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U.S.-Peru Trade Promotion Agreement Creates Opportunities for U.S. Pet Foods

Report Categories:

Agriculture in the Economy

Agriculture in the News

Competitor

Country/Regional FTA's

Food and Agricultural Import Regulations and Standards - Certification

Retail Foods

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Report Highlights:

The U.S.-Peru Trade Promotion Agreement's reduction and elimination of import tariffs on a wide range of U.S. agricultural and food products, has fueled demand for U.S. pet food. Imported pet food sales including U.S. products averaged 6 percent over the past decade. FAS Lima estimates Peru's pet food market in calendar year 2014 at about \$140 million. Dry dog food is the top performer, accounting for 85 percent of sales. However, further growth in U.S. pet food sales remains constrained by Peru's burdensome and costly registration process.

General Information:

FAS Lima estimates Peru's pet food market in calendar year (CY) 2014 at about \$140 million or 48,000 metric tons (MT). Peruvian domestic production (exports included) accounts for about 63 percent of total local pet food sales. Peru exports approximately 5,000 MT of locally manufactured pet food to neighboring Ecuador, Bolivia, Colombia and Panama.

With Peruvian gross domestic product (GDP) growth averaging six percent over the past decade, this upper middle income economy has doubled in size, allowing urbanization to spike. Local demand for imported pet food at the same time has grown with economic expansion, itself doubling in size within the past five years. Thanks to greater disposable income, along with the growing need for convenience, Peruvian pet owners are increasingly able to afford quality imported pet foods.

Table 1: Peru, Pet Food Market (MT)

	2009	2010	2011	2012	2013	2014(e)
Total Market Size	24,405	27,037	32,682	34,795	41,578	48,000
Total Local Production	19,369	19,735	25,140	25,774	30,349	35,500
Total Exports	5,000	4,948	4,583	5,672	5,268	5,500
Total Imports	10,036	12,250	12,125	14,693	16,497	18,000

Source: SUNAT (Peru Customs), FAS Lima office research.

Imports

FAS Lima estimates that Peru's pet food imports (harmonized tariff code – HS 2309.10) in volume terms grew 64 percent between CY 2009 and 2013, or an annual rate of around 16 percent. Imported product, regardless of origin, enjoys both name recognition and the perception of being of higher quality than local manufactures. Argentinian-origin product with a volume of 6,314 MT in CY 2013 accounts for roughly 38 percent of the imported pet food market. Argentine products are levied an import tariff of 0 percent and face a value-added-tax (VAT) of 18 percent.

The U.S.-Peru Trade Promotion Agreement's (PTPA) reduction and elimination of import tariffs on a wide range of U.S. agricultural and food products has fostered new opportunities for U.S. pet food products. Although U.S. pet food products prior to the PTPA were already levied an import tariff of 0 percent, overall tariff reduction and elimination has created an added incentive to increase imports of U.S. products including pet foods. Since the PTPA entered into force (February 1, 2009), imports of U.S.-origin pet foods have grown nearly 68 percent [2009-13] or at an annual rate of 17 percent.

Table 2: Peru, Pet Food Imports (MT and \$ millions)

	2009	2010	2011	2012	2013	2014(e)
Total (\$ millions)	11.3	13.8	14.9	19.3	22.5	24.6
Volume (MT)	10,036	12,250	12,125	14,693	16,497	18,000
U.S.-origin Imports (\$ millions)	2.8	3.1	3.0	4.6	5.8	6.2
U.S.-origin Imports (MT)	1,942	2,141	2,042	2,927	3,260	3,500

Source: SUNAT (Peru Customs), FAS Lima office research.

