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Peru

Grain and Feed

Annual

2006

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Report Highlights:
Wheat production in My 2006 (July/June) is forecast at 170,000 MT. Wheat imports for CY 2005 reached 1.47 MMT, the U.S. was the largest supplier with 564,670 MT. Corn production is estimated at 1.42 MMT for MY 2006 (October/September). Rice production for CY 2006 is estimated at 1.55 MMT. The U.S.-Peru free trade agreement will grant important trade preferences for U.S. grains.

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

Executive Summary

Wheat Production in MY 2006 (July/June) is forecast at 170,000 MT. Crop area for MY 2006 is forecast at 128,000 hectares, a two percent reduction compared to the previous year. Peru's wheat imports in CY 2005, reached 1.47 MMT, the U.S. led the market with 564,670 MT. Peru exports of crackers and cookies increased 61 percent in 2005 reaching 23,649 MT.

Corn production in Peru is expected at 1.42 MMT for MY (October/September) 2005/2006, an increase of almost 14 percent compared to the previous year. Harvested area in CY 2005 was 277,000 hectares and 201,000 hectares for yellow and starchy corn respectively. Peru's 26 million chicken-per-month poultry market is the major user of yellow corn. Peru imported 1.334 MMT of yellow corn in CY 2005, of which 1.11 MMT came from Argentina. U.S. corn imports increased 12 percent to 215,237 MT.

Rice production for CY 2006 is forecast at 1.55 MMT (milled basis). Peru imported 125,233 MT of rice in CY 2005, a significant increase from the 52,217 MT imported the previous year. Rice exports from the U.S. increased by a ten fold to 31,721 MT.

The U.S. and Peru have recently agreed on the text of the Peru Trade Preference Authority (TPA), a free trade agreement that is expected to be signed this spring and approved by both Congresses later this year. U.S. exports of wheat will–be granted duty free status immediately and corn and rice will receive significant duty free import quotas.

PSD Table							
Country	Peru						
Commodity	Wheat				(1000 HA)(1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		07/2004		07/2005		07/2006	MM/YYYY
Area Harvested	128	128	135	131	0	128	(1000 HA)
Beginning Stocks	200	253	200	184	200	169	(1000 MT)
Production	151	159	160	174	0	170	(1000 MT)
TOTAL Mkt. Yr. Imports	1449	1421	1500	1480	0	1520	(1000 MT)
Jul-Jun Imports	1449	1421	1500	1480	0	1520	(1000 MT)
Jul-Jun Import U.S.	627	643	0	700	0	800	(1000 MT)
TOTAL SUPPLY	1800	1833	1860	1838	200	1859	(1000 MT)
TOTAL Mkt. Yr. Exports	27	27	25	28	0	30	(1000 MT)
Jul-Jun Exports	27	27	25	28	0	30	(1000 MT)
Feed Dom. Consumption	125	35	125	32	0	32	(1000 MT)
TOTAL Dom. Consumption	1573	1622	1635	1641	0	1679	(1000 MT)
Ending Stocks	200	184	200	169	0	150	(1000 MT)
TOTAL DISTRIBUTION	1800	1833	1860	1838	0	1859	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Wheat
Time Period	CY 2005
Imports from:	
U.S.	564,670
Others	
Argentina	537,751
Canada	333,646
Total for Others	871,397
Others not Listed	36,541
Grand Total	1,472,608

Units: Metric Tons

WHEAT

Production

Wheat is a minor crop in Peru. Production in MY 2006 (July/June) is forecast at 170,000 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 2006 is forecast at 128,000 hectares, a two percent reduction compared to the previous year. 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 CY 2005 were 1.38 MT per hectare, compared to 1.33 MT per hectare in the previous year.

Though Peru is not an important wheat producer, Alicorp, Peru's largest wheat miller, has established a program to encourage producers to grow durum wheat for their pasta plant 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

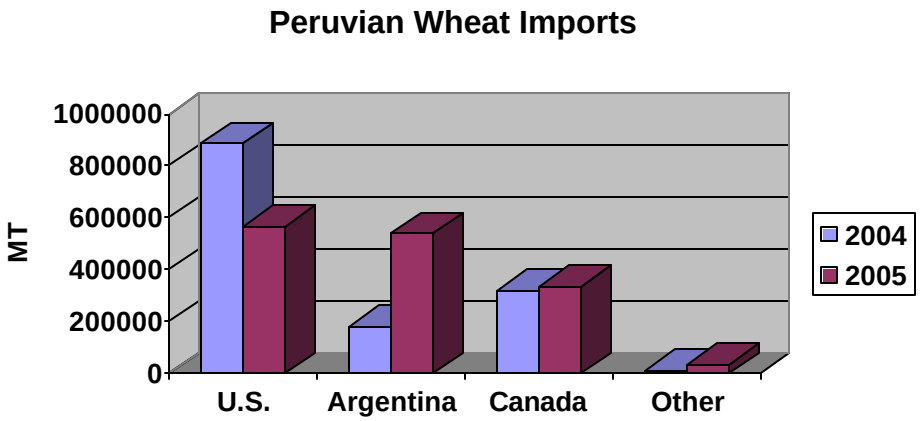
Bread consumption in Peru continues to be very small, according to industry officials Peruvian per capita consumption is around 26 kilograms per annum. Most bread is purchased fresh in bakeries, and only 250 grams of bread per annum are consumed in loafs, which is a double fold increase in the last seven years. 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 $95 million.

