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GAIN Report

Global Agricultural Information Network

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Food Processing Ingredients

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Report Highlights:

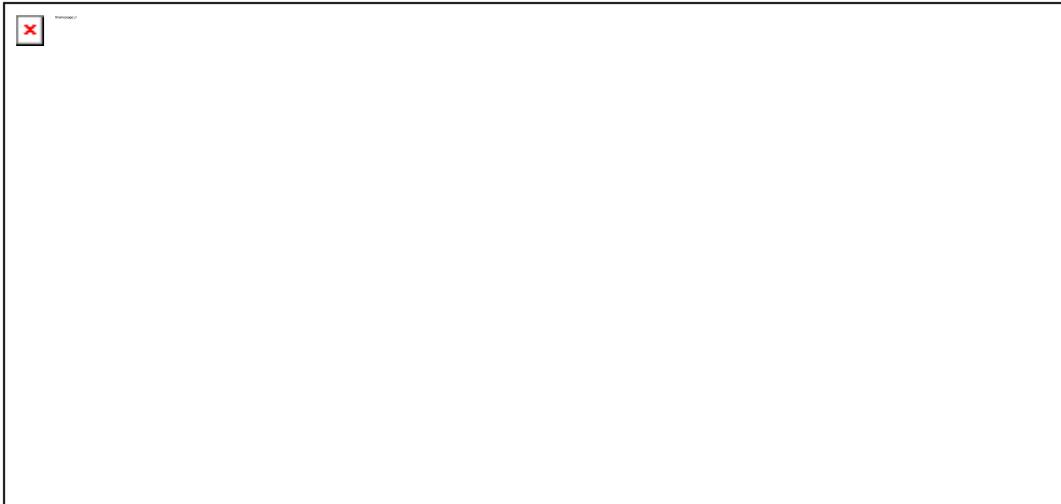
Peru's food industry rebounded and grew 12 percent in 2011 compared with the year ago level. Total sales of the 90 major food processing companies in Peru reached \$10 billion. Higher local demands, expanding food retail sector, and growing exports are the main engine of the upward trend.

Post:
Lima

Executive Summary:
Section I. Market Summary

Being driven by higher local demands, expanding food retail sector, and growing exports, Peru's food industry grew 12 percent in 2011 compared with the 2010 level.

Trade liberalization has significantly favored the good performance of the food industry in Peru. As a result of free trade agreements, Peru's international market destinations have tripled from 52 to 148 countries over the past 10 years. Main destinations include Latin America (mainly Colombia and Chile), the United States and the European Union (EU). Within the EU, Spain, France, and the Netherlands are the most important destinations for Peruvian exporting companies.



Source: INEI, *Forecasted by IEDEP

In spite of good performance of the sector, Peru's per capita consumption of food is still low in comparison with other countries in the region. For example, Chile's consumption is 2.6 times higher than Peru's. High income disparities and a lack of infrastructure in cities outside of Lima are the major causes for Peruvians' lower food consumptions. However, this could be considered as a future opportunity for companies, especially for U.S. exporters, who want to increase sales in the local market.

The growth expectancy of the food industry was not only in the domestic market but also in the export market as companies obtain good results abroad. In that sense, major companies such as Alicorp acquired two plants in Argentina whose operation is oriented to pasta and juices manufacturing with an average annual sells of \$35 million. Moreover, Gloria Company announced a \$71 million investment overseas for enlarging and improving its product lines.

The food processing sector comprises the following subsectors:

- Processed meat
- Dairy products
- Milling products
- Others

The processed meat subsector and dairy products account for 60 percent of the food industry. The first had an excellent performance and climbed 23 percent during 2011. The processed meat sector maintains a growing trend since 2009. The dairy subsector grew 3.8 percent in 2011 compared with 2010. The leading dairy product companies have been able to further diversify their product lines. In addition, growth of supermarket chains has been beneficial for food processors as more outlets were opened and distribution channels have expanded mainly outside of Lima.

The milling industry was sluggish in 2011, growing only 0.3%. This is mainly due to high international prices. The production of bulk and consumer packaged pasta rose 8.5 and 4.4 percent respectively while the production of milled rice went down 7.5 percent due to low yields obtained during 2011.

The oil and fat market was down 3.9 percent in 2011 compared with 2010. A stiff competition posed by foreign competitors such as Brazil, Argentina and Bolivia was the main reason for this reduction in production. Moreover, the decline in margarine production (down 9.7 percent) also contributed to the downward trend.

The performance of the beverage industry has been positive over the past twelve years. This is mainly due to a growing domestic beverage market, especially those of soft drinks and mineral waters. In 2011, this sector maintained its growing trend and expanded 6 percent. The development of modern food retail channel and a strong competition among major beverage companies have also contributed to this sector's growth.

Bottled water category continued to be attractive for major beverage companies because of its growth potential and profitability. In the past five years, productions of mineral water and sodas have increased 11.7 percent and 2.5 percent, respectively.

Production of distilled beverages and spirits has declined 4.1 percent in 2011 compared with 2010. This is mainly due to an increase of Pisco consumption whose market share has increased steadily for the past several years. Consumption of spirits in Peru can be divided in two groups: low-priced spirits, which have achieved good penetration among rural provincial communities, and high-value products that appeal to upper- and middle-income consumers in urban areas. The first group is constituted by low-priced rum, vodka and economy pisco, while the latter group is formed by whisky, tequila, standard pisco and rum.

Peru's wine production dropped 1.8 percent in 2011 after the surprising 21 percent growth achieved in 2010. Peruvian wineries have started exports to China and Hong Kong markets as well as South Africa, Brazil, and Australia. New products are resulting in the increased market shares domestically as well as in overseas' market.

Peru's brewing industry has also shown an increase of 4.6 percent, reaching the total sales of \$1.3 billion in 2011. As a part of its marketing strategy, one brewery used the name of local soccer team as the way to entice lower income consumers. At 42 liters, Peru has the lowest per capita beer consumption in the region.

According to Peru's Customs data, total agricultural imports to Peru from the United States grew to \$875 million in 2011, up 11 percent from the 2010 level. Moreover, consumer oriented products reached \$129 million in 2011 growing 21 percent compared to 2010. The United States became

the second largest supplier of consumer oriented products, accounting for 15 percent of the market share. Chile and Colombia were the first and third largest suppliers, respectively, to Peru.

