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Peru

Fresh Deciduous Fruit Annual

Grapes Remain Peru's Top Agricultural Export, Despite El Niño -Related Production Challenges

Approved By:
Kirsten Luxbacher

Prepared By:
FAS Lima staff

Report Highlights:
Fresh table grapes remain Peru's top agricultural export. Heavy rains and unstable temperatures caused by El Niño impacted Peru in early 2017, delaying this year's harvest. The harvest delay caused a supply overlap with neighboring table grape powerhouse, Chile, driving prices downwards due to inventory surpluses. Nonetheless, in response to strong export demand, grape production levels are expected to rise in MY 2017 due to new plantings coming into production and higher yields in maturing vines.

Executive Summary:

Peru’s grape industry is expected to bounce back from the effects of the weather phenomenon known as the coastal El Niño. A dry coast and stable temperatures, combined with precision drip irrigation, permit Peru to mature vines 55 percent faster than neighboring regions. However, the heavy rains and unstable temperatures caused by the El Niño that hit Peru in early 2017 delayed this year’s harvest. This delay caused a supply overlap in March and April with neighboring table grape powerhouse, Chile, resulting in inventory surpluses that drove-down prices. Nonetheless, in response to strong export demand, Peru’s grape production is forecast to rise in MY 2017 due to new plantings coming into production and higher yields in maturing vines. This report marks a reporting change with an adjustment of the marketing year from January-December to October-September.

Commodities:

Grapes, Fresh

Production:

Grapes, Fresh	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
Peru	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	29500	29500	30000	30000	0	30000
Area Harvested	27000	27000	28000	28000	0	28500
Commercial Production	435000	435000	490000	490000	0	520000
Non-Comm. Production	105000	105000	115000	115000	0	118000
Production	540000	540000	605000	605000	0	638000
Imports	2600	2600	5000	5000	0	5000
Total Supply	542600	542600	610000	610000	0	643000
Fresh Dom. Consumption	238100	238100	301000	301000	0	250000
Exports	290000	290000	300000	300000	0	380000
Withdrawal From Market	14500	14500	9000	9000	0	13000
Total Distribution	542600	542600	610000	610000	0	643000
(HA) ,(MT)						

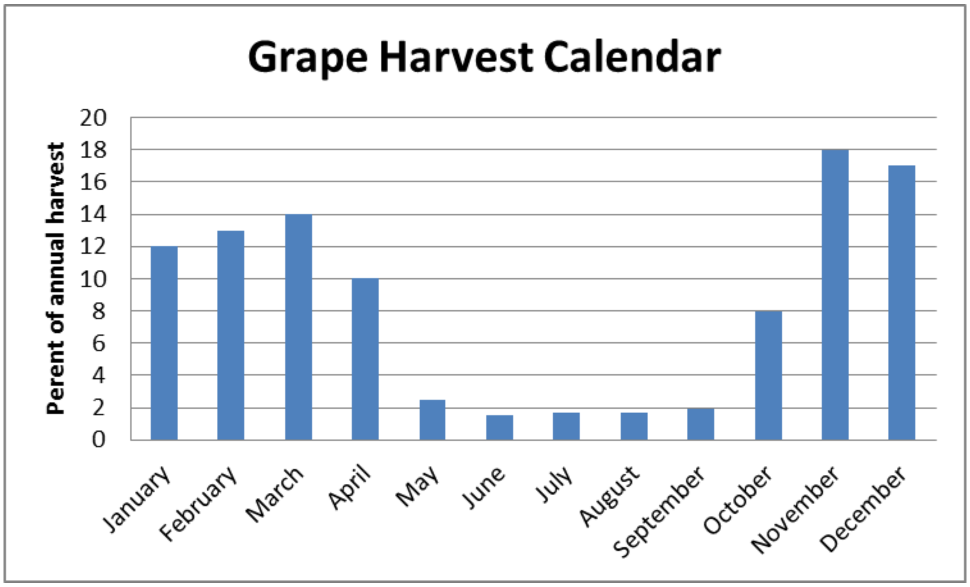
Note: This chart marks a reporting change with an adjustment of the marketing year from January-December to October-September.

Fresh table grapes are the top produce export for Peru by value. Heavy rains and unstable temperatures caused by the El Niño impacted Peru in early 2017, delaying this year’s harvest. This delay caused a supply overlap with neighboring table grape powerhouse Chile, resulting in an inventory surplus that put downward pressure on prices. The rains also reduced production levels and quality.

The extreme rains in the Andean highlands and higher than normal temperatures in Piura and Trujillo took a toll on grape production levels on multiple fronts. The high temperatures caused poor coloration in large diameter later season varieties like the Red Globe. The lower quality of the grapes decreased their market value as well. The rains also increased fungal diseases that required more agrochemical applications. Earlier season and small diameter grapes were spared from the effects of the coastal El Niño.

Under normal conditions, Peru has a dry coast with stable temperatures. When combined with precision drip irrigation, Peru is able to mature vines 55 percent faster than in neighboring regions. Grape production is mainly located in Ica (41 percent) and Piura (22 percent). The total area under cultivation is estimated at 28,000 hectares.

FAS Lima forecasts Market Year 2017 (October 2017-September 2018) production at 638,000 MT. This increase, driven by strong export demand, is due to new plantings coming into production and higher yields in maturing vines.



