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

Voluntary _ Public

Date: 10/26/2012

GAIN Report Number:

Peru

Post: Lima

U.S. Agricultural Exports Falling

Report Categories:

Agricultural Situation

Approved By:

Emiko Purdy

Prepared By:

Gaspar E. Nolte

Report Highlights:

Pushed by a sharp decrease of U.S. commodity exports, which account for 67 percent of total U.S. agricultural exports to Peru, U.S. agricultural exports to Peru have declined significantly so far in 2012.

General Information:

U.S. agricultural exports to Peru have declined significantly so far in 2012 and there are no signs of recovery this year. This reduction is basically due to the sharp decrease of U.S. commodity exports, which account for 67 percent of U.S. agricultural exports to Peru. U.S. commodities have declined 49 percent in the year ending in September 2012. The value of all U.S. agricultural exports has fallen 30 percent in the same period of time. Wheat, which accounted for 37 percent of total U.S. agricultural exports to Peru in 2011, is the single product with the highest impact. Though Peruvian imports of wheat increased by 9 percent in the first semester of 2012, U.S. wheat exports to Peru dropped from 472 Thousand Metric Tons (TMT) to 98 TMT compared to the first semester of 2011. Likewise, other U.S commodities such as cotton have fallen 22 percent in the first semester from an all time record of 2011. Corn exports deserve a special mention; U.S. corn exports to Peru in CY 2010 reached an all time record of 627 TMT falling to 63 TMT in 2011 and nearly nil in 2012.

Several factors, some common across commodities and others product- specific, negatively affected U.S. agricultural exports to Peru this year. The single most important factor has been price. U.S. landed commodity prices across the board were considerably higher in the first semester of this year. U.S. wheat prices were an average of 13 percent higher than Argentine wheat in the first semester of 2012. Apparently an atypical excess supply of Argentinean wheat is pushing prices down; Argentine wheat production in MY 2012 (July/June) was 14.5 MMT and is expected to fall 22 percent in the upcoming year, encouraging U.S. wheat sales.

Frequently, Peruvian wheat millers cite massive investment funds as the force driving the price of wheat up, pushing them to source their wheat from other sources, which allegedly do not necessarily follow Kansas prices. Last August, most of the Peruvian wheat millers closed their positions through December 2012 and will probably not be purchasing U.S. wheat until the new 2013 crop comes out.

In the case of corn, the U.S. market share was taken by Argentine corn which increased 6 percent in the first semester of 2012, reaching 840 TMT at an average landed price of $290 per MT, and Paraguayan corn which increased 19 percent to 119 TMT at an average price of $280 per MT. There are two factors specific to corn that need to be considered. First is quality. Peruvian millers and poultry producers frequently mention that the quality of U.S. corn is not as good as Argentine, Paraguayan and even locally produced corn. Flintier kernels from competitors and less dust are the two most commonly mentioned characteristics. A harder kernel results in lower percentages of broken grain which in turn reduces the possibility of mycotoxin presence diminishing the cost of treatment. The second factor is that corn shipments are usually paired with soybeans. Thus, lower U.S. corn exports will translate into less U.S. soybean meal shipped.

It is a widespread assumption among Peruvian grain buyers that the U.S. ethanol industry is pushing prices of U.S. commodities. Whether they are right or not, this is a factor that has encouraged them to seek other corn and soybean suppliers.

The case of cotton is different. The United States continues to be the sole cotton supplier to Peru. However, imports have fallen almost 50 percent in the first semester of 2012 due to less demand from the textile industry. This reduction is partially due to higher imports of Indian yarn and Chinese apparel.

Aiming at maintaining inflation under control in lieu of rising international prices, Peru unilaterally eliminated import duties of most commodities which caused U.S. exports to lose the trade preferences negotiated under the Free Trade Agreement with Peru.

On the positive side, U.S. exports of consumer oriented products have increased 36 percent in 2012 (Jan-Sep). This growth has been led by dairy and beef products reaching 44 and 29 million respectively. High value products account for 15 percent of U.S agricultural exports to Peru. Post forecast that this segment will become more important as the Peruvian economy continues its strong growth.