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## Peru

### Agricultural Situation

### CCC Programs in Peru

### 2003

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#### **Report Highlights:**

FAS/Lima sees great potential in reactivating CCC programs in Peru. Since the programs were halted in Peru, Post has talked to over a dozen companies that have used these programs in the past or have not used them but are very interested in using them.

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## **CCC Programs in Peru**

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### **GSM 102/103**

Established in 1980, the GSM-102 program guarantees repayments of short-term credits (90 days to three years) extended by U.S. financial institutions to eligible banks in countries that purchase U.S. farm products. The program is intended to reduce the financial risk involved in exporting U.S. agricultural products thereby encouraging both exporters and banks in the U.S. to explore new foreign market opportunities. A companion program, GSM 103, provides longer-term credit guarantees for loans up to seven years duration, and is used chiefly to promote livestock exports.

Peru last fully participated in the \$350 million GSM-102 program for the Andean Region (Bolivia, Chile, Colombia, Peru and Venezuela) in FY1999, though it was utilized almost entirely to assist exports to Colombia and Peru. Thirteen Peruvian banks, with a combined credit limit of over \$250 million, were eligible to participate in the program. Financing for over \$125 million of U.S. agricultural exports, including wheat, corn, cotton, soybeans and soybean products, were guaranteed that year.

A \$350 line of credit for FY2000 was announced in November 1999, with similar participation by Peruvian banks. However, on December 7, 1999, Peru was suspended from participation due to a failure of a Peruvian bank to make a payment due under the program.

Post understands that Peruvian banks have paid arrears and are up to date with payments. The program could be up and running if USDA confirms that the problem is neither systemic nor politically motivated.

### **SCGP and FCGP**

Post has surveyed local importers and found a growing interest in using both Supplier Credit Guarantee Program (SCGP) and Facility Credit Guarantee Program (FCGP). Importers of high value products are the most interested in using SCGP. The products that are likely to benefit the most from SCGP are pet food, wine, cheese and ice-cream. There is also good potential for fruit, apples and pears. SCGP benefits could offset tariff preferences granted to products coming from Chile.

## **Grain, Oilseeds, and Cotton**

In the past, GSM-102 program in Peru has been used almost entirely to import wheat, yellow corn, soybean meal and cotton. The wheat market is very competitive and is usually shared with Argentina and Canada. CCC's program have been an important factor weighed in when deciding the origin from where to import. The yellow corn market is also very competitive and it is shared with Argentina. Usually Argentine cost is cheaper and enjoys better freight conditions, GSM could buffer this effect.

Due to a bilateral trade agreement with Bolivia, soybean meal and cotton are imported into Peru duty free which gives Bolivia an advantage of 4 and 12 percent respectively compared to the U.S. In this case GSM could also be used to reduce the effect of this trade preference agreement.

Poultry producers have also shown interested in the FCGP to import new grain storage equipment. San Fernando, Peru's leading poultry producer with an output of 10 million birds per month, had a project to import silos worth \$1 million at the time the program was closed. They have recently expressed their interest in resuming this project.

### **Livestock**

There is a growing interest in Peru to import dairy cattle. In recent years, Peru has purchased cattle from Uruguay, New Zealand and Chile. Cattle from the U.S. is regarded as high quality but too expensive. In the past, cattle importers showed interest in using GSM-103, but private banks were not interested in granting long term loans. The Peruvian government is also importing cattle, from the U.S., with funds generated by food aid agreements, which will reactivate the industry's interest in purchasing U.S. livestock. Most likely, these purchases will also start bringing bank's attention to the dairy business. In that case, GSM-103 will be a useful tool to market U.S. cattle and offset higher prices.

### **Consumer Oriented**

Post has found great interest in SCGP among consumer-oriented food importers. Many Peruvian importers have good and long lasting business relationships with U.S. exporters, which is a must if this program is ever going to take off in Peru.

