

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Dairy Update

**Country:** Peru

**Post:** Lima

**Report Category:** Dairy and Products

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**Report Highlights:**

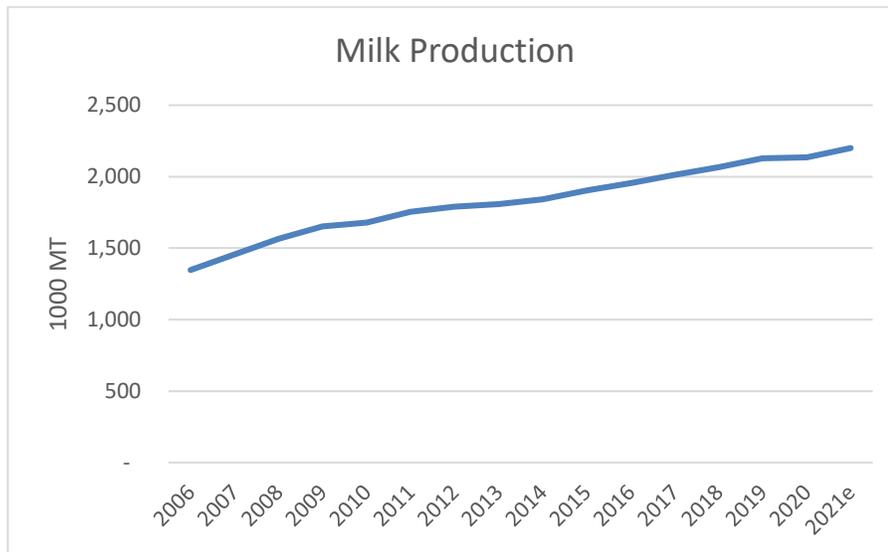
Milk production in calendar year (CY) 2021 is estimated at 2.2 MMT, an increase of three percent compared to the previous year. Peruvian dairy farmers are undergoing a severe financial crisis as a result of high commodity and freight prices combined with unusual devaluation of the Peruvian Sol. Peru does not produce enough milk to satisfy domestic demand. Powdered milk imports into Peru are estimated at 66,000 MT for 2021.

## Production:

Milk production in calendar year (CY) 2021 is estimated at 2.2 MMT, an increase of three percent compared to the previous year. Peru's herd of milking cows is estimated at 906,000 head of cattle. On average, only 53 percent of the milk produced on-farm goes to the commercial dairy industry. The remaining 47 percent of milk is used on the farm for calf feeding, self-consumption, and artisanal cheese making.

The Peruvian dairy industry is undergoing a severe financial crisis triggered by the rather long cycle of high commodity prices coupled with increased freight costs. International corn prices increased 50 percent between January 2020 and December 2021, reaching peaks of \$300 MT between April and July 2021 (97 percent higher than January 2020). Soybean prices increased 32 percent between January 2020 and December 2021, reaching highs of \$654 MT between November 2020 and September 2021 (78 percent higher than January 2020).

Dairy producers in Peru are also dealing with unprecedented devaluation of the Peruvian Sol as a result of ongoing political tension. The Sol has devalued 14 percent against the dollar in 2021. Most inputs for the dairy industry, such as corn, soybean meal, veterinary products and genetics are imported, adding an additional 14 percent to the already high commodity prices. At the same time, dairy farmers are paid in the Peruvian Sol, which has lost its purchasing power. Since feed costs account for 60 percent of total production costs, and milk prices paid to producers have remained stable at \$0.35 per liter, many producers have been forced to sell cows to pay their financial obligations, while many others have been forced out of business.



Source: Ministry of Agricultural Development and Irrigation

Milk production is concentrated in the regions of Cajamarca (17 percent), Arequipa (17 percent), and Lima (13 percent). There are some modern dairy farms along the coast with advanced technologies and high milk output (above 40 liters per day). However, the national average production is only 2,350 kilograms of milk per cow per campaign (305 days) or 7.7 kilograms per cow per day.

The majority of Peru's dairy is produced by small-scale farmers. About 51 percent of farms have less than nine milking cows and produce 39 percent of the country's total milk production. Ranchers with between 10 to 49 cows produce 38 percent of Peru's milk. Only 12 percent of ranchers own more than 50 cows. Those producers are responsible for 23 percent of Peru's national milk production. This fragmentation of production into small herds, primarily concentrated in the highlands of the Andes, presents logistical challenges to sourcing both quality feed inputs and delivering product to the market.

In general, medium and small producers have limited technical capacity. This results in low productivity and reduced profits. There are some efforts to provide technical assistance, particularly in genetic improvement, but its impact is still very limited. The Peruvian dairy processing industry is highly concentrated. The company Gloria is the lead processor, accounting for about 70 percent of total industrialized milk production. Processors Laive and Nestle combined account for 15 percent of the market. There are 160 small processors throughout the country that hold the remaining 15 percent of the market share.

In 2020, the price paid to milk producers averaged \$0.35 per liter. However, the price paid to producers varies significantly depending on quality, volume, and distance from the processing plant.

### **Consumption:**

Milk consumption in CY2022 is forecast at 2.8 MMT. Per capita milk consumption in Peru is 87 liters per year. Although Peru nearly doubled its milk consumption in the last decade, its milk consumption is still one of the lowest in the region. Consumption is below the minimum recommended by the United Nations' Food and Agricultural Organization, set at 120 liters per year.

### **Trade:**

Peru does not produce enough milk to satisfy domestic demand. Based on current production capacity, Peru must import roughly 30 percent of its supply to meet domestic demand. Powdered milk imports into Peru are estimated at 66,000 MT for 2021, an increase of 26 percent compared to the previous year. The United States led the market with 51 percent of market share, followed by Argentina and Chile with 19 and 9 percent, respectively. Whey imports are estimated at 11,336 MT for 2021. Chile is the main provider, with a 49 percent market share. The United States follows with a 15 percent market share.

Average c.i.f. price of imported powdered milk in Peru is estimated at \$3,550 MT for 2021, 10 percent higher than the previous year. Dry milk enters Peru duty free, however, it is assessed a variable levy that guarantees a minimum import price. In July 2021, the minimum price was raised from \$2,999 MT to \$3,100 MT, considerably below international prices, therefore it did not trigger the variable levy. U.S. dry milk imports are not affected by the variable levy system due to the bilateral trade agreement (Peru Trade Promotion Agreement).

### **Policy:**

There have been several attempts by dairy farmers to reinstate the prohibition of the use of imported powdered milk and other dairy inputs for recombination into fluid milk. This prohibition was phased out in 2007. Peruvian dairy processors recombine imported dairy inputs with local fluid milk to make evaporated milk, cheese, and

other products. Farmers claim that subsidized imported products undercut the price of locally produced milk; however, international commodity prices for imported products are at record highs.

Peru's milk production cannot satisfy national demand. In the last two decades milk consumption, fueled by economic growth, has outpaced growth in domestic milk production. Improved herd genetics, feed management, and milk quality are all factors that could lead to increased national supply of milk.

The Ministry of Agriculture and Irrigation has implemented a program to train small dairy producers in cheese manufacturing and marketing. This program, that focuses mainly on the highland regions, is part of the government's effort to promote family agriculture.

**Attachments:**

No Attachments.