

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary - Internal

Date: 6/14/2017

GAIN Report Number:

Peru

Post: Lima

Peru Taking Steps to Ban Powder Milk Recombination

Report Categories:

Trade Policy Monitoring

Dairy and Products

Approved By:

Casey Bean, Regional Agricultural Counselor

Prepared By:

Gaspar E. Nolte, Senior Agricultural Specialist

Report Highlights:

On June 13, 2017, the Peruvian Congress' Agricultural Committee approved the non-recombination act. This legislation will now be debated on the floor. Peru's measure, if approved, would be a Technical Barrier to Trade and a breach to its WTO and U.S.-Peru Trade Promotion Agreement commitments. The measure would also impact sales of \$60 million in annual sales of imported U.S. milk powder.

General Information:

Executive Summary:

Panama's import ban on Pura Vida, an evaporated milk product containing 60 percent milk and 40 percent soy, has caused public outcry in Peru. Pura Vida is manufactured and exported by Peruvian dairy processor Gloria. This issue has dominated the news and public discussion for over a week. All dairy processors are now under scrutiny by regulators and consumer defense organizations to assure that their "milk" is really what it claims to be. Gloria has recognized that Pura Vida labeling could be deceiving, since it shows a picture of a cow at the center of the label, and has pulled the product out of the market.

The Ministry of Health established on June 8, 2017, a committee to review the sanitary registration process of dairy products to assure it complies with Codex Alimentarius standards and current Peruvian regulations. This committee must report the results of its inquiries to the Minister of Health within three weeks.

While this is a labeling issue, dairy producers are taking advantage of this situation to advance their agenda by pressing the government to ban the practice of powder and fluid milk recombination. There are currently three legislative initiatives to implement such a prohibition. On June 13, 2017, the Peruvian Congress' Agricultural Committee approved the non-recombination act. This legislation will now be in the line up for debate on the floor. Peru's measure, if approved, would be a Technical Barrier to Trade and a breach to its WTO and U.S.-Peru Trade Promotion Agreement commitments.

Producers Pushing for Recombination Ban

Peru established a recombination ban in 1991 (Supreme Decree 653) as a tool to promote investment and increase efficiency of dairy producers. In 2008, Peru issued Supreme Decree 1035 to "Adjust Investment Related Issues to the World Trade Organization (WTO)", eliminating the recombination ban. Since then, dairy producers have consistently demanded the reinstatement of the ban. Their demands have gained increased attention by political officials in recent months. This is because heavy rains and floods in March/April 2017 disrupted the nation's transportation system, making it impossible for processors to collect all the available milk for several days. This exacerbated tensions between dairy producers and processors. The Pura Vida case has further fueled these tensions and demands of the producers.

Producers are also publicly claiming that the use of carrageenan in milk recombination produces cancer in a social media and press campaign. Carrageenan is a commonly used food additive in a wide range of products, with maximum levels set in Codex Alimentarius.

Domestic Milk Production Cannot Meet Demand

Milk production in Peru cannot meet the current domestic demand. Powder milk imports have

ranged from 23 to 32 percent of total consumption since 2000. Milk demand is estimated at about 2.6 MMT while local production is 1.8 MMT. U.S. exports of powdered milk to Peru reached about \$60 million in 2016. The measure is also forecast to increase the price of milk, depress overall demand and impact consumers most economically challenged.

Nutritional Labeling

This case has also revived the discussion of traffic light labeling for food products. On June 12, 2017, a Fuerza Popular Congressman submitted a proposal to implement such a requirement. Following the Ecuadorian and Chilean example, the proposed labeling will require individual traffic lights for salt, fats, and sugar. If and when this measure is implemented, Peru will most likely use Pan-American Health Organization (PAHO) standards. The U.S. Government regularly raises Peru's proposed nutritional labeling on the floor of the WTO TBT Committee meeting.