Companies	Sales in 2011 (\$ Million)
Beverages (Top 10)	2,271
Foods (Top 30)	4,523
Agribusiness (Top 50)	3,192
Total	9,986

Source: Estimated values based on *The Top 10,000 Companies 2012* version, Peru Top Publications

The U.S. – Peru Trade Promotion Agreement (TPA), which went into force in 2009, immediately provided duty free access to two-thirds of U.S. food and agricultural products. The TPA, supported by continued favorable market conditions in Peru, could significantly expand U.S. food exports in the food processing sector for food ingredients, food preparations, confectionary, fruit and vegetable juices and preparations, dairy products (especially cheeses, whey and lactose) and beef, pork and poultry meat products.

Advantages and Challenges Facing U.S. Products in Peru

Advantages	Challenges
<ul style="list-style-type: none"> • TPA grants duty free access to most high-value foods. • Appreciation for U.S. food quality and culture. • Food ingredients will enter duty free upon TPA entry into force. Food ingredients are demanded for growing local production and exports. • Lower consumption rates in some categories such as: read meals, frozen food, snacks, beer, etc. • Higher rates of income employment and credit growth, especially of middle-class. • Consumption of dietetic, light and healthy products is a growing trend. <ul style="list-style-type: none"> • The food processing industry is concentrated, with around 80 percent of the companies accounting for 75 percent of sales. 	<ul style="list-style-type: none"> • Local processed food consumption is still small, especially frozen food. • Lack of brand awareness among consumers. • New local food brands appearing in the market at very low prices. • Lower production costs for Local companies. • Local companies have increased their market share due to better understanding of local consumer. • Stiff competition from other countries within the region. • Smuggling.

Section II. Road Map for Market Entry

A. Entry Strategy

- To successfully enter the Peruvian food market, U.S. exporters should directly contact the local food processing company or indirectly establish connections through brokers, agents, or representatives.
- Personal visits are highly recommended. The local partner should be well known by the U.S. Company before any permanent contractual arrangement is made.
- The local partner should be able to provide updated information on consumer market trends, identify niche markets, and supply information on current market development and business practices.

B. Market Structure

- Local processed food products cover around 85 percent of the market demand.
- Processed food imports are concentrated in the hands of a handful of distributors, importers, or wholesalers that usually distribute to both retail and food service sectors.
- Specialized importers usually provide food ingredients to the Peruvian market. Some of them are also producers or wholesalers/distributors.

C. Company Profiles

Profiles of Major Food Processing Companies

Company Name, Products	2011 Est. Sales (\$ Million)	End-Use Channels	Production Location	Procurement Channels
Alicorp S.A. Cooking ingredients, sauces, dried goods, canned fruit, prepared meals, ice cream	1,382	Retail HRI Traditional market	Lima Trujillo	Direct Importers
Gloria S.A. Dairy products, canned fish, pork products, fruit juices	906	Retail HRI Traditional Market	Lima Arequipa Cajamarca	Direct Importers
San Fernando S.A. Poultry, pork and their by- products.	517	Retail HRI Traditional Market	Lima	Direct Traders
Nestle Peru S.A. Breakfast cereals, confectionary, dairy products, smashed potatoes, instant beverages, bakery goods (pannettonne)	444	Retail HRI Traditional Market	Lima	Direct Importers
Molitalia S.A. Flour, pasta, ketchup, semolina	234	Retail HRI Traditional Market	Lima	Direct Importers
Perales Huancaruna S.A. Coffee Processor	245	Retail HRI Traditional	Amazonas	Direct

		Market		
Redondos S.A. Poultry and by-products	162	Retail HRI Traditional Market	Lima	Direct Importers
Laive S.A. Dairy products, pork products, fruit juices	120	Retail HRI Traditional Market	Lima	Direct Importers
Molinera Inca S. A. Flour and other grain mill products	93	Retail HRI Traditional Market	Trujillo	Direct Importers
Kraft Foods Peru S.A Cookies, instant desserts and beverages, mayonnaise and ketchup, coffee	113	Retail HRI Traditional Market	Lima	Direct Importers
Industrias del Espino S.A. Oils, fats	101	Retail Wholesaler	San Martin	Direct
Panaderia San Jorge S.A. Galletera del Norte S. A. CIA Molinera del Centro S.A. Bakery goods (cookies and pannetonne) Flour and other grain mill products	68	Retail HRI Traditional Market	Lima Trujillo	Direct Importers
Industrias Teal S.A. Cookies, candies, pasta, flour, pannettone, chocolate	90	Retail Traditional Market	Lima	Direct Importers
Cogorno S. A. Flour, pasta and other grain mill products	69	Retail HRI Traditional Market	Lima	Direct Importers
Ajinomoto del Peru S.A. Condiments, seasonings	69	Retail HRI Traditional Market	Lima	Direct
Compañía Nacional de Chocolates de Peru S.A. Confectionary chocolate	62	Retail Traditional Market	Lima	Direct Importers
Anita Food S.A. Noodles, pasta	68	Retail Traditional Market	Lima	Direct
Machu Picchu Foods S.A.C. Coffee, cocoa, chocolate	71	Wholesaler	Lima Ica	Direct
Sociedad Suizo Peruana de Embutidos S.A. Pork and beef products	48	Retail HRI Traditional Market	Lima	Direct
Panificadora Bimbo del Peru S.A. Bakery godos	44	Retial HRI Traditional Market	Lima	Direct Importers
Corporacion ADC S.A.C. Flour, noodles, bakery godos, animal feed, pulses, semolina	45	Retail Traditional Market	Tacna	Direct
Central de Cooperativas Agrarias Cafetaleras Coffee , Cacao, Honey Bee, Tea, anise, camomile, animal feed	47	Retail HRI Traditional Markets	Cuzco	Importers
Molino El Triunfo S.A. Flour, semolina, noodles	41	Retail Traditional Market	Lima	Direct Importers
Braedt S. A. Cheese and pork products	38	Retail HRI	Lima	Direct Importers
Derivados del Maiz S. A.	38	Retail	Lima	Direct

Corn, potato and sweet potato products as ingredients		Traditional Market		Importers
Confiperu S. A. Confectionary	36	Retail Traditional Market	Lima	Direct Importers
Industrial Alpaymayo S.A. Oils, fats	34	Retail HRI Traditional Market	Lima	Direct
Ameral S.A.A. Oils, chocolate, confectionery, condiments, seasonings	21	Retail HRI Traditional Market	Lima	Direct Importers
Molino Las Mercedes S.A.C. Bakery goods	13	Retail HRI Traditional Market	Arequipa	Direct

