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Peru

Grain and Feed Annual

Annual

Approved By:
Casey Bean

Prepared By:
Gaspar E. Nolte

Report Highlights:
U.S. corn exports to Peru sky-rocketed in CY 2014 to a record 1.7 MMT valued at $432 million. This steep increase resulted from the tariff preferences of the U.S.- Peru Trade Promotion Agreement (TPA) and the price competitiveness of U.S. corn in international markets. Wheat imports in MY 2015/16 are forecast at 1.9 MMT.

Executive Summary:

Wheat production in MY 2015/16 (July/June) is forecast at 225,000 metric tons (MT), similar to production in the previous year. Wheat consumption in MY 2015/16 is forecast at 2.01 MMT, a slight increase from the previous year. Peru's wheat consumption is 64 kilograms per person. Wheat imports in MY 2015/16 are forecast at 1.9 MMT, increasing 2.8 percent compared to MY 2013/14. Wheat imports in CY 2014 were 1.88 MMT of which 19 percent was U.S. origin.

Corn production in MY 2015/16 (October/September) is estimated to be 1.8 MMT, up 6 percent from MY 2014/2015. Growing demand from the poultry industry explains this increase. Harvested area in CY 2014 was 213,000 hectares and 274,000 hectares for starchy and yellow corn respectively. Average yields in CY2014 were 1.42 MT per hectare for starchy corn and 4.52 MT per hectare for yellow corn. Peru's corn imports in MY 2015/16 are forecast at 2.3 MMT, remaining at the same level as the previous year. Total corn imports in CY 2014 were 2.32 MMT of which 73 percent was originated in the United States.

Rice production in MY 2015/16 is forecast at 2.15 MMT (milled basis), remaining in the same level as current production. Rice production has reached a maximum level and is now limited by water availability and demand. Rice imports in MY 2015/16 will be 220,000 MT. U.S. rice exports to Peru remain very limited despite a rather large TRQ.

Commodities:

Wheat

Production:

Wheat	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jul 2013		Jul 2014		Jul 2015	
Peru	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	155	152	150	145	0	145
Beginning Stocks	246	179	553	121	0	125
Production	235	231	230	225	0	225
MY Imports	2,078	1,849	1,700	1,900	0	1,900
TY Imports	2,078	1,849	1,700	1,900	0	1,900
TY Imp. from U.S.	624	470	0	600	0	600
Total Supply	2,559	2,259	2,483	2,246	0	2,250
MY Exports	86	115	75	115	0	120
TY Exports	86	115	75	115	0	120
Feed and Residual	70	70	70	70	0	70
FSI Consumption	1,850	1,953	1,875	1,936	0	1,940
Total Consumption	1,920	2,023	1,945	2,006	0	2,010
Ending Stocks	553	121	463	125	0	120
Total Distribution	2,559	2,259	2,483	2,246	0	2,250
1000 HA, 1000 MT, MT/HA						

Wheat production in MY 2015/16 (July/June) is forecast at 225,000 metric tons (MT), similar to production in the previous year. Wheat production in Peru has been decreasing slightly from 240,000 MT three years ago to current values. Farmers are shifting away from less profitable wheat cultivation

to more lucrative crops such as quinoa. Local wheat currently trades at about $445 per MT, compared to $5,000 per MT that producers can reasonably expect to receive for quinoa.

Wheat is a minor crop in Peru, concentrated mostly in the temperate southern highlands at 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 2015/16 is forecast to fall by 7,000 hectares to 145,000 hectares. The total wheat crop area in MY 2013/14 was 152,000 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 2014 was 1.5 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 2015/16 is forecast at 2.01 MMT, a slight increase from the previous year. Overall wheat consumption is 64 kilograms per person.

Peru produces about 1.4 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 domestic use. Roughly 70 percent of domestic flour is sold through traditional markets, while only 30 percent of flour is sold in supermarkets.

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.

The wheat milling industry 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.

