

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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

Required Report - public distribution

Date: 3/1/2014

GAIN Report Number:

Peru

Oilseeds and Products Annual

2014 Annual

Approved By:

Emiko Purdy

Prepared By:

Gaspar E. Nolte and Mariano J. Beillard

Report Highlights:

Peru's fishmeal production in marketing year (MY) 2014/15 (January-December) is forecast to reach 950,000 metric tons (MT), largely unchanged from our MY 2013/14 estimate. However exports are forecast at 1.0 MMT, up 13 percent compared to our MY 2013/14 estimate of 930,000 MT as more product is channeled to exports and away from domestic use. FAS Lima forecasts Peru's soybean meal imports in MY 2014/15 to surpass 1.12 MMT, up less than one percent compared to our MY 2013/14 estimate.

Executive Summary:

Peru's fishmeal production in marketing year (MY) 2014/15 (January-December) is forecast to reach 950,000 metric tons (MT), a volume largely unchanged from the MY 2013/14 estimate. Fishmeal production in MY 2013/14 is estimated to drop 80,000 MT or almost 8 percent compared to MY 2012/13 levels.

Peru's total fishing quota for anchovy (*Engraulis ringes*), commonly known as *anchoveta*, in calendar year (CY) 2013 was set at over 5.1 million metric tons (MMT). Reduced fish stocks in 2013 however led to a smaller 4.5 MMT catch for production. Fishmeal exports in MY 2014/15 are forecast at 1.0 MMT, up 120,000 MT or almost 13 percent compared to our MY 2013/14 estimate of 930,000 MT. With fishmeal trading at \$1,599/MT, it is Peru's fourth largest export in value-terms trailing only gold, copper, and petroleum exports in importance.

The Ministry of Production oversees Peruvian fisheries. Overfishing has forced the ministry to slash fishing quotas by 68 percent, as well as ban large-scale industrial anchovy fishing within 10-miles from Peru's coast. The Vice Minister for Fisheries decreed recently the establishment of boat specific quotas. Individual boat quotas are now set based on the vessel's historic catch record and its proven storage capabilities.

Soybean meal imports in MY 2014/15 are forecast to surpass 1.1 MMT, up less than one percent compared to our MY 2013/14 estimate. Peru does not grow soybeans in commercially significant quantities, nor does it currently produce soybean meal.

**Commodity – Fishmeal
Production:**

FAS Lima forecasts Peru’s fishmeal production in marketing year (MY) 2014/15 (January-December) to reach 950,000 metric tons (MT), a volume largely unchanged from the MY 2013/14 estimate. We do however see fishmeal production in MY 2013/14 dropping 80,000 MT or almost 8 percent compared to MY 2012/13 levels.

Peru’s total allowable catch (i.e. quota) for anchovy (*Engraulis ringes*), commonly known as *anchoveta*, in calendar year (CY) 2013 is set at over 5.1 million metric tons (MMT). Reduced fish stocks in 2013 however led to a smaller 4.5 MMT catch for production. At FAS Lima, we attribute the drop in fishmeal production to lingering effects of overfishing in previous years. We forecast a similar size catch in MY 2014/15.

Meal, Fish Peru	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Catch For Reduction	1,150	4,699	1,500	4,500		4,500
Extr. Rate, 999.9999	1	0	1	0		0
Beginning Stocks	19	19	174	176		184
Production	950	1,030	1,250	950		950
MY Imports	0	0	0	0		0
MY Imp. from U.S.	0	0	0	0		0
MY Imp. from EU	0	0	0	0		0
Total Supply	969	1,049	1,424	1,126		1,134
MY Exports	780	861	1,350	930		1,050
MY Exp. to EU	123	123	380	120		125
Industrial Dom. Cons.	0	0	0	0		0
Food Use Dom. Cons.	0	0	0	0		0
Feed Waste Dom. Cons.	15	12	15	12		10
Total Dom. Cons.	15	12	15	12		10
Ending Stocks	174	176	59	184		74
Total Distribution	969	1,049	1,424	1,126		1,134

1000 MT, PERCENT

Peru is attempting to better regulate its domestic fishing industry. Overfishing in previous years has adversely affected Peruvian anchovy stocks. Previously catch quotas were set at the 8.5 MMT level; however, quota sizes have been dropping steadily towards the neighborhood of 5 MMT in an attempt to sustainably manage and rebuild stocks. Peru counts with two seasons and two main anchovy fishing grounds off its coast.

