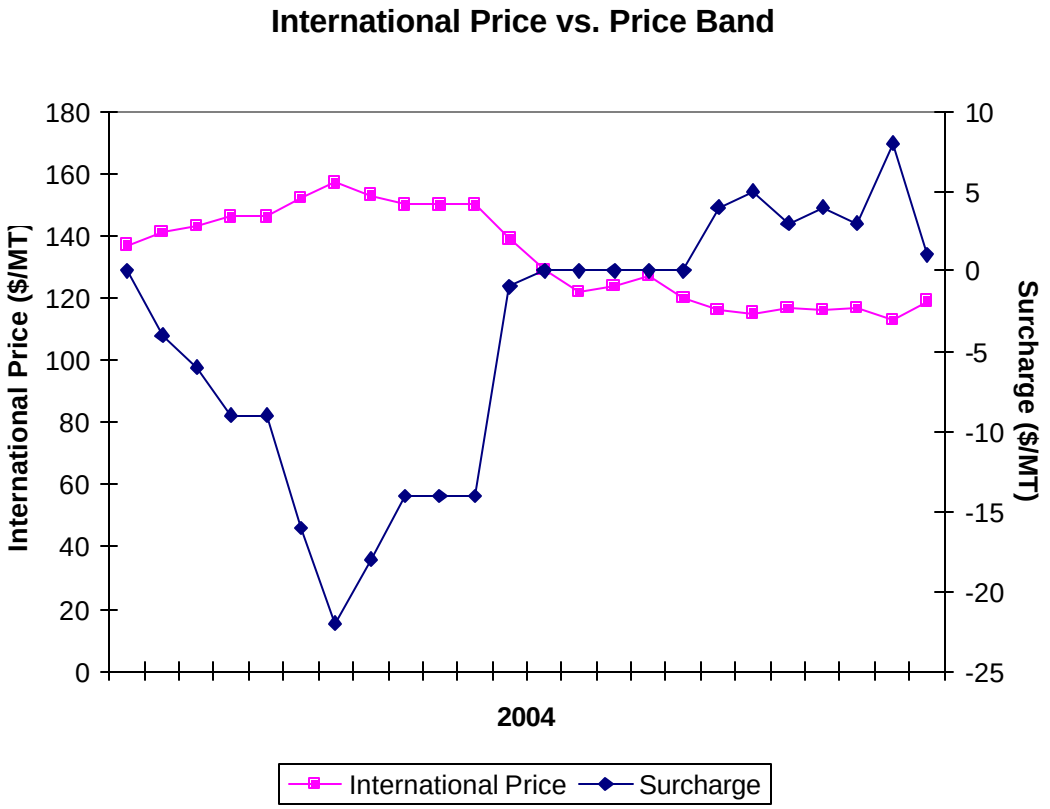
Though the GOP does not have any direct subsidy or assistance program to encourage corn production, there has been some support through rotating credit funds. The Ministry of Agriculture continues to support an agreement between corn and poultry producers to encourage corn production in the eastern region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

Corn production began increasing sharply in 1997 due to a GOP's import substitution program. This program, which granted some 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 in the area 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, San Fernando, with about forty percent of total poultry production has started some trials to produce corn.

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 $8 per MT.

Variable Levy Under the Peruvian Price Band System (Second Semester 2004)

Date		Price Band		Ref. Price (c.i.f.)	Levy ($/MT)
From	To	Floor	Ceiling		
12/01/04	12/15/04	120	138	113	8
11/16/04	11/30/04	120	138	117	3
11/01/04	11/15/04	120	138	116	4
10/16/04	10/31/04	120	138	117	3
10/01/04	10/15/04	120	138	115	5
09/16/04	09/30/04	120	138	116	4
09/01/04	09/15/04	120	138	120	0
08/16/04	08/31/04	120	138	127	0
08/01/04	08/15/04	120	138	124	0
07/16/04	07/31/04	120	138	122	0
07/01/04	07/15/04	120	138	129	0


International Price vs. Price Band
International Price ($/MT)
Surcharge ($/MT)
180
160
140
120
100
80
60
40
20
0
10
5
0
-5
-10
-15
-20
-25
2004
International Price
Surcharge

PSD Table							
Country	Peru						
Commodity	Rice, Milled				(1000 HA)(1000 MT)		
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Area Harvested	280	280	290	310	0	315	(1000 HA)
Beginning Stocks	422	77	200	44	40	32	(1000 MT)
Milled Production	1200	1367	1300	1400	0	1450	(1000 MT)
Rough Production	1739	1981	1884	2029	0	2101	(1000 MT)
MILLING RATE (.9999)	6900	6900	6900	6900	0	6900	(1000 MT)
TOTAL Imports	80	52	70	50	0	40	(1000 MT)
Jan-Dec Imports	80	52	70	50	0	40	(1000 MT)
Jan-Dec Import U.S.	0	4	0	5	0	2	(1000 MT)
TOTAL SUPPLY	1702	1496	1570	1494	40	1522	(1000 MT)
TOTAL Exports	2	2	5	2	0	10	(1000 MT)
Jan-Dec Exports	2	2	5	2	0	10	(1000 MT)
TOTAL Dom. Consumption	1500	1450	1525	1460	0	1490	(1000 MT)
Ending Stocks	200	44	40	32	0	22	(1000 MT)
TOTAL DISTRIBUTION	1702	1496	1570	1494	0	1522	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Rice, Milled
Time Period	CY 2004
Imports for:	
U.S.	3,824
Others	
Uruguay	38,777
Bolivia	3,801
Taiwan	2,195
Total for Others	44,773
Others not Listed	3620
Grand Total	52,217

RICE

Production

Rice production for MY (January/December) 2005 is forecast at 1.45 MMT (milled basis), an increase of 3.6 percent compared to 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 April through July. Harvested area for MY 2005 is estimated at 315,000 hectares.

