

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Peru

Grain and Feed Annual

Grain and Feed Annual 2017

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Report Highlights:

Poultry production growing at five percent a year continues to drive demand for imported U.S. corn, making Peru our fifth largest overseas market. During MY 2017/2018, the U.S. corn market share is forecast down due to Argentina's projected return to the Peruvian market. The U.S.–Peru Trade Promotion Agreement established a duty-free tariff rate quota for U.S. origin corn in Peru and excludes U.S. corn from the Peruvian price band while in-quota. Wheat imports are forecast up slightly in MY 2017/2018 due to consumption fueled by economic growth. The high quality of U.S. wheat continues to give the United States opportunities to compete against Canadian product. The USDA's Animal and Plant Inspection Service (APHIS) negotiated less restrictive sanitary requirements for U.S. rice to Peru, offering possible opportunities to boost sales here.

Executive Summary:

Wheat production in MY 2017/2018 (July/June) is forecast at 190,000 metric tons (MT), remaining at the same levels compared to the previous year and falling 13 percent compared to MY 2015/2016.

Wheat imports in MY 2017/18 are forecast at 2.0 MMT, a 5 percent increase compared to the previous year. Due to more competitive pricing, Canadian wheat held 68 percent market share in CY 2016 (about the same levels as CY 2015), followed by imports from the United States with 23 percent and Russia nine percent.

Corn production in MY 2017/2018 (October/September) is forecast at 1.5 MMT, remaining at the same levels as the previous year. Corn consumption in MY 2018 is forecast at 4.5 MMT. Strong demand from the poultry sector responding to rising domestic consumption is the main driver for increasing corn consumption. Peru currently produces 55 million broilers per month. Total corn imports in CY 2016 were 3 MMT of which 94 percent originated from the United States. Peruvian corn imports from the United States in CY 2016 were valued at \$452 million, a 50 percent increase compared to the previous year.

Rice production in MY 2018 is forecast at 2.2 MMT (milled basis), remaining constant at MY 2016/2017 levels. The total rice harvested area for MY 2018 is forecast at 400,000 hectares, remaining constant to MY 2016/2017 area. Imports in CY 2016 were 291,966 MT, led by Uruguay with 62 percent of the market share.

Commodity: Wheat**Production:**

Wheat Market Begin Year	2015/2016		2016/2017		2017/2018	
	July 2015		Jul 2016		July 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Peru						
Area Harvested	140	140	140	130	0	130
Beginning Stocks	590	590	477	491	0	320
Production	219	219	210	190	0	190
MY Imports	1800	1877	1900	1900	0	2000
TY Imports	1800	1877	1900	1900	0	2000
TY Imp. from U.S.	275	294	0	600	0	700
Total Supply	2609	2686	2587	2581	0	2510
MY Exports	67	70	90	90	0	90
TY Exports	67	70	90	90	0	90
Feed and Residual	70	75	80	80	0	80
FSI Consumption	1995	2050	2010	2091	0	2040
Total Consumption	2065	2125	2090	2171	0	2120

Ending Stocks	477	491	407	320	0	300
Total Distribution	2609	2686	2587	2581	0	2510
(1000 HA) ,(1000 MT)						

Wheat production in MY 2017/2018 is forecast at 190,000 metric tons (MT), remaining at the same levels compared to the previous year and falling 13 percent compared to MY 2015/2016. Wheat production in Peru has been decreasing slightly from 240,000 MT four years ago to the current level. Farmers are shifting away from less profitable wheat cultivation to more lucrative native Andean grains such as quinoa. Local wheat currently trades at about \$490 per MT, compared to \$5,000 per MT that producers can reasonably expect to receive for cash crops such as quinoa.

Wheat is a minor crop in Peru, and production is concentrated mostly in the southern highlands between 2,800 and 3,500 meters above sea level. Wheat production is rudimentary and cultivation remains limited by mountainous geography. Wheat production is limited to mostly soft wheat, which is often consumed as purees or as a soup ingredient, and not good for milling.

The total wheat crop area harvested for MY 2017/2018 is forecast to remain at 130,000 hectares. The total wheat crop area in MY 2015/2016 was 140,000 hectares. The wheat area harvested varies significantly from one year to the next depending on prices, farmers' profit margin expectations, and the profitability of alternative crops such as quinoa, barley and oats. The average yield in CY 2016 was 1.6 MT/hectare.

Domestic millers have established a program promoting durum wheat cultivation for pasta production. They provide small farmers with seed and technical assistance, as well as purchasing production. Farmers are now producing around 12,000 MT of durum wheat for a pasta plant in Arequipa (approximately 1,000 kilometers south of Lima). Millers expect durum wheat production to reach 25,000 MT within the next few years.