Peru, Anchovy Catch Quotas, By Area and Season, 2010 to 2013.

	2010		2011		2012		2013	
North-Central Area	1 st Season (May 13 to July 31)	2 nd Season (Nov 20 to Jan 31, 2011)	1 st Season (April 3 to July 31)	2 nd Season (Nov 23 to Jan 31, 2012)	1 st Season (April 26 to July 31)	2 nd Season (Nov 22 to Jan 31, 2013)	1 st Season (May 17 to July 31)	2 nd Season (Nov 11 to Jan 31, 2014)
	2,500,000	2,070,000	3,675,000	2,500,000	2,700,000	810,000	2,050,000	2,304,000
South Area	1 st Season (Jan 25 to Jun 30)	2 nd Season (Aug 1 to Dec 31)	1 st Season (Feb 16 to Jun 30)	2 nd Season (July 1 to Dec 31)	1 st Season (Feb 17 to July 31)	2 nd Season (July 1 to Dec 31)	1 st Season (Jan 8 to Aug 31)	2 nd Season (Oct 31 to Mar 31, 2014)
	400,000	450,000	400,000	400,000	400,000	307,000	400,000	430,000
TOTAL (Seasonal)	2,900,000	2,520,000	4,075,000	2,900,000	3,100,000	1,117,000	2,450,000	2,734,000
TOTAL (Annual)	5,420,000		6,975,000		4,217,000		5,184,000	

Source: IFFO.

The government seeks to achieve more sustainable yields by issuing individual quotas per vessel, as well as by restricting the number of fishmeal processing plant licenses that it issues. Peru also bans the catch of fish below a minimum threshold size (i.e. juveniles). FAS Lima finds that these efforts have not fully succeeded in adequately protecting stocks. We find that one of the key reasons why anchovy stocks continue to face pressure from overfishing is due in part to the exemption extended to small-scale/artisanal vessels (i.e. those with displacement tonnages of up 10 MT) to fish year round within 10 nautical miles from the coast.

The small-scale/artisanal vessel catch is supposedly intended for low cost, direct human consumption. Despite the government's efforts, however most of this catch is channeled illicitly to more profitable fishmeal processing. Troubling for the long-term health of this fishery is that poorly regulated small-scale/artisanal vessels normally operate where the bulk of anchovy spawning occurs and juveniles congregate.

Peru produces two fishmeal types or grades. Fair Average Quality (FAQ) fishmeal has a protein content ranging between 62 and 65 percent; it is dried by direct heat. More valuable Prime Quality fishmeal, indirectly dried by steam, has a protein content of about 66-67 percent. International Prime Quality fishmeal prices in 2013 remained elevated; averaging \$1,599/MT or up about 18 percent from 2012 prices and twice the amount obtainable five-years ago.

Sources indicate that there are currently about 90 licensed fishmeal processing plants in Peru. The country counts with a fishing fleet of some 984 vessels; of which 684 are steel haul boats with average storage capacity of 500 cubic meters. Wooden vessels have average storage capacity of about 110 cubic meters. The fishing fleet's processing capacity is about 7,500 MT/hour; an amount four times greater than today's permissible catch.

Consumption:

At FAS Lima, we find that local fishmeal consumption is insignificant and has little to no real effect on the export market. We forecast total domestic consumption in MY 2014/15 falling to about 10,000 MT, down some 2,000 MT or 16 percent compared to the MY 2013/14 estimate of 12,000 MT.

Domestic consumption is expected to stumble, despite growing demand from northern Peru's shrimp farms, as high international prices channel domestic fishmeal production towards the more lucrative export market. We find that Peru's own aquaculture feed demand is filled increasingly by more affordable imported soybean meal.

