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Peru

Organic Products

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Report Highlights:

In 2007, Peru exported approximately \$160 million worth of organic products. Export growth has averaged 50% a year and the industry expects to export at least \$220 million in 2008. Peru is the world's largest exporter of organic coffee and 2nd largest exporter of organic cacao. Coffee accounts for 2/3 of Peru's organic exports while bananas account for a further 20% and cacao around 7%. The US takes about 1/3 of Peru's exports while Europe takes about 2/3.

Includes PSD Changes: No
Includes Trade Matrix: No
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Lima [PE1]
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EXECUTIVE SUMMARY

Peru has over 270,000 hectares dedicated to organic production and over 33,000 organic farmers cultivating that land. The Peruvian Ministry of Agriculture (MINAG) is in the middle of a very significant reorganization drive, one of the results of which is expected to be greater emphasis on organic production and exports. The domestic market for organics is small and growing slowly with demand concentrated in high-end retailers or farmers markets in Lima.

Peru is a major world supplier of organic coffee (top exporter) and cacao (2nd largest exporter) and is also a major supplier of organic bananas. Other organic exports to the US include tropical fruits, cotton, and medicinal plants, totaling an additional \$3.7 million.

In 2007, the total **coffee** harvest was about 32% lower than 2006. Despite the poor harvest, high international prices and the continuing transition to higher value organic production helped ensure that CY 2007 coffee exports (conventional and organic combined) came in as the 2nd most valuable in recent memory. Organic exports grew by 40% to reach an estimated \$91.3 million. In 2006, Germany and Belgium took 58% of exports while the US took 25%. During the first 10 months of 2007, however, the US bought almost a third of exports.

The shift from conventional to organic **banana** production is nearly complete, with some sources estimating that 100% of Peru's banana production is certified organic. In the next two years, the industry estimates that acreage dedicated to organic production will jump nearly 40% to 7,200 hectares. Banana exports for 2007 are estimated at \$32 million. This figure represents a 21% jump from last year. The US and Europe split Peru's banana exports.

While exports of organic **cacao** represent nearly half of the value of total cacao sales, it represents only a 1/3 of the total volume. In addition to the trend towards organic production, Peru has also strengthened its cacao processing capabilities. Peru exported \$3.9 million worth of cacao in 2006. Of that total, about \$2.1 million was in beans and \$1.9 in processed derivatives. Although data for derivatives is less clear, the 2006 level of bean exports represented a 60% increase (in volume) over 2005, and preliminary 2007 data show a similar level of growth. Switzerland is the principal market for unprocessed beans while the US buys most of Peru's powder and liquor exports.

REGULATIONS AND POLICIES

In 2001, relevant public agencies and private institutions created the National Organic Products Commission (CONAPO) with the goal of establishing technical regulations for the production, processing, labeling, certifying, and marketing of organic products. CONAPO's recommendations became official as they passed into law in 2003. In 2006, the titles were refined, strengthened and passed again (DS 044-2006-AG). These regulations are nominally followed by both organic certification companies and SENASA, the National Animal and Plant Health Service, which serves as the enforcement body. In addition, CONAPO established the accepted norms for transition periods, approved fertilizers, pesticides, and animal medications. This information can be found at:

<http://www.minag.gob.pe/boletines/ReglamentoTecnicoParaProductosOrganicos.pdf>.

In practice, however, a lack of resources, insufficient institutional capacity, and the low priority attached to certification management by the Government of Peru (GOP), has meant that organic certification in Peru is less rigorous than in the US or Europe.

In order to be certified, a Peruvian commodity cooperative (called associations for political reasons) works with a certifying company to develop an internal control system (ICS) to ensure that its members are producing according to established organic production norms. ICS monitors are selected from amongst an association's membership to do field, storage, and processing checks. Detailed records of these inspections are kept. The contracted organic certifier then bases certification of that association on an examination of the ICS in general, farm inspection records, and a few additional farm inspections. This system of association-wide certification reduces costs for individual farmers and has worked well for Peru in general.