Consumption:

Wheat consumption in MY 2017/2018 is forecast at 2.1 MMT, remaining about the same as current levels. Overall wheat consumption is 64 kilograms per capita a relatively low level compared to potato and rice consumption of 110 and 89 kilograms per capita respectively. Wheat consumption is relatively constant, fluctuating slightly with the economy.

Peru produces about 1.6 MMT of wheat flour per year. Of this amount 63 percent is used by the local baking industry, 20 percent goes to pasta manufacturing, 12 percent to the cookies and crackers sector, and 5 percent for small-scale, family use. Roughly 70 percent of domestic flour is sold through traditional markets, while only 30 percent of flour is sold in supermarkets.

The wheat milling industry is highly concentrated. Of the 23 domestic millers, the largest one alone accounts for over 60 percent of total wheat milled. The country’s four largest millers are responsible for around 85 percent of the wheat milled in Peru.

Per Capita Consumption	
Product	Kilograms
Pasta	11.9
Cakes and pastry	1.2
Cookies and crackers	1.7
Bread	28.0
Flour	1.4
Grain	2.8

Source: Peru, National Statistics Service.

According to a press report from 2015, bread consumption in Peru is 35 kilograms per person, one the lowest in South America. Per capita consumption of bread is 75 kilograms in Argentina and 95 kilograms in Chile. Bread in Peru is normally purchased fresh daily in bakeries.

Peruvians are heavy consumers of pasta. Peru, with pasta consumption at 11.9 kilograms per person, is South America’s second largest pasta consumer. Pasta consumption is concentrated in the capital city of Lima, which accounts for half of all pasta consumed nationwide. Sources indicate that pasta consumption is now growing at a faster pace in Peru’s provinces than in the capital thanks to economic growth. Pasta production in Peru totals 220,000 MT per year.

Peruvian consumption of cookies and crackers remains low by regional standards at only 1.7 kilograms per year. Cookies and crackers production is about 80,000 MT per year.

Trade:

Wheat imports in MY 2017/18 are forecast at 2.0 MMT. Wheat imports in CY 2016 were 1.6 MMT.

Due to more competitive pricing, Canadian wheat held a 68 percent market share in CY 2016 (about the same levels as CY 2015), followed by imports from the United States with 23 percent and Russia nine percent. Argentine wheat imports into Peru were practically no-existent in CY2016. U.S. and Canadian wheat exports to Peru have benefited from reduced imports from Argentina in recent years. With the agricultural policy changes occurring in Argentina to phase-out export taxes, it remains to be seen if it will regain market share in Peru.

The U.S. Wheat Associates (USWA), a USDA Cooperator with the regional office based in Santiago, Chile, is active in the Peruvian market, providing trade servicing to the millers aimed to increase the variety and usage of wheat varieties to appeal to more consumers.

Peru's wheat millers are increasingly sophisticated. Over the last two decades, the industry has shifted from importing solely hard red winter wheat (HRW) to a mix of different wheat types (e.g., soft, spring, white, durum northern spring) for blending purposes. This is largely due to the USWA's activities over the years.

Import Trade Matrix (Metric Tons)	
Commodity	Wheat
Time Period	CY 2016
Imports from:	
United States	384,536
Imports from Others	
Canada	1,118,360
Russia	145,143
Argentina	6,831
Total from Others	1,311,927
Others not Listed	0
TOTAL	1,654,871

Source: Peru, National Statistics Service.

Policy:

Wheat is imported duty-free. Although Peru does not specifically promote wheat production, the government does have in place credit and technical assistance programs for farmers. These programs seek to improve crop quality and protect consumers from international wheat price spikes.

Commodity: Corn

Production:

Corn Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Peru						
Area Harvested	516	470	473	470	0	470
Beginning Stocks	368	368	472	444	0	384
Production	1750	1540	1600	1500	0	1500
MY Imports	2954	2985	2900	2900	0	2900
TY Imports	2954	2985	2900	2900	0	2900
TY Imp. from U.S.	2538	2620	0	2400	0	2000
Total Supply	5072	4893	4972	4844	0	4784
MY Exports	10	9	10	10	0	10

TY Exports	10	9	10	10	0	10
Feed and Residual	4200	4050	4200	4000	0	4100
FSI Consumption	390	390	450	450	0	450
Total Consumption	4590	4440	4650	4450	0	4550
Ending Stocks	472	444	312	384	0	224
Total Distribution	5072	4893	4972	4844	0	4784
(1000 HA) ,(1000 MT)						

Corn production in MY 2017/2018 (October/September) is estimated at 1.5 MMT, remaining at the same levels as the previous year. High production costs, more profitable alternatives, and economies of scale make it more difficult for the small scale corn farmers who grow corn in Peru to compete with other suppliers in the region. Additionally, in 2012, Peru published a regulation establishing a 10-year biotechnology moratorium on planting genetically engineered crops, including corn.

