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Peru

Cotton and Products

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Approved by:
Melinda D. Sallyards
U.S. Embassy

Prepared by:
Gaspar E. Nolte

Report Highlights:
Cotton production in CY 2004 is expected to reach 53,000 MT in CY 2004, increasing 10 percent compared to the previous year. Even 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.

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Unscheduled Report
Lima [PE1]
[PE]

Production

Cotton production in Peru is expected to reach 53,000 MT in CY 2004, increasing 10 percent compared to the previous year. This increase in mainly due to an increased demand from the textile industry and farmers switching from rice to cotton due to this year's drought.

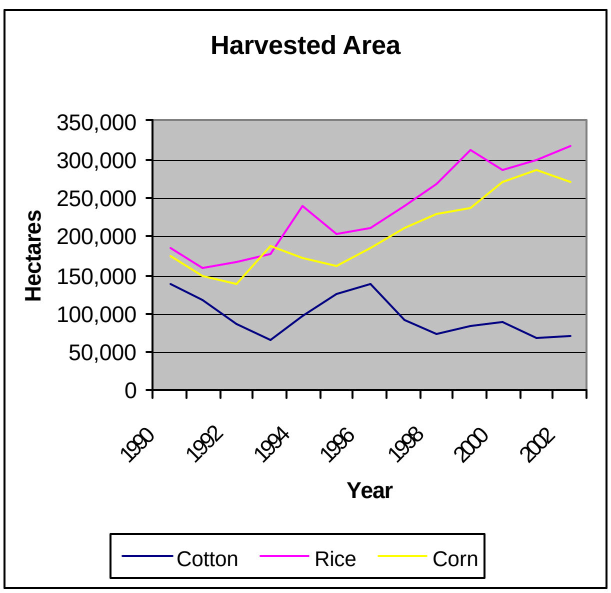
Peru grows two major and two minor varieties of cotton. Of the major varieties, Tanguis, is a long staple cotton (LS), grown in the central coast of Peru, and is used for yarns. Pima, is an extra long staple cotton (ELS), grown in the northern region, mostly in Piura, and it is used for higher quality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

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

COTTON	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Production	91,210	67,326	41,216	37,338	63,991	82,774	102,518	55,652	36,189	52,040	58,320	51,167	48,605	48,148
H. Area	138,330	117,650	86,237	64,695	97,309	123,681	137,096	91,290	73,629	82,228	89,263	68,634	71,905	65,269

Del Cerro and Aspero (rough) are minor varieties, accounting for about 0.1 and 3.1 percent of total local production respectively . In 2003 production of Pima cotton totaled only 4,000 metric tons (MT), down from 11,000 MT in 2002. Plantings for 2004 increased from 8,000 hectares the year before to 15,000 hectares for Pima.

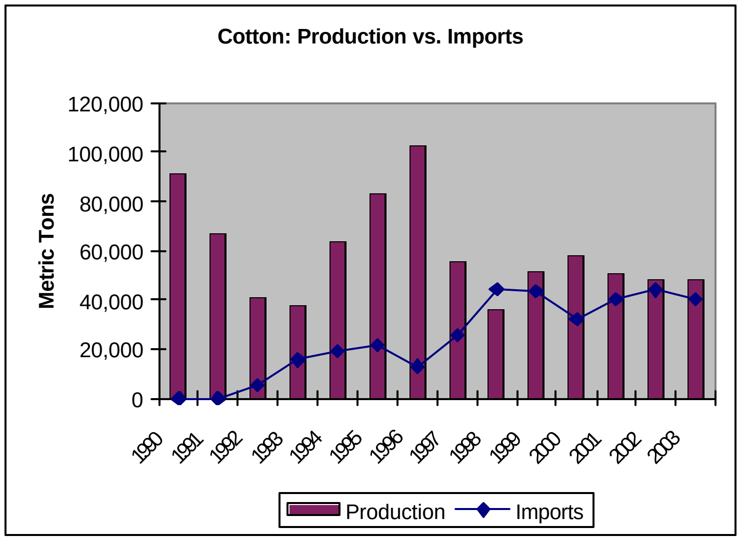


While Peru has been a traditional cotton producer, area planted has dropped dramatically in the last decades. Between 1990 and 2000 Peru, on average, planted 99,709 hectares annually, much less than the average of 136,400 hectares planted in the 1980's. Peruvian cotton producers face a number of disadvantages 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 45,000 MT, an increase of about 12 percent compared to the previous year. Increasing demand from the industry driven by textile exports will drive this increase. With 34,467 MT, the U.S. was by far Peru's larges cotton supplier in CY 2003. Other important origins are Australia, Bolivia and China.



Peru's cotton exports are very small. Total cotton exports in CY 2003 were 3,000 MT of which 771 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 has become one of the first South American countries to export clothing to the United States. Peruvian textile and apparel exports to the United States grew 31.5 percent in 2003. Peruvian apparel sales to the United States totaled $502 million in 2003.

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 and investment process, the industry began processing cotton almost at full capacity.

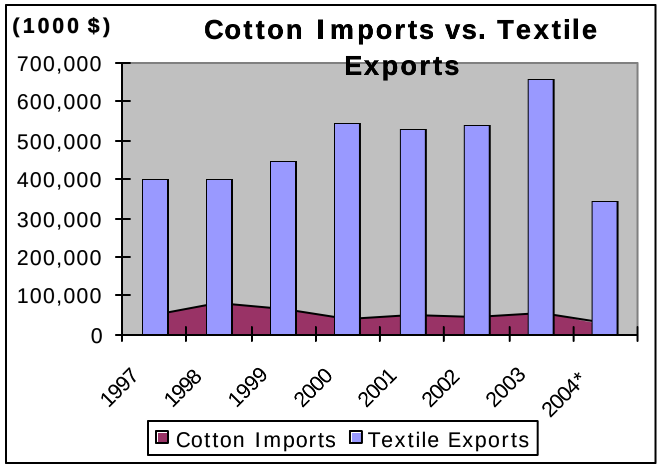
Textile exports have become one of Peru's top exports. The Peruvian industry's export strategy is to position its products in the higher end market. They are aware that it would be very difficult to compete against China in the low price sector so they have turned to high value added products.

Policy

There is no official government policy to support cotton production in Peru. There have been some efforts by the Exporters Association to promote the quality of Peruvian cotton in foreign countries and to try to set some quality standards.

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.



The GOP, along with some antinarcotics agencies, is encouraging cotton production in the jungle region as an alternative crop to production of coca leaf. “Contradrogas”, the umbrella agency for narcotic affairs, has just started a pilot program to produce a variety, which they expect to market as “ecological” cotton.

Safeguards

There is a strong concern among the industry about Asian, especially Chinese, textiles coming into the country at “dumped” prices. At this moment, there is reportedly a serious damaged caused to the industry from Chinese products imported mostly by the two largest department store chains. Peru implemented a 60-day temporary safeguard against Chinese textiles, which expired on July 11, 2004. The Ministry of Production has announced that it will implement a permanent safeguard against Chinese products but has received a strong opposition.

Apparently INDECOPI, the Peruvian consumer defense and property right institute, did not fully proved the damage caused by Chinese apparel upon the local industry. Imports of some of the products included on the temporary were rather insignificant. There was a strong political pressure from local textile manufacturers to implement the safeguard. These three issues were questioned by the safeguard detractors, which included the Minister of Economy and Finance, The Minister of Trade and Tourism, agricultural exporters and tourism operators. These sectors are very concern about China’s retaliation.