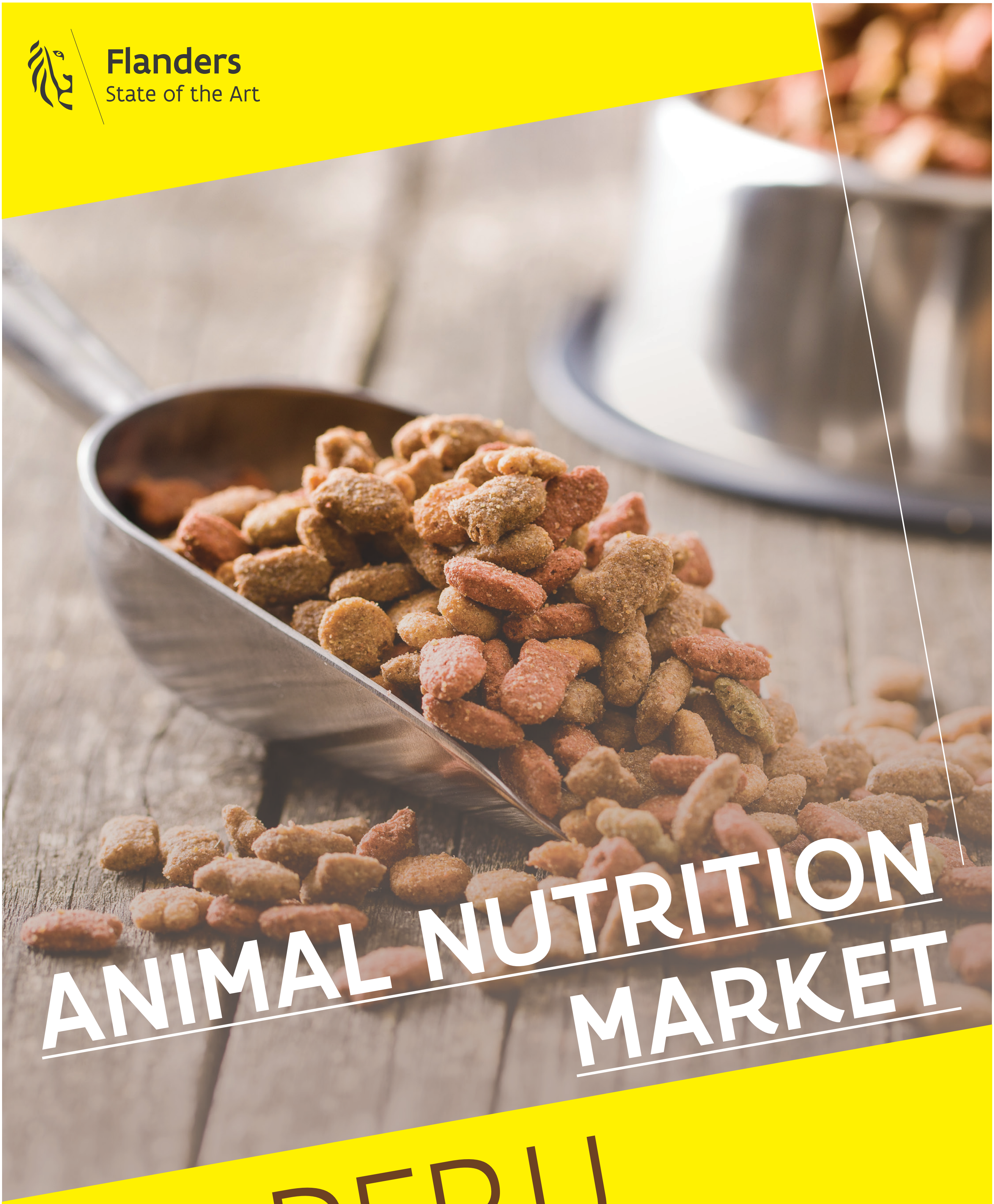
Flanders
State of the Art



ANIMAL NUTRITION MARKET

IN PERU

FLANDERS INVESTMENT & TRADE MARKET SURVEY

FLANDERS
INVESTMENT &
TRADE

Study

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ANIMAL NUTRITION MARKET IN PERU

FIT LIMA

3.09.2019

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INHOUD

In Peru, the production of balanced food began its greatest development during the 1960s, as a result of the growth of fishing activity and the fishmeal industry. It is also when the national poultry sector began its growth, using this flour as a source of protein.

