

AGRICULTURAL FINANCE

Peru Fruit and Vegetable Insight

Executive Summary

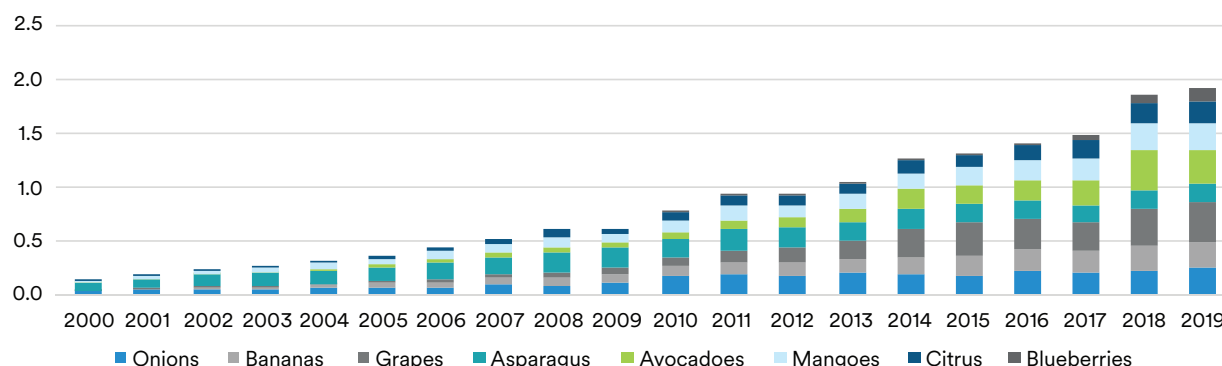
An open foreign investment environment has unlocked highly productive agricultural land in Peru and allowed the nation to become a top fruit and vegetable exporter. Peru's ascent is exemplified by recently becoming the leading global exporter of blueberries, a crop not commercially produced in the country just a decade ago. This rapid growth will not just be limited to one crop, as Peru invests in production of other high-value fruit and vegetables to continue its climb as a major exporter.

How It Started

In 1991, Peru passed the Foreign Investment Promotion Law, which paved the way for the agricultural industry to modernize practices and improve technology.¹ The act legalized most private foreign land ownership and defined the rights of foreign investors' capital. As a result, foreign direct investment into Peru grew from approximately zero in the early 1990s to close to \$2 billion² in Q4 2019.³ The pro-business environment allowed well-capitalized international companies to partner with Peruvian farmers to expand fruit and vegetable production. Shortly after the law was passed, total fruit and vegetable acreage began its surge from 274,000 hectares (ha) in 1990 to 675,000 ha in 2018 (5% CAGR).⁴

Asparagus production was the first to receive a boost. Asparagus acreage and yields in Peru remained stagnant throughout the 1970s and 1980s. Between 1990 and 2010, Peru's asparagus acreage tripled while yields increased 68%.⁵ This trend also occurred across various fruits and vegetables like grapes and onions. As a result, Peru's fruit and vegetable production has nearly quadrupled since 1990 and exports have soared (Figure 1).⁶

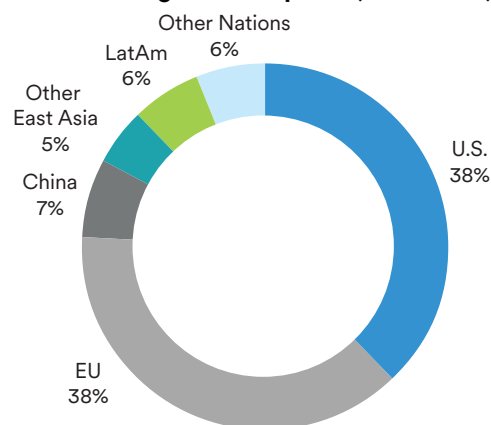
Figure 1 | Peru Fruit and Vegetable Exports (million metric tons)



Source: SUNAT, MIM

Buoying production has allowed Peruvian producers to capitalize on growing year-round demand for fruit and vegetables. Simultaneously, Peru pursued free trade agreements to improve the competitiveness of its exports in key markets. Peru currently has free trade agreements with 20 blocs. The U.S. and the European Union account for approximately 76% of Peru's fruit and vegetable exports (Figure 2).⁷ Increased Peruvian imports have competed with some producers in these respective areas, but it primarily complements domestic production and fills seasonal supply gaps. These agreements have been vital in growing exports amid burgeoning production in Peru.