In 2007, a dispute developed between the USDA's National Organic Program (NOP) and Peruvian organics exporters. At issue was NOP's interpretation of certification requirements for products granted the "USDA Organic" seal. For a number of years, Peruvian producers received certification at the association level rather than at the level of the individual farmer as is standard practice in the US and elsewhere. The issue has been resolved however, and NOP continues to accept Peruvian certification standards.

Outside of the advisory role played by CONAPO and the nominal regulatory role of SENASA, the GOP gives little monetary support to the organics industry. INIA, the national agricultural research institute continues to engage in low-priority organic themed research but most research is left to the private sector and commodity associations. Extension is minimal at best. The Ministry of Agriculture (MINAG) is currently undergoing a massive ministerial reorganization drive, however, and organics promotion appears to be a top priority.

For example, in January of this year, congress passed the Law for the Promotion of Organic and Natural Production (29196), which outlines the ways in which MINAG will be reorganized to promote organics. Various governmental agencies outside MINAG are also directed to develop plans to work together for the promotion of organics exports. One of the most important changes within MINAG is the elevation of CONAPO from its advisory role as a Commission to the status of National Council. CONAPO's functions will remain the same but their policy and legal recommendations will carry more weight within MINAG and the GOP as a whole.

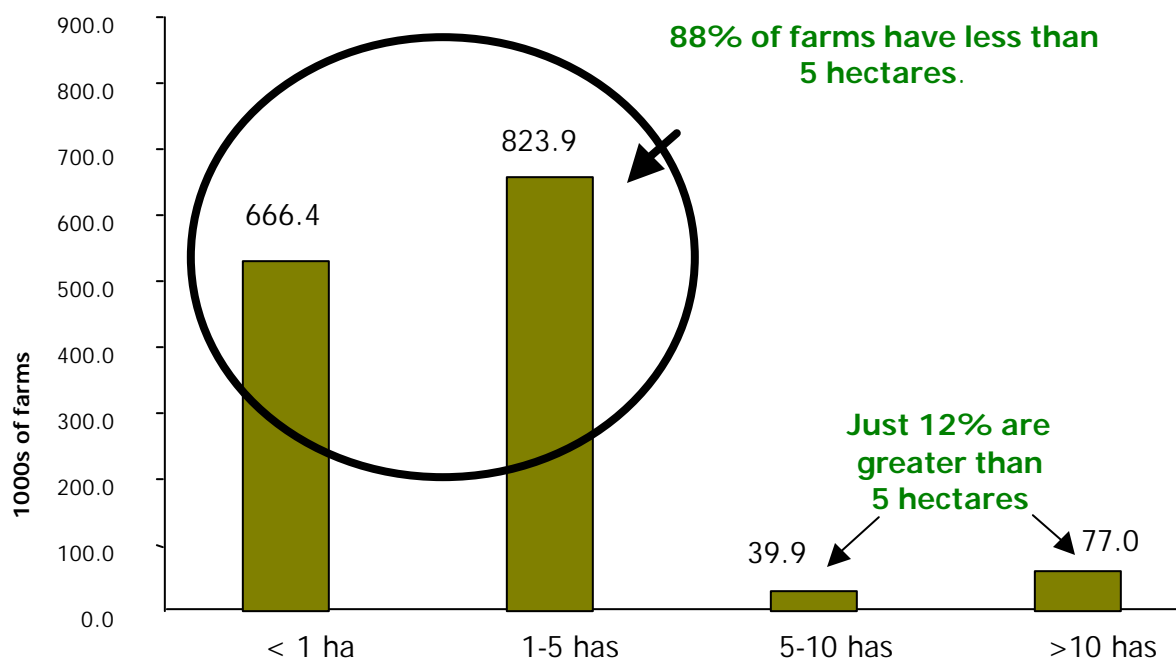
There are currently five private entities that certify production as organic: Bio Latina, BCS OKO, Control Union-SKAL, IMO Control, and OCIA. Each of these organizations have achieved the requisite US and European organics regulators' seal of approval.