Bread consumption in Peru is 28 kilograms per person, one the lowest in South America. Per capita consumption of bread is 37 kilograms in Ecuador and 95 kilograms in Chile. Bread in Peru is normally

purchased fresh in bakeries. Per capita consumption of bread loaves is only 250 grams/person, annually despite a two-fold increase over the last seven years.

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 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 2015/16 are forecast at 1.9 MMT, increasing 2.8 percent compared to MY 2013/14. Wheat imports in CY 2014 were 1.88 MMT. Canadian wheat holds the largest market share at 68 percent in CY 2014, followed by imports from the United States with 19 percent and Russia 13 percent. Argentine wheat imports into Peru were non-existent in CY 2014. U.S. and Canadian wheat exports to Peru have benefited from falling Argentine wheat production. Argentina's drop is due primarily to non-weather related government (Argentine) price fixing and export restrictions that are inducing farmers to stockpile or move to more lucrative soybean exports.

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.

Import Trade Matrix
(Metric Tons)

Commodity	**Wheat**
Time Period	CY 2014
Imports from:	
United States	**351,054**
Imports from Others	
Canada	1,270,364
Russia	237,995
Uruguay	19,426
Total from Others	**1,527,785**
Others not Listed	0
TOTAL	**1,878,839**

Source: SUNAT (Peru Customs Authority).

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. These programs seek to improve crop quality and protect consumers from international wheat price spikes.

Commodities:
Corn

Production:

Corn	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
Peru	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	520	487	550	500	0	525
Beginning Stocks	392	189	385	154	0	179
Production	1,720	1,541	1,800	1,700	0	1,800
MY Imports	2,232	2,232	2,300	2,300	0	2,300
TY Imports	2,232	2,232	2,300	2,300	0	2,300
TY Imp. from U.S.	1,385	1,536	0	1,600	0	1,600
Total Supply	4,344	3,962	4,485	4,154	0	4,279
MY Exports	9	10	10	10	0	10
TY Exports	9	10	10	10	0	10
Feed and Residual	3,600	3,438	3,700	3,600	0	3,750
FSI Consumption	350	360	375	365	0	365
Total Consumption	3,950	3,798	4,075	3,965	0	4,115
Ending Stocks	385	154	400	179	0	154
Total Distribution	4,344	3,962	4,485	4,154	0	4,279
1000 HA, 1000 MT, MT/HA						

Corn production in MY 2015/16 (October/September) is estimated to reach 1.8 MMT, up 6 percent from MY 2014/2015. Growing demand from the poultry industry explains this increase. Over the past five-years, yellow corn production has grown steadily to meet feed needs.

Peru grows many varieties of corn of which the two most important are starchy corn for human consumption and yellow corn for feed. Starchy corn production in CY 2014 was 302,000 MT while production of yellow corn was 1.2 MMT.

Harvested area in CY 2014 was 213,000 hectares and 274,000 hectares for starchy and yellow corn respectively. Average yields in CY2014 were 1.42 MT per hectare for starchy corn and 4.52 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 2015/16 is forecast at 4.1 MMT, increasing 2.5 percent compared to the previous year. Strong demand from the poultry sector is the main driver for increasing corn consumption. Peru currently produces 53 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. However, their non-tax contributing status precludes them from obtaining import permits for foreign corn, curtailing the possibility of additional U.S. corn imports.

Trade:
Peru's corn imports in MY 2015/16 are forecast at 2.3 MMT, remaining at the same levels as the previous year. Total corn imports in CY 2014 were 2.32 MMT of which 73 percent was originated in the United States.

Import Trade Matrix (Metric Tons)	
Commodity	**Yellow Corn**
Time Period	CY 2014
Imports from:	
United States	1,698,439
Imports from Others	
Argentina	571,065
Paraguay	37,747
Bolivia	4,775
Brazil	3,846
Total from Others	617,433
TOTAL	2,315,872

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 $50 and $80 per MT.

Peru is also importing for testing purposes dried distiller grains with solubles (DDGS), seeking to improve the quality of domestically produced animal feeds. FAS Lima believes that U.S. DDGS have good market prospects. We estimate that Peru is a 100,000 MT market for U.S. DDGS.