Figure 2 | Destinations for Peru's Fruit and Vegetable Exports (2014-2018)



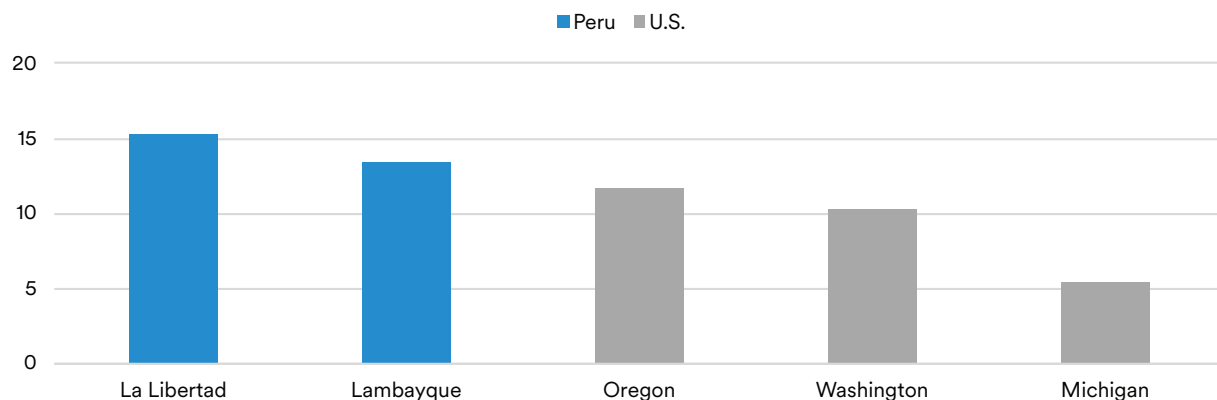
Source: Comtrade, MIM

The Blueberry Boom

Export companies helped improve Peru's agricultural output and also introduced new crops. In 2009, Peru did not commercially produce blueberries, and the country did not even track production statistics for the commodity. Just ten years later, Peru is the leading global exporter of blueberries,⁸ valued at approximately \$752 million in 2019.

Blueberry production in Peru benefits from strong yields due to ideal growing conditions in the northern coastal region.⁹ Average blueberry yields in La Libertad—which holds 79% of Peru’s blueberry acreage—are 40% higher than the average yields for top U.S. producers (Figure 3).¹⁰ Additionally, wages for agricultural workers in the U.S. are approximately five times higher than in Peru. Labor accounts for approximately 66% of operating costs as harvest is primarily done by hand.¹¹ Therefore, the combination of lower wages and stronger yields promotes wider profit margins for Peruvian blueberry operations.

Figure 3 | Comparing Peru and U.S. Blueberry Yields
(1000 lbs./acre)