Sources: Estimated sales for 2011, based on Peru: The Top 10,000 Companies 2012, Peru Top Publications

Profiles of Major Beverage Companies

Company Name, Products	2011 Est. Sales (\$ Millions)	End-Use Channels	Production Location	Procurement Channels
Union de Cervecerias Peruanas Backus & Johnston S.A.A. (Corporacion Backus) Beer and soft drinks	1,003	Retail HRI Traditional market	Lima La Libertad Lambayeque	Direct Importers
Corporacion Jose R. Lindley S.A. Beer	556	Retail HRI Traditional market	Arequipa	Direct Importers
Ajeper S.A. Soft drinks, bottled water	206	Retail HRI Traditional market	Lima	Direct Importers
Compañía Cervecera Ambev Peru S.A.C Beer and soft drinks	205	Retail HRI Traditional Market	Lima	Direct
Cerveceria San Juan S.A.A. (Corporacion Backus) Beer	123	Retail HRI Traditional Market	Lima	Direct
Embotelladora San Miguel del Sur S.A.C. Soft Drinks	58	Retail HRI Traditional Market	Arequipa	Direct
Ajeper del Oriente S.A. Soft Drinks	39	Retail HRI Traditional Market	Ucayali	Direct
Embotelladora Don Jorge S.A.C. Soft Drinks	28	Retail HRI Traditional Market	Lima	Direct
Destilerias Unidas S.A. Alcoholic beverages	24	Retail HRI Traditional Market	Lima	Direct
Santiago Queirolo S.A.C. Alcoholic Beverages	27	Retail HRI	Lima, Ica	Direct

		Traditional Market		
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Sources: Estimated sales for 2011, based on Peru: The Top 10,000 Companies 2012, Peru Top Publications

D. Sector Trends

Dairy Products

The sales of dairy products grew 3.8 percent in 2011, mostly driven by the increased consumption of yogurt (up 16.7 percent), cheese (up 5.2 percent) and evaporated milk (up 2.3 percent).

Peru's exports of evaporated milk reached almost \$100 million, up 22 percent compared with a year ago level.

Evaporated milk continues to be the type of milk most consumed in Peru. The reason for this lies in the fact that the product does not require refrigeration, and in a country with low refrigerator penetration that is a significant asset. Another significant factor for consumers is that with evaporated milk the consumer can decide the dilution ratio of the final product, depending on the needs or the budget of the household.

Grupo Gloria SA is the undisputed leader with 67% value share expected in 2012. The company is very active and constantly launching new products and improving the existing ones. Additionally, the company carries well respected brands with significant brand extensions.

Condensed/evaporated milk still shows healthy growth in Peru and competitors to Grupo Gloria SA found the way to grow through innovation and focusing their efforts on health and wellness products. In that sense, reduced fat condensed/evaporated milk continued to gain ground in the country. Consumers are eager to find more value-added products and additionally they are looking for healthier products.

Beer

Peru's beer industry reported a 10 percent growth in volume in 2011, reaching 1.4 trillion litres. Consumption indeed showed an upturn with consumers switching from economy to standard beers and from standard to premium brands.

The consumption of beer in Peru is reaching record levels and also has been attracted by premium brands. The improvement in the economy affected consumption patterns, with consumers moving to premium or better quality products. This movement can be witnessed in different levels; in the case of low-income consumers, they reduced consumption of low quality informal beverages to better alcoholic drinks such as beer. In the case of medium to high-income consumers they have moved from economy beers to standard or premium beers.

Lager showed the fastest growth in 2011, growing by 10 percent. In Peru, consumers are most used to this type of beer; although dark beer does exist, it is mostly imported and it is not so popular among regular Peruvian beer drinkers.

Glass bottle is the most popular packaging in Peru for beers, with the most popular bottle size being 620ml. People enjoy sharing the bottle with friends and relatives, pouring it in glass. The second most popular format is smaller bottles of 330/355ml. Some brands promote cans but it is a packaging format that is only just emerging in Peru; important advertising has appeared in 2011 promoting this type of packaging, claiming that it gets cold faster than glass bottles.

Wine

At 36 million liters, Peru's wine production declined by 3 percent in volume in 2011 compared with

2010. While premium wine consumption has continued to grow, popular wines showed higher rates of decline.

In 2011, 62 percent of the total volume sales of still red wine consumed in Peru were Borgoña; however, the sales of this variety have shown a steady decline (average decline rate of 7% per year) since 2008. Borgoña is a sweet wine variety that should not be confused with the wine produced in the Borgoña (Burgundy) region of France. According to industry sources, Borgoña wine is considered as the "transition wine" between other alcoholic drinks and dry wine varieties.

The most popular packaging is 700-750ml glass bottles. Lower priced brands are usually packaged in brick liquid containers. Less frequently, they are bottled in large five-liter-glass jugs.

Supermarkets and hypermarkets in Peru are expected to grow; in addition, small independent grocers are also growing and evolving into formal stores. In the past ten years, around 10,000 independent small grocery stores have emerged. Dynamic behavior for the off-trade channel is expected for wine in Peru. In the on-trade channel, different restaurants which focus on wine will open over the forecast period. There are several restaurants that are currently broadening their wine lists and opening new premises; however according to industry sources, prices are tripled of those of supermarkets, and this difference is even more pronounced when compared to the wine prices at small grocery stores.

Baked Goods

Baked goods grew by 2 percent in retail volume and in 4 percent in value, to \$2.4 billion during 2011. Unpackaged/artisanal bread continues to dominate sales amongst baked goods, accounting for 80 percent of overall sales (in value). Supermarkets / hypermarkets continue to gain penetration with its production of artisanal baked goods.

Bread is a staple in Peruvian diet. Traditionally, most consumers choose artisanal bread as they appreciate its freshness. Artisanal bread can be found at small grocers, bakeries, and supermarkets/hypermarkets.

Independent small grocery stores account for 57 percent of overall baked goods sales in 2011. The majority of those are unpackaged/artisanal bread. It is worth noting that a few of these grocery stores are bakeries, while others are bodegas that deliver freshly baked bread daily. The main factors that explain the performance of this distribution channel is its proximity to the population and the fact that its products are more economically priced than those of supermarkets/hypermarkets.

Supermarkets/hypermarkets are ranked second position with a 22 percent of the market share (in value) in 2011. Other grocery retailers, mainly represented by market stalls, are ranked third and took a 20 percent of the market share (in value), benefited by carrying affordable brands and offering discounts for bulk sales.