Peru grows many varieties of corn. The two most important are starchy corn for human consumption and yellow corn for feed. Starchy corn production in CY 2016 was 300,000 MT and production of yellow corn was 1.2 MMT.

The harvested corn area in CY 2016 was 215,000 hectares and 268,000 hectares for starchy and yellow corn respectively. Average yields in CY2016 were 1.4 MT per hectare for starchy corn and 4.6 MT per hectare for yellow corn. Yellow corn yields vary greatly depending on the locality and producers' access to technology (i.e., improved seeds, fertilizer, irrigation, and mechanized equipment). In Peru's coastal agricultural areas, yellow corn yields improved significantly over the course of the past decade, from about 6.5 MT/hectare to over 8.8 MT/hectare. On the eastern slope of the Andes, in Amazonian fields the yellow corn yields fell to 2.1 MT/hectare and lower due to degraded soils and less sophisticated production methods.

Consumption:

Corn consumption in MY 2017/2018 is forecast at 4.4 MMT, remaining at the same level as previous year. Strong demand from the poultry sector responding to rising domestic consumption is the main driver for increasing corn consumption. Peru currently produces 55 million broilers per month. About 70 percent of the yellow corn available in the country goes towards chicken feed to supply the country's 1,000 plus poultry farms.

A challenge that poultry producers face is the increasing number of informal (non-registered) poultry farms, a problem that becomes more evident when poultry prices are high.

These unregistered producers, which do not pay taxes, account for about 25 percent of overall poultry meat production.

Trade:

Peru's corn imports in MY 2017/2018 are forecast at 2.9 MMT, remaining at the same levels as the previous year. Total corn imports in CY 2016 were 3.0 MMT of which 94 percent originated from the United States. Peruvian corn imports from the United States in CY 2016 were valued at \$452 million, a 50 percent increase compared to the previous year. As Argentina phases out taxes for corn exports, it will become more competitive in the market affecting U.S. corn exports. The majority of Argentinean commodities, including corn, reach Peru via vessels.

The U.S. Grains Council (USGC), a USDA Cooperator, services the Peru market to promote continued U.S. corn purchases and to increase Peru's use of corn by-products such as DDGS and ethanol.

Import Trade Matrix (Metric Tons)	
Commodity	Yellow Corn
Time Period	CY 2016
Imports from:	
United States	2,858,865
Imports from Others	
Argentina	142,005
Bolivia	18,885
Brazil	2,219
Paraguay	593
Total from Others	0
TOTAL	3,022,568

Source: SUNAT (Peru Customs Authority).

Peruvian feed and poultry producers continue claiming that Argentine and domestically produced corn is cleaner and flintier than U.S. corn. However, due to trade preference advantages granted under the U.S.-Peru Trade Promotion Agreement, U.S. corn was imported into Peru at significantly lower prices, between \$30 and \$60 per MT.

Peru is also importing distiller's dried grains with solubles (DDGS), seeking to improve the quality of domestically produced animal feeds. Industry sources report that U.S. DDGS have good market prospects and that Peru could be a 100,000 MT market for U.S. DDGS. FAS Lima jointly with the U.S. Grains Council have carried out DDGs promotion activities aimed at increasing demand in the poultry and dairy sectors.

Policy:

Corn enters Peru duty-free. Peru's unilateral elimination of import tariffs on most commodities in 2011

eliminated many of the trade advantages afforded by the U.S.-Peru Trade Promotion Agreement (PTPA). However, Peru maintains a Price Band System for corn that is activated when commodity prices are low. The PTPA established a duty-free tariff rate quota (TRQ) of 500,000 MT for U.S.-origin corn with annual increases of 6 percent and full duty-free access within 12 years. The TRQ for 2017 is set at 796,924 MT, which was filled by the end of February. This exclusion from the price band system while in quota makes U.S. corn more competitive in the Peruvian market when compared to competitors, such as Argentina.

Peruvian Price Band System:

Peru’s Price Band System imposes a variable levy aimed at ensuring that corn imports enter the market at a minimum threshold price (floor price). Peru imposes this tax on certain “sensitive” products (i.e., corn, rice, sugar, and powdered milk). In-quota U.S. corn is imported duty free. After the WTO ruled in favor of Guatemala in the case filed against Peru’s price band for sugar, the Peruvian government amended the price band system to limit the levy of to 20 percent of c.i.f. value. Out-of-quota U.S. corn is assessed up to 6.3 percent price band.