U.S.-origin pet food imports with a volume of 3,260 MT in CY 2013 account for almost 20 percent of the imported pet food market. FAS Lima estimates CY 2014 imports of U.S. product reaching \$6.2

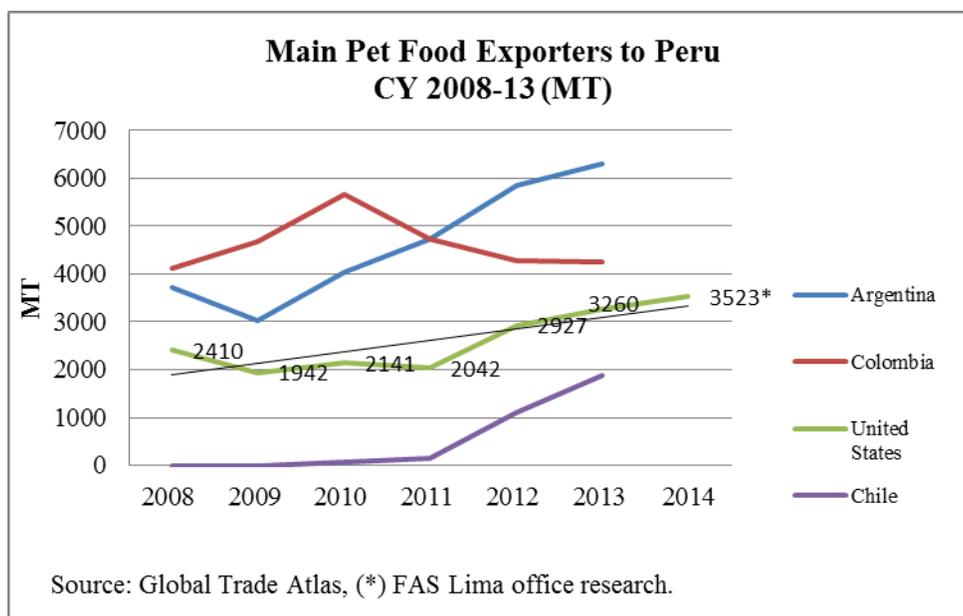
million or about 3,500 MT. Like imports from Argentina, U.S.-origin pet foods continue to be levied an import tariff of 0 percent and a VAT of 18 percent.

FAS Lima forecasts that although Argentine product with an 38 percent market share leads the imported pet food market, U.S.-origin product is competitive in value terms. For example, U.S. product has cut into Colombia-origin product market share over time (see the below chart). Sources indicate that pet owners are often willing to pay a price premium, especially for U.S. products they perceive to be more nutritious and of higher quality.

Table 3: Peru, Pet Food Imports by Country of Origin (\$ million)

Partner Country	2009	2010	2011	2012	2013	2014 (Jan-July)
World	11.3	13.8	14.9	19.3	22.5	8.8
Argentina	3.0	4.2	5.4	7.1	7.9	3.6
United States	2.7	3.0	3.0	4.5	5.8	1.9
Colombia	4.8	5.8	5.4	5.2	5.8	2.3
Chile	0	.08	.164	1.2	1.5	.234
Canada	.563	.572	.684	.854	1.0	.435
Brazil	.181	.037	.182	.207	.164	.370
Spain	0	0	0	0	.150	.083

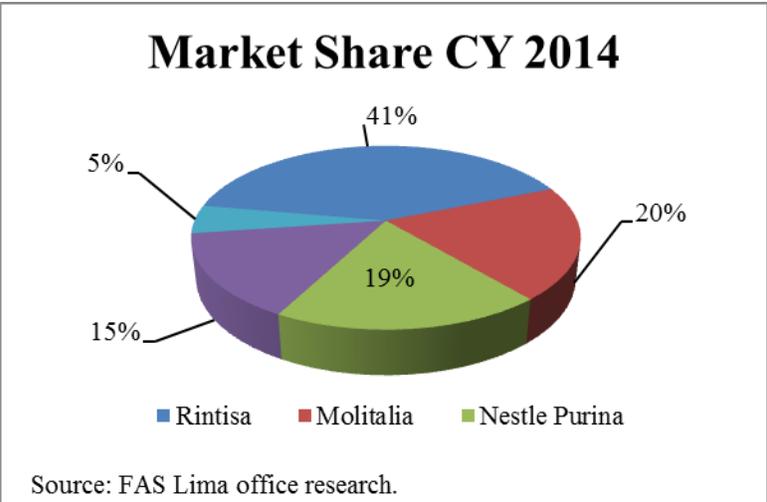
Source: Global Trade Atlas.



