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

Required Report - public distribution

Date: 4/26/2019
GAIN Report Number:

Peru

Food Processing Ingredients

Opportunities for U.S. food ingredients in Peru

Approved By:
Kirsten Luxbacher
Prepared By:
Alvaro Loza

Report Highlights:
Peru's food processing industry is a dynamic sector of the national economy. The food industry in Peru accounts for almost 22 percent of the industrial GDP and 2018 sales reached $7.8 billion. U.S.-origin food processing ingredient exports to Peru reached $138 million in 2018. Promising products include boneless beef, protein concentrates, flour meat meals and vegetable fat.

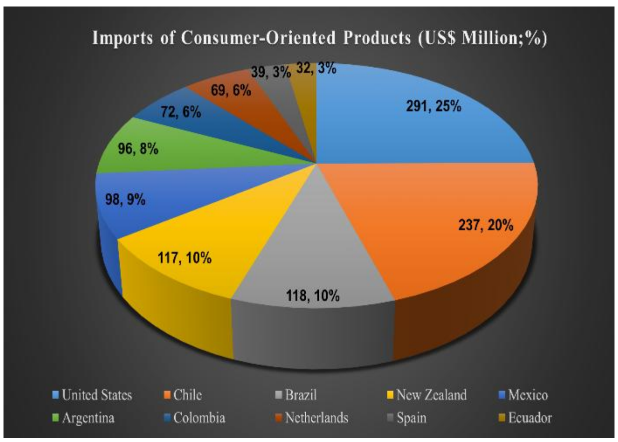
Post:
Lima

Market Fact Sheet: PERU

Executive Summary

For over a decade, Peru has been one of the world's top performing economies, registering sustained high growth accompanied by low inflation. Agriculture accounts for approximately five percent of Peru's GDP, but employs around 28 percent of the population. The U.S.-Peru Trade Promotion Agreement, which entered into force in February 2009, has increased bilateral trade of agricultural products from $1.46 billion in 2009 to $3.93 billion in 2018, an increase of 169 percent. More than two-thirds of current U.S. agricultural exports enter Peru duty-free. The United States remains the largest agricultural product supplier to Peru, accounting for 30 percent of market share.

Imports of Consumer-Oriented Products



Peru offers good opportunities for U.S. exporters of consumer-oriented agricultural products, but there are some challenges. The successful introduction of new to market food products depends on knowledge of the market and personal contact. Exporters should review Peru's food laws, packaging and labeling requirements, business practices, and trade-related laws and tariffs. Getting to know the potential importer and the local distribution system is critical.

Food Processing Industry

Peru's food processing industry is a dynamic sector of the national economy. The food industry in Peru accounts for almost 22 percent of the industrial GDP and sales reached $7.8 billion in 2018. Its growth is directly linked to the development of the food retail and food service sectors. Food product manufacturers source both domestic and imported product ingredients. Local processed food products cover 70 percent of the market demand.

.

Food Retail Industry

There are three main supermarket chains in Peru: Cencosud (Wong and Metro), Saga Fallabella (Tottus) and Supermercados Peruanos (Vivanda and Plaza Vea). The market includes 252 conventional supermarkets and superstores, with 169 alone in Lima, and 111 convenience stores, with two outside of Lima. The sector is comprised of both conventional supermarkets and traditional channels, comprised of wet markets and independent stores. Different types of food appear to perform better in the two formats. Top products include, snacks, dairy, edible oils, confectionaries, breads and cookies.

Quick Facts CY 2018

Imports Consumer-Oriented Products: $291 MM

Top 10 Growth Products in Peru

1. Milk and Cream concentrated. 2. Beer made from malt. 3. Chocolate and other cocoa preps. 4. Live plant cuttings. 5. Cereals in grain form (not corn).	6. Eggs of chicken. 7. Vegetable mixtures. 8. Lactose in solid form. 9. Mixtures of Dried Fruits. 10. Natural milk constituents.

