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Peru

Grain and Feed Annual

Annual

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Report Highlights:
U.S. corn exports to Peru remain strong and are forecast to reach 3.4 MMT in MY 2019/2020. Corn is the main U.S. agricultural export to Peru, with a market share of 94 percent. This commodity has benefited from the trade preferences granted in the U.S. – Peru Trade Promotion Agreement, which celebrated its 10th anniversary in February 2019.

Executive Summary:

Peru does not produce enough corn to satisfy the growing demand of its feed industry, particularly the poultry sector. Corn production in MY 2019/2020 (October/September) is forecast at 1.9 MMT, increasing three percent from the previous year. At the same time, demand is forecast at 5.6 MMT. Most Peruvian corn producers farm less than five hectares. This, combined with limited technology, makes Peru's corn producers inefficient. Additionally, the government has restricted their capacity to use technology to overcome production challenges through a ten-year moratorium on genetically engineered crops.

The Peruvian Consumer Defense and Intellectual Property Rights Agency (INDECOPI) self-initiated a countervailing duty investigation against U.S. corn in July 2018. U.S. corn exports have benefited from the tariff preferences granted under the U.S.-Peru Trade Promotion Agreement.

Wheat is a minor crop in Peru. Wheat production in MY 2019/2020 is forecast at 240,000 metric tons (MT), an increase of nine percent compared to the estimate for MY 2018/2019. Wheat imports in MY 2019/2020 are forecast at 2.07 MMT of which the United States should capture around 30 percent.

Rice production in MY 2019/2020 is forecast at 2.2 MMT (milled basis), slightly higher than the previous year. The total rice harvested area for MY 2019/2020 is forecast at 435,000 hectares and increase of three percent from MY 2017/2018. Rice imports in MY 2019/2020 are forecast at 300,000 MT. Uruguay remains the main supplier of rice to Peru with a 62 percent market share in MY 2017/2018. Other important suppliers are Brazil and Thailand.

Commodity: Wheat

Production:

Wheat	2017/2018		2018/2019		2019/2020	
Market Begin Year	Jul 2017		Jul 2018		Jul 2019	
Peru	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	128	128	138	138	0	150
Beginning Stocks	276	276	254	254	0	239
Production	192	192	220	220	0	240
MY Imports	2030	2027	2050	2050	0	2070
TY Imports	2030	2030	2050	2050	0	2070
TY Imp. from U.S.	285	254	0	400	0	600
Total Supply	2498	2495	2524	2524	0	2549
MY Exports	64	64	80	80	0	80
TY Exports	64	64	80	80	0	80
Feed and Residual	80	77	80	80	0	80
FSI Consumption	2100	2100	2125	2125	0	2209
Total Consumption	2180	2177	2205	2205	0	2289
Ending Stocks	254	254	239	239	0	180
Total Distribution	2498	2495	2524	2524	0	2549
Yield	1.5	1.5	1.6	1.6	0	1.6
(1000 HA), (1000 MT), (MT/HA)						

Wheat production in MY 2019/2020 is forecast at 240,000 metric tons (MT), an increase of nine percent over the estimate for MY 2018/2019. This increase is attributed to shifts in production by farmers due to lower prices in the domestic market for subsistence crops, particularly potatoes.

Wheat is a minor crop in Peru. Production is concentrated in the southern highlands between 2,800 and 3,500 meters above sea level. Wheat production is rudimentary, and cultivation remains limited by difficult and mountainous geography. Production is limited to soft wheat, which is not good for milling and largely consumed locally in purees or as a soup ingredient.

The total area harvested for MY 2019/2020 is forecast at 150,000 hectares. The total wheat crop area in MY 2017/2018 was 128,000 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 MY2017/2018 was 1.5 MT/hectare.

Domestic millers established a social program to promote durum wheat cultivation for pasta production. They provide small farmers with seed and technical assistance and guarantee the purchase of 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).

Consumption:

Wheat consumption in MY 2019/2020 is forecast at 2.29 MMT, an increase of four percent from the previous year. Overall wheat consumption is 66 kilograms per capita a relatively low level compared to potato and rice consumption of 115 and 92 kilograms per capita, respectively. Wheat consumption is relatively constant, increasing when the economy grows more than four percent and leveling off when it does not.