Market Segmentation

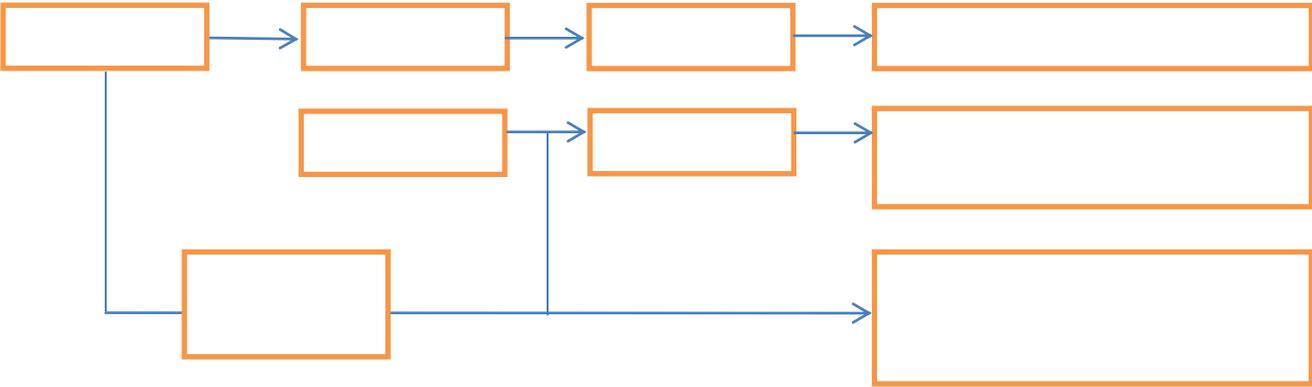
Price and quality segment the Peruvian pet food market. Pet foods are marketed locally as affordably priced (economical), mainstream, and higher priced premium and super-premium products. Premium

and mainstream products each counting with 35 percent of total sales, combined have a market share of 70 percent. Affordably priced pet foods with a 25 percent market share, followed by super-premium (5 percent market share) products, make up the balance of pet food purchases. Nestle Purina, MARS, Molitalia, and Rintisa are the Peruvian pet food sector's key players.



Nestle Purina and Rintisa produce dog food and dry/wet cat foods locally, while Molitalia distributes imported cat food products from Chile. Product innovation assists local manufacturers make their products more appealing to consumers that are seeking value-added benefits for their four-legged family members.

Road Map for Market Entry



- Identify and appoint a local representative or exclusive distributor/importer, especially one that is well-established and relies on a strong customer base.
- Super-premium products are normally commercialized in specialized stores such as pet shops and veterinary clinics.
- Before the product is shipped, the importer must obtain an import permit from Peru's National Agricultural Sanitary Service (SENASA).

- A commercial entity (i.e., importer/distributor), holder of a tax identification number (RUC) and registered with the SUNAT (Peru Customs), is responsible for commencing product registration procedures.

Distribution Channels

About 65 percent of pet food sales take place through traditional channels (i.e., grocery and convenience stores); 25 percent sales occur through modern channels (i.e., supermarkets). Pet shops and veterinary clinic pet food product sales account for the balance of sales, especially for super-premium products. The capital city of Lima, home to a third of Peru's 30 million inhabitants, accounts for 80 percent of total sales nationwide and is seeing growth of about 10 percent per annum. In the interior provinces of the country, sources report sales growth of about 25 percent. Despite good growth prospects, the Peruvian pet food market can benefit from increased investment in marketing and product advertising.

