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## Peru

## Grain and Feed Annual

## Annual

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**Report Highlights:**

Wheat imports in MY 2015/16 are forecast at 1.90 MMT, up from 1.87 MMT the previous year. Corn production in MY 2016/17 (October/September) is estimated to reach 1.70 MMT, up 50,000 MT from MY 2015/2016. Peru's corn imports in MY 2015/16 are forecast at 2.70 MMT, remaining at the same levels as the previous year. Total corn imports in CY 2015 were 2.66 MMT of which 80 percent was originated in the United States. Rice production in MY 2016/17 is forecast at 2.05 MMT (milled basis). Policy-wise, the United States achieved market access for paddy rice through technical discussions under the U.S.-Peru Free Trade Agreement's SPS Standing Committee.

### Executive Summary:

Wheat is a minor crop in Peru, and production is concentrated mostly in the temperate, southern highlands between 2,800 and 3,500 meters above sea level. Wheat production in MY 2016/17 (July/June) is forecast at 200,000 metric tons (MT), similar to production in the previous year. Wheat imports in MY 2015/16 are forecast at 1.90 MMT. Wheat imports in CY 2015 were 1.87 MMT. Canadian wheat holds the largest market share at 72 percent in CY 2015 due to more competitive pricing.

Corn production in MY 2016/17 (October/September) is estimated to reach 1.70 MMT, up 50,000 MT from MY 2015/2016. Corn consumption in MY 2015/16 is forecast at 4.40 MMT, increasing 2.6 percent compared to the previous year. Strong demand from the poultry sector is the main driver for increasing corn consumption. Peru currently produces 55 million broilers per month. Peru's corn imports in MY 2015/16 are forecast at 2.70 MMT, remaining at the same levels as the previous year. Total corn imports in CY 2015 were 2.66 MMT of which 80 percent was originated in the United States.

Rice production in MY 2016/17 is forecast at 2.05 MMT (milled basis), remaining in the same level as current production. Rice imports in MY 2016/17 are forecast at 220,000 MT, remaining at the same level as in the previous year. Imports in CY 2015 were 237,987 MT, led by Uruguay with 68 percent of the market share. Market access achieved for U.S. paddy (rough) rice in April 2015 did not impact trade yet, though buyers are looking at opportunities to source from the United States and mill here in Peru.

### Commodities:

Wheat

#### Production:

Wheat Market Begin Year Peru	2014/2015		2015/2016		2016/2017	
	Jul 2014		May 2015		Jul 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	140	137	145	138	0	130
Beginning Stocks	524	524	579	521	0	476
Production	215	210	225	205	0	200
MY Imports	1907	1870	1800	1900	0	1900
TY Imports	1907	1870	1800	1900	0	1900
TY Imp. from U.S.	483	446	0	600	0	600
Total Supply	2646	2604	2604	2626	0	2576
MY Exports	72	68	75	80	0	90
TY Exports	72	68	75	80	0	90
Feed and Residual	70	70	70	75	0	80
FSI Consumption	1925	1945	1975	1995	0	2010
Total Consumption	1995	2015	2045	2070	0	2090
Ending Stocks	579	521	484	476	0	396
Total Distribution	2646	2604	2604	2626	0	2576

(1000 HA) ,(1000 MT)

Wheat production in MY 2016/17 (July/June) is forecast at 200,000 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 the current level. Farmers are shifting away from less profitable wheat cultivation to more lucrative crops such as quinoa. Local wheat currently trades at about \$556 per MT, compared to \$5,000 per MT that producers can reasonably expect to receive for cash crops such as quinoa.

Wheat is a minor crop in Peru, and production is concentrated mostly in the temperate southern highlands 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 2016/17 is forecast to fall by 4,000 hectares to 130,000 hectares. The total wheat crop area in MY 2014/15 was 137,000 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 2015 was 1.0 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 2016/17 is forecast at 2.01 MMT, a slight increase from the previous year. Overall wheat consumption is 64 kilograms per person.

Peru produces about 1.6 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 small-scale, family use. Roughly 70 percent of domestic flour is sold through traditional markets, while only 30 percent of flour is sold in supermarkets.

<b>Per Capita Consumption</b>	
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 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.

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 daily 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 1.90 MMT. Wheat imports in CY 2015 were 1.87 MMT. Due to more competitive pricing, Canadian wheat held 72 percent market share in CY 2015, followed by imports from the United States with 21 percent and Russia 5 percent. Argentine wheat imports into Peru were almost no-existent in CY2015. 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 (Argentina) price fixing and export restrictions that are inducing farmers to stockpile or move to more lucrative soybean exports.

The U.S. Wheat Associates (USWA), a USDA Cooperator with the regional office based in Santiago, Chile, is active in the Peruvian market, providing trade servicing to the millers aimed to increase the variety and usage of wheat varieties to appeal to more consumers.

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. This is largest due to the USWA's activities over the years.

