

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Peru

### Grain and Feed Annual

#### Annual - 2018

**Approved By:**

Kirsten Luxbacher

**Prepared By:**

Gaspar E. Nolte

**Report Highlights:**

Peruvian wheat production is all consumed domestically. Wheat imports in MY 2018/19 are forecast at 2.06 MMT. Corn imports continue to grow as local production cannot meet increasing demand from the poultry sector. Rice production in MY 2018/2019 is forecast to remain constant at 2.12 MMT (milled basis).

## Executive Summary:

Peruvian wheat production is all consumed domestically. Wheat imports in MY 2018/19 are forecast at 2.06 MMT. Wheat imports in MY2016/2017 were 1.95 MMT, of which U.S. wheat accounted for 28 percent.

Peru's demand for corn has doubled over the last ten years, driven by its growing poultry sector, which produces 57 million broilers per month. Corn imports in MY2016/17 reached 3.27 MMT and are forecast to continue to grow. Peru imports the majority of its corn from the United States. Despite this growth in demand for corn, local production has only marginally increased. The lack of technology and the moratorium on the cultivation of genetically engineered crops has resulted in poor yields and high production costs, making it impossible for local producers to compete with lower cost imports.

Rice production in MY 2018/2019 is forecast to remain constant at 2.12 MMT (milled basis). Rice imports in MY 2018/2019 are forecast at 300,000 MT, down six percent from the previous year. Imports in MY2017/18 are forecast at 320,000 MT, led by Uruguay.

## Wheat

### Production:

Wheat Market Begin Year	2016/2017		2017/2018		2018/2019	
	Jul 2016		Jul 2017		Jul 2018	
	Peru	Peru	Peru	Peru	Peru	Peru
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	130	130	130	130	0	150
Beginning Stocks	351	351	256	255	0	225
Production	190	210	190	190	0	240
MY Imports	1961	1959	2100	2050	0	2055
TY Imports	1961	1959	2100	2050	0	2055
TY Imp. from U.S.	617	558	0	700	0	800
Total Supply	2502	2520	2546	2495	0	2520
MY Exports	76	78	90	90	0	90
TY Exports	76	78	90	90	0	90
Feed and Residual	80	80	80	80	0	80
FSI Consumption	2090	2107	2125	2100	0	2155
Total Consumption	2170	2187	2205	2180	0	2235
Ending Stocks	256	255	251	225	0	195
Total Distribution	2502	2520	2546	2495	0	2520
Yield	1.46	1.62	1.46	1.46	0	1.60

(1000 HA) ,(1000 MT) ,(MT/HA)

Wheat production in MY 2018/2019 is forecast at 240,000 metric tons (MT), an increase of 21 percent compared to the estimate for MY 2017/2018. 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 consumed locally in purees or as a soup ingredient, and not good for milling.

The total area harvested for MY 2018/2019 is forecast at 150,000 hectares. The total wheat crop area in MY 2017/2018 was 130,000 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 MY2016/17 was 1.62 MT/hectare.

Domestic millers have 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 2017/2018 is forecast at 2.18 MMT, relatively unchanged from the previous year. Overall wheat consumption is 64 kilograms per capita a relatively low level compared to potato and rice consumption of 110 and 89 kilograms per capita respectively. Wheat consumption is relatively constant, growing when the economy grows more than 4 percent and leveling off when it does not.

Peru produces about 1.6 MMT of wheat flour per year. Of this amount 63 percent is used by the local baking industry, 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 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.

<b>Per Capita Consumption</b>	
<b>Product</b>	<b>Kilograms</b>
Pasta	11.9
Cakes and pastry	1.2
Cookies and crackers	1.7
Bread	35.0
Flour	1.4
Grain	2.8

Source: Peru, National Statistics Service and industry.

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 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 220,000 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 2018/19 are forecast at 2.06 MMT. Wheat imports in MY2017/18 are estimated at 2.05 MMT. Canada dominates the wheat market, with a 61 percent market share in CY 2017. The United States, with a 21 percent market share, and Argentina, with a 12 percent market share are the other top suppliers of wheat to Peru. After years of being absent from the market due to internal political problems, Argentinean wheat is gradually returning to the Peruvian market. FAS Lima expects these imports increase in the upcoming years as the Argentine wheat crop recovers. Average wheat price (CIF) in CY2017 was \$250 per MT. Canadian wheat was priced at an average of \$260 per MT, U.S. wheat at \$220 per MT, and Argentinean wheat at \$210 per MT. MY 2018/19 wheat stocks are forecast at 400,000 MT. Peruvian millers typically buy wheat three months in advance, and keep about one month of supply on hand.