Source: Peru MOA, USDA, MIM

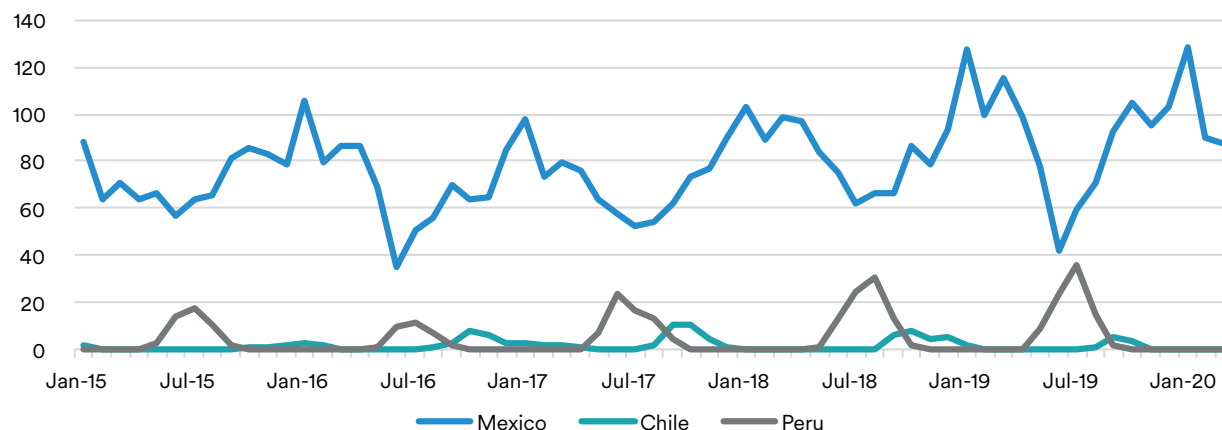
These efficient growers further enhance profits by focusing on export sales, which command a price premium over the domestic market. With little domestic demand for blueberries in Peru, soaring production fostered blueberry exports climbing from just 44 metric tons (mt) in 2012 to 125,000 mt in 2019. Peru’s Ministry of Agriculture expects blueberry cultivation to grow by about 1,500 hectares per year in the near term, which would represent a 20-25% annual increase in acreage.¹² Any acreage growth will translate directly to larger export volumes due to minimal domestic consumption. This rapid increase of blueberry cultivation appears to just be one of many crops Peru plans to significantly expand cultivation of in the coming years.

\$10 Billion and Beyond

Peru’s farm minister recently stated the goal of reaching \$10 billion in agricultural exports by 2021 from \$7.5 billion in 2019.¹³ This achievement appears inevitable as the government has invested significantly in irrigation infrastructure to improve productivity on existing farms and expand arable area. This will further support growth in production of other high-value fruits and vegetables like avocados.

Peru has been able to foster new commodities, spur existing crops, and develop strong trade relationships.

Since 2008, Peru’s avocado production has increased 270%. The farm minister believes that Peru’s avocados could eventually reach similar export sale volumes as Mexico. While Peru’s avocado exports to the U.S. remain a fraction of Mexico’s, volume has increased 78% since 2015. Additionally, Peru targets exports to the U.S. during the Northern Hemisphere summer when Mexico’s volumes are typically lower (Figure 4).

Figure 4 | U.S. Avocado Imports by Source (1000 metric tons)

Source: USDA, MIM

A national irrigation project will also help Peru pursue additional crops that are not currently commercially produced in the country such as cherries. While there have been delays to starting production, Peru is committed to becoming a top cherry producer, particularly with there being minimal large exporters.¹⁴ The story of the nation's blueberry production shows the ascent is possible. Peru has been able to foster new commodities, spur existing crops, and develop strong trade relationships. Therefore, it appears only a matter of time until the country surpasses \$10 billion in exports and begins striving towards a new, larger goal.

Endnotes

- ¹ USDA, Peru: An Emerging Exporter of Fruits and Vegetables, December 2010
- ² All values are in U.S. Dollars.
- ³ Central Reserve Bank of Peru, Net Foreign Direct Investment, May 2020
- ⁴ FAO, May 2020
- ⁵ Peru Ministry of Agriculture, May 2020
- ⁶ Peru National Superintendency of Customs and Tax Administration, May 2020
- ⁷ COMTRADE, May 2020
- ⁸ Fresh Plaza, [Peru became the world-leading blueberry exporter in 2019](#), February 2020
- ⁹ USDA, [Peruvian Blueberry Production Blooming](#), July 2017
- ¹⁰ USDA NASS, May 2020
- ¹¹ Pennsylvania State University, Sample Fresh-Market Highbush Blueberry Budget, July 2017
- ¹² Blue Book Services, [Peru Blueberries Head to the Top](#), February 2020
- ¹³ CNBC, [Peru looks to increase agricultural exports to \\$10 bln -minister](#), February 2020
- ¹⁴ Fresh Plaza, [Peru has been unable to begin producing cherries for export](#), July 2019

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