- Bio Latina is a Peruvian company formed from the merger of four smaller certification companies based out of Bolivia, Colombia, Peru, and Nicaragua.
- BCS OKO is the newest certifier in Peru and focuses on banana certification
- Control Union is Peru's largest certifier while OCIA is the oldest
- IMO Control is a Swiss-German outfit based in Bolivia

PRODUCTION AND TRADE

In 2006, it was estimated that South America had dedicated 5.8 million hectares to organic production. The latest data from the Ministry of Agriculture (2005) found that Peru has over 270,000 hectares dedicated to organic production techniques (both certified and in transition) and ranks 7th in the world in terms of the number of farmers dedicated to organic production methods—around 33,000. The largest swathes of land dedicated to organic production are in the south and south east while the distribution of producers is more evenly divided between north and south.

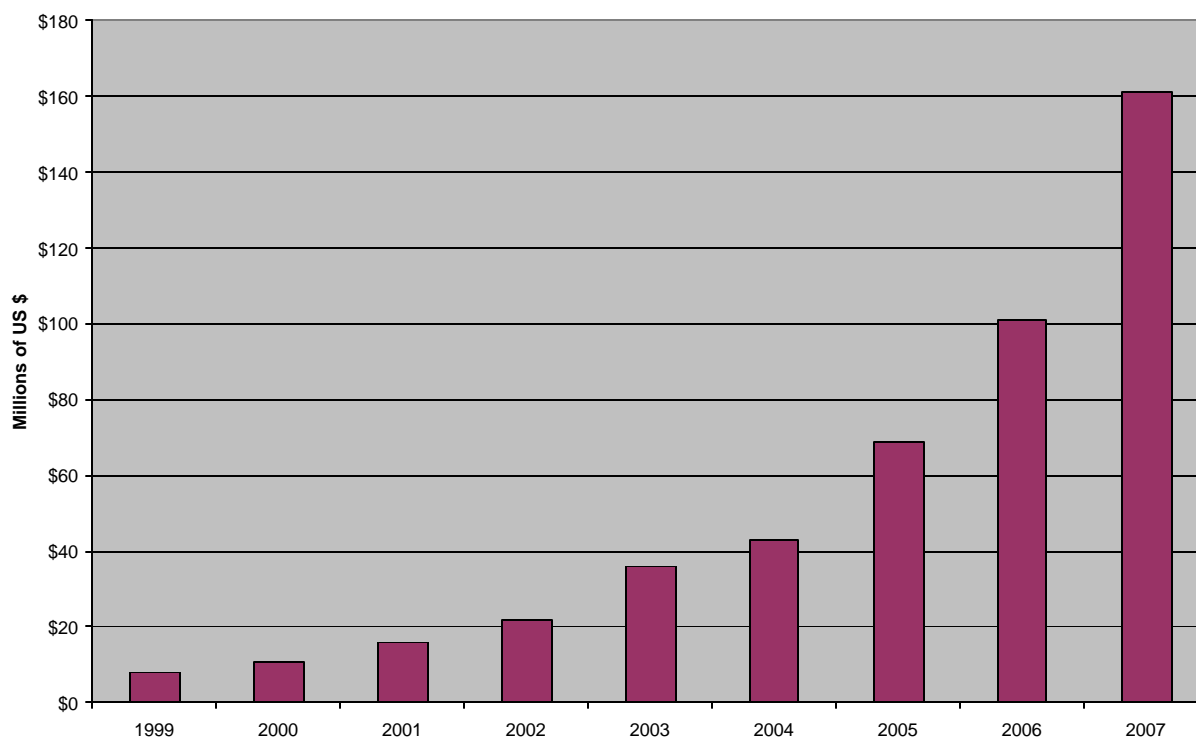
In terms of farm size, organic agriculture is nearly identical to Peru's conventional production: 88% of farms have less than five hectares. The formation of associations has been an essential feature of organic agriculture, especially for Peru's main organic products. As alluded to above, association reduces the costs to individual farmers of certification but also helps spread input, transportation, and marketing costs.



Source: III Cenagro (1994)

Yearly export growth has been high but erratic. Falling below 40% in 2004, growth shot up in 2005 as exports doubled, and grew again in 2006 by 36% as exports went from \$161.3 million to an estimated \$220 million in 2007. Organic products as a whole are now Peru's 3rd largest agricultural export (behind coffee and asparagus), making Peru the world's 7th largest organics exporter.