Trade:

FAS Lima forecasts Peru's fishmeal exports in MY 2014/15 surpassing 1.0 MMT, up 120,000 MT or almost 13 percent compared to our MY 2013/14 estimate of 930,000 MT. With fishmeal trading at \$1,599/MT, it is Peru's fourth largest export in value-terms trailing only gold, copper, and petroleum exports in importance.

We foresee China remaining Peru's leading fishmeal export market in the short- to medium-term. China alone absorbed 62 percent of Peru's CY 2013 fishmeal exports, up 12 percent from the previous year's amount. Germany (10 percent) and Chile (6 percent) remain good, if somewhat smaller export destinations for Peruvian fishmeal.

Export Trade Matrix (Metric Tons)	
Commodity	Meal, Fish
Time Period	CY 2013
Exports to:	
United States	1,020
Others	
China	536,599
Germany	90,743
Chile	54,148
Japan	47,560
Vietnam	19,322
Total for Others	748,372
Others not Listed	111,596
Grand Total:	860,988

Source: SUNAT (Peru Customs).

Policy:

Mounting concern with declining fish stocks is forcing Peru to tighten its regulations. The Ministry of Production oversees Peruvian fisheries. Overfishing has forced the ministry to slash fishing quotas by 68 percent, as well as ban large-scale industrial anchovy fishing within 10-miles from Peru's coast. The Vice Minister for Fisheries decreed recently the establishment of boat specific quotas. Individual boat quotas are now set based on the vessel's historic catch record and its proven storage capabilities.

The Ministry of Production has also limited the 2013 North-Central Area's first fishing season (May to July) to a catch of 2.05 MMT, down 650,000 MT or 25 percent compared to 2012. At FAS Lima, we find that the smaller catch quota slowed 2013 (January-September) fishmeal exports by around 44 percent compared to the same period in 2012.

Concerned by the steep drop in lucrative fishmeal exports, Peru conducted a scientific survey of anchovy stock levels in the second half of 2013. IMPARE's (Peru's Oceanographic Agency) findings allowed Peru to raise the North-Central Area's second fishing season's (November 2013 to January 2014) catch quota by over 184 percent to 2.3 MMT. This represents an increase of nearly 1.5 MMT compared to the 2012 quota, but still in line with 2010 and 2011 quota levels. The ban on large-scale industrial anchovy fishing within 10-miles from Peru's coast however remains in place.

Peru's National Fishing Association (Sociedad Nacional de Pesquería - SNP) is challenging the 10-mile inshore industrial fishing ban. Peru's constitutional court in November 2013 ruled in favor of large-scale industrial fishing citing lack of scientific evidence indicating that industrial fishing operations are detrimental to anchovy stocks in inshore areas. The Ministry of Production however one-day prior to the court's ruling going into effect (i.e. December 15), issued a new regulation reinstating the 10-mile inshore ban but now accompanied by IMPARE's scientific findings as supporting evidence.

Industry alleges that the government's 10-mile inshore fishing ban fosters the illegal diversion of anchovies caught by small-scale/artisanal fishing vessels to fishmeal production. Peru acknowledges that its enforcement efforts are limited; its roughly 200 onboard fisheries inspectors are insufficient to properly monitor a fishing fleet of almost one thousand vessels. The Ministry of Production is nonetheless increasing its oversight of fishmeal and fish oil production facilities, as well as setting maximum factory production ceilings.

International Court of Justice Ruling on Chilean-Peruvian Maritime Dispute:

On January 27, 2014, the International Court of Justice (ICJ) at The Hague, in a ruling interpreted as favorable to Peru, settled the six-year maritime dispute between Chile and Peru. The court ruled that the border between the two South American neighbors should follow parallel 80 nautical miles out to sea and an equidistant line from their coastlines out another 200 miles. The new maritime boundary is now set 80 nautical miles off the northern Chilean border city of Arica, affecting mainly industrial fishing. The dispute is a holdover from the nineteenth century War of the Pacific (1879-83) in which a

victorious Chile gained large swathes of territory from Peru (including the city of Arica) and Bolivia (which lost access to the Pacific).