Biscuits

Biscuits grew by 4 percent in retail sales in terms of volume and 6 percent in terms of value, to nearly \$570 million in 2011. Sweet biscuits (cookies) account for 61 percent of overall sales in terms of value. Savory biscuits and crackers were the fastest-growing category during 2011, with 7 percent growth. Alicorp SAA and Kraft Foods Perú SA led sales with a combined market share of 66 percent.

Increasingly hectic lifestyles led by Peruvian consumers living in urban areas have resulted in some of them turning towards biscuits accompanied by a juice or soda as a replacement for a sit-down lunch. This trend is helped by the fact that biscuits have a wide availability through independent

small grocers and street vendors located at walking distance from most urban workplaces.

Private labels offered by supermarkets/hypermarkets Wong, Metro, and Plaza Vea focus on offering products within the most affordable categories such as savory biscuits and sandwich biscuits.

Frozen Processed Food

Peru is the country with the lowest per capita consumption of frozen processed food in Latin America. Traditionally, Peruvian consumers prefer “fresh food” which is generally purchased daily at wet markets and independent small grocery stores. Peruvian consumers are not only attracted to the natural flavor of fresh food, but they also believe that fresh ingredients contain higher nutrition value than frozen food. This cultural norm stands against the development of frozen processed food in the country. Despite this, the increasingly hectic lifestyles of Peruvians living in urban areas and the increasing numbers of women joining the workforce determine that more consumers are now purchasing frozen processed food, as they are practical and convenient.

The frozen food market grew 9 percent, to \$20 million during 2011. Frozen processed red meat and frozen processed poultry are the most popular categories in frozen processed food in Peru, together accounting for 95 percent of total retail sales. Frozen hamburgers are easy to prepare and cheaper than hamburgers eaten at restaurants. Frozen chicken meat is also popular in Peru as it comes with wide range of product presentations which include burgers, nuggets, fillets and breaded chicken.

Supermarkets/hypermarkets represent the predominant distribution channel for frozen processed food in Peru, accounting for 85 percent of total retail sales in terms of value during 2011, while bodegas (traditional food retail channel) accounted for the remaining 15 percent. This can be explained by the fact that supermarkets/hypermarkets generally have the refrigeration equipment required to adequately preserve frozen processed food, while very few bodegas can afford to invest in this type of equipment. Furthermore, manufacturers of frozen processed food are not interested in providing the refrigeration equipment to small grocers as low demand would hardly justify the expense.

Breakfast cereals

Breakfast cereals continue to gain consumers among the middle-income segment. Based on the offering of affordable products, different packaging formats and even value-added ingredients, more consumers are interested in including this item in their everyday breakfast. Similarly, hot cereals, a popular breakfast cereal among middle- and lower-middle-income consumers, constitute a category that gradually is attracting the interest of health-conscious consumers who prefer fortified ingredients such as maca (a native plant from the Peruvian Andes that boosts energy) and kiwicha (a plant from the Peruvian Andes with high content of protein and vitamins). Most brands available in the market such as 3 Ositos and Quaker carry at least two varieties of fortified hot cereals.

Breakfast cereals registered an increment of 7 percent growth for the past two years. As more people live in urban areas and lead busier lifestyles, they try to take a balanced breakfast by increasing their consumption of this product.

Canned Preserved Food

Canned/preserved fish/seafood is the most popular item in this category, accounting for 76 percent of total canned/preserved food retail sales. Peru has the third highest per capita consumption of canned/preserved fish/seafood in Latin America. This can be explained as follows: First, Peru is a coastal country on the Pacific Ocean and as most of its population lives in close proximity to the coast, they are used to consuming fish and seafood. Second, canned/preserved fish has a well established widespread distribution channel both within traditional and modern grocery retail

stores. Third, canned/preserved fish/seafood benefits from intense competition which determines that unit prices remain fairly stable and the leading companies generally launch new products quite regularly. The most common types of canned fish in Peru include tuna, mackerel, sardines and anchovies, all of which can easily be preserved either in oil or in water.

Sales of canned/preserved food have increased by 7 percent in 2011 compared with 2010. Products in canned/preserved food are gradually increasing in popularity as more consumers value the convenience it offers. Higher incomes allow consumers to purchase more canned/preserved food.

GW Yichang & Cia SA led sales of canned/preserved food in Peru during 2010 with a market share of 30 percent, thanks to the popularity and high quality of its Florida brand and the high level of distribution the brand has achieved within the country's main distribution channels.

Domestic companies have a strong hold on canned/preserved food, since fishing and agriculture are main economic activities in Peru, which gives them a significant advantage over the multinationals. In addition, domestic companies are first to introduce product innovations, such as canned fish in tomato sauce, or spicy tomato sauce with onion. Furthermore, the prices of the domestic brands are considerably lower than those of international brands, thus attracting low- and middle-income consumers.

Dried Processed Food

Dried processed food accounted for 11 percent of Peru's packaged food market in 2011. This performance can be explained by the fact that rice is a staple in the Peruvian diet and is an essential item for lunch and dinner across every socioeconomic segment in the country. It is also worth noting that middle income and low income consumers in Peru still prefer unpackaged rice as it carries substantially lower unit prices than packaged options and it can be purchased the exact weight desired such as 200g, 500g or any weight which suits an individual customer.

Rice companies offer several different package sizes and types of rice with a variety of prices that include economy, standard, and premium, in order to cater to the widely varying preferences and budgets of Peruvian consumers.

Dessert mixes accounts for less than 1 percent of retail sales of dried processed food in Peru. There are two main underlying reasons for this situation. First, the most popular dessert mix is jelly, which carries very low unit prices. Jelly benefits from its widespread availability and appeals mainly to low income and middle income consumers. Second, busier lifestyles coupled with higher disposable incomes determine that middle income consumers generally purchase ready-to-eat desserts, many of which are artisanal products prepared at bakeries and independent small grocers, rather than taking the time to prepare a dessert at home.

Oils and Fats

Vegetable oil and canola oil remain the most popular oils and fats category in Peru and this segment accounted for 85 percent of the market share in terms of volume in 2011. Vegetable and canola oil is a staple in most households in Peru and is traditionally used on a daily basis in the preparation of meals. There is a wide array of brands and packaging sizes available, targeting low, middle and upper income consumers. Moreover, vegetable and oil is widely available both within traditional and modern grocery retail outlets. Despite this, more niche categories offered the best opportunity for higher growth. Producers focus on developing healthier options, such as low-calorie products and fortified products, in order to retain the interest of health-conscious consumers.