Currently there is an expansion of the production of balanced feed, especially for the poultry sector (about 91%), pork and fattening cattle. It is important to mention that the development of the feed sector will be associated with the growth trends of the poultry and pork sectors[1].

1. LIVESTOCK NUTRITION

In Peru, most ruminants are bred for grazing and must obtain their nutrients from the available forages, which vary widely by area, altitude and time of year[2]. Regarding poultry, yellow corn and soybean meal are -usually- the major ingredients in poultry diets. As to pigs feeding, they are usually fed on vegetable matter, homemade food remains and occasionally a balanced ration of food[3].

1.1 CATTLE FEEDING

Cattle feeding is based mainly on the production of fodder (oats, peas, beans, and associations of these); cultivated pastures (alfalfa and associations of alfalfa with dactylis); natural pastures; preserved fodder (silage and hay), balanced feed, commercial concentrates and mineral salts[4].

The production of fodder, of cultivated and natural pastures are crops in their greater proportion in dry land depending therefore on the climate, being its regular production. Producers with mixed breeding or who start in milk production do not provide commercial concentrates to their cows. Cattle grazing is mainly on natural pastures, in a lesser proportion on cultivated pastures, with the provision of green fodder in the rainy season and preserved fodder (silage and hay) in the dry season.

Among the main problems is the scarcity of oat and alfalfa seeds for the crops that provide the corresponding guarantee; likewise the quantity of food is generally insufficient especially in the dry season.

The National Institute of Agricultural Innovation (INIA) carries out a National Program of Agricultural Innovation in pastures and forages, which aims to develop new technologies to enhance the

[1] Information extracted from the website of MINAGRI, http://www.minagri.gob.pe/portal/objetivos/40-sector-agrario/situacion-de-las-actividades-de-crianza-y-producci/307-alimentos-balanceados
[2] Information extracted from Actualidad Ganadera, http://www.actualidadganadera.com/articulos/la-deficiencia-nutricional-en-rumiantes-tiene-mas-impacto-de-lo-que-pensamos.html
[3] Information extracted from Minagri, https://www.minagri.gob.pe/portal/40-sector-agrario/situacion-de-las-actividades-de-crianza-y-producci/302-porcinos?start=8
[4] Information extracted from MINAGRI, Diagnóstico de Crianzas Priorizadas para el Plan Ganadero 2017-2021

productivity of pastures. In addition, INIA produces and sells alfalfa seeds, forage oats and other improved pastures, but on a limited basis.

1.2 POULTRY FEEDING

Poultry diets -usually- contain yellow corn and soybean meal as major ingredients. Occasionally, other non-traditional ingredients (e.g. sub products of various industries) can be used in poultry diets; however, the levels of use will depend on several factors such as nutritional composition, content of antinutritional factors, availability and price[5]. It is important to mention that the poultry sector, which is the largest consumer of yellow corn, has to import 70% of its demand to satisfy its industry[6].

Many companies in the poultry sector and feed producers also use liquid oils and fats[7]. Regarding the types of oils used in this sector, we can mention fish oil, palm oil, soy oil, vegetable pigments and the blend of oils and fats.

2. PET FOOD

According to Euromonitor, around 75% of total pet cats and dogs in Peru are fed with leftover homemade food or artisanal products. However, every year, a rising proportion of Peruvian pet owners are coming to recognize the needs of their pets and this is boosting sales in pet food, while manufacturers are improving their distribution networks and launching new products in the economy and mid-priced segments in a bid to attract more customers.

2.1 PRODUCTION

Pet food production in Peru has grown steadily over the past five years. In 2015 Peru produced just over 37,000 MT of dog and cat foods. The projection for 2016's total production was 40,000 MT and for 2017, it is estimated that pet food production will grow with 10%.

