

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Peru

Post: Lima

Cotton Situation

Report Categories:

Cotton and Products

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Report Highlights:

Cotton production in Peru is expected at 38,500 MT in CY 2012. Cotton imports in CY 2011 reached 66,571 MT, of which 66,080 MT were imported from the United States.

Executive Summary:

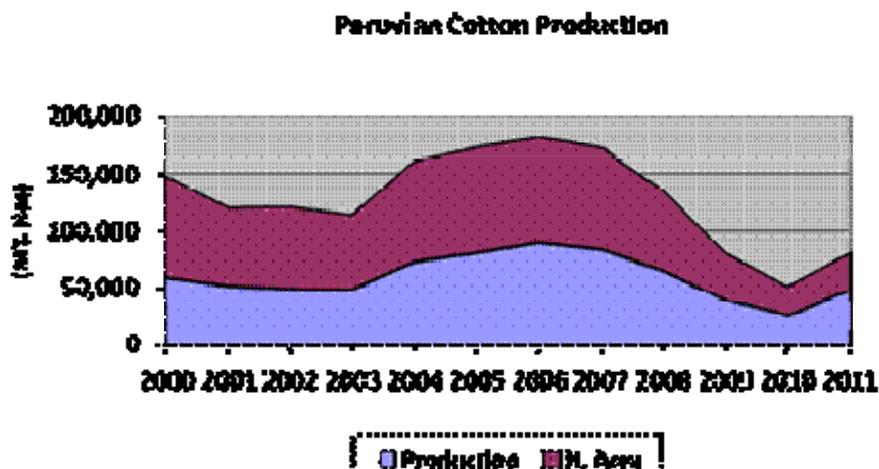
Cotton production in Peru is expected to fall 12 percent to 38,500 MT in CY 2012. Peruvian cotton production reached 46,941 MT in CY 2011 recovering significantly from its all time low of 25,590 in CY2010. Cotton imports in CY 2011 reached 66,571 MT, of which 66,080 MT were imported from the United States. Due to high international prices the value of cotton imports increased 55 percent in CY 2011 while the volume actually fell 4 percent when compared to CY 2010.

General Information:

Production

Cotton production in Peru is expected to fall 12 percent to 38,500 MT in CY 2012. Peruvian cotton production reached 46,941 MT in CY 2011 recovering significantly from its all time low of 25,590 in CY2010.

Cotton production has fallen significantly from its peak of 89,000 MT produced in CY 2006. Several factors have come together to cause this reduction. The single most important factor that has affected the most is farmers' inefficiency which has resulted from no genetic improvement of the crop in the last forty years which has led to low yields. Another important factor that has played against crop producers is their own unwillingness to establish associations. A typical cotton producer farms less than 5 hectares which makes it very difficult and expensive to buy inputs and increase mechanization. The government has had some initiatives such as credit lines and technical assistance for farmers that formed association but such measures have not had significant effect on the traditional cotton producer. Thread and textile dumping from India and China and better profit opportunities in other crops have also played an important role in reducing Peruvian cotton output.



Peru grows two major and two minor varieties of cotton. Of the major varieties, Tanguis, is a long staple cotton (LS), grown in the central coast of Peru, and is used for yarns. Pima, is an extra long staple cotton (ELS), grown in the northern region, mostly in Piura, and it is used for higher quality textiles. Del Cerro and Aspero (rough) are minor varieties, accounting for about 0.1 and 3.1 percent of total local production respectively.

Accounting for about 80 percent of the total cotton grown in Peru, Tanguis is the most common cotton variety produced. The long growing season for Tanguis, which is about nine months, is a major disadvantage for producers. Generally in Peru, farmers work two crops per year (the main crop and the small crop). Cotton is used for the main crop and usually a type of bean for the small crop. The long growing period also increases the incidence of pests, such as the Pink Boll Weevil. In some cases, the cost of pesticides in the Tanguis producing areas accounts for almost 50 percent of the total cost of production. Peruvian cotton producers also have to face other weaknesses, such as inefficiency caused

by the extremely small size of the average producing unit, low yields due to poor agricultural practices and seed quality, lack of technical assistance, informality and lack of credit. Tanguis cotton is doomed to disappear in the near future, especially in the northern coast where more efficient ELS cottons such as Hazera are gaining terrain.