This category is expected to register retail sales growth of 3.9 percent in value in 2011, compared to the decline of 1 percent seen in 2010. In terms of retail sales in volume, oils and fats grew 3

percent in 2011, similar to that seen in 2010. The largest category, vegetable and rape oil is only reached a modest retail sales growth of 3 percent in 2011, as a result of upper income consumers migrating to healthier alternatives, such as olive oil.

The local company Alicorp remained the leading player in oils and fats in 2010, accounting for 56 percent of market share in value . Alicorp continued to enjoy a very strong position in vegetable and seed oil, the largest category. The company offered a well balanced portfolio of brands, including Primor, Cocinero, Capri, Cil and Friol, which targeted different segments. In addition, the company's excellent distribution network ensured its presence through every grocery retail channel.

Ready Meals

Peru is the country with the lowest per capita consumption of ready meals in Latin America, mainly due to two reasons. Firstly, traditionally, Peruvians prefer consuming fresh food, as they perceive it to be more nutritious than frozen products or ready meals. Secondly, the high prices of these products represent a big obstacle to their development: there are many affordable options at foodservice establishments, which can be cheaper than a ready meal or include several courses like an appetizer, main meal and soft drink. Despite this, time constraints of Peruvians living in urban areas; cause some of them to turn to ready meals. Due to the small size of the ready meals market, there are plenty of opportunities for other brands to enter the market and rapidly gain considerable share.

Ready meals posted a 5 percent growth in 2011, which was better than the 4 percent growth in value registered during 2010. However, the growth in terms of volume did not exceed the growth recorded in 2010. This suggests that increasing unit prices was the main factor behind the higher growth in terms of value in 2011. There was no significant investment by any of the major companies in ready meals during 2010 or the first half of 2011.

Dried ready meals were the fastest growing category in Peru in 2011, increasing by 5 percent in value from a year ago level. Dried ready meals continue to benefit from the fact that there are several traditional Peruvian dishes available in dried ready meals.

Sauces, dressings and condiments

Peruvian consumers are fond of spicy sauces to complement their meals. However, traditionally Peruvian consumers rely on home-made sauces which use Peruvian ingredients, such as different types of ají (hot spices which can be yellow, red, or orange), or rocoto (another hot Peruvian spice, which is red). However, packaged sauces, dressings and condiments registered healthy rates of growth in recent years, based on a following few factors: First, local company Alicorp SAA has been at the forefront of the development of sauces which look to capture the flavor of home-made sauce, but offer the practicality of a ready-to-use sauce. Its most successful launches have been a Peruvian-style mayonnaise, a rocoto sauce, and ají sauce. Second, busier lifestyles, especially in urban households, meant that a growing number of Peruvian consumers rely on sauces, dressing, and condiments to save time when cooking. Third, companies have eagerly launched a good variety of packaging formats and sizes, targeting every socio-economic segment.

In 2011, the category saw a 7 percent growth, which was slightly above 2010 results. Peruvian consumers are increasingly relying on readymade sauces, dressings and condiments as opposed to artisanal products, owing to concern about the sanitary conditions in which artisanal products are made. Moreover, leading companies in sauces, dressings and condiments offer periodic discounts on bulk sales and products in a variety of packaging size formats in order to meet the budgetary requirements of different consumers.

Alicorp was the leading player in sauces, dressings and condiments in 2011 with a market share of

41 percent. The company has cultivated loyalty among many consumers due to its offer of good quality products that are carefully developed based on traditional homemade recipes. In addition, the company is benefited from a widespread distribution network, its affordable product pricing, wide array of packaging, and package sizes.

Consumer migration from artisanal to branded packaged products, continued search for convenient products, and development of new products that cater to the tastes of Peruvian consumers are all factors that expect to help boost demands for sauces, dressings and condiments in the future.

Spreads

Jams and preserves remained the dominant category within spreads in terms of retail volume sales. Jams and preserves are a traditional part of the Peruvian diet, usually consumed at breakfast and teatime. Rising health awareness and public concern over diet-related conditions like obesity and diabetes led to increased demand for jams and preserves products with reduced sugar content. Another notable trend in the category was the introduction of new flavor variants based on traditional Peruvian plants and fruits like coca and aguaymanto by smaller local companies. Upper-income consumers continue to increase their demand for categories that constitute niches such as chocolate and nut-based spreads. In addition, higher incomes have resulted in some middle-income consumers opting to buy larger packaging formats or beginning to demand low-calorie versions of their preferred jams and preserves. These trends resulted in an 8 percent growth of the category during 2011.

Grupo Gloria continued to lead sales in 2011 with a market share of 33 percent (in terms of value), due to its longstanding presence in the market and the availability of different packaging formats and sizes within traditional and modern retail grocers to appeal to a large consumer base. Ranking in second position was GW Yichang & Cia with a 25 percent market share. This company frequently introduces new flavors and has developed an interesting line of light brands to meet preferences of health-conscious consumers.