	2013	2014	2015	2016*
Total Domestic Pet Food Production (MT)	33,493	35,500	37,275	40,000

The domestic market is dominated by four pet food producers: Rinti SA, Nestle, Molitalia and Mars, each of these companies offer a wide variety of brands within their portfolios and maintain large distribution networks, ensuring their presence in traditional and modern grocery retailers channels.

[5] Information extracted from Actualidad Avipecuaria, http://www.actualidadavipecuaria.com/articulos/Perspectivas-en-nutricion-avicola.html
[6] Information extracted from Agraria, http://agraria.pe/noticias/70-de-maiz-amarillo-duro-destinado-a-la-8805
[7] Information extracted from Actualidad Avipecuaria, http://www.actualidadavipecuaria.com/articulos/los-antioxidantes-en-los-aceites-y-grasas-utilizados-para-los-alimentos-balanceados.html

These leading companies also use different strategies with the aim of retaining their advantages. For example, the leading local company -Rinti SA- pursues a low-cost strategy offering products in the economy and mid-priced segments, while the multinational company Nestle competes through innovation and by providing added value to consumers.

2.2 CONSUMPTION AND BRAND PREFERENCES

There is a clear trend away from feeding pets with leftover homemade food towards economy and mid-priced prepared pet food, spurring growth across the whole industry, although, at the same time, many pet owners that already purchase mid-priced products are often willing to buy premium brands when they are recommended by veterinarians or close friends.

Consumption of pet food products in 2015 was slightly more than 53,700 MT (around 16,000 MT more than the total Peru's pet food production). Between 2013 and 2016 Peru's pet food production increased 19%, while consumption increased by nearly 30%, creating an ever-widening supply gap that is filled by imported products. The projection for 2016's total consumption was 58,000 MT and for 2020 the pet food market is estimated to reach 78,000 MT.

	2013	2014	2015	2016*
Total Market size (MT)	44,792	49,310	53,766	58,000

According to the consulting firm Kantar Worldpannel (KWP), between 22 and 25 of pet food brands (local and imported) are offered in the Peruvian market. The following image shows the leading dog food brands, being Ricocan -a brand of the company Rinti SA- the favorite one.

2.3 DISTRIBUTION

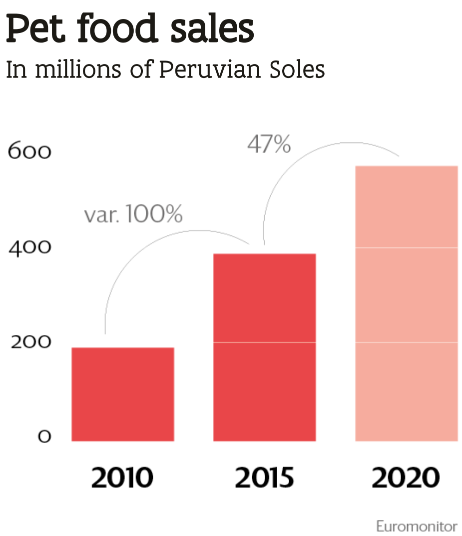
Since 2014 the segmentation and distribution channels of pet food have not significantly changed. The market is segmented by wet and dry foods and by price points with economic, mainstream, premium, and super-premium products available. Premium and mainstream product sales each make up to 35 percent of the market, economic brands comprise 25 percent and 5 percent are superpremium purchases.

Regarding distribution channels, the majority of pet foods are sold through supermarkets and convenience stores. However, veterinary clinics continued to increase its share of pet care distribution since some distributors prefer veterinary clinics and pet shops as exclusive channels for premium, therapeutic and wet products where they get a higher price point. It is also important to mention that the penetration of modern channels is increasing, a trend that would remain.

2.4 MARKET TRENDS

Given the fact that Peruvian pet owners are more conscious of the importance of giving their pets the best care possible -which includes food that meets the specific needs of each pet as well as products such as dietary supplements for better healthcare and grooming-, the demand of pet food is expected to continue to grow in the short to medium-term, being premium products the ones with the greatest growth potential. From a local pet food manufacturing perspective, there is a strong demand for quality foreign ingredients and additives.

According to Euromonitor, the pet food market is expected to reach 580 million of soles by 2020, 47% more than in 2015.