Food Industry Gross Sales: $45.2 billion

Food Industry by Channels
1. Food Exports: $7.0 billion
2. Food Imports: $5.7 billion
3. Domestic Market: $14.3 billion
4. Retail: $22 billion
5. Food Service: $8 billion
6. Wet market: $18 billion

GDP/Population

Population (Million): 32
GDP (Billion USD): 198
GDP Per-capita (USD): $6,172

Strengths/Weakness –

Strengths	Weakness
Strong demand for consumer food products	Low penetration of modern food retail along the country.
Opportunities	**Challenges**
Growing middle class	Stiff competition from other countries.

Data and information sources: FAS Lima
Contact: FAS Lima

Section I. Market Summary

According to Peru's Society of National Industries (SNI) Peru's food-processing sector grew 14.1 percent in 2018. This growth is boosted principally by an excellent performance in the fisheries sector. Other sectors to highlight are milling, meat products, and dairy. This dynamic sector accounts for almost 22 percent of the nation's industrial GDP. However, over 90 percent of the industry are mainly micro-companies and 1.7 percent are large companies. Sales of the food-processing sector reached $7.8 billion in 2018.

Peru's Central Bank (BCR) forecasts a four percent GDP growth in 2019 mainly driven by a rebound on commodities exports and private investment. This scenario will fuel opportunities for growth in the food-manufacturing sector. Growth in this sector is directly linked to the development of food retail and food service sectors throughout Peru. As supermarket and hypermarket operators continue to expand their networks throughout the country, they will likely also expand their private label brands into new product categories. The two criteria retailers use when looking to launch new products are quick rotation and profit per unit.

Food product manufacturers in Peru source both domestic and imported product ingredients to meet consumer demand for quality food at affordable prices. These manufacturers are successfully tailoring products to meet different segments of consumer demand. For instance, the health food and vending machine segments are growing to meet the respective demands of health conscious and time starved consumers.

U.S.-origin food processing ingredients exports to Peru reached $138 million in 2018, a decrease of 27 percent from 2017. The drop is mainly due to a 60 percent reduction in U.S. wheat exports. However, other sectors made small gains in 2018, including boneless beef, protein concentrates, flour meat meals and vegetable fat.

Advantages and Challenges Facing U.S. Products in Peru

Advantages	Challenges
• The U.S.-Peru Trade Promotion Agreement (PTPA) grants duty-free access to two-thirds of all U.S.-origin food and agricultural products, including high-value food products. • An active supermarket industry that is working to increase demand for high-value food products. • Growth of foodservice in Lima, with a demand for affordable products. • Appreciation for U.S. food quality and culture. • Middle-class expansion.	• Consumers prefer to buy fresh produce in traditional markets. • Supermarkets (main source for food products) account for only 25 percent of the retail food market share in Lima and 16 percent in the provinces. • Local food brands are appearing in the market at very low prices. • Stiff competition from neighboring countries. • Domestic producers manufacture products according to local taste preferences.

Section II: Road Map for Market Entry

1. Entry Strategy:

- Preliminary research to determine market potential for a specific product. Contact FAS Lima to obtain reports or briefings about market features.
- U.S. exporters should contact the local food processing company, or indirectly establish ties through brokers, agents, or representatives.
- Personal visits are highly recommended. The U.S. exporter should know its local partner well before signing contractual agreements.
- Exporters should provide support to food service customers by participating in technical seminars, product demonstrations, and local trade shows whenever possible.
- The import partner should be able to provide updated information on consumer trends, current market developments, trade, and business practices.
- Food ingredients must comply with country's regulations and be approved by health authorities before being placed on the market. Peru adopts Codex as the primary international reference.