In spite of a four-year economical recession, supermarket chains in Peru have grown in number and market share, compared with traditional markets, creating a window of opportunity for U.S. food products. There are two supermarket chains: E. Wong with 68 percent of market share and Disco Ahold Peru with 32 percent. Supermarkets account for 20 percent of all food sales. Post estimates that supermarkets will grow 40 percent by 2005. Total supermarket sales for 2002 are estimated to reach \$820 millions, increasing around 12 percent comparing with 2001.

Best U.S. product prospects for the SCGP in the Peruvian market are pet food, wine, cheese, ice cream and fruits (apple and pears) which are highly reputed for quality.

Imported pet food market in 2001 was 4,350 MT which was shared by U.S. (50 percent) and Brazil (40 percent). Brazil has an advantage due to its proximity to Peru. Because it is easy and time saving, pet food is becoming popular creating a potential for increasing sales from the U.S.

In 2001, the U.S. reached 36 percent of total cheese imports, followed by Argentina with 25 percent. Argentina's imports may increase due to its lower prices. This market, 9,174 MT, is forecast to grow about 4 percent in 2002.

Peruvian imported wine market was around US\$ 10 million (CIF value) in 2001, about 61,000 hectoliters. This market grew five percent annually between 1999 and 2001, and is forecast to grow nine percent in 2002. With 37 percent, Chile lead the market in 2001, followed by Argentina with 17 percent.

In 2001 Peru's imported ice cream market grew 12 percent and is developing a consistent growing trend. Chilean market share was 99 percent in 2001 while U.S. only reached one percent of the 104 MT-market. Although ice cream is a niche market, it has a good potential for U.S. products due to its quality and prestige.

Chile also captures almost one hundred percent of the imported apple and pears market, which were 32,306 MT and 10,149 MT respectively in 2001. Chilean apple and pears face a 14 percent tariff preference due to a bilateral agreement with Peru. Lower tariffs and freight places U.S. products in a clear disadvantage position that could be somewhat overcome with SCGP.

Under the Latin-American Integration Agreement (ALADI), Chilean wine and ice cream are granted tariff preferences of 14 percent and 10 percent respectively. Import duties for wine from other origins are 17 percent and 25 percent for ice cream. As a member of the Andean Community of Nations (CAN), Peru has also granted tariff preferences to Bolivia, Colombia, Ecuador and Venezuela which are exempted from paying any import duties for cheese and wine.

U.S. food products are well regarded in the Peruvian market but are more expensive. As globalization continues creating trade agreements, and while FTAA is in the pipeline, U.S. products have to face trade disadvantages which could be reduced with SCGP.

## **Banks**

Of the 13 banks that were approved by the CCC to use guarantee programs, two, Banex and Nuevo Mundo defaulted. These two banks represent less than five percent of the total credit line granted to Peruvian banks. The four largest Peruvian banks, three of them owned by foreign

banks, hold about 75 percent of the total GSM credit line. In fact, these banks are continuously requesting the embassy to reopen the program.

**Peru's Agricultural Imports from the World and the U.S.  
(2002)**

PRODUCT	VALUE US\$ (1000)		U.S. Market Share (%)
	World	U.S.	
<b>TOTAL AGRICULTURAL IMPORTS</b>	<b>1,079,876</b>	<b>197,667</b>	<b>18.30%</b>
BEEF	5,420	458	8.45%
CHICKEN MEAT AND PARTS	4,719	568	12.04%
MILK POWDER	29,380	53	0.18%
WHEY	2,389	608	25.45%
CHEESE	8,786	1,578	17.96%
SEMEN, CATTLE	489	412	84.25%
WHEAT	199,149	78,037	39.19%
CORN	107,568	21,995	20.45%
RICE	9,790	277	2.83%
FLOUR, WHEAT	1,092	645	59.07%
MALT, BARLEY	8,861	1	0.01%
SOYBEAN OIL	110,223	18,577	16.85%
WINE	10,503	356	3.39%
SOYBEAN MEAL	112,120	19,954	17.80%
ALL OTHER PRODUCTS	469,387	54,148	11.54%

Source: Peru Customs Service (cif value)