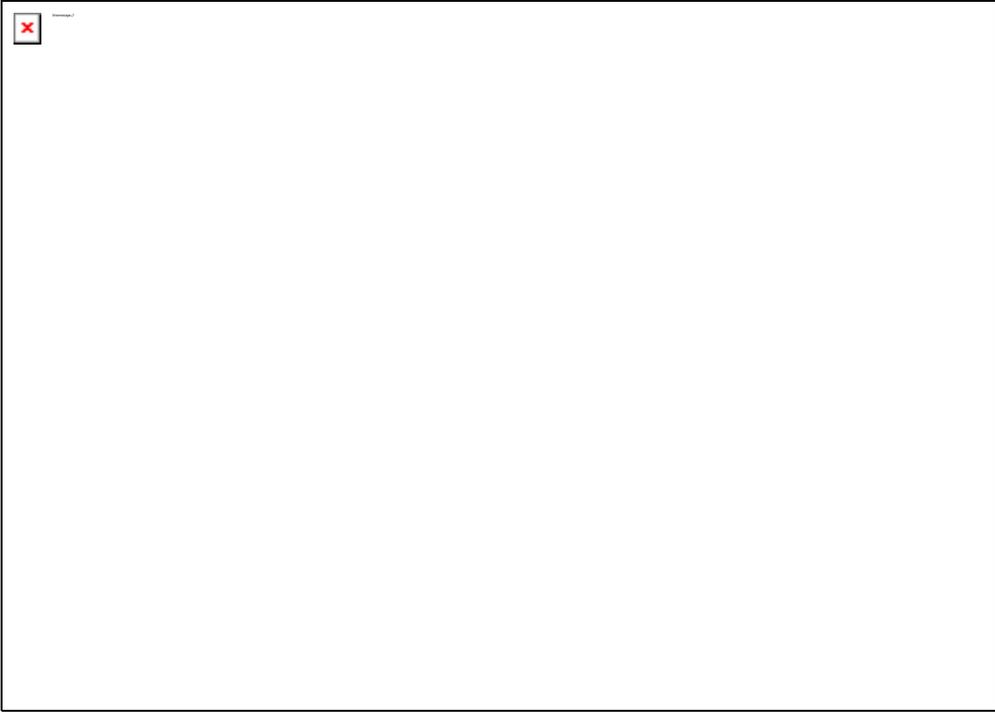
Sweet and Savory Snacks

Per capita volume consumption of sweet and savory snacks in Peru is relatively low compared to that of neighboring countries. Thus, there are plenty of possibilities for further development of the category through the launch of products that better meet the preferences of Peruvian consumers.

Peru has the third lowest per capita consumption of sweet and savory snacks in the region, standing at 0.5kg, while the average for the region is around 1.5kg. This determines that there are plenty of opportunities for the category to develop. The latest focus of the main companies in the category was the launch of products which better meet Peruvians' tastes and preferences. This trend began in 2008 with the launch of chips based on native Peruvian potatoes by Snacks America Latina SRL, a move which was later replicated by local companies such as Deprodeca SAC. Snacks America Latina SRL remained the undisputed leading player in sweet and savory snacks in 2010, with a retail market share of 59 percent (in value). Its leading position is due to its strong distribution network, the offer of products in various packaging sizes and frequent product innovation in order to better satisfy the preferences of Peruvian consumers.

In 2011, sales of savory snacks registered a 7 percent growth which was basically driven by the development of new products in line with preferences of consumers. Also, extruded snacks and fruit snacks achieved the fastest current retail value growth, both with growth of 8 percent.

Section III. Competition



Source: World Trade Atlas (2011)

- Peru grants tariff preferences to the Andean Community of Nations (CAN - Bolivia, Colombia and Ecuador), and to Mexico, Paraguay, Argentina, Brazil, Uruguay and Cuba.
- Peru’s trade policy is oriented towards open markets. Peru has signed different commercial and trade agreements, while others have not entered into force yet and just a few still in negotiations:

Country	Type	Status
Andean Community (Bolivia, Ecuador and Colombia)	Free Trade Agreement	In force
MERCOSUR (Argentina, Brasil, Uruguay, Paraguay)	Economic Complementation Agreement	In force
Cuba	Economic Complementation Agreement	In force
Chile	Free Trade Agreement	In force
Mexico	Trade Integration Agreement	In force
United States	Free Trade Agreement	In force
Canada	Free Trade Agreement	In force
Singapore	Free Trade Agreement	In force
China	Free Trade Agreement	In force
South Korea	Free Trade Agreement	In force
European Free Trade Association (EFTA)	Free Trade Agreement	In force
Thailand	Third Protocol	To come into force

Japan	Economic Partnership Agreement	To come into force
European Union	Free Trade Agreement	To come into force
Costa Rica	Free Trade Agreement	To come into force
Panama	Free Trade Agreement	To come into force
Guatemala	Free Trade Agreement	Negotiating
El Salvador	Free Trade Agreement	Negotiating
Honduras	Free Trade Agreement	Negotiating

- The PTPA reinforces U.S. competitiveness within the Peruvian market. The quality of U.S. products is already appreciated among the high-end consumers.
- For a complete list of products that have benefited from PTPA, please check http://www.ustr.gov/Trade_Agreements/Bilateral/Peru_TPA/Section_Index.html.

Competitive Situation facing U.S. Suppliers in the Food Processing Market in 2011

Product Category/ Net Imports	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Dairy Products (Excl. Cheese) (\$144.3million)	New Zealand: 35 percent U.S.: 19 percent Argentina: 12 percent Chile: 9 percent Ireland: 5 percent Bolivia: 12 percent	- New Zealand is a major supplier of dairy ingredients, especially HS 040210 milk accounting 35 percent of total imports.	- Only two companies are major producers of evaporated milk and yogurt.
Cheese 3,335 tons (\$16.3 million)	U.S: 44 percent Argentina: 18 percent Netherlands: 9 percent Uruguay: 8 percent New Zealand: 5 percent	Argentina and Uruguay are part of MERCOSUR and have tariff preferences.	Local homemade cheeses are commonly sold. Gourmet cheeses are not made locally.
Snack Foods 20,606 tons (\$66.70 million)	Colombia: 53 percent U.S.: 7 percent Chile: 7 percent Ecuador: 6 percent Brazil: 5 percent	- Tariff preferences are applied to neighboring countries.	- Local producers are major food processors. They import food ingredients for snacks and snacks in bulk.
Processed Fruits and Vegetables	Chile: 61 percent	<ul style="list-style-type: none"> • Chile sells at cheaper prices due to proximity 	- Local processors are major exporters, but their