Source: Ministry of Agriculture

Production is still dominated by one variety, Red Globe. While Red Globes remain popular in the growing Chinese market, producers are shifting toward higher value varieties to supply to other markets. Producers are diversifying to over 20 different varieties that meet the evolving palate of consumers worldwide. The most popular of these other varieties include Crimson seedless, Flame seedless, Surgeon and Thompson seedless.


Peruvian farm worker in Ica pruning mature Spanish grape varietals (Photo Credit: Eyob Solomon)

Cost of production:

A hectare of grapes in Peru requires an initial investment of approximately $38,000 without consideration of land costs. This is a significant financial outlay for a small scale farmer. However, the return on investment for producing high value varieties can offer sizable returns. Below is an estimate of the cost for establishing a hectare of grapes.

Investment	Cost per Hectare in $USD
Soil Preparations	6,237.42
Trellis Material	10,296.20
Anti-bird mesh	3,943.64
Plants	5,458.8
Drip irrigation	5500.00
Machinery	4353.54
Other/unexpected expenses	1,789.48
Total	37,579.17

Source: FAS Research

As a labor intensive and high maintenance crop, the grape industry is a large employer in Peru's agricultural sector. High production areas such as Ica, boast full employment due to the steadily increasing demand for labor.

Consumption:

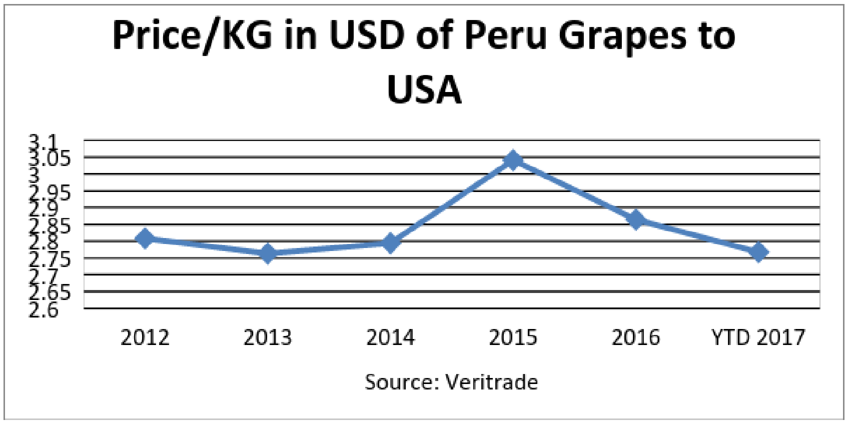
FAS Lima forecasts domestic consumption levels will be 250,000 MT in MY 2017, a decrease from MY 2016 due to strong export demand and reduced domestic supply. The local grape market is used as a secondary market for producers because prices are significantly lower than international prices. Green Italian grapes continue to dominate the local market.

The pisco industry is another significant consumer of grapes. The Ministry of Production estimates Peru's pisco output will total 11 million liters in 2017. Chile and the United States are the largest consumers of Peruvian pisco. Lima and Ica make up 90 percent of the total production of pisco.

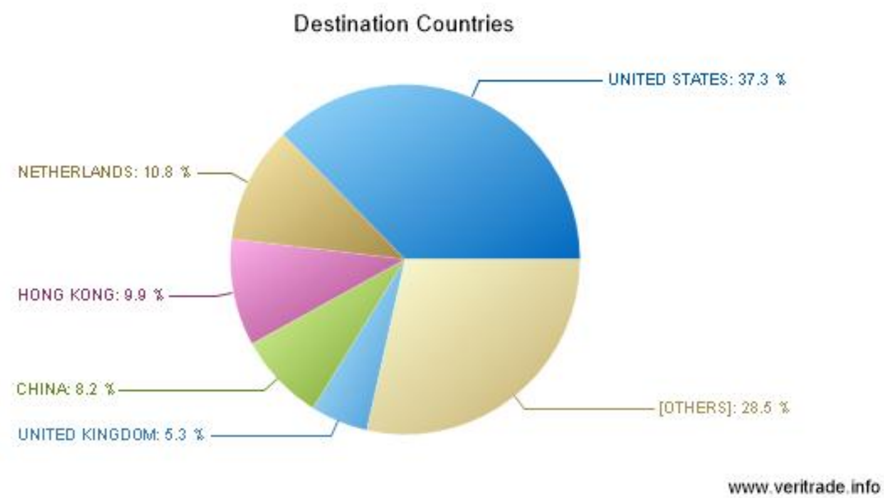
Trade:

FAS Lima forecasts exports reached 380,000 MT in MY 2017, about ten percent less than what the industry expected due to damage caused by the excess rainfall brought by El Niño season. The United States is the top export destination, followed by the Netherlands and China.

Grapes continue to be a top agricultural export for Peru's with exports at $660 million in calendar year 2016 (SUNAT, Peru's customs and tax authority). Price volatility as a result of increased global competition and uncertain weather conditions will need to be monitored. As the second largest exporter of grapes to the US, price/kg trends will be an important metric to follow (shown below).



<u>Peruvian Grape Export Destinations</u>



Policy:

Peru has signed numerous free trade agreements with countries, including the United States, China, and the European Union. These agreements, along with the work of PROVID, the largest grape association in Peru, and SENASA, the National Agricultural Sanitary and Phytosanitary Agency of Peru, to fulfill SPS regulations have enabled Peruvian grapes to penetrate international markets.

Commodity	HS Codes
Grapes, Fresh	080610