Trade sources such as Euromonitor International indicate that around 30 percent of Peru's roughly 7.8 million households (2013 est.) own a dog while about 20 percent own a cat. Approximately 40 percent of households have an income of \$25,000 or greater.

Market Trends

Sources report that pet food demand is expected to continue to grow in the short- to medium-term. Some industry sales forecasts shared with FAS Lima foresee growth of 10 percent on the low side and possibly as high as 25 percent. Sources indicate that premium products show the greatest growth potential. From a local pet food manufacturing perspective, there is strong demand for quality foreign ingredients and additives.

FAS Lima estimates that with only 15 percent of Peruvian pet owners currently buying imported pet food products, there is ample room for growth; average market penetration for imported pet food in South America hovers at 50 percent.

Dry (dog) food is the top performer, accounting for 85 percent of sales. Pet food buyers are increasingly aware of their animals' food intake and need for a healthful diet. Many are increasingly seeking products that include ingredients such as DHA and colostrum

Regulatory System and Import Requirements—A Challenge

Peru's National Agricultural Sanitary and Phytosanitary Service (SENASA) is the USDA's Animal and Plant Health Inspection Service's (APHIS) counterpart. As a regulatory agency, SENASA is responsible for animal health safety, overseeing the control and certification of animal feeds and veterinary supplies.

[Supreme Decree 015-98-AG](#) establishes the regulatory framework and sets forth the [Administrative Procedures \(TUPA\)](#) that regulates the registration and commercialization of pet food products in Peru. A commercial entity (i.e., importer/distributor), holder of a tax identification number (RUC) and registered with the SUNAT (Peru Customs), is responsible for commencing product registration procedures.

SENASA requires that all imported products count with an import permit prior to arrival in Peru. Registration steps are outlined as follows:

1. Technical Manager Registration

- Application [Format IP-09/10](#) - Livestock Supply Department (*Insumos Pecuarios*).
- Payment of administrative procedures fee.
- Designation of a veterinarian, responsible for all technical aspects for the firm.
- Submission of a copy of the employment contract, linking the technical manager (i.e., veterinarian) with the company being represented.

This procedure should take no more than 15 working days. The fee charged for registration is currently set at approximately \$65 if the veterinarian is legally responsible for the company.

2. Company Registration

- Application [Format IP-06/07](#) - Livestock Supply Department (*Insumos Pecuarios*).
- Payment of administrative procedures fee.
- If the company does not count with a (local) manufacturing plant, the applicant must present a copy of the product's country-of-origin manufacturer's quality control and institutional certificates.
- Certification by the corresponding national regulatory authority attesting that the product is manufactured in accordance within environmental and health safety norms.
- Certification in the country-of-origin by the corresponding national regulatory authority to manufacture, sell and or export the pet food product.

This procedure should take no more than 60 working days. Currently a \$130 registration fee is charged on a per registration basis. The technical manager's and the company's registration have an undefined validity term. However, these are subject to a SENASA bi-annual review. All pet food importers must count with these registrations.

3. Sanitary Registration

- Application [Format IP-01](#), - Livestock Supply Department (*Insumos Pecuarios*).
- Payment of administrative procedures fee.
- A summary product's manufacturing process.
- Product overview.
- Copy of the product's biological, microbiological, chemical, and physical control and evaluation analysis/methods results.
- Product's declared shelf life and expiration date.
- Detail whether the pet food product contains additives.
- Detail information about additives utilized, residues, and daily intake levels.
- Product preservation requirements.
- Third-party authorization, in the case there is a local subsidiary.

This procedure should take no more than 30 working days. Sanitary registration is valid for a period of five years from date of issue. Sanitary registrations are to be renewed between seven and sixty working days prior to the registration's expiry date. Currently a \$180 sanitary registration fee is being charged on an initial per registration basis. Renewals are about \$130 per registration.

According to [RD 0021-2013-MINAGRI-SENASA-DSA](#), the exporter is required to provide the importer with an official country-of-origin health certificate issued in accordance with SENASA's specific certification requirements.