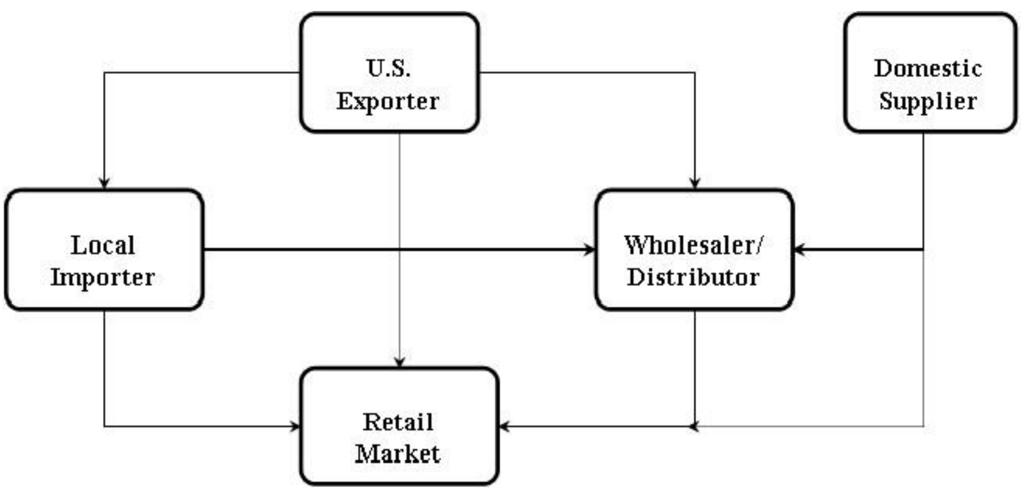
2. Import Procedure:

For details on how to export to Peru please refer to FAS Lima's FAIRS Export Certificate report and FAIRS Country Report.

3. Distribution Channels:

Distribution channels for imported products are at times different from those for domestic products. They are also constantly changing. However, larger processors generally import directly from the supplier. Small processors rely on local distributors to import ingredients. International franchises import 75 percent of their food ingredients directly, and source the remainder locally.

4. Market Structure:



- The Peruvian food-processing industry is well developed and tries to source directly depending on the volume. Smaller importers use traders as main sourcing partner.

- Local processed food products cover 70 percent of the market demand.
- Specialized importers usually provide food ingredients to the Peruvian market. Some of these are also producers or wholesalers/distributors.

5. Sector Trends:

Peru's food manufacturing industry has benefited from the nation's strong economic performance over the past decade. A demanding middle class forced food processors to innovate and adapt to broader consumer segmentation. Food manufacturers target mom and pop stores as the primary channel to reach a wide range of consumers. Despite the growth of supermarket chains throughout the country, Lima is still the main market with a space limiting constraint for future growth. Food products must align with consumers' preference for convenience, low prices, and daily purchases.

U.S. food ingredient suppliers should focus on providing ingredients to the following industries:

Baked Goods: The bread category, especially artisanal breads (75 percent market share), drives the sector. Despite consumers' preference for artisanal bread, industrially produced bread is making significant inroads due to supermarket and convenience store expansion. Panificadora Bimbo del Peru is the leading local producer of industrial bread. Last year BIMBO acquired the Peruvian company International Bakery Group with a strong presence in the industrial baking in Lima.

Dairy Products: Evaporated and condensed milk led this category, accounting for 75 percent of all dairy products. Manufacturers use raw milk to produce shelf-stable evaporated milk. However, competition has intensified due to powdered milk imports. Shelf-stable milk and yogurt are two subcategories that have grown more in recent years. Food retail expansion is driving growth in these two sub-categories. Ready-to-drink products are favored by consumers looking for healthy products. With a 75 percent market share, Gloria S.A leads sales in this sector.

Dried Processed Food: Pasta and rice remain the key product offerings. Rice is the one of the most consumed foods in Peru and it is produced locally. Pasta ranks second with a consumption of 205,000 MT. Costeño Alimentos and Alicorpa are the largest food processors for rice and pasta respectively.

Processed Meat: This category has shown a rapid growth due to high consumption of meat/poultry hot dogs, ham, chicken nuggets, burgers, etc. The fast food channel has been instrumental for this growth. Local processors have made plant enhancements to increase production levels due to higher demand. Braedt and Laive remain the leading companies for chilled processed meats while frozen poultry products is domain by San Fernando.

Cookies and Snack Bars: Cookies and snack bar sales grew 3 percent in 2018 reaching $265 million. Sweet cookies dominate the market. Consumers demand snacking-style products or meal replacements. Alicorp and Kraft Foods Peru enjoy a combined market share of 70 percent. Supermarket/ hypermarket private labels specialize in affordable cookies. Local sources cookies will maintain same growth rate in 2019.