Peru produces about 1.6 MMT of wheat flour per year. Of this amount, the local baking industry uses 63 percent, 20 percent goes into pasta manufacturing, 12 percent into the cookies and crackers sector, and five percent goes into small-scale, family use. Roughly 70 percent of domestic flour is sold through traditional markets. The remaining 30 percent of flour is sold in supermarkets.

The wheat milling industry is highly concentrated. Of the 23 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 35 kilograms per person, one the lowest in South America. In comparison, per capita consumption of bread is 75 kilograms in Argentina and 95 kilograms in Chile. Bread in Peru is typically purchased daily in bakeries and priced by the unit instead of weight. This leads to low quality products.

Peru, with pasta consumption at 12 kilograms per capita, 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. Peruvian consumption of cookies and crackers remains low by regional standards at only 1.7 kilograms per capita.

Trade:

Wheat imports in MY 2019/2020 are forecast at 2.07 MMT. Canada dominated the Peruvian wheat market in MY 2017/2018, with a 60 percent market share. Argentina, the second largest exporter of wheat to Peru, captured a 21 percent market share. The United States and Russia had market shares of 13 and six percent, respectively.

In MY2017/2018,Canadian wheat prices (CIF) averaged $275 per MT, U.S. wheat prices averaged $234 per MT, Argentinean wheat averaged $219 per MT.

Policy:

Peru imports wheat duty-free from all sources. Although Peru does not specifically promote wheat production, the government does have credit and technical assistance programs in place for all farmers.

Commodity: Corn

Production:

Corn	2017/2018		2018/2019		2019/2020	
Market Begin Year	Oct 2017		Oct 2018		Oct 2019	
Peru	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Harvested	522	522	530	540	0	550
Beginning Stocks	438	438	493	467	0	457
Production	1712	1712	1800	1850	0	1900
MY Imports	3402	3376	3400	3500	0	3600
TY Imports	3402	3376	3400	3500	0	3600
TY Imp. from U.S.	3183	3190	0	3300	0	3400
Total Supply	5552	5526	5693	5817	0	5957
MY Exports	9	9	10	10	0	10
TY Exports	9	9	10	10	0	10
Feed and Residual	4550	4550	4700	4800	0	5000
FSI Consumption	500	500	550	550	0	550
Total Consumption	5050	5050	5250	5350	0	5550
Ending Stocks	493	467	433	457	0	397
Total Distribution	5552	5526	5693	5817	0	5957
Yield	3.3	3.3	3.4	3.4	0	3.5
(1000 HA), (1000 MT), (MT/HA)						

Corn production in MY 2019/2020 (October/September) is forecast at 1.9 MMT, increasing three percent from the previous year. Good weather conditions and increasing demand from the animal feed industry, particularly the poultry sector, are driving this increase. Small farmers with limited use of technology and low yields produce Peru's corn, making it difficult for them to compete with other suppliers in the region. Additionally, in 2011, Peru established a ten-year moratorium on planting genetically engineered crops, including corn. This moratorium prevents producers from being able to choose to cultivate genetically engineered varieties that could help them to overcome production challenges.

Peru grows many varieties of corn. The two most important varieties are starchy corn for human consumption and yellow corn for animal feed. Starchy corn production in MY2017/2018 was 312,000 MT and production of yellow corn was 1.4 MMT.

The harvested corn area in MY2019/2020 is forecast at 250,000 hectares for starchy corn and 260,000 hectares for yellow corn. Average yields in CY2018 were 1.4 MT per hectare for starchy corn and 5.5 MT per hectare for yellow corn. Yellow corn yields vary greatly depending on the location and the producer's 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 10.0 MT/hectare. On the eastern slope of the Andes, in Amazonian fields, yellow corn yields fell to 2.1 MT/hectare or lower due to degraded soils and less sophisticated production methods.

Farm gate prices for yellow corn fell seven percent to $270 per MT in CY 2018. While prices of starchy corn increased five percent to $655 per MT.