Regarding imported pet food products, the average market penetration for imported pet food in South America hoovers at 50%. It is estimated that, with only 15% of Peruvian pet owners currently buying imported pet food products, there is an ample room for growth. Dry (dog) food is the top performer, accounting for 85% of sales.

2.5 TRENDS IN PERU'S PET POPULATION

Peru's pet population was at seven million in 2016, with dogs and cats combined representing 80% of these pets, the result of 3% annual growth. This increase in the number of pets being kept in the country, combined with the trend of pet food buyers to be increasingly aware of their animals' food intake and need for a healthful diet, are set to continue driving consumption of pet products during the forecast period.

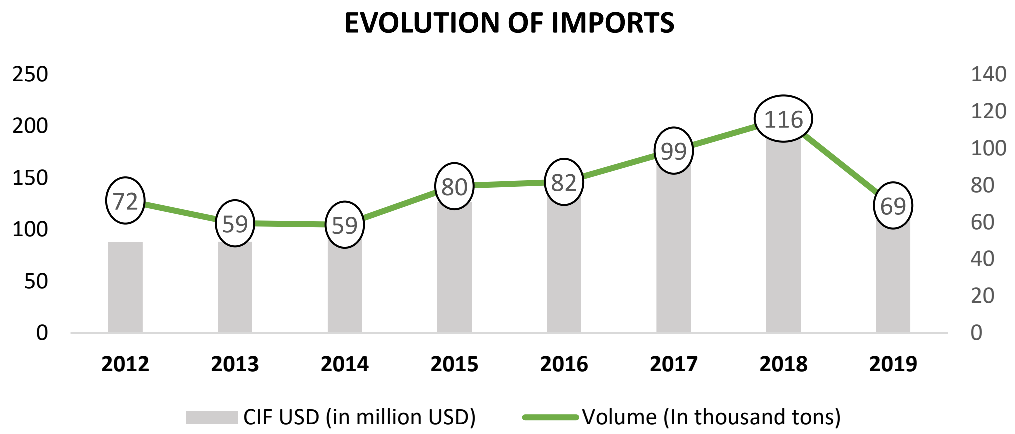
Regarding dog's population, the preferences of Peruvian dog owners are changing, representing small breeds with the highest population growth rate in 2016, rising by 4%. This shift towards smaller pet dogs is the result of changes being made to the habits and homes of many Peruvians who are moving into apartments and flats where they cannot easily keep dogs, especially medium and large-sized dogs.

Even though dogs are the preferred pets in Peru, in recent years the number of cats being kept as pets has been growing faster than the number of pet dogs. This preference can be explained by 2 facts: one is related to the tendency of moving into smaller houses or apartments where dogs may not even be allowed and the other is related to the fact that Peruvians are often required to stay outside of their homes for long periods of time and having a cat as a pet does not bring any trouble since cats can be left alone for longer periods of time than dogs.

3. TRADE STATISTICS

From 2012 to 2018, Peruvian imports of animal nutrition food[8] increased with 120%. In 2018, Peru imported 194 million in CIF USD, 16% more than the previous year.

[8] Based on HS codes HS 2309.10.10, 2309.10.90, 2309.90.10, 2309.90.20, 2309.90.30 and 2309.90.90

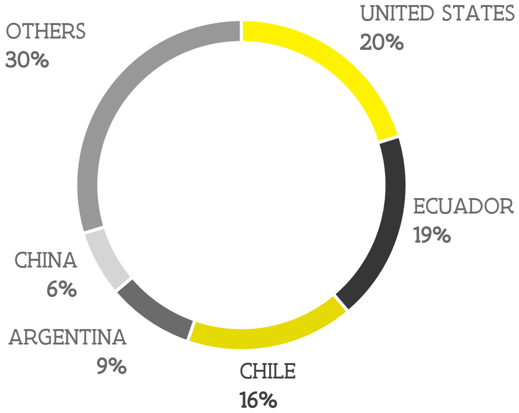


The following table shows the evolution of imports based by customs code.

