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Peru

Cotton and Products

Update

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Report Highlights:

Cotton production in Peru is expected to increase 8 percent, reaching 66,000 MT in CY 2005. Peru is expected to import 40,000 MT of cotton in CY 2005, mostly from the U.S.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Lima [PE1]
[PE]

Summary

Cotton production in Peru is expected to increase 8 percent reaching 66,000 MT in CY 2005. Increased demand from the textile industry will be the main reason for this increase. Tanguis accounts for 78 percent of all cotton grown in Peru.

Cotton imports into Peru are expected to reach 40,000 MT in CY 2005, an increase of about 11 percent compared to the previous year. With 24,000 MT, the U.S. was by far Peru's largest cotton supplier in CY 2004. Total cotton exports in CY 2004 were 3,000 MT.

Cotton producers are demanding the GOP more protection for local production given the ongoing FTA negotiations. Currently, cotton imports are assessed an import duty of 12 percent. As a response to increasing protest against the free trade agreement with the U.S. from cotton producers, the government has implemented a subsidy of \$4.3 (14 soles) per hundredweight.

Production

Cotton production in Peru is expected to reach 66,000 MT in CY 2005, increasing 8 percent compared to CY 2004. This increase is mainly due to an increased demand from the textile industry. Accounting for 50 percent of total cotton production, Ica is the most important cotton-producing department, followed by Piura (18 percent) and Lima (11 percent).

Peru grows two major and two minor varieties of cotton. Of the major varieties, Tanguis, is a long staple cotton (LS), grown in the central coast of Peru, and is used for yarns. Pima, is an extra long staple cotton (ELS), grown in the northern region, mostly in Piura, and it is used for higher quality textiles.

Accounting for about 78 percent of the total cotton grown in Peru, Tanguis is the most common cotton variety produced. The long growing season for Tanguis, which is about nine months, is a major disadvantage for producers. Generally in Peru, farmers work two crops per year (the main crop and the small crop). Cotton is used for the main crop and usually a type of bean for the secondary crop. The long growing period also increases the incidence of pests, such as the Pink Boll Weevil. In some cases, the cost of pesticides in the Tanguis producing areas accounts for almost 50 percent of the total cost of production. Peruvian cotton producers face other weaknesses, such as inefficiency caused by the extremely small size of the average producing unit, low yields due to poor agricultural practices and seed quality, lack of technical assistance, and lack of credit.

**Cotton: Production and Harvested Area
(Metric Tons, Hectares)**

COTTON	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Production	63,991	82,774	102,518	55,652	36,189	52,040	58,320	51,167	48,605	48,148	61,540
H. Area	97,309	123,681	137,096	91,290	73,629	82,228	89,263	68,634	71,905	65,269	84,265

Del Cerro and Aspero (rough) are minor varieties, accounting for about 0.1 and 3.1 percent of total local production respectively. In 2005 production of Pima cotton is expected to reach 14,000 MT

While Peru has been a traditional cotton producer, area planted has dropped dramatically in the last decades. Between 1990 and 2000 Peru, on average, planted 99,709 hectares annually, much less than the average of 136,400 hectares planted in the 1980's. Peruvian cotton producers face a number of disadvantages such as the long growing season for Tanguis, poor yields, unstable Pima production as the growing region is subject to variations water availability that dictates whether rice is grown, if ample water exists, or if the alternative crop of cotton is grown. Regardless, the supply of Peruvian Pima is limited and insufficient to supply the domestic spinning mills with the required extra long stable fiber requirements.

Cotton Characteristics by Variety				
	Tanguis	Pima	Del Cerro	Aspero
Growing period (days)	260 - 280	235 - 250	180 - 190	240 - 250
Fiber length (mm)	29.4 - 32.5	33.3 - 36.5	33.3 - 36.5	26.2 - 27.0
Resistance (lbs/sq.inch)	86,000 - 88,000	92,000 - 95,000	92,000 - 95,000	80,000
Micronaire (units)	4.6 - 5.8	3.5 - 4.2	3.6 - 3.8	6.5
Color	white	white/beige	white	white/beige

Trade

Cotton imports into Peru are expected to reach 40,000 MT in CY 2005, an increase of about 11 percent compared to the previous year. Increasing demand from the industry driven by textile exports will drive this increase. With 24,000 MT, the U.S. was by far Peru's largest cotton supplier in CY 2004. Other important origins were Brazil and Bolivia.

Peru's cotton exports are very small. Total cotton exports in CY 2004 were 3,000 MT of which about 550 MT was cotton waste.

Though Peruvian cotton production is far from satisfying the industry's requirements, producers are demanding the GOP more protection for local production under the ongoing FTA negotiations. Currently, cotton imports are assessed an import duty of 12 percent .

Textile Industry

Since the approval of the ATPDEA in 2002, Peru's textile and apparel sector has grown over 25 percent, accounting for ten percent of total exports. In CY 2004, Peru exported about \$1.1 billion in textiles and apparel products, 65 percent of which went to the U.S. Peru's textile industry has an installed capacity of around 100,000 MT of cotton per year. Before the ATPDEA was approved, the textile industry was working at around 70 percent of its processing capacity, but once the preference act was passed and after an investment process, the industry began processing cotton almost at full capacity.

Textile exports have become one of Peru's top exports. The Peruvian industry's export strategy is to position its products in the higher end market. They are aware that it would be very difficult to compete against China in the low price sector so they have turned to high value added products.

Policy

As a response to increasing protest against the free trade agreement with the U.S. from cotton producers and in an effort to “formalize” production (formalization is a term used in Peru which refers to industries or people that pay taxes), the government has implemented a subsidy of \$4.3 (14 soles) per hundredweight.

One of the most important issues for cotton producers as for any other farmer is the availability of credit. After the bankruptcy of the Agricultural Bank, a state owned bank that lent subsidize credits without collateral, not a single private credit institution would lend money to the agricultural sector. This has changed somewhat in recent years, as private banks are lending money to agricultural entrepreneurs, but they are too expensive or not available for small producers. Tanguis producers are the most affected by the lack of credit. Due to the long growing period, they need credits to buy inputs and to pay for their expenses until harvesting season.

The ginning industry plays a key role in cotton production; they do not only process raw cotton but also grant financing for inputs, and sometimes, technical assistance to producers. Since credit from the formal banking system to the agricultural sector is very limited, processors usually assumes the risk of production. This system creates higher production costs; often gins apply to bank loans and turn it over to producers at a much higher interest rate.

Safeguards

There is a strong concern among the industry about Asian, especially Chinese, textiles coming into the country at “dumped” prices. In October 2004, Peru established temporary safeguards on 20 sensitive textile products. This protection expired on May 1, 2005. Despite demands from local industry urging the government to reinstate the safeguards, the GOP decided not to do so for the time being. In turn, the government passed a custom regulation calling for “special attention” on 36 imported items, including 13 sensitive textile products, stating that if not monitored, these products could harm local industry. The new regulation also gave Customs the power to place additional tariffs on these 36 products if it detects that importers are engaging in fraudulent behavior, such as dumping.