The U.S. Wheat Associates (USWA), a USDA Cooperator with the regional office based in Santiago, Chile, is active in the Peruvian market. It provides trade servicing to millers aimed at increasing the usage of U.S. wheat varieties in the food-processing sector.

<b>Import Trade Matrix (Metric Tons)</b>	
<b>Commodity</b>	<b>Wheat</b>
Time Period	CY 2017
Imports from:	
<b>United States</b>	442,978
<b>Imports from Others</b>	
Canada	1,262,851
Argentina	238,969
Russia	125,372
<b>Total from Others</b>	1,627,192
Others not Listed	0
<b>TOTAL</b>	2,070,170

Source: Peruvian Customs

Peru’s wheat millers are increasingly more 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. This is largely due to the USWA’s activities over the years.

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

## Corn

### **Production:**

Corn Market Begin Year Peru	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	459	445	522	522	0	530
Beginning Stocks	492	492	417	379	0	400
Production	1464	1485	1712	1712	0	1750
MY Imports	3169	3270	3300	3300	0	3500
TY Imports	3169	3169	3300	3300	0	3500
TY Imp. from U.S.	3037	3131	0	3150	0	3300
Total Supply	5125	5247	5429	5391	0	5650
MY Exports	8	9	10	10	0	10
TY Exports	8	9	10	10	0	10
Feed and Residual	4250	4409	4450	4481	0	4720
FSI Consumption	450	450	500	500	0	520
Total Consumption	4700	4859	4950	4981	0	5240
Ending Stocks	417	379	469	400	0	400
Total Distribution	5125	5247	5429	5391	0	5650
Yield	3.19	3.34	3.28	3.28	0	3.308

(1000 HA) ,(1000 MT) ,(MT/HA)

Corn production in MY 2018/2019 (October/September) is forecast at 1.75 MMT, increasing two percent from the previous year. Good weather conditions and increasing demand from the animal feed industry are driving this increase. Small farmers with very limited use of technology produce Peru's corn, making it difficult for them to compete with other suppliers in the region. Additionally, in 2011, Peru established a 10-year moratorium on planting genetically engineered crops, including corn. This moratorium prevents producers from being able to choose to utilize genetically engineered varieties that might help 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 CY 2017 was 280,000 MT and production of yellow corn was 1.24 MMT.

The harvested corn area in CY 2017 was 210,000 hectares for starchy corn and 281,000 hectares for yellow corn. Average yields in CY2017 were 1.33 MT per hectare for starchy corn and 4.41 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 and lower due to degraded soils or less sophisticated production methods.

## Consumption:

Corn consumption in MY 2018/2019 is forecast at 5.24 MMT, an increase of 5 percent from the previous year. Strong demand from the poultry sector in response to rising domestic consumption is the main driver for increasing corn consumption. Peru currently produces 57 million broilers per month. About 70 percent of the yellow corn available in the country goes towards chicken feed to supply the country's over 1,000 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.

## Trade:

Peru's corn imports in MY 2018/2019 are forecast at 3.50 MMT, an increase of six percent from the previous year. Total corn imports in MY2016/17 were 3.27 MMT of which 96 percent originated from the United States. The remaining imports are primarily from Argentina mostly used for brewing beer.

The United States' corn exports to Peru in CY 2017 totaled \$510 million, a 13 percent increase compared to the previous year. Argentina follows the United States in exports to Peru, with a three percent market share in CY 2017. The majority of Argentinean commodities, including corn, reach Peru via sea vessels.

Peru also imports distiller's dried grains with solubles (DDGS), to improve the quality of domestically produced animal feeds. Industry sources report that good market prospects for DDGS and that Peru could be a 100,000 MT market for U.S. DDGS. The U.S. Grains Council, a USDA Cooperator, services the Peruvian market to promote U.S. corn and to increase Peru's use of corn by-products such as DDGS and ethanol.

<b>Import Trade Matrix (Metric Tons)</b>	
<b>Commodity</b>	<b>Yellow Corn</b>
Time Period	CY 2017
Imports from:	
<b>United States</b>	3,223,814
<b>Imports from Others</b>	
Argentina	95,770
Brazil	6,568
Bolivia	501
<b>Total from Others</b>	102,839

<b>TOTAL</b>	<b>3,326,653</b>
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Source: Peruvian Customs

## 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 2018 was set at 844,672 MT, which was filled by the end of February. 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.