	2015	2016	2017	2018	2019
CIF USD (in million USD)	**127**	**136**	**167**	**194**	**114**
2309.10 - Dog or cat food, put up for retail sale	**26**	**28**	**30**	**34**	**20**
2309.10.10 Put up in airtight containers	1	1	1	2	1
2309.10.90 Other	25	26	29	32	19
2309.90 - Other	**101**	**109**	**137**	**160**	**94**
2309.90.10 Sweetened forrage	0	0	0	0	0
2309.90.20 Premixes	49	54	65	63	38
2309.90.30 Milk substitutes for feeding calves	0	1	1	1	1
2309.90.90 Other	52	54	72	96	55

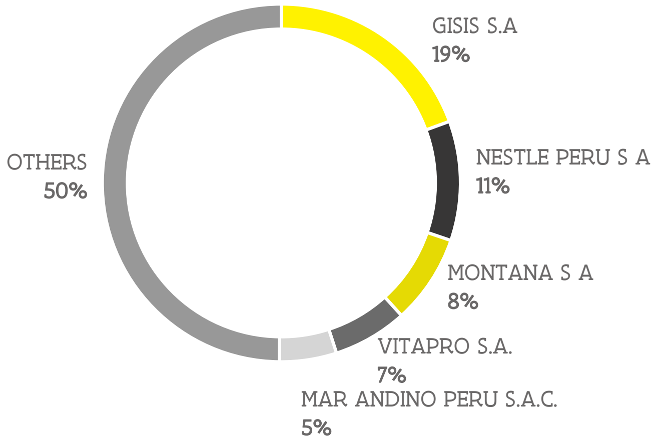
The largest suppliers were the United States, Ecuador and Chili which, according to import statistics of 2018, together supply 55% of all animal nutrition food imports to Peru.

COUNTRY OF ORIGIN
(based on CIF value 2018)



The 5 largest importers are GISIS, Nestle, Montana, Vitapro and Mar Andino Peru. The following chart shows the participation of each of the aforementioned companies.

MAIN IMPORTERS
(based on CIF value 2018)



4. IMPORT REGULATIONS AND CUSTOMS TAXES

According to the National Agricultural Sanitary and Phytosanitary Service (SENASA), for the import of this product the importer must obtain prior sanitary authorization from the before mentioned Institution. For more information regarding import regulation, please review the following website: http://www.senasa.gob.pe/senasa/importacion-6/

DUTIES LEVIED ON IMPORTED GOODS

Ad valorem Tax (AV) is determined on the CIF value (Value of the goods (FOB) + freight + insurance).

Excise tax (Impuesto Selectivo al Consumo - ISC) is applied to certain products.

VAT: 18% on the CIF value + other customs duties. It is compounded of:

- General Sales Tax (Impuesto General a las Ventas - IGV): 16%
- Municipal Sales Tax (Impuesto de Promoción Municipal - IPM): 2%

Customs code	Description	EU duty	AV Tax
2309	Preparations of a kind used in animal feeding:		
2309.10	- Dog or cat food, put up for retail sale:		
2309.10.10	- - Put up in airtight containers	0%	0%
2309.10.90	- - Other	0%	0%
2309.90	- Other:		
2309.90.10	- - Sweetened forrage	0%	0%
2309.90.20	- - Premixes	0%	0%
2309.90.30	- - Milk substitutes for feeding calves	0%	0%
2309.90.90	- - Other	0%	0%

Please take into account that if the good meets the origin requirements, you can apply for a Certificate of Origin (CO) and thus obtain preferential tariff treatment. For more information regarding duties, please review the following website: http://www.aduanet.gob.pe/itarancel/arancelS01Alias

5. RELATED INSTITUTIONS

- **MINISTRY OF AGRICULTURE AND IRRIGATION (MINAGRI)**
  T.: (+511) 209 8800
  http://www.minagri.gob.pe/portal/inicio
  Address: Av. La Universidad 200, La Molina

- **NATIONAL INSTITUTE OF AGRICULTURAL INNOVATION (INIA)**
  T.: (+511) 240 2100
  http://www.inia.gob.pe/
  Address: Av. La Molina 1981, La Molina

- **NATIONAL FISHERIES SOCIETY (SNP)**
  T.: (+511) 422 8844
  http://www.snp.org.pe/
  Address: Av. República de Panamá 3591 Piso 9, San Isidro