Consumption:

Corn consumption in MY 2019/2020 is forecast at 5.6 MMT, an increase of four percent from the previous year. Strong demand from the poultry sector in response to rising domestic consumption is the main driver of increased corn consumption. Peru currently produces 57 million broilers per month. About 70 percent of the yellow corn available is used as chicken feed in one of Peru poultry farms,

which currently number over 1,000. Per capita consumption of poultry meat in Peru, estimated at 48 kilograms per person in 2018, is one of the highest in the region. It can reach as high as 70 kilograms per person in Lima.

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.

Trade:

Peru's corn imports in MY 2019/2020 are forecast at 3.60 MMT, an increase of three percent from the previous year. Total corn imports in MY2017/18 were 3.38 MMT of which 94 percent originated from the United States. Argentina supplied the majority of the remaining imports, with the majority of this corn going towards the brewing of beer.

Peru also imports distiller's dried grains with solubles (DDGS), to improve the quality of domestically produced animal feed. Industry sources report that good market prospects for DDGS. It is estimated that Peru could be a 100,000 MT market for U.S. DDGS.

Policy:

Corn enters Peru duty-free from all sources. Peru's unilateral elimination of import tariffs on most commodities in 2011 eliminated many of the trade advantages afforded by the U.S.-Peru Trade Promotion Agreement (PTPA). However, Peru maintains the Peruvian Price Band System for corn that is activated when commodity prices are low. The PTPA established a duty-free tariff rate quota (TRQ) of 500,000 MT for U.S.-origin corn with annual increases of six percent and full duty-free access within 12 years. The TRQ for 2019 was set at 895,352 MT. This exclusion from the price band system, while in quota, makes U.S. corn more competitive in the Peruvian market when compared to competitors, such as Argentina.

INDECOPI (the Peruvian Consumer Defense and Intellectual Property Rights Agency) initiated a countervailing duty investigation into U.S. corn on July 13, 2018. The investigation is still pending.

Peruvian Price Band System:

Peru's Price Band System imposes a variable levy on corn imports that enter the market at a minimum threshold price (floor price). Peru imposes this tax on certain "sensitive" products, including corn, rice, sugar, and powdered milk. In-quota U.S. corn is imported duty free. After the WTO ruled in favor of Guatemala in a case filed against Peru's price band for sugar, the Peruvian government amended the price band system to limit the levy to 20 percent of c.i.f. value for all products in the Price Band System, except rice. Out-of-quota U.S. corn in 2019 is assessed a levy of up to 2.08 percent under the price band.

In CY2018, the surcharge for corn under the price band fluctuated between $0 and $12 per MT. This level is significantly lower than the previous year when the surcharged reached up to $48 per MT.

Commodity: Rice, Milled

Production:

Rice, Milled	2017/2018		2018/2019		2019/2020	
Market Begin Year	Apr 2017		Apr 2018		Apr 2019	
Peru	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	422	422	414	435	0	435
Beginning Stocks	238	238	217	219	0	139
Milled Production	2097	2118	2100	2150	0	2200
Rough Production	3039	3070	3043	3116	0	3188
Milling Rate (.9999)	6900	6900	6900	6900	0	6900
MY Imports	384	398	300	350	0	300
TY Imports	300	320	300	300	0	300
TY Imp. from U.S.	0	4	0	5	0	5
Total Supply	2719	2754	2617	2719	0	2639
MY Exports	80	80	50	80	0	80
TY Exports	80	80	50	80	0	80
Consumption and Residual	2422	2455	2430	2500	0	2530
Ending Stocks	217	219	137	139	0	29
Total Distribution	2719	2754	2617	2719	0	2639
Yield (Rough)	7.2014	7.2749	7.3502	7.1632	0	7.3287
(1000 HA), (1000 MT), (MT/HA)						

Rice production in MY 2019/2020 is forecast at 2.2 MMT (milled basis), slightly higher than the previous year. The total rice harvested area for MY 2019/2020 is forecast at 435,000 hectares, the same as the previous year estimate.