Peruvian Organics Exports



Source: Promperu, Gestion

Although Peru currently produces about 30 organic product lines (not including derivatives), three products make up the majority of exports: coffee (67%), bananas (19%), and cacao (7%).

MINOR PERUVIAN EXPORTS TO THE US

ORGANIC PRODUCTS	VALUE (1000s of \$)
Quinoa	487.1
Pecan	461.1
Brazil Nut	383.7
Palm Hearts	365.1
Ginger	285.9
Maca (native root)	200.3
Sesame Seeds	172.0
Amaranth	161.8
Mango	62.4
Yacon (sweet root)	48.4
Olives	31.9
Carob Bean	27.2
Lucuma (tropical fruit)	16.4
Cat's Claw (medicinal)	9.4
Sacha Inchi (vegetable oil)	8.4
Snacks	6.7
Hot Peppers	6.6
Brown Sugar	6.0

Camu-Camu (tropical fruit)	2.0
Lemon Grass	1.5
Other Medicinal Plants	0.9
Cotton	961.6
Total	\$3,706.4

Source: Promperu

COFFEE

Since 2000, organic coffee acreage grew from 8,300 hectares to 71,200 registered hectares in 2007, or 22% of total coffee acreage. Organic and conventional production is concentrated along the eastern slope of the Andes, with the Cuzco region in the south, Chanchamayo in the east-central, and the northern Andes being the most important locations.

As with Peru's other main organic exports, small producers have grouped themselves into associations. Coffee associations have been important in Peru for decades and have played an important role in the industry's transition to organic production. Coffee exporters (who typically buy from several associations) were the first to encourage the transition to organics by supporting association-wide certification and emphasizing price differentials. More recently, associations have begun to focus on association and region specific branding as well as developing their own exporting capabilities and markets.

Peruvian coffee production was excellent in 2006. Export volumes reached levels not seen in at least the last 10 years. Organic exports grew to over 12% of exported coffee value and reached \$65 million. This level makes Peru the top world exporter of organic coffee.

For cyclical reason, 2007's total coffee harvest was about 32% lower than 2006. Despite the poor harvest, high international prices and the continuing transition to higher value organic production helped ensure that CY 2007 coffee exports (conventional and organic combined) came in as the 2nd most valuable in recent memory. Organic exports grew by 40% to reach an estimated \$91.3 million. While Europe (especially Germany and Belgium) has traditionally been Peru's largest market for organic coffee, the US market has become increasingly important. In 2006, Germany and Belgium took 58% of exports while the US took 25%. During the first 10 months of 2007, however, the US bought almost a third of exports.

Certified organic coffee has the highest domestic market penetration of Peru's main organic crops. The market, however, is growing slowly and remains small. At less than half a kilogram per year (organic and conventional), Peruvians consume coffee at some of the lowest rates in the region. But, with more cafes and restaurants opening almost every day, coffee consumption habits in Peru are slowly beginning to change. It is unclear whether the shift to higher quality coffee in general will spill over into organic coffee in particular. Unless demand changes dramatically, local producers will continue to export their organic production, where market prices are generally 20% higher.

BANANA

The shift from conventional to organic banana production is nearly complete, with some sources estimating that 100% of Peru's banana production is certified organic. Producers feel that international sales would be almost non-existent without certification. Again, as with coffee, associations played a key role in the industry's transition to organic production. Most production is concentrated in the provinces of Piura and Tumbes in the north of the country. Because of this concentration, association formation and transition to organic cultivation was especially rapid, even in the face of rapid growth and market expansion. In

the next two years, the industry estimates that acreage dedicated to organic production will jump nearly 40% to 7,200 hectares.

Heavy rains in banana producing areas in the first few months of this year are said to have had a negative impact on banana plantations but the extent of the weather damage on production is as of yet unknown.

Bananas account for about 20% of Peru's organic exports. Although not yet among Peru's top 10 agricultural exports, 2007 banana exports are estimated at \$32 million. This figure represents a 13 fold increase from 2001 and a 21% jump from last year.