The court's decision, which cannot be appealed, trims some 8,000 square miles (or 21,000 square kilometers) from Chile's offshore exclusive economic zone. Peru, which had argued for 23,600 square miles (38,000 square kilometers), obtained the bulk of the disputed territory. Chile however retains full control, and now undisputable sovereignty, over the lucrative fishing grounds closest to the shore (i.e. within its 12-mile territorial sea).

Peru had sought that the border be set further south, within 50 miles distance from the shore; where 95 percent of the anchovy fishery occurs. Such a ruling for Peru could potentially have boosted its South Area catch numbers by an estimated 100,000 to 150,000 MT (based on 2014 Chile regions XV-I-II 751,000 MT quota calculations); conceivably increasing Peru's fishmeal production by some 22,000 to 32,000 MT or by between \$34 and \$50 million.

Commodity – Fish Oil Production:

FAS Lima forecasts fish oil production in MY 2014/15 to reach 250,000 MT, rising 103,000 MT or 70 percent compared to the MY 2013/14 production level of 147,000 MT. We attribute the increase to an expanded 2013 North-Central Area second fishing season catch quota.

Fish oil production volumes will vary with water temperature. Under normal temperature conditions, we find that the oil extraction rate ranges between 8 to 10 percent. However, in unusually warm years the extraction rate may fall as low as one percent. The World Meteorological Organization is

forecasting (January 2014) that outside of a small possibility of a weak and brief La Niña development in the second quarter of 2014, conditions will likely remain neutral. There is however a possibility of a weak EL Niño developing in the third quarter of 2014, which could drive water temperatures up during the second fishing season and affect oil extraction rates.

Trade:

FAS Lima forecasts fish oil exports in MY 2014/15 reaching about 230,000 MT. Denmark, Belgium, and Chile, much like in 2013, will remain Peru’s largest fish oil export destinations. These three countries alone absorbed over 54 percent of Peru’s total fish oil exports in 2013. Fish oil is an increasingly valuable feed ingredient for these countries’ aquaculture industries.

Local fish oil consumption in MY 2014/15 will be remain at about 20,000 MT, limited by the fact of the greater profitability of exporting production overseas.

Export Trade Matrix (Metric Tons)	
Commodity	Oil, Fish
Time Period	CY 2013
Exports to:	
United States	8,629
Others	
Denmark	35,260
Belgium	19,761
Chile	14,395
Norway	8,874
China	8,146
Total for Others	86,436
Others not Listed	32,686
Grand Total	127,751

Source: SUNAT (Peru Customs).

Commodity – Soybean Meal

Trade:

FAS Lima forecasts Peru’s soybean meal imports in MY 2014/15 to surpass 1.1 MMT, up less than one percent compared to our MY 2013/14 estimate. Peru does not grow soybeans in commercially significant quantities, nor does it currently produce soybean meal. Peru’s limited soybean crushing capabilities are dedicated solely to producing full fat soybean meal for feed purposes.

Meal, Soybean Peru	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jan 2013		Market Year Begin: May 2013		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	2	1	2	1		1
Extr. Rate, 999.9999	1	1	1	1		1
Beginning Stocks	17	17	19	9		10

Production	2	1	2	1		1
MY Imports	1,150	1,022	1,250	1,100		1,120
MY Imp. from U.S.	100	37	100	100		100
MY Imp. from EU	0		0	0		0
Total Supply	1,169	1,040	1,271	1,110		1,131
MY Exports	0	0	0	0		0
MY Exp. to EU	0	0	0	0		0
Industrial Dom. Cons.	0	0	0	0		0
Food Use Dom. Cons.	0	0	0	0		0
Feed Waste Dom. Cons.	1,150	1,031	1,250	1,100		1,120
Total Dom. Cons.	1,150	1,031	1,250	1,100		1,120
Ending Stocks	19	9	21	10		11
Total Distribution	1,169	1,040	1,271	1,110		1,131
1000 MT, PERCENT						

Soybean meal import demand is fueled by Peru's dynamic poultry industry. Peruvians currently consumes some 48 million birds per month (or 576 million birds per annum). Poultry meat constitutes one of Peru's most affordable sources of animal protein, an estimated 1.25 MMT were consumed in CY 2013. FAS Lima estimates poultry per capita consumption at roughly 42 kilograms/person; Peru has a population of approximately 29.8 million (Central Intelligence Agency, July 2013 estimate). Sources inform that soybean meal constitutes about 12 percent of total broiler rations in Peru's thousand plus poultry farms.