Commodity: Milled Rice

Production:

Rice, Milled Market Begin Year Peru	2015/2016		2016/2017		2017/2018	
	Apr 2015		Apr 2016		Apr 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	395	395	400	400	0	400
Beginning Stocks	261	261	304	281	0	271
Milled Production	2156	2156	2180	2200	0	2200
Rough Production	3125	3125	3159	3188	0	3188
Milling Rate (.9999)	6900	6900	6900	6900	0	6900
MY Imports	262	239	300	300	0	280
TY Imports	298	292	260	310	0	300
TY Imp. from U.S.	0	7	0	10	0	10
Total Supply	2679	2656	2784	2781	0	2751
MY Exports	50	50	60	60	0	60
TY Exports	50	50	60	60	0	60
Consumption and Residual	2325	2325	2350	2450	0	2450
Ending Stocks	304	281	374	271	0	241
Total Distribution	2679	2656	2784	2781	0	2751
(1000 HA) ,(1000 MT)						

Rice production in MY 2017/2018 is forecast at 2.2 MMT (milled basis), remaining constant at MY 2016/2017 levels. Rice production is limited by water availability in the northern deserted coast and demand. The total rice harvested area for MY 2017/2018 is forecast at 400,000 hectares, remaining

constant with MY 2016/2017 area.

Sufficient water supply and good weather conditions resulted in a rice production of 2.1 MMT in MY 2015/2016. Rice production is concentrated in Peru's arid northwestern coastal region (mainly in Lambayeque and Piura provinces). Production contends with poor quality soils and increasing soil salinization due to field flooding irrigation techniques. Peruvian rice is surface irrigated, dependent upon water draining from Andean rivers hundreds of kilometers away. Average rice farm size is about five hectares.

The government of Peru has sought to expand rice cultivation along the eastern slope of the Andes (particularly in San Martin province), to relocate the coastal rice producers. But these low-income, small-scale farmers currently have no real incentive to switch to a less water intensive crop (e.g., quinoa or cotton). Water fees charged to farmers are almost non-existent and along with decent returns, hinder government attempts to shift production away from the arid coastal areas. FAS Lima industry sources indicate that water costs average about \$250/ hectare.

Rice is normally harvested April through May, averaging \$418 per MT in CY 2016, slightly higher than the previous year. Despite the bulk of rice cultivation being farmed by smaller producers, whose quality and yields fluctuate widely, yields averaging 7.8 MT/hectare are respectable (the world average is about 4 MT/hectare). Some farmers are reporting yields as high as 14 MT/hectare.

Consumption:

Rice is a staple product in Peru; per capita consumption averages at 60 kilograms/year. Rice is traditionally sold in 50-kilogram sacks. But with the expansion of supermarket chains, consumer habits are changing towards prepackaged, one-kilogram bags. Rice consumption increased slightly from MY 2015/2016 to MY 2016/2017 and is forecast to remain constant.

Trade:

Rice imports in MY 2017/2018 are forecast at 280,000 MT, 7 percent reduction compared to the previous year. Imports in CY 2016 were 291,966 MT, led by Uruguay with 62 percent of the market share. Uruguay has dominated imported the rice market in Peru historically due to U.S. rice's less competitive price and a longstanding relationship between the main Uruguayan supplier and Peru's major importer. The former is said to supply advantageous credit conditions.

Import Trade Matrix (Metric Tons)	
Commodity	Rice
Time Period	CY 2016
Imports from:	
United States	6,862

Imports from Others	
Uruguay	181,582
Brazil	64,705
Thailand	33,200
Paraguay	2,535
Total from Others	282,022
Others not Listed	3,082
TOTAL	291,966

Source: SUNAT (Peru Customs Authority).

Peru's sanitary agency (SENASA) published a Resolution on January 26, 2017, easing sanitary requirements related to grass seeds for U.S. paddy rice imported by Peru as a result of negotiations with USDA's APHIS. FAS Lima does not foresee this change to immediately benefit U.S. rice exports due to strong domestic and Uruguayan competition.

FAS Lima estimates that some 50,000 MT of paddy rice was unofficially exported from Peru to Ecuador in CY 2016.

Policy:

Rice enters duty-free. Peru's unilateral elimination of import tariffs on rice in 2011 eliminated many of the trade advantages afforded by the U.S.-Peru Trade Promotion Agreement. However, Peru maintains a Price Band System for rice that is activated when commodity prices are low. The PTPA establishes a duty-free TRQ of 72,000 MT for U.S.-origin rice with annual increases of 6 percent and full duty-free access within 17 years.