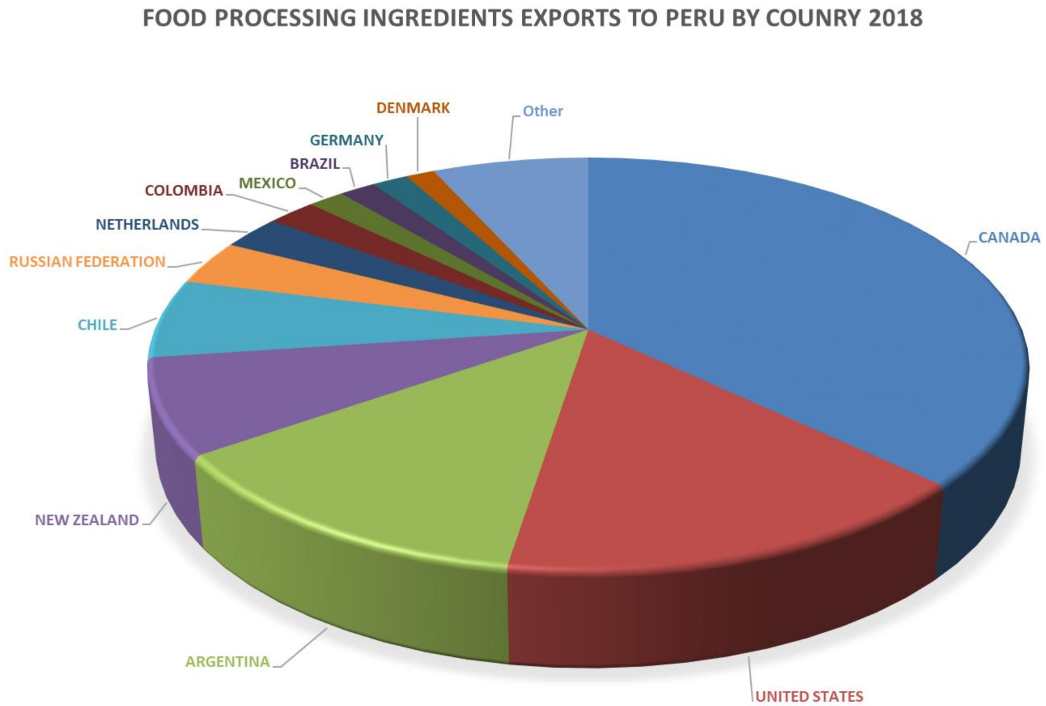
Sauces, dressings and condiments: This dynamic category is dominated by sauces, principally mayonnaise, ketchup, and mustard. Industry's expectation is to rebound sales in 2019 forecasting a four percent growth while in 2018 they only grew 1.2 percent. Alicorp is the leading manufacturer for this subcategory with its brand Alacena. Another subcategory is cooking ingredients led by Ajinomoto del Peru S.A. that offers soy sauce and stock cubes. Cooking ingredients sales are projected to reach $69 million in 2019. Tomato pastes and purees account for 19 percent of market share in this category.

Breakfast Cereals: in 2018 breakfast cereal sales ended up at $96 million four percent up with respect 2017. Sales are driven by middle-income consumers adopting cereals as their breakfast food. Breakfast cereals are popular with health-conscious consumers. Consumption of cereals is a traditional breakfast item in Peru. This preparation primarily consists of oats, and in more recent years native grains such as quinoa or kiwicha are being mixed in. Industry expects growth rate above 5 percent in 2019.

Beer: Beer, with a market share of 90 percent, is Peru's drink of choice. Middle and high-income consumers continue increasing purchases of premium products. Volume sales are expected to reach 1.72 million liters in 2019 (almost $3.3 billion) up 2 percent with respect to 2018.

Section III. Competition

Exports of food processing ingredients to Peru totaled $893 million in 2018. The U.S. is the second largest supplier of ingredients to Peru with a 15 percent market share. These ingredients are made up largely of wheat and milk powder, which represent 57 percent of the total trade in this category for the United States. Canada is the largest supplier with 37 percent market share, with wheat comprising the bulk of its exports in the category. Total agricultural trade has benefitted from the U.S.-Peru Trade Promotion Agreement (PTPA).