The severe drought that affected Peru in CY 2004 caused a significant reduction in rice production (14 percent). Nevertheless, this reduction was not as sharp as estimated at the beginning of the year due to planting in new areas. The San Martin region, a rainforest in the eastern slopes of the Andes, has developed as a new rice producing area. Several new mills have been installed and new rice traders have settled causing rice price to boost frfom $132 to $271 per MT, rice production in this area grew 35 percent in CY 2004.

Historical rice production areas in Peru are Lambayeque and Piura in the northern region, and Arequipa in the south. Average yields in CY 2004 was 6.7 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.

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 ¾ kilogram bags, which now total 20 percent of all rice sales. Higher quality rice, including U.S. rice, is generally marketed in this way.

A few years ago, 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 52,217 MT of rice in CY 2004, a significant increase from the 15,000 MT imported the previous year. This import increase was the result of less rice production due to the lack of rain. Uruguay continued to be the leading exporter to the Peruvian market with 38,777 MT. The U.S. was a minor supplier with only 3,824 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.

Some Peruvian importers are interested in purchasing paddy rice from the U.S., 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 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.

Due to a reduced crop in CY 2004, rice smuggling to Ecuador was reduced significantly. Post estimates that only 5,000 MT were "exported" to Ecuador in CY 2004.

Policy

Though production has grown sharply during the last years due to the government's import substitution program, 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.

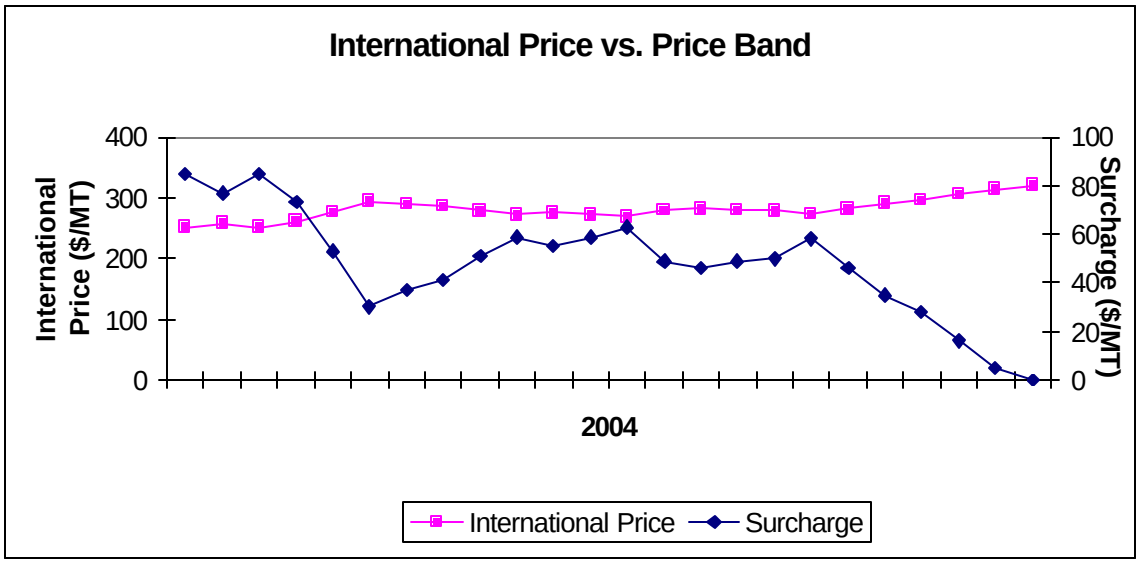
As a consequence, farmers are not able to honor their credits and in many cases are losing their land. Banks are more reluctant than ever to grant credits to rice producers who have to turn to millers or other informal lenders for credits at much higher interest rates.

This situation has improved, for producers that did have water, in CY 2004. Due to the drought, rice prices at farm gate increased 82 percent to $286 per MT. But the excess supply situation is expected to resume in the upcoming years.

Rice imports are assessed 25 percent import duty on CIF plus a variable levy applied under the Peruvian 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 milled rice is $5 per MT.

Variable Levy Under the Peruvian Price Band System (Second Semester 2004)

Date		Price Band		Ref. Price (c.i.f.)	Levy ($/MT)
From	To	Floor	Ceiling		
12/01/04	12/15/04	318	393	314	5
11/16/04	11/30/04	318	393	306	16
11/01/04	11/15/04	318	393	296	28
10/16/04	10/31/04	318	393	291	35
10/01/04	10/15/04	318	393	282	46
09/16/04	09/30/04	318	393	273	58
09/01/04	09/15/04	318	393	279	50
08/16/04	08/31/04	318	393	280	49
08/01/04	08/15/04	318	393	282	46
07/16/04	07/31/04	318	393	280	49
07/01/04	07/15/04	318	393	269	63


International Price vs. Price Band
International Price ($/MT)
400
300
200
100
0
100
80
60
40
20
0
Surcharge ($/MT)
2004
International Price
Surcharge