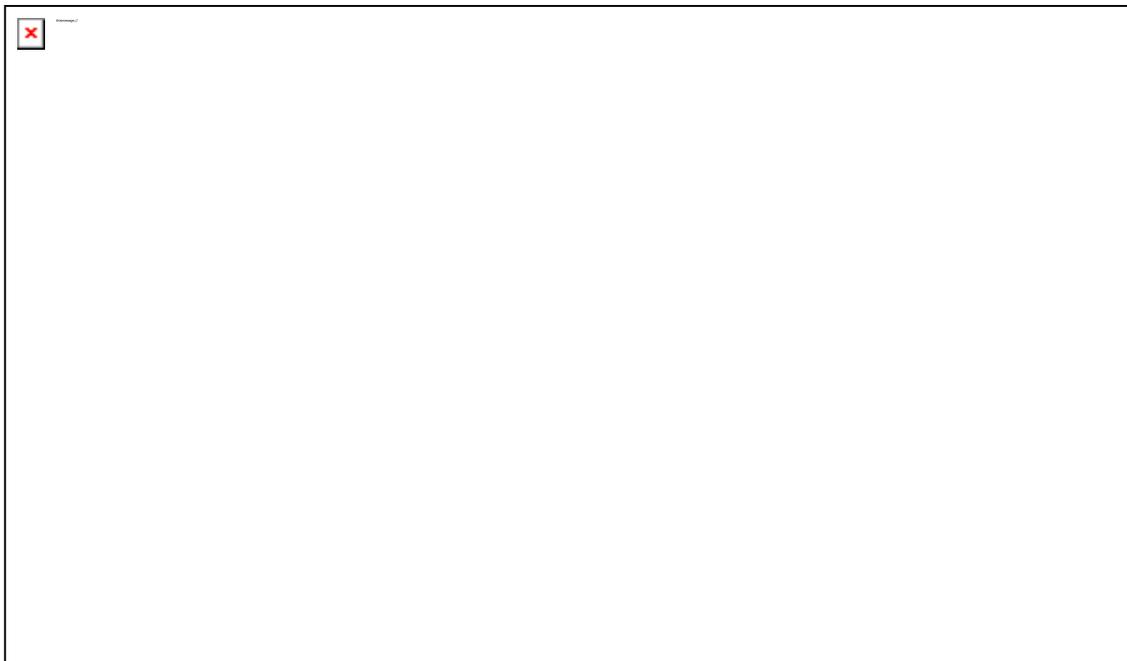
52,747 tons (\$80.2 million)	U.S.: 10 percent Netherlands: 7 percent Argentina: 5 percent China: 4 percent	and tariff preferences. - EU products are viewed as good quality. - Netherlands has increased its potato exports.	local supply is limited.
Fresh Fruits 66,083 tons (\$47.6 million)	Chile: 86 percent U.S.: 7 percent Argentina: 5 percent	- Chile is the main supplier because of proximity, price and duty free entrance. - Argentina has a window for pears and apples.	- There is an open window from November to February for that will benefit the United States - Local fruit sold in retail markets is of lower quality.
Fruit and vegetable juices 1,429,940 L (\$ 3.7 million)	Brazil: 38 percent U.S.: 20 percent Chile: 17 percent Argentina: 12 percent Mexico: 7 percent	- Chile has tariff and proximity advantages. - Brazil has increased its exports of orange and pineapple juice	- Local brands are well positioned in the market at competitive prices.
Wine and Beer 26.59 Million liters (\$36.9 million)	Argentina: 39 percent Chile: 24 percent Spain: 10 percent Italy: 9 percent Brazil: 7 percent France: 4 percent Netherlands: 2 percent Mexico: 2 percent U.S.: 1 percent	- Proximity and recognized quality of Chilean and Argentinean wines. - Brazil is the major supplier of imported beer.	- Major local breweries are well positioned, price competitive, and belong to international companies, representing 95 percent of the market. - Local wine is well positioned and price competitive, but does not satisfy demand.
Red Meats (fresh, chilled or frozen) 21,531 tons (\$54.9 million)	U.S.: 28 percent Brazil: 28 percent Chile: 14 percent Colombia: 11 percent Argentina: 9 percent Paraguay: 6 percent	- Proximity and low prices of nearby countries.	- Peru's market for U.S. meats reopened in October 2006. - U.S. meats are of superior quality. - Peru imports three times more offal than meats. - Local meat does not satisfy the demand. - USMEF representative exclusive for south America
Red Meats (prepared, preserved) 1,459 tons (\$6.65 million)	Bolivia: 39 percent U.S.: 13 percent Chile: 11 percent Spain: 10 percent	- Bolivia processors have become main suppliers for fast food chains due to lower prices. Chile has tariff and proximity advantages.	- The pork products industry also imports prepared meats. - U.S. product tariffs will decrease throughout 5 to 7 years.

	percent Argentina: 11 percent Denmark: 10 percent Italia: 8 percent		
Poultry Meat 19,654 tons (\$24.9 million)	Chile: 33 percent Brazil: 28 percent U.S.: 20 percent Argentina: 13 percent Bolivia: 7 percent	- Imports of U.S. poultry products reopened in October 2006. - Brazil and Chile are major suppliers of poultry cuts. Tariff preferences and proximity are major features.	- TRQ for U.S. chicken leg quarters - Local poultry producers are major suppliers with good distribution channels. - Imports are mainly chicken and turkey parts.

Note: Net imports correspond to the three food sectors: Food Service, Retail and Food Processing.

Source: World Trade Atlas

Section IV. Best Product Prospects



Source: World Trade Atlas (2011)

A. Products Present in the Market Which Have Good Sales Potential:

Product/ Product Category	Market Size 2011 est.	Imports 2011	Average Annual Import	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for the U.S.
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			Growth (2006-11)			
Cheese (HS 0406)	21,531 MT	3,335 tons (\$16.3 million)	23 percent	040610, 20 and 40 percent 040630 040690 0 percent	- U.S. competitors are: Argentina (18 percent) and Netherlands (9 percent). - Strong preference for EU cheese at high- end HRI and Retail Sectors.	- U.S. cheeses are mainly used in the food processing sector, but have potential in the HRI and Retail Food Sectors. - In 2011, the United States was the first supplier with a market share of 44 percent (62 percent growth). - TPA*: 17 years linear, 2,500 MT quota with 12 percent increase per year.
Confectionary - non chocolate (HS 1704)	N/A	15,647 tons (\$46.2 million)	16.6 percent	0 percent	- Major suppliers are Colombia(\$31 million) and Ecuador (\$3 million). - Local industry is strong. Major owners are foreign companies.	- United States represents 2.5 percent of total imports, however, U.S. imports grew 57 percent in 2011.
Confectionary - chocolate (HS 1806)	N/A	4,073 tons (\$18.1 million)	22.2 percent	0 percent	- Chile is the major supplier (23 percent of MS). - Local industry is competitive.	- The U.S. is the second major supplier with 19 percent. The U.S. strength is in chocolate for the retail sector. Imports grew 46 percent in 2011.
Food Preparations (HS 210690)	N/A	14,339 tons (\$131 million)	16 percent	0 percent	- Local Production is strong. Alicorp is the major competitor. Also foreign companies are established in the country. - Chile is the major importer (33 percent).	- United States is the second largest supplier and holds 18 percent of market share. - In 2011 imports grew 18 percent.
Prime and choice beef (HS 020230)	Total beef and offal market: 283,596 MT	1,283 tons (\$7.3 million)	16 percent	0 percent	- Competes with quality meats from Colombia, Argentina, Uruguay, Brazil and Bolivia.	- Due to an increment of income levels, local consumers are demanding high quality products, such as beef. - U.S. imports have grown 155 percent respect 2011 in this category

