



Value Chain Analysis as a Tool for Identifying Binding Constraints to Trade

The case of Perishables in Peru

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Value Chain Analysis as a Tool for Identifying Binding Constraints to Trade

CONNECTING PEOPLE TO MARKETS – IDB PUBLICATION
METHODOLOGIES FOR INTEGRATING TRADE AND
DEVELOPMENT GOALS -Grant Aldonas and Alberto Trejos

- Global firms are increasingly becoming the hub of a network of suppliers located in a number of different countries.
- These global businesses have become, in the words of the study's authors, the “new gatekeepers of international trade” by effectively setting standards that local firms will have to meet in order to gain access to world markets.

The global supply chains become the market.



Applying the Methodology in the Context of Peru's Perishables

- Already a well-developed sector
- Asparagus as a case study of how Peruvian producers overcame obstacles to market access/how Peruvian government facilitated market access.

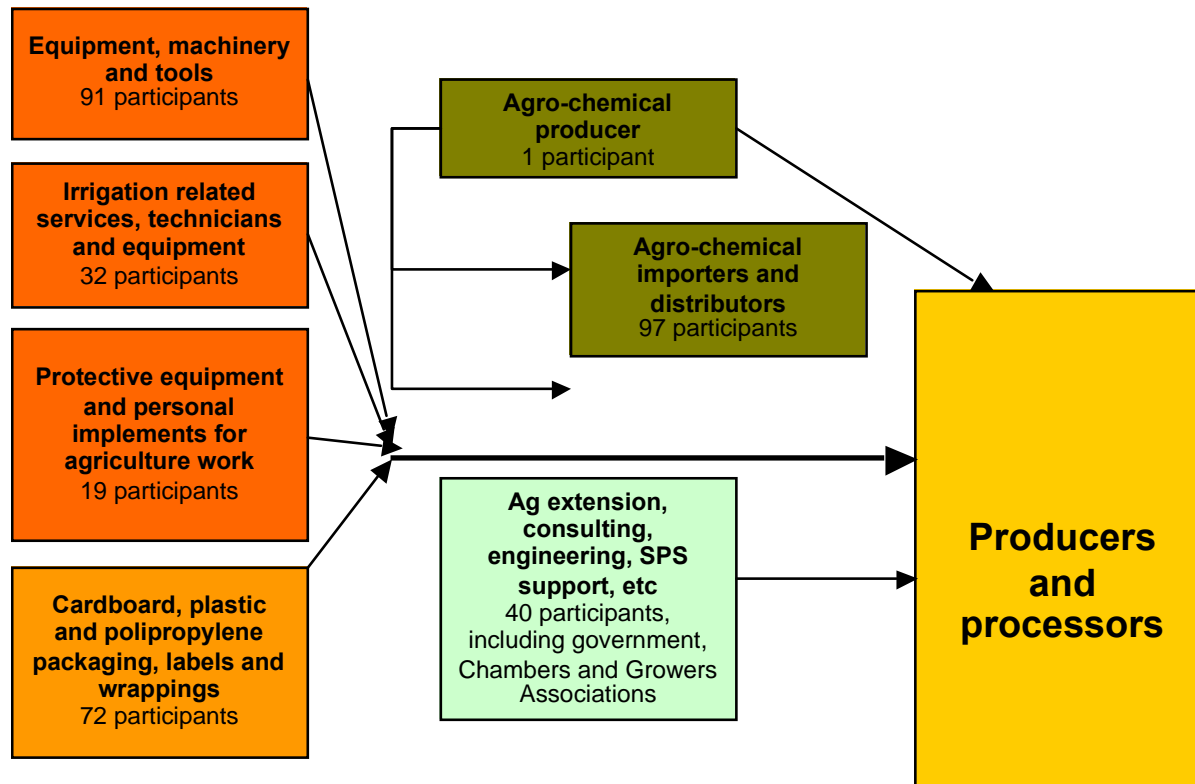


Applying the Methodology in the Context of Peru's Perishables

- Study broken down the value chain for export perishables in two segments:
 - a. the “upstream” half that supplies raw materials and services to agricultural producers and processors, and
 - b. the “downstream” half that delivers the output to the international market. Also focus on sanitary and phytosanitary requirements and transportation.