Policy:
Corn enters Peru duty-free. Peru's unilateral elimination of import tariffs on most commodities eliminated many of the trade advantages afforded by the U.S.-Peru Trade Promotion Agreement (PTPA). However, 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 2015 is set at 709,260 MT, which was filled by January 7, 2015.

However, Peru also maintains a corn price band system. This price band 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. Out of quota U.S. corn is assessed 10.5 percent duty under the price band system. Currently the price band system imposes a levy of $35 per MT to corn from other origins.

The levy is the difference between the *Floor Price* and the *Reference Price* plus an adjustment for insurance, freight and other inflationary factors. Both the floor price and the reference price are published by Peru's Ministry of Economy and Finance every fifteen days in the official gazette (El Peruano). If the international price is above the band, there is a tariff reduction. If the "reference" international price falls below the band, the product is assessed an additional tax that will increase the price at least to the floor price level.

Commodities:

Rice, Milled

Production:

Rice, Milled	2013/2014		2014/2015		2015/2016		
Market Begin Year	Apr 2013		Apr 2014		Apr 2015		
Peru	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	405	405	400	400	0	400	(1000 HA)
Beginning Stocks	285	285	270	257	0	187	(1000 MT)
Milled Production	2,156	2,156	2,100	2,150	0	2,150	(1000 MT)
Rough Production	3,125	3,125	3,043	3,116	0	3,116	(1000 MT)
MY Imports	193	180	240	220	0	220	(1000 MT)
TY Imports	220	220	240	220	0	220	(1000 MT)
TY Imp. from U.S.	0	2	0	2	0	20	(1000 MT)
Total Supply	2,634	2,621	2,610	2,627	0	2,557	(1000 MT)
MY Exports	70	70	70	70	0	70	(1000 MT)
TY Exports	70	70	70	70	0	70	(1000 MT)
Consumption and Residual	2,294	2,294	2,350	2,370	0	2,370	(1000 MT)
Ending Stocks	270	257	190	187	0	117	(1000 MT)
Total Distribution	2,634	2,621	2,610	2,627	0	2,557	(1000 MT)
Yield (Rough)	7.7160	7.7160	7.6075	7.7900	0.0000	7.7900	(MT/HA)

Rice production in MY 2015/16 is forecast at 2.15 MMT (milled basis), remaining in the same level as current production. Rice production has reached a maximum level and is now limited by water availability and demand.

The total rice harvested area for MY 2015/16 is forecast to fall to 400,000 hectares, about the same as the previous year.

With good weather conditions and plentiful water, rice production in CY 2014 reached almost 2 MMT. 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 with some success to expand rice cultivation along the eastern slope of the Andes (particularly in San Martin province). The policy has failed to fully dislodge the coastal rice producers. 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 (instead of the $250/hectare that should be assessed), and along with decent returns, hinder government attempts to shift production away from the arid coastal areas.

Rice is normally harvested April through May, averaging $317 per MT in CY 2014. This price represents a 3.6 percent increase compared to the previous year.

Despite the bulk of rice cultivation being undertaken by smaller producers, whose quality and yields fluctuate widely, yields averaging 7.82 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 hovers 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.

Trade:
Rice imports in MY 2015/16 at 220,000 MT, remaining at the same level as in the previous year. Imports in CY 2014 were 208,077 MT, led by Uruguay with 75 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 2014
Imports from:	
United States	**7,834**
Imports from Others	
Uruguay	156,989
Brazil	32,177
Thailand	10,303
Paraguay	556
Total from Others	**200,025**
Others not Listed	218
TOTAL	**208,077**

Source: SUNAT (Peru Customs Authority).

FAS Lima estimates that some 32,000 MT of paddy rice were unofficially exported from Peru to Ecuador in CY 2014.

Policy:

Rice enters duty-free. Peru's unilateral elimination of import tariffs on rice eliminated many of the trade advantages afforded by the U.S.-Peru Trade Promotion Agreement. However, 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.