Increased area planted, abundant water supply, and good weather conditions resulted in the production of 2.1 MMT of rice in MY 2017/2018, a trend that is forecast to continue. Rice production is concentrated in Peru's arid northwestern coastal region (mainly in the Lambayeque and Piura regions). Production challenges include poor quality soils and increasing soil salinization (a result of the field flooding irrigation technique used by farmers). Peruvian rice is surface irrigated, dependent upon water draining from Andean rivers hundreds of kilometers away. The average size of a rice farm is about five hectares.

The government of Peru has sought to expand rice cultivation along the eastern slope of the Andes (particularly in San Martin province located in the Amazon basin) in an effort to relocate coastal rice producers. This has been unsuccessful, as these low-income, smallholder farmers currently have no real incentive to switch to a less water intensive crops (e.g., quinoa or cotton) and no capital to shift production to higher technology crops (e.g. blueberries, grapes). Water fees charged to farmers are almost non-existent. This reality, in addition to decent returns, hinders the government's attempts to shift production away from the arid coastal areas. FAS Lima's industry sources indicate that water costs average about $280/ hectare. However, rice farming in the San Martin region took off and is significantly contributing to the surplus production.

Rice is typically harvested April through May in Peru. In CY 2018, prices averaged $416 per MT, falling from $477 per MT in CY 2017. Average yield in CY 2018 was 8.2 MT/hectare, increasing ten percent from the previous year. However, some farmers are reporting yields as high as 14 MT/hectare.

Consumption:

Rice is a staple food in Peru. Per capita consumption averages 60 kilograms per year. Rice is traditionally sold in 50-kilogram sacks. With the expansion of supermarket chains, consumer habits are shifting towards prepackaged, one-kilogram bags. Rice consumption is expected to increase slightly in MY 2019/2020 to 2.5 MMT and is forecast to remain constant. Peruvians primarily consume long grain rice.

Trade:

Rice imports in MY 2019/2020 are forecast at 300,000 MT, a 14 percent reduction from the previous year. This reduction is explained by increased production. Imports in MY2017/2018 were 398,000 MT. Uruguay is the largest exporter of rice to Peru, a position it has held historically due to a longstanding relationship between the main Uruguayan supplier and Peru's major importer. The former is said to supply advantageous credit conditions. U.S. rice is currently not price competitive in the Peruvian market. Uruguay held a market share of 62 percent in MY 2017/2018. Other important suppliers are Brazil and Thailand with 22 and 13 percent market shares, respectively.

Peru's sanitary agency (SENASA) published a resolution on January 26, 2017, easing sanitary requirements related to grass seeds for U.S. paddy rice imported to Peru. FAS Lima does not foresee this change to immediately benefit U.S. rice exports due to strong domestic and Uruguayan competition.

Rice mills are located in the north of Peru, close to the area of production. There are import opportunities for both paddy and milled rice in Peru. Imported paddy rice is typically milled near the port in Lima. MY 2018/19 rice stocks are estimated at 139,000 MT, a 37 percent decline from MY 2017/18. This is the result of normal private sector-held stock fluctuations and not attributable to commercial supply constraints. Peru does not maintain national strategic reserves of rice or any other bulk commodity.

FAS Lima estimates that some 65,000 MT of paddy rice was unofficially exported from Peru to Ecuador in CY 2018.

Policy:

Rice enters duty-free from all sources. Peru's unilateral elimination of import tariffs on rice in 2011 eliminated many of the trade advantages afforded by the U.S.-Peru Trade Promotion Agreement. However, Peru maintains a Price Band System for rice that is activated when commodity prices are low. The PTPA establishes a duty-free TRQ of 72,000 MT for U.S.-origin rice with annual increases of six percent and full duty-free access within 17 years.

Widespread protests in rice producing areas in 2017 demanded that the government halt the flow of imported rice. As a result, the Ministry of Economy and Finance approved a new price band for rice (Supreme Decree 371-2017-EF) that went into effect on December 21, 2017. The new price band table uses Thai rice as the reference price marker instead of Uruguayan rice. This change effectively increases the band range from a minimum of $408 and maximum of $480 per metric ton to a minimum of $599 and a maximum of $669 per metric ton. This regulation also limits the maximum protection level to 15 percent of the FOB price. The products affected by the price band are H.S. codes: 1006.10.90.00, 1006.20.00.00, 1006.30.00.00, 1006.40.00.00.