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GAIN Report
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GAIN Report #PE2023

Peru

Dairy and Products

Annual

2002

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Report Highlights:
Fluid milk production in Peru continues increasing and is expected to reach 1.2 million metric tons in 2003. Peru needs to import high quality genetics to keep increasing production.

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

Executive Summary

Fluid milk production is forecast to reach 1.2 Milllion Metric Tons in 2003, increasing four percent compared to the previous year. Whole milk and non fat dry milk imports are forecast 15,000 MT and 10,000 MT respectively.

Demand for raw milk continues to increase as processing plants invest in better technology and enhance their processing capacity. The government also plays an important role purchasing milk directly from producers for its social assistance programs, in fact the GOP pays the higher price in the market.

PSD Table						
Country	Peru					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Cows In Milk	610	610	610	620	0	620
Cows Milk Production	1100	1100	1115	1150	0	1200
Other Milk Production	5	5	5	5	0	5
TOTAL Production	1105	1105	1120	1155	0	1205
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	1105	1105	1120	1155	0	1205
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	750	750	765	785	0	805
Factory Use Consum.	350	350	350	365	0	395
Feed Use Dom. Consum.	5	5	5	5	0	5
TOTAL Dom. Consumption	1105	1105	1120	1155	0	1205
TOTAL DISTRIBUTION	1105	1105	1120	1155	0	1205
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Peru					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	1	1	2	2	2	2
Production	5	5	5	4	0	2
Intra EC Imports	0	0	0	0	0	0
Other Imports	22	22	24	12	0	15
TOTAL Imports	22	22	24	12	0	15
TOTAL SUPPLY	28	28	31	18	2	19
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	26	26	29	16	0	18
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	26	26	29	16	0	18
TOTAL Use	26	26	29	16	0	18
Ending Stocks	2	2	2	2	0	0
TOTAL DISTRIBUTION	28	28	31	18	0	18
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Import Trade Matrix	
Country	Peru
Commodity	Dairy, Dry Whole Milk Powder
Time period	
Imports for:	
U.S.	
Others	
New Zealand	6079
Bolivia	1815
Ireland	1319
Australia	917
France	585
Total for Others	10715
Others not Listed	1232
Grand Total	11947

Units: Metric Tons

PSD Table						
Country	Peru					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	1	1	1	1	1	1
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	13	13	15	9	0	10
TOTAL Imports	13	13	15	9	0	10
TOTAL SUPPLY	14	14	16	10	1	11
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	13	13	15	9	0	10
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	13	13	15	9	0	10
TOTAL Use	13	13	15	9	0	10
Ending Stocks	1	1	1	1	0	1
TOTAL DISTRIBUTION	14	14	16	10	0	11
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

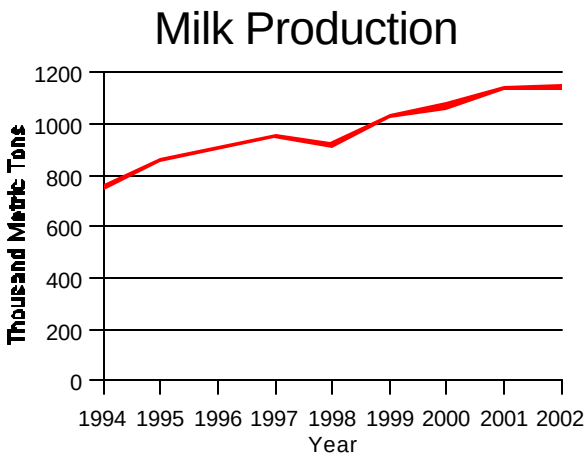
Import Trade Matrix	
Country	Peru
Commodity	Dairy, Milk, Nonfat Dry
Time period	
Imports for:	
U.S.	
Others	
New Zealand	4802
Australia	1465
Ireland	756
Belgium	423
Argentina	398
Total for Others	7844
Others not Listed	1135
Grand Total	8979

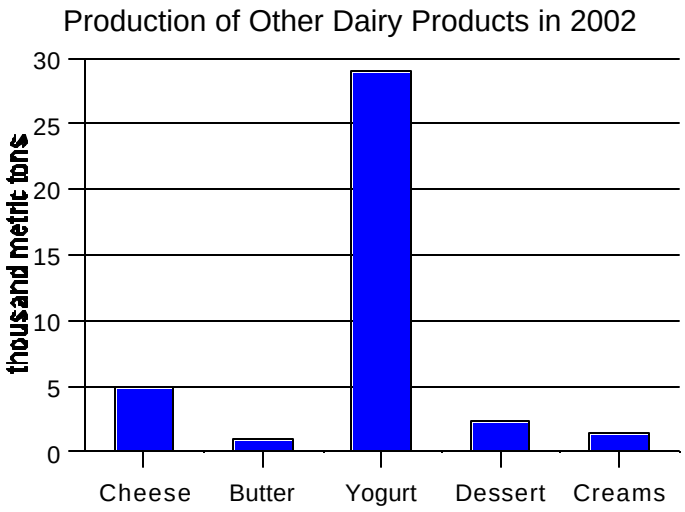
Units: Metric Tons

Production

Fluid milk production is forecast to increase four percent just under 1.2 milllion metric tons for 2003. Processing plants have invested in technology increasing capacity and efficiency. Demand for raw milk continues to rise, making milk production one of the few profit-making business in the agricultural sector.