The Peruvian Cotton Institute (IPA) has developed and is currently marketing a new cotton variety, IPA-59. This is an ELS white cotton with a vegetative period of six months. IPA-59 is 37 mm long with a micronaire of 4.2 - 4.5 and a resistance of 38 grams per tex. There are 1,500 hectares already planted with this variety. IPA is a private, non-profit organization that brings together most players in the cotton value chain: producers, gins, traders, and the textile industry. IPA's primary responsibility is to increase competitiveness of the cotton industry through research.

**Cotton: Production and Harvested Area
(Metric Tons, Hectares)**

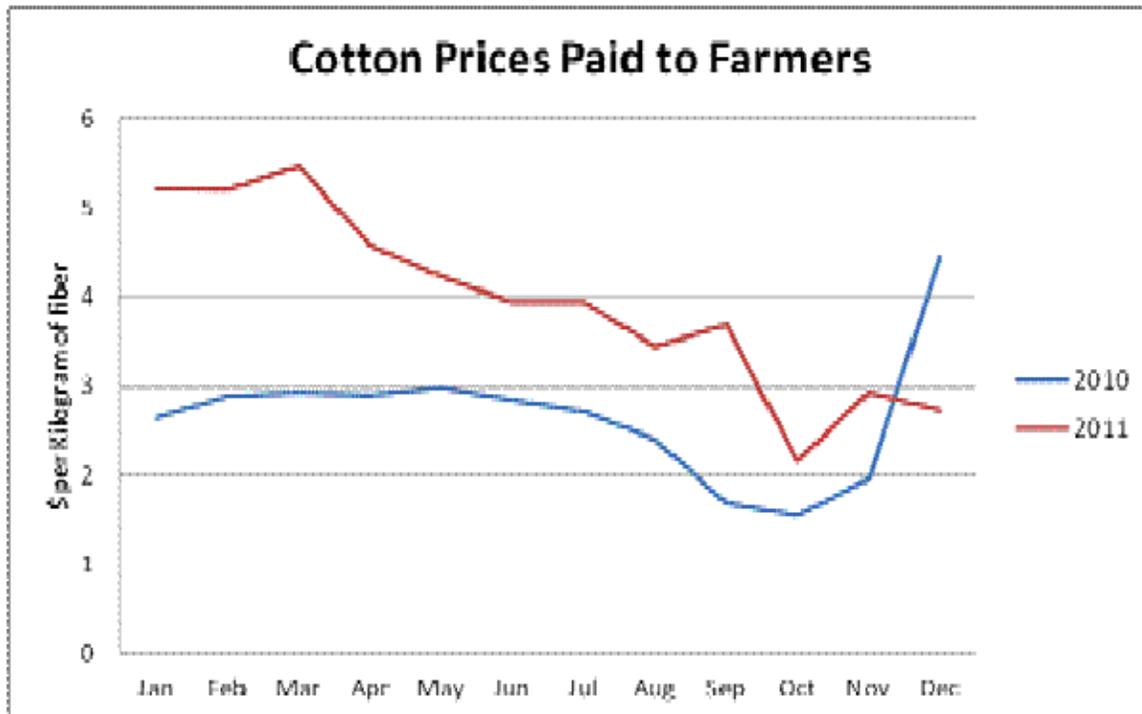
COTTON	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Production (fiber)	51,167	48,605	48,148	72,191	79,737	89,003	82,861	64,383	38,387	25,590	46,941
H. Area	68,634	71,905	65,269	88,908	93,250	91,787	89,428	70,507	41,276	24,759	32,230

In addition to the long growing season and pests, Peruvian cotton producers also face other weaknesses such as inefficiencies caused by:

- Extremely small size of the average producing unit—90 percent of producers farm less than five hectares which prevents them from benefiting from economies of scale.
- Low yields—the average yield in CY2011 is expected to be 930 kilograms of fiber per hectare as the result of inadequate agricultural practices, including replanting harvested seed and a lack of fertilization.
- Insufficient credit access—most producers do not have land titles or viable collateral to guarantee a credit line and commercial banks do not risk lending to them. Producers obtain credit from informal lenders at interest rates as high as 8 – 10 percent per month.