Such strong export growth is attributed not only to acreage growth but also to efficiency gains and especially the discovery of new markets for organic bananas, such as western Europe and Japan. While the US takes about 45% of Peru's bananas, a similar amount goes to Europe and about 7% goes to Asia.

PERU'S ORGANIC BANANA EXPORTS

COUNTRY	MARKET SHARE (%)
United States	46
Netherlands	22
Belgium	17
Japan	8
Germany	7
Other	1

Source: Promperu
Percentage may not add up to zero due to rounding errors

The domestic market for organic bananas is small and slow growing, with consumers showing little preference for certified produce.

CACAO

Peru is a relatively minor conventional cacao producer but a major player in organic cacao production. Like coffee, cacao is grown all over the eastern slope of the Andes, with organic production relatively evenly distributed amongst the growing regions. Often organic cultivation is a portion of a producer's total cacao production. Large plantations of purely organic cacao are almost non-existent.

While exports of organic cacao represent nearly half of the value of total cacao sales, it represents only a 1/3 of the total volume. In addition to the trend towards organic production, Peru has also strengthened its cacao processing capabilities. Nearly half of Peru's organic cacao exports are in the form of higher value, processed derivatives such as butter, powder, and liquor, while the remainder is in the form of unprocessed cacao beans.

Cacao producers have benefited from rising world prices and organic producers are benefiting further from the significant international price differentials between conventional and organic production. In 2006, for example, Peruvian farmers received, on average, \$1,622 MT for conventional cacao beans versus \$2,100 for organic beans. Similar disparities exist for cacao derivatives as well.

Peru exported \$3.9 million worth of cacao in 2006. Of that total, about \$2.1 million was in beans and \$1.9 in derivatives. Although data for derivatives is less clear, the 2006 level of bean exports represented a 60% increase (in volume) over 2005, and preliminary 2007 data shows a similar level of growth. This growth in production has placed Peru in the number two position in world wide organic cacao production.

The principal market for Peruvian organic cocoa beans is Switzerland. In 2006, over 70% of exports went to Switzerland while a further 17% went to other EU countries and just 4% went to the US. In derivatives, however, the US is a much more important market. The US took 80% of cocoa powder exports, 84% of cacao liquor exports, and 17% of cacao butter exports.

CONSUMPTION

The market for organic products in Peru is small and growing slowly. Sales are heavily concentrated in Lima where 1/3 of Peruvians live. Sales outlets include large supermarket chains, natural products stores, and small outdoor bio-fairs. Organic products such as coffee, chocolate, teas, herbs, supplements, and other ingredients are sold in supermarkets and health stores while the majority of organic produce is sold at bio-fairs. Data is hard to come by but a commercial publication put total domestic certified organic sales at \$500,000 in 2003.

In terms of supply, producers are generally uninterested in producing for the domestic market. In home markets, they receive lower prices and less stable supply contracts. Consequently, domestic organic goods in supermarkets, stores, and outdoor markets are generally either uncertified, production overruns, or products otherwise unsuitable for export (labeling errors, failed quality check, pest problems, etc). High-end products at high-end retail outlets are an exception as are fruits and vegetable produced for local farmers' market-style organic bio-fairs in Lima.

PROMOTIONAL ACTIVITIES

Promperu, the government's export promotion agency, organizes both organics themed inbound buying missions and the participation of Peruvian organic producers and exporters at international trade shows. Once again in 2008, several Peruvian companies exhibited products in the Peru booth at BioFach in Germany. Up coming organized events in the US include participation in the Gourmet Institute's weekend-long food showcase (<http://www.gourmetinstitute.com/gi2008/>), as well as a Peru Organics pavilion in Boston's Natural Expo East in October (www.expoeast.com). The Lima Chamber of Commerce and Promperu are also in the process of organizing a group to attend one of the upcoming Fancy Food shows. Domestically, activities have been limited to small scale promotion of farmers' market-style bio-fairs at different locations over the weekend in Lima. Products are usually limited to supplements and fresh fruits, vegetables, and herbs.

CONTACTS

Those interested in investing in Peru's organics sector, sourcing organic inputs, or looking for buyers of inputs or processing equipment should contact:

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