Peru has three major dairy producing areas. Arequipa in the southern region, Cajamarca in the north-east areas and Lima on the coast. Arequipa is 1,000 kilometers south of Lima, and has very good quality forage, mainly alfalfa. Most of the production is bought by Gloria, the largest milk processing plant in Peru, which is based in Arequipa. Cajamarca in the northern highlands is an excellent dairy area due to the availability of pastures. The most important milk processing plant in the area in Nestle, which is based in Chiclayo (on the northern coast). Lima is important due to the proximity to eight million consumers, but the limiting factor for milk producers in this area is the lack of forage. Dairy cows in Lima are feed fed.





Some milk processing plants have technical support programs. Most of them work with farmers on feeding, forage management, breeding and quality control to increase the amount of milk produced by their suppliers. Moreover, some processors have started to give price bonuses to producers for tuberculosis and brucellosis control, for belonging to the national dairy control program (dairy control system supervised by the Ministry of Agriculture), for each tenth of a percent of fat over 3.2 percent, and for the volume of milk delivered.

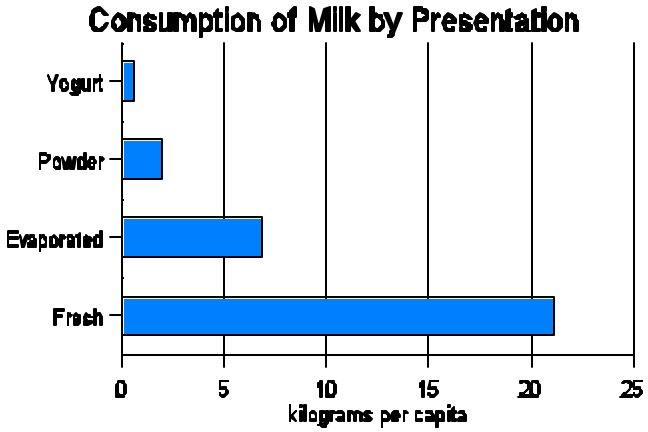
Herd size and level of technology vary greatly even in the same area, there is no such thing as the "average" dairy producers. There are a few that are highly sofisticated in their management. They have complex feeding programs and use artificial insemination. Even among these "modern" dairymen, embryo transplant is not commonly used. It is still too expensive compared to AI.

Most dairy producers though, especially in the highlands, are not that technical. Their herd may range from two or three cows to 30 or 40. AI is not that popular among these producers, only around 20 percent. Feeding programs are

based on natural pastures or, in some cases, improved grasses.

Consumption

Milk consumption in Peru is only 57 liters per capita per annum, almost a third of the minimum consumption recommended by the Food and Agriculture Organization. With about 75 percent of the market, evaporated milk is by far the most popular way in which milk is consumed in Peru. This form of milk has several advantages, being the most important durability and conservation, since it does not need refrigeration it lasts longer, especially in the poor areas of the country.



Gloria, the largest processing plant, holds 78 percent of the evaporated milk market and 50 percent of the total milk market. UHT milk is becoming popular but, due to its higher price, only in the higher economic sectors of the country. Consumption of powdered milk, once very popular when it was subsidized by the state-owned ENCI, is decreasing, giving way to other alternatives such as "soybean milk".

Trade

With 10,881 MT, New Zealand continues to be Peru's main powder milk supplier. The EC is the second largest milk supplier around 3,000 MT. The New Zealand Dairy Board has had a very aggressive export policy, they even have their own brand, Anchor, which is the most popular powdered milk in the market.
Import tariffs for dairy products is currently 25 percent. Like most imported or domestic products, an 18 percent value added tax is assessed on top of the tariff. Powder milk is also subject to a variable levy that is related to international prices.

Policy

The GOP has an import substitution policy by which it encourages local production of the agricultural products that are currently being imported. There are no resources allocated to this program, but the governement encourages local production by two venues: high import tariffs (surcharges and variable levy) and granting tax benefits to producers. The government is promoting local milk production through social assistance programs, by purchasing milk directly from producers. Currently these programs purchase about 50,000 MT of fresh milk per day. These programs are also a way to creaste a floor price, or at least a reference price for producers

Marketing

The milk market in Peru is concentrated in two large firms, Gloria and Nestle. These companies have historically had their area of influence and did not compete directly, but milk has become scarce and both are now purchasing wherever milk is available. There are a few smaller companies that are also in the market, in most cases they help to negotiate prices with the larger companies. The government, through the social assistance programs, is an important customer**.** In fact the government is paying the highest price in the market.

In November 2002, Santa Isabel, the second largest supermarket chain, began a commercial dispute with Gloria and as a result Gloria's products are no longer available in Santa Isabel. Most likely, this battle would cost Santa Isabel to loose market share. Gloria is a strong brand with sixty years in the market and high customer loyalty rate.

In the areas where there are no processing plants, farmers sell their milk to local cheese-makers who, in most cases, are not industrialized. Cheese-makers (queseros) usually pay high prices and, though they are very small individually, have helped keep the dairy business a float in poor areas.

Livestock is thought as a way of savings. Most families in the highlands will try to have at least two cows to provide milk for the family and sell whatever surplus they may have and at least a calf that they can sell in case of emergency. This type of producer purchases its cattle from larger producers in the area who at the same time buy from larger producers, thus creating a cattle market that "percolate" genetics and quality from top to bottom.

Market Development

Even though there is a growing need for livestock, Peru has imported very few head of cattle in the past years. The relatively high cost of imports and a wide-spread lack of financing in the agricultural sector have been the two major set backs for larger imports. Post believe there is a genuine interest on importing high quality genetics to improve the local heard. Post has been in discussions with all concerned parties concerning possible targeting of funds generated by food aid programs to livestock improving projects, wich will include importing high quality genetics from the U.S.