Cotton Characteristics by Variety				
	Tanguis	Pima	Del Cerro	Aspero
Growing period (days)	260 - 280	235 - 250	180 - 190	240 - 250
Fiber length (mm)	29.4 - 32.5	33.3 - 36.5	33.3 - 36.5	26.2 - 27.0
Resistance (lbs/sq.inch)	86,000 - 88,000	92,000 - 95,000	92,000 - 95,000	80,000
Micronaire (units)	4.6 - 5.8	3.5 - 4.2	3.6 - 3.8	6.5
Color	white	white/beige	white	white/beige

Though prices paid to farmers fell 48 percent during CY2011, this steep reduction could be deceiving since the prices were at a record high during the end of CY 2010 and the beginning of CY 2011. Average price paid to farmers in CY 2011 was \$3,952 per MT of fiber, compared to \$2,652 in CY 2010.



Despite high prices in the past two years, producers still protest against the government for not doing enough to assist them. Producers demand that the government reinstates import duties for imported cotton, establishes subsidize credit for cotton producers and antidumping measures against imported yarn and fabric.

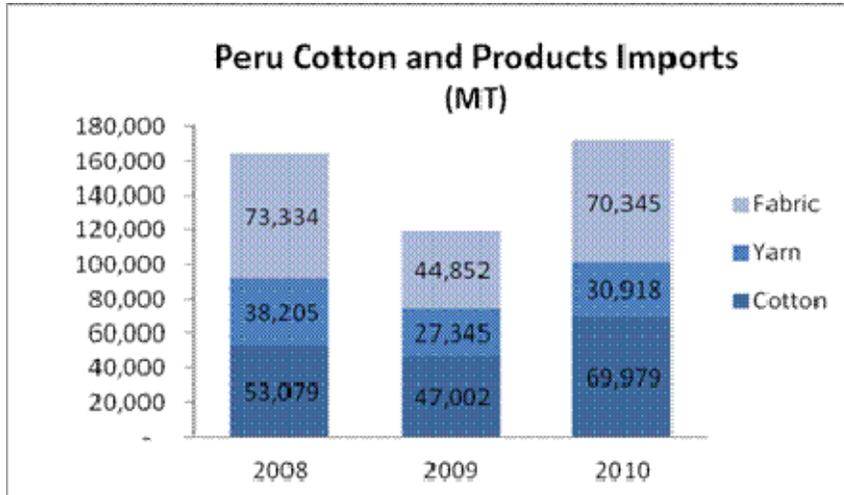
Trade

Cotton imports in CY 2011 reached 66,571 MT, of which 66,080 MT were imported from the United States. Due to high international prices the value of cotton imports increased 55 percent in CY 2011, while the volume actually fell 4 percent when compared to CY 2010.

Yarn imports in CY 2011 were valued at \$98.1 million, of which 85 percent was supplied by India, followed by Pakistan and the United States with 5 percent each. Fabric imports in CY 2011 reached \$66.6 million. China and Colombia were the lead suppliers with 26 percent each.

Peruvian cotton, yarn and fabric imports have been increasing in the past few years driven by a dynamic textile industry that have also been increasing sales. Peruvian apparel exports in CY 2011 were valued at \$1.36 billion, an increase of 27 percent compared to the previous year.

Cotton imports into Peru are assessed 6 percent import duties. Under the U.S.-Peru Trade Promotion agreement, U.S. cotton is granted duty free access.



Policy

There is no official government policy to support cotton production in Peru. There have been some efforts by the Exporters Association to promote the quality of Peruvian cotton in foreign countries and to try to set some quality standards.

Credit is one of the most important factors for cotton producers. After the bankruptcy of the Agricultural Bank, a state owned bank that lent subsidize credits without collateral, not a single private credit institution would lend money to the agricultural sector. This has changed somewhat in recent years, as private banks are lending money to agricultural entrepreneurs, but they are too expensive or not available for small producers. Tanguis producers are the most affected by the lack of credit. Due to the long growing period, they need credits to buy inputs and to pay for their expenses until harvesting season.

The ginning industry plays a key role in cotton production; they do not only process raw cotton but also grant financing for inputs, and sometimes, technical assistance to producers.