Import Trade Matrix (Metric Tons)	
Commodity	Meal, Soy
Time Period	CY 2013
Imports from:	
United States	37,232
Others	
Bolivia	579,942
Paraguay	274,006
Argentina	130,408
Total for Others	984,356
Others not Listed	0
Grand Total	1,021,588

Source: SUNAT (Peru Customs).

With a 57 percent import market share, low cost producer Bolivia is now Peru's main supplier of soybean meal despite more elevated shipping costs than those offered by U.S. exporters. Soybean meal enters Peru duty-free.

Import demand for U.S.-origin soybean meal has however slipped since reaching a record high of \$70.3 million in CY 2009. We attribute the drop due to Peru's unilateral elimination of import tariffs on most commodities (especially corn); eliminating many of the trade advantages afforded by the U.S.-Peru Trade Promotion Agreement (PTPA). With less incentive to import higher cost U.S. corn in recent years, import demand for U.S. soybean meal has dropped since traders often combine corn and soybean meal shipments in a single vessel to reduce costs. Falling international corn prices however triggered the activation of the Peruvian Price Band (i.e. a price threshold) system last August, granting within quota U.S. corn a distinct advantage versus other suppliers. We expect demand for U.S. soybean meal to gradually recover as a consequence.

Biotechnology:

Peru continues to advance anti-biotechnology (biotech) policies. In November 2012, Peru published a regulation establishing a 10-year moratorium on planting biotech crops and animals for reproductive purposes. This law eliminated the biosafety protocol, which had been drafted and cleared by the Ministries of Agriculture and Environment.

Until this measure's passage, the biosafety protocol established the legal framework for the research, production, and trade of genetically engineered (GE) crops. While the moratorium excludes commodities such as corn and soybean meal, these still must undergo a costly and unnecessary risk assessment. Although the moratorium is in place, the law has failed to gain traction due to the Ministry of Environment's technical inability to enforce these measures.

Peru's Consumer Code includes mandatory labeling requirements for GE products. FAS Lima's sources confirm that a regulation is being finalized. The initial draft establishes mandatory labeling with no minimum threshold level, forcing food processors to determine the amount of GE content by input. At FAS Lima we believe that should the regulation be approved in its current guise, enforcement will be difficult. We estimate that at least 30,000 different products currently on Peruvian supermarket shelves contain GE content. We believe that this measure will impose an excessive burden on industry.

At the same time, Peru's GE free certification has slowed seed imports from most origins. In January 2013, the Ministry of Environment resumed efforts to advance mandatory biotech labeling requirements for processed foods containing beets, soybeans, corn, granola, and cotton. FAS Lima finds that the proposed labeling is not science-based and will also impose an excessive burden on industry.

Commodity – Soybean Oil

Trade:

FAS Lima forecasts Peru's soybean oil imports in MY 2014/15 to reach 380,000 MT, up over 9 percent compared to our MY 2013/14 estimate. With a 90 percent import market share in 2013, Argentina is Peru's main supplier of soybean oil. Imported soybean oil is refined and bottled locally for retail sale.

FAS Lima foresees Peruvian soybean oil consumption increasing in tandem with economic expansion. Peru’s gross domestic product (GDP) is expected to grow at 5.6 percent in 2014, up from 2013’s 5.1 percent growth rate. We see Peru’s GDP growth averaging about 5.7 percent through 2016.

Import Trade Matrix (Metric Tons)	
Commodity	Oil, Soy
Time Period	CY 2013
Imports from:	
United States	0
Others	
Argentina	312,904
Bolivia	17,656
Paraguay	17,457
Total for Others	348,017
Others not Listed	0
Grand Total	348,017

Source: SUNAT (Peru Customs).