						United States became the first largest beef supplier in 2011 and holds 50 percent of import market share
Edible Beef Offal (liver) (HS, 020622)	10,000 MT	3,924 tons (\$6.9 million)	26.3 percent	0 percent	Local production covers most of the market size.	- The United States holds 97 percent of import market. Imports have grown 30 percent in 2011.
Fruit and Vegetable juices (HS 2009)	N/A	14,299 hl (\$3.7 million)	30 percent	0 percent	- Brazil is the major supplier and holds 38 percent of market share in 2011. It is strong in orange juices	Imports have grown 46 percent in respect to 2010.
Pet foods (HS 230910)	45,000 MT	12,125 tons (\$14.9 million)	18 percent	0 percent	- Growing local pet industry. - There is an informal industry arising. - Colombia 37 percent), and Argentina (36 percent) are major competitors.	- The United States holds 20 percent of the import market.
Turkey (HS 020727)	13,000 MT	3,175 tons (\$6.5 million)	22 percent	5 percent	- Major exporters are Brazil (48 percent) and Chile (41 percent) followed by the United States with 11 percent. - Local poultry industry is strong.	- Peruvians are major consumers of turkey during Christmas and New Year's. - The food retail sector is becoming more popular not only in Lima, but also in the province. - USAPEEC has initiated a market penetration plan.
Poultry meat cuts (HS 020714)	98,000 MT	9,208 tons (\$8.6 million)	54 percent	TRQ: 15,117 tons 0 percent	- Strong local industry. - Frozen presentation is not common	- Peruvians are major consumers of poultry. - TRQ: 6 percent increase per year. Only 15 percent of TRQ is used.
Bread, pastry, cookies (HS 1905)	N/A	3,841 tons (\$10.1 million)	21.percent	0 percent	- Colombia is the major import supplier and holds 32 percent of market share. Local companies are very strong.	United States holds 13 percent of import market share. HS code 190590 represents 80 percent of imported.
Soups & Broths (HS 2104)	N/A	1,353 tons	21 percent	0 percent	- Local companies are very competitive	- United States grew 12 percent in 2011and is the

		(\$3.2 million)				major import supplier in this category, holding 33 percent of import market share
Sauces (HS 2103)	N/A	6,597 tons (\$12.7 million)	19 percent,	0 percent	- Local companies are very competitive.	- United States grew 48 percent in 2011 and is the major import supplier in this category, holding 36 percent of import market share
Nuts and almonds (HS 0802)	N/A	479 tons (\$2.8 million)	46 percent	0 percent	- Chile is very competitive in almonds and walnuts production. Last year was major supplier holding 52 percent of market share.	- Importers recognize that U.S. quality of nuts and almonds is better than competitors.
Wine (HS 2204)	41 million liters	18.8 million liters (\$32 million)	17 percent	0 percent	- Argentina (44 percent), Chile (28 percent), and Spain (12 percent) are major exporters. - Only regular wine consumers recognize U.S. wine quality. - Small niche market for U.S. wines	- There is a niche market for quality wines for which the United States can be appreciated and price competitive. - Peru's wine consumption is growing. Right now is above 1.3 liters. - Import volume has grown 120 percent in respect 2010. However, value only grew 28%. Low cost wines are gaining territory.

Note: TRQ = Tariff Rate Quota, on a first-come first-serve basis.

Sources: World Trade Atlas, USTR, Ministry of Agriculture (Minag), Gestion and El Comercio Newspapers

Products not Present in Significant Quantities, but which have good sales Potential:

Product/ Product Category	Imports 2011	Average Annual Import Growth (2006-11)	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for the U.S.
Peaches, cherries and Nectarines	3,739 tons (\$3.1	27 percent	0 percent	- Chile is major supplier with 99 percent of the market.	- Importers are interested in U.S. peaches and nectarines.

(HS 0809)	million)				- Duty free access for this category.
Apples and Pears (HS 0808)	52,534 Tons \$41 million	17 percent	0 percent	- Chile is the major supplier with 87 percent of the market. - Chile proximity benefits from other suppliers.	- There is a window of opportunity for the United States between November and February. Local consumers recognize U.S. apples and pears quality.
Grapes, raisins (HS 080620)	6,616 tons (\$15.5 million)	29 percent	0 percent	- Chile holds almost 95 percent of the market.	- U.S. window: September to December.
Citrus (HS 0805)	123 tons \$141,612	56 percent	5 percent	- Chile is the second major supplier with 21 percent of the market. - Strong Local production	- United States holds 79 percent of import market - Recognized quality of U.S. oranges and tangerines. - Export window for the United States is from January to March.
Pork Meat (HS 0203)	2,648 tons (\$7.2 million)	66 percent	5 percent	- Peruvians are not used to eating pork. - Local industry produces more than 100,000 MT - The industry is the same as the poultry industry. - Chile is the major supplier with 88 percent of the market and second is Canada with 15 percent	- Pork imports are growing. - U.S. pork benefit from TPA implementation. - Beef importers can also import pork. Best quality and competitive prices. - USMEF representative for the region.
Sausages (HS 1601)	620 tons (\$2.0 million)	26 percent	5 percent	- Major exporter is Chile with 37 percent of the market - Local industry is strong	- There is a high-end segment for gourmet sausages, in which the United States can compete. United States holds 34 percent of import market. Imports has grown 119 percent in 2011. Fast food restaurants are main channel for this category.
Ham, processed HS 160241	77 tons (\$0.92 million)	31 percent	10.71 percent	- Major suppliers are Italy (46 percent of the market) and Spain (40 percent).	- The United States has quality products to introduce to the gourmet market - TPA: 7 years U.S. imports holds 5 percent of import market share.
Beer (HS 2203)	7.8 million liters (\$4.9	16 percent	0 percent	- Local breweries are very strong and owned by international companies. - Local breweries	- Niche market for premium beers. - Growing consumption of beer (over 40 lts per capita)

	million)			produce and import new brands for introduction in the market. Brazil is the major supplier (50 percent of the market).	- Duty free entrance. Lack of U.S. brands within the market.
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Note: TRQ = Tariff Rate Quota, on a first-come first-serve basis.

Sources: World Trade Atlas, USTR, Ministry of Agriculture (Minag), Gestion and El Comercio Newspapers

C. Products Not Present Because They Face Significant Barriers

None.

Section V. Post Contact and Further Information

If you have any question or comments regarding this report or need assistance exporting to Peru, please contact the Foreign Agricultural Service in Lima at the following address:

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