Source: Global Trade Atlas

Section IV. Best Product Prospects Categories

1. Products Present in Market but which have Good Sales Potential

Product Category/ Net Imports	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Wheat (HTS 10019910) ($480 million)	Canada: 69% Argentina: 14% USA: 9%	Canada has a more competitive pricing for this ingredient.	Local millers use to blend different origin wheat.
Milk and Cream Concentrate, powder (HTS 040210) ($49 million)	USA: 66% New Zealand: 28% Canada: 3%	Price opportunity is a key driver.	Dairy food processors use powdered milk to standardized production. Insufficient milk production in Peru.
Enzymes and preparations Nesoi	USA: 30%; Denmark:	Tariff preferences are also applied to competing	Weak local production. Utilization for different

(HTS 350790) ($30 million)	21% France: 12% Brazil: 10%	exporting countries.	sectors.
Edible Preparation mixtures or preparations of vegetable oil or fat (HTS 151790) ($11 million)	USA: 65 % Malaysia: 12% Uruguay: 6%	Price competitive. Malaysia exports grew 467 percent in 2018.	Large food processors source internationally.
Almonds Fresh or Dried Shelled NESOI (HTS 08021290) ($10 Million)	USA: 62% Chile: 38%	Lower logistics cost due to Chile´s. Price competitive.	Better quality of U.S. almonds. Confectionary manufacturers prefer U.S. quality and price.
Boneless Pork Meat (HTS 02032910) ($14 Million)	Chile: 51% USA: 45% Canada: 4%	Price competitive and different cuts from Chilean pork industry. Proximity and tariff preferences are key factors.	Mainly used by sausage manufacturers. U.S. industry is gaining terrain due to competitive quality and price.
Mixtures of Odoriferous Substances (HTS 330210) ($48Million)	Chile: 52% Mexico: 15% Colombia: 7% Argentina: 6% USA: 6%	A beverage manufacturer in Chile supplies subsidiary in Peru. Price key driver.	Large manufacturers sources internationally.
Vegetable Saps and Extracts (HTS 1302) ($15 Million)	China: 18% Mexico: 16% USA: 15% Chile: 13% Brazil: 8%	Mexican subsidiaries in Peru, large scale purchases.	U.S. suppliers with competitive prices and quality.
Whey and Modified Whey (HTS 040410) ($11 Million)	Chile: 49% France: 20% USA: 18%	Chilean suppliers benefit from proximity and tariff preferences. Price is the key driver.	Not too many suppliers for these products. Local industry non-existent.
Other preparations of semolina, starch flour or malt extract (HTS 19019090) ($22 Million)	Colombia: 49% New Zealand: 26% Mexico: 10% USA: 8%	Price is the key driver. Colombian manufacturers supply to Peru´s subsidiary.	Category keeps growing and grew 15 percent in 2018. Large food processors based in the region supplies Peru’s market.

Hop Cones, ground, powdered o in the form of Pellets (HTS 121020) $5 Million)	USA: 66% Germany: 28% Rep. Czech: 5%	Price and variety are key drivers on this product.	European influence on beer production.
Flour Meals and Pellets Meat or Offal (HTS 23011090) $12 Million	USA: 59% Chile: 25% Argentina: 16%	Price and quality are key drivers	Pet food industry is growing in Peru

Source: SUNAT, FAS Lima office research.
Note: Calculations based on latest full calendar year (January-December) data.

2. Products with small presence in Market but which have Good Sales Potential

Product Category/ Net Imports	Major Supply Sources	Market Overview
Malt Toasted or not (HTS 1107) ($35 million)	Colombia: 46%; Argentina: 38%; Netherlands: 11 % Brazil: 2%	Brewers' sales projections for 2018 are $3.2 billion, up 1.2 percent from 2017.
Starches (HTS 1108) $22 million	Germany: 33%; Netherlands: 21% Denmark: 12%; Poland: 9%; Brazil: 5%	Potato starch imports reached $16 million and it is the largest imported ingredient. Also, cornstarch with $3 MM.
Milk and Cream, Concentrated, Of A Fat Content, By Weight, Exceeding 1.5% (HTS 040221) $57 million	New Zealand: 64%; Netherlands: 20% Arg.: 8% ; Bolivia 5%; USA:1%	Gloria is the largest importer and owns subsidiaries in Bolivia and Argentina. New Zealand is competitive in price.
Mechanically deboned meat (HTS 0207140010) ($4 Million)	Brazil: 58%; Chile: 42%	Price driven market. U.S. exports fell 100 percent in 2018. U.S. exports in 2017 reached $430,000

Source: SUNAT, FAS Lima office research.
Note: Calculations based on latest full calendar year (January-December) data.