In February-March 2018, Peruvian corn producers protested low market prices for corn. They argued that imported corn is undercutting local corn prices, and are demanding that the government purchase local corn at above the market prices. The protesters were trying to repeat similar negotiations by potato producers in early 2018. These protests reveal the challenges that the government faces in adequately addressing social and production issues faced by smallholder farmers.

### *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 is assessed a levy of up to 4.17 percent under the price band.

## Rice

### Production:

Rice, Milled Market Begin Year Peru	2016/2017		2017/2018		2018/2019	
	Apr 2016		Apr 2017		Apr 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	420	420	447	435	0	435
Beginning Stocks	273	273	308	305	0	245
Milled Production	2185	2185	2446	2120	0	2120
Rough Production	3167	3167	3545	3072	0	3072
Milling Rate (.9999)	6900	6900	6900	6900	0	6900
MY Imports	310	307	340	320	0	300
TY Imports	370	315	300	330	0	300
TY Imp. from U.S.	0	9	0	10	0	10
Total Supply	2768	2765	3094	2745	0	2665
MY Exports	50	50	50	50	0	50

<b>TY Exports</b>	40	40	50	50	0	50
<b>Consumption and Residual</b>	2410	2410	2590	2450	0	2450
<b>Ending Stocks</b>	308	305	454	245	0	165
<b>Total Distribution</b>	2768	2765	3094	2745	0	2665
<b>Yield (Rough)</b>	7.5405	7.5405	7.9306	7.0621	0	7.0621
(1000 HA) ,(1000 MT) ,(MT/HA)						

Rice production in MY 2018/2019 is forecast at 2.12 MMT (milled basis), the same as MY 2017/2018 levels. The total rice harvested area for MY 2018/2019 is forecast at 435,000 hectares, remaining constant from the previous year.

Sufficient water supply and good weather conditions resulted in rice production reaching 2.19 MMT in MY 2016/2017. Production is forecast down to 2.12 MMT in MY 2017/18 and MY 2018/19. Rice production is concentrated in Peru's arid northwestern coastal region (mainly in Lambayeque and Piura provinces). Production challenges include poor quality soils and increasing soil salinization due to field flooding irrigation techniques used by farmers. 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 to expand rice cultivation along the eastern slope of the Andes (particularly in San Martin province) 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). Water fees charged to farmers are almost non-existent. This reality, in addition to decent returns, hinders government attempts to shift production away from the arid coastal areas. FAS Lima industry sources indicate that water costs average about \$250/ hectare.

Rice is typically harvested April through May in Peru. In CY 2017, prices averaged \$461 per MT, slightly higher than the previous year. Despite the bulk of rice cultivation being farmed by smaller producers, whose quality and yields fluctuate widely, yields average 6.5 MT/hectare, a respectable figure considering 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 averages at 60 kilograms/year. Rice is traditionally sold in 50-kilogram sacks. With the expansion of supermarket chains, consumer habits are changing towards prepackaged, one-kilogram bags. Rice consumption is expected to increase slightly in MY 2017/2018 to 2.45 MMT and is forecasted to remain constant. Peruvians primarily consume long grain rice.

### **Trade:**

Rice imports in MY 2018/2019 are forecast at 300,000 MT, a six percent reduction from the previous year. Imports in MY2017/18 were 320,000 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.

<b>Import Trade Matrix (Metric Tons)</b>	
<b>Commodity</b>	<b>Rice</b>
Time Period	CY 2017
Imports from:	
<b>United States</b>	7,994
<b>Imports from Others</b>	
Uruguay	226,986
Brazil	81,150
Thailand	66,911
Argentina	10,875
<b>Total from Others</b>	385,922
Others not Listed	2,550
<b>TOTAL</b>	396,466

Source: Peruvian Customs

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 forecast at 165,000 MT, a 33 percent decline from MY 2017/18 as the result of a normal private sector-held stock fluctuations and not attributable to commercial supply constraints. Peru does not maintain national strategic reserves of rice or any bulk commodity.

FAS Lima estimates that some 60,000 MT of paddy rice was unofficially exported from Peru to Ecuador in CY 2017.

### **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.

As a result of widespread protests in rice producing areas in 2017, demanding that the government halt the flow of imported rice, the Ministry of Economy and Finance approved a new price band for rice, (Supreme Decree 371-2017-EF) effective December 21, 2017. The new table replaces Thai rice for Uruguayan rice as a marker for the reference price. 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.