- **MINISTRY OF PRODUCTION (PRODUCE)**
  T.: (+511) 616 2222
  http://www.produce.gob.pe/
  Address: Calle Uno Oeste 060 Urbanización Córpac, San Isidro

- **NATIONAL FOOD SAFETY AND QUALITY SERVICE (SENASA)**
  T.: (+511) 313 3300
  https://www.senasa.gob.pe/senasa/
  Address: Av. La Molina 1915, La Molina

- **PORK PRODUCERS ASSOCIATION (ASOPORCI)**
  T.: (+511) 436 4168
  https://www.asoporci.org.pe/
  Address: Calle Pomalca 351 CC Monterrico, Surco

- **POULTRY PRODUCERS ASSOCIATION (APA)**
  T.: (+511) 372 1540
  https://apa.org.pe/
  Address: Av. Esmeralda 255 Chacarilla del Estanque, San Borja

- **NATIONAL CONVENTION FOR PERUVIAN AGRICULTURE (CONVEAGRO)**
  T.: (+511) 423 1938
  http://conveagro.org.pe/
  Address: Jr. Ramón Dagnino 369, Jesús María

- **PERUVIAN MILK FARMERS ASSOCIATION (AGALEP)**
  T.: (+511) 423 4642
  http://www.conveagro.org.pe/node/4153
  Address: Jr. Pumacahua 877 Of. 306, Jesús María

- **HOLSTEIN ASSOCIATION OF PERU**
  T.: (+511) 431 8399
  asociacionholstein@gmail.com

- **ASOCIACIÓN DE GANADEROS DE LIMA**
  http://www.asganaderoslima.org/

6. RELATED EVENTS

- **INTERNATIONAL CONGRESS ON LIVESTOCK DEVELOPMENT (CIDEGAN)**
  31 May - 2 June 2019
  http://www.perulactea.com/2019/05/16/congreso-internacional-de-desarrollo-ganadero-cidegan-2019/

- **INTERNATIONAL CONGRESS IN PIG FARMING (CIPORC PERÚ)**
  3 - 5 July 2019
  https://www.ciporc.com/

- **LATIN AMERICAN POULTRY CONGRESS (OVUM)**
  9 - 11 October 2019
  http://elovum.com/

7. SOURCES OF INFORMATION

SENASA

- http://www.senasa.gob.pe/senasa/importacion-6/

MINAGRI
- http://www.minagri.gob.pe/portal/objetivos/40-sector-agrario/situacion-de-las-actividades-de-crianza-y-producci/307-alimentos-balanceados
- https://www.minagri.gob.pe/portal/40-sector-agrario/situacion-de-las-actividades-de-crianza-y-producci/302-porcinos?start=8

SEMANA ECONOMICA
- http://semanaeconomica.com/article/sectores-y-empresas/consumo-masivo/187421-comida-para-mascotas-un-nicho-con-potencial/

GESTION
- http://gestion.pe/economia/produccion-alimentos-mascotas-crecera-123-este-ano-2175374

PERULACTEA
- http://www.perulactea.com/

ACTUALIDAD GANADERA
- http://www.actualidadganadera.com/

ACTUALIDAD AVIPECUARIA
- http://www.actualidadavipecuaria.com/articulos/Perspectivas-en-nutricion-avicola.html
- http://www.actualidadavipecuaria.com/articulos/los-antioxidantes-en-los-aceites-y-grasas-utilizados-para-los-alimentos-balanceados.html

ACTUALIDAD PORCINA
- http://www.actualidadporcina.com/

MAGAZINE MUNDO AVÍCOLA & PORCINO
- http://www.maplarevista.pe/

OTHERS
- http://www.viarural.com.pe/ganaderia/insumos/piensos-preparados/default.htm

- http://www.aquahoy.com/noticias/general/24903-vitapro-es-la-primera-empresa-peruana-de-produccion-de-piensos-acuicolas-en-obtener-certificacion-bap
- http://www2.produce.gob.pe/RepositorioAPS/2/jer/SECTPERFMAN/1533.pdf

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