Section V. Key Contacts and Further Information

U.S. Embassy Lima, Foreign Agricultural Service (FAS) Office of Agricultural Affairs
Street Address: Avda. La Encalada, Cuadra 17, Monterrico - Surco, Lima 33
E-mail: Aglima@usda.gov

For additional information, see www.fas.usda.gov. See also our Exporter Guide, Food and Agricultural Import Regulations Certificate Report, Food and Agricultural Import Regulations Country Report, and other marketing reports on the FAS Global Agricultural Information Network (GAIN) in this link.

APPENDIX I

Company Profiles: Major Food Processing Companies (Estimated Sales 2019)

Company Name, Products	$ Millions	End-Use Channels	Procurement
Alicorp S.A. Cooking ingredients, sauces, dried goods, canned fruit, prepared meals, ice cream	2.950	Retail / HRI / Traditional Market	Direct Importers
Gloria S.A. Dairy products, canned fish, pork products, fruit juices	1,395		Direct Importers
San Fernando S.A. Poultry, pork and their by- products.	825		Direct Traders
Nestle Peru S.A. Breakfast cereals, confectionary, dairy products, smashed potatoes, instant beverages, bakery goods (*pannetonne*)	712		Direct Importers
Molitalia S.A. Flour, pasta, ketchup, semolina	296		Direct Importers
Redondos S.A. Poultry and by-products	331		Direct Importers
Laive S.A. Dairy products, pork products, fruit juices	203		Direct Importers
Molinera Inca S. A. Flour and other grain mill products	136		Direct Importers
Mondelez Peru Cookies, instant desserts and beverages, mayonnaise and ketchup, coffee	197		Direct Importers
Industrias del Espino S.A. Oils, fats	202		Direct Importers
Cogorno S. A. Flour, pasta and other grain mill products	69		Direct Importers
Ajinomoto del Perú S.A. Condiments, seasonings	94		Direct Importers
Compañía Nacional de Chocolates de Perú S.A. Confectionary chocolate	74		Direct Importers
Anita Food S.A. Noodles, pasta	88		Direct Importers

Machu Picchu Foods S.A.C. Coffee, cocoa, chocolate	71		Direct Importers
Sociedad Suizo Peruana de Embutidos S.A. Pork and beef products	66		Direct Importers
Panificadora Bimbo del Perú S.A. Bakery goods	59		Direct Importers
Corporación ADC S.A.C. Flour, noodles, bakery, animal feed, pulses, semolina	53		Direct Importers
Molino El Triunfo S.A. Flour, semolina, noodles	56		Direct Importers
Braedt S. A. Cheese and pork products	49		Direct Importers
Derivados del Maíz S. A. Corn, potato and sweet potato products as ingredients	44		Direct Importers
Confiperu S. A. Confectionary	44		Direct Importers
Industrial Alpamayo S.A. Oils, fats	51		Direct importers
Ameral S.A.A. Oils, chocolate, confectionery, condiments, seasonings	30		Direct Importers
Mead Johnson Nutrition Peru SRL Infant formula	63		Direct importers

Sources: FAS Lima office research**.**

Profiles of Major Beverage Companies

Company Name, Products	$ Millions	End-Use Channels	Procurement
Union de Cervecerias Peruanas Backus & Johnston S.A.A. (Corporacion Backus) Beer and soft drinks	1,590	Retail / HRI / Traditional Market	Direct Importers
Arca Continental Lindley. Soft Drinks, bottled water	824		Direct Importers
Ajeper S.A. Soft drinks, bottled water.	229		Direct Importers
The Central American Bottling Corp (CBC Peru) Soft drinks, bottled water.	148		Direct Importers

Sources: FAS Lima office research.