<b>Import Trade Matrix (Metric Tons)</b>	
<b>Commodity</b>	<b>Wheat</b>
Time Period	CY 2015
Imports from:	
<b>United States</b>	401,644
<b>Imports from Others</b>	
Canada	1,354,992

Russia	103,764
<b>Total from Others</b>	1,458,756
Others not Listed	9,856
<b>TOTAL</b>	1,870,256

### 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 Market Begin Year Peru	2014/2015		2015/2016		2016/2017	
	Oct 2014		May 2015		May 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	485	464	475	470	0	480
Beginning Stocks	305	305	393	333	0	383
Production	1530	1491	1600	1650	0	1700
MY Imports	2741	2740	2700	2700	0	2700
TY Imports	2741	2740	2700	2700	0	2700
TY Imp. from U.S.	2482	2337	0	1400	0	1600
Total Supply	4576	4536	4693	4683	0	4783
MY Exports	8	8	10	10	0	10
TY Exports	8	8	10	10	0	10
Feed and Residual	3800	3850	3900	3900	0	3950
FSI Consumption	375	345	375	390	0	450
Total Consumption	4175	4195	4275	4290	0	4400
Ending Stocks	393	333	408	383	0	373
Total Distribution	4576	4536	4693	4683	0	4783

(1000 HA) ,(1000 MT)

Corn production in MY 2016/17 (October/September) is estimated to reach 1.7 MMT, up 50,000 MT from MY 2015/2016. Growing demand from the poultry industry to meet increasing consumption 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 2015 was 308,000 MT while production of yellow corn was 1.18 MMT.

Harvested area in CY 2015 was 215,000 hectares and 249,000 hectares for starchy and yellow corn respectively. Average yields in CY2015 were 1.43 MT per hectare for starchy corn and 4.75 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 4.4 MMT, increasing 2.6 percent compared to the previous year. Strong demand from the poultry sector responding to rising domestic consumption is the main driver for increasing corn consumption. Peru currently produces 55 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 2.7 MMT, remaining at the same levels as the previous year. Total corn imports in CY 2015 were 2.66 MMT of which 80 percent originated from the United States. The U.S. Grains Council (USGC), a USDA Cooperator, services the Peru market to promote continued U.S. corn purchases 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	2015
Imports from:	
<b>United States</b>	2,129,735
<b>Imports from Others</b>	
Argentina	345,006
Bolivia	92,866
Paraguay	64,418
Brazil	29,259
<b>Total from Others</b>	531,549
<b>TOTAL</b>	2,661,284

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 \$30 and \$60 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 2016 is set at 751,815 MT.

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. The government amended the price band system to limit the levy of to 20 percent of c.i.f. value. Out-of-quota U.S. corn is assessed up to 8.4 percent price band.

### Commodities:

Rice, Milled

### Production:

Rice, Milled Market Begin Year	2014/2015		2015/2016		2016/2017	
	Apr 2014		Apr 2015		Apr 2016	
Peru	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	375	344	400	350	0	355
Beginning Stocks	270	270	155	173	0	150
Milled Production	2000	1933	2153	2000	0	2050
Rough Production	2899	2801	3120	2899	0	2971
Milling Rate (.9999)	6900	6900	6900	6900	0	6900
MY Imports	205	208	220	220	0	220
TY Imports	250	208	220	220	0	220
TY Imp. from U.S.	0	7	0	10	0	20
Total Supply	2475	2411	2528	2393	0	2420
MY Exports	20	57	70	60	0	70
TY Exports	20	57	70	60	0	70
Consumption and Residual	2300	2181	2310	2183	0	2200
Ending Stocks	155	173	148	150	0	150
Total Distribution	2475	2411	2528	2393	0	2420

(1000 HA) ,(1000 MT)

Rice production in MY 2016/17 is forecast at 2.05 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 2016/17 is forecast at 355,000 hectares, about the same as the previous year.

Plenty water supply and good weather conditions resulted in a rice production of 2.02 MMT in CY 2015. 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 \$415 per MT in CY 2015, slightly higher than 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 2016/17 are forecast at 220,000 MT, remaining at the same level as in the previous year. Imports in CY 2015 were 237,987 MT, led by Uruguay with 68 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. Nonetheless, during 2015 the United States obtained full access for paddy (rough) rice for the first time, as the result of bilateral, technical discussions between Peru and the United States spearheaded under the U.S.-Peru Free Trade Agreement's SPS Standing Committee.

<b>Import Trade Matrix (Metric Tons)</b>	
<b>Commodity</b>	<b>Rice</b>
Time Period	CY 2015
Imports from:	
<b>United States</b>	6,295
<b>Imports from Others</b>	
Uruguay	154,901
Brazil	57,329
Thailand	17,259
Paraguay	2,100



<b>Total from Others</b>	231,589
Others not Listed	103
<b>TOTAL</b>	<b>237,987</b>

Source: SUNAT (Peru Customs Authority).

FAS Lima estimates that some 50,000 MT of paddy rice were unofficially exported from Peru to Ecuador in CY 2015.

**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.