There are 22 wheat mills in Peru, which operate at about 62 percent of their milling capacity. Flour production in CY 2005 is estimated at about one million tons, of which 65 percent was used for bread flour and the rest for pasta and crackers.

Post estimates that wheat consumption will gradually increase accompanying population and economic growth.

Trade

Peru's wheat imports in CY 2005, reached 1.47 MMT, increasing 5.3 percent compared to the previous year. With 564,670 MT, the U.S. was the largest wheat exporter to Peru followed closely by Argentina with 537,751 and Canada with 333,646 MT. Though the U.S. continued to led the wheat market in Peru in CY 2005, it lost a significant market share due to strong competition from Argentina. Average price of U.S. wheat in CY 2005 was $156/MT, (f.o.b. basis) considerably higher than the $118 per MT of Argentine wheat. Freight was another important factor that granted some advantage to Argentina in CY 2005, average freight from Argentina was $38 per MT compared to $65 per MT from the U.S.



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 2005, Peru exported 2,944 MT of wheat flour, of which 55 percent went to Bolivia and 34 percent to Brazil; 16,954 MT of pasta, mostly to Chile and Haiti; and 23,649 MT of cookies and crackers increasing 61 percent compared to CY 2004, major markets were Ecuador with 34 percent and Colombia with 22 percent.

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.

Peru is taking advantage of the tariff preferences granted by other countries in the region and is increasing exports of wheat products, especially cookies and crackers.

The U.S. and Peru have recently agreed on the text of a free trade agreement, should this text be approved by both Congresses imports of U.S. wheat into Peru will be granted duty free entrance as soon as the agreement becomes effective. Since the U.S. will also grant duty free status to Peruvian wheat products, some millers are beginning to think about exporting pasta and cookies to the U.S.

PSD Table							
Country	Peru						
Commodity	Corn				(1000 HA)(1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		10/2004		10/2005		10/2006	MM/YYYY
Area Harvested	580	478	590	510	0	525	(1000 HA)
Beginning Stocks	78	110	178	90	248	42	(1000 MT)
Production	1600	1248	1770	1420	0	1550	(1000 MT)
TOTAL Mkt. Yr. Imports	1200	1291	1000	1120	0	1050	(1000 MT)
Oct-Sep Imports	1200	1291	1000	1120	0	1050	(1000 MT)
Oct-Sep Import U.S.	251	240	0	250	0	250	(1000 MT)
TOTAL SUPPLY	2878	2649	2948	2630	248	2642	(1000 MT)
TOTAL Mkt. Yr. Exports	0	7	0	8	0	8	(1000 MT)
Oct-Sep Exports	0	7	0	8	0	8	(1000 MT)
Feed Dom. Consumption	2500	2300	2500	2350	0	2350	(1000 MT)
TOTAL Dom. Consumption	2700	2552	2700	2580	0	2600	(1000 MT)
Ending Stocks	178	90	248	42	0	34	(1000 MT)
TOTAL DISTRIBUTION	2878	2649	2948	2630	0	2642	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Corn
Time Period	CY 2005
Imports for:	
U.S.	215,237
Others	
Argentina	1,112,676
Total for Others	1,112,676
Others not Listed	6,297
Grand Total	1,334,210

Units: Metric Tons

CORN

Production

Corn production in Peru is expected at 1.42 MMT for MY (October/September) 2005/2006, an increase of almost 14 percent compared to the previous year. This significant increase is due to a drought warning during the planting season which made producers plant corn instead of rice and stronger demand for yellow corn from the poultry industry. Among the several types of corn produced in Peru, the most important varieties are starchy corn, with production estimated at 244,000 MT in CY 2005, which is used directly in human consumption, and yellow corn with production estimated at 1.0 MMT which is primarily used in the animal feed industry.

Harvested area in CY 2005 was 277,000 hectares and 201,000 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. 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 2.6 MMT in CY 2006. With a consumption of about 680,000 MT in CY 2005, poultry meat continues to be one the cheapest source of protein in the Peruvian diet.

Poultry prices fell significantly during the first semester of CY 2005 due to excess demand. Since a large poultry operation began exporting chicken meat to Asia, some producers expected a shortage in the local market and increased its bird population up to 40 percent, which brought total bird population to about 30 million birds per month. As a result prices fell to around 36 percent under the cost of production. Poultry production went back to normal during the second semester of 2005 and prices recovered but not without an important financial set back in the sector.

Another 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 1.334 MMT of yellow corn in CY 2005, of which 1.11 MMT came from Argentina. U.S. corn imports increased 12 percent to 215,237 MT. Average price of Argentine corn in 2005 was $92 per MT (f.o.b. basis), an average of 10 percent cheaper than U.S. corn. Freight was not a decisive factor in 2005, average freight cost from both the U.S. and Argentina was around $35 per MT.

Post forecasts corn imports to fall six percent to 1.05 MT in MY 2005, this reduction is explained by higher local production. However, we expect U.S. corn exports to remain at 250,000 MT. Post believes that alternative corn products such as DDG or HOC have an interesting potential and should be promoted in this market.

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 $149 in CY 2005.

Policy

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 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. Currently the variable levy for corn is zero due to high international prices. Under the TPA, the price band system will be eliminated for products from the United States.

Under the TPA, which is expected to be implemented on January 1, 2007, the U.S. will have a duty free TRQ of 500,000 MT for corn.

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.

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 begun producing part of the corn it demands.

PSD Table							
Country	Peru						
Commodity	Rice, Milled				(1000 HA)(1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2005		01/2006		01/2007	MM/YYYY
Area Harvested	310	362	315	350	0	360	(1000 HA)
Beginning Stocks	375	44	360	313	325	303	(1000 MT)
Milled Production	1400	1724	1450	1550	0	1580	(1000 MT)
Rough Production	2029	2499	2101	2246	0	2290	(1000 MT)
MILLING RATE (.9999)	6900	6900	6900	6900	0	6900	(1000 MT)
TOTAL Imports	115	125	75	50	0	80	(1000 MT)
Jan-Dec Imports	115	125	75	50	0	80	(1000 MT)
Jan-Dec Import U.S.	0	32	0	20	0	25	(1000 MT)
TOTAL SUPPLY	1890	1893	1885	1913	325	1963	(1000 MT)
TOTAL Exports	5	0	10	10	0	10	(1000 MT)
Jan-Dec Exports	5	0	10	10	0	10	(1000 MT)
TOTAL Dom. Consumption	1525	1580	1550	1600	0	1650	(1000 MT)
Ending Stocks	360	313	325	303	0	303	(1000 MT)
TOTAL DISTRIBUTION	1890	1893	1885	1913	0	1963	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Rice, Milled
Time Period	CY 2005
Imports for:	
U.S.	31,721
Others	
Uruguay	86,934
Brazil	4,520
Total for Others	91,454
Others not Listed	2,058
Grand Total	125,233

Units: Metric Tons

RICE

Production

Rice production for CY 2006 is forecast at 1.55 MMT (milled basis), a ten percent decrease 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 2006 is estimated at 360,000 hectares.

The drought that affected northern Peru in the second half of CY 2005 caused a reduction in area planted which is expected to result in about 10 percent lower production in CY 2006. Rice production in eastern Peru has increased consistently for the past three years, this trend is expected to continue and slowly move production from the arid northern coast to the eastern slopes of the Andes where there is plenty of water supply.

Rice producers continue under very difficult financial situation as a result of low prices due to over supply. 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.

Historical rice production areas in Peru are Lambayeque and Piura in the northern region, and Arequipa in the south. Average yields in CY 2005 was 6.9 MT 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 International Development Bank has an ongoing project in the San Martin Region to promote a rice intensification system (SRI). The SRI consists in giving the plant more space to develop and obtain its nutrients, thus instead of planting each 25 cm, the SRI proposes to plant each 40 cm; and instead of planting five seeds it proposes to plant one or two. This project, which started a year 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

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.

Trade

Peru imported 125,233 MT of rice in CY 2005, a significant increase from the 52,217 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 86,934 MT. Rice exports from the U.S. increased by a ten fold to 31,721 MT. The largest rice importer, who owns the leading brand for bagged rice, has a long-term relationship with a Uruguayan rice exporter who 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.

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 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.

Policy

The U.S. has been granted a duty free tariff rate quota of 72,000 MT for rice under the TPA. 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 its market share in Peru.

Under the Agreement with MERCOSUR, Peru will grant Uruguay the following tariff preferences for rice:

10 percent until December 31, 2008.
11 percent until December 31, 2009.
22 percent until December 31, 2010.
33 percent until December 31, 2011.
44 percent until December 31, 2012.
55 percent until December 31, 2013.
66 percent until December 31, 2014.
77 percent until December 31, 2015.
88 percent until December 31, 2016.
100 as of January 1, 2017.

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. Under the TPA the Price Band System is eliminated for products from the United States. It will remain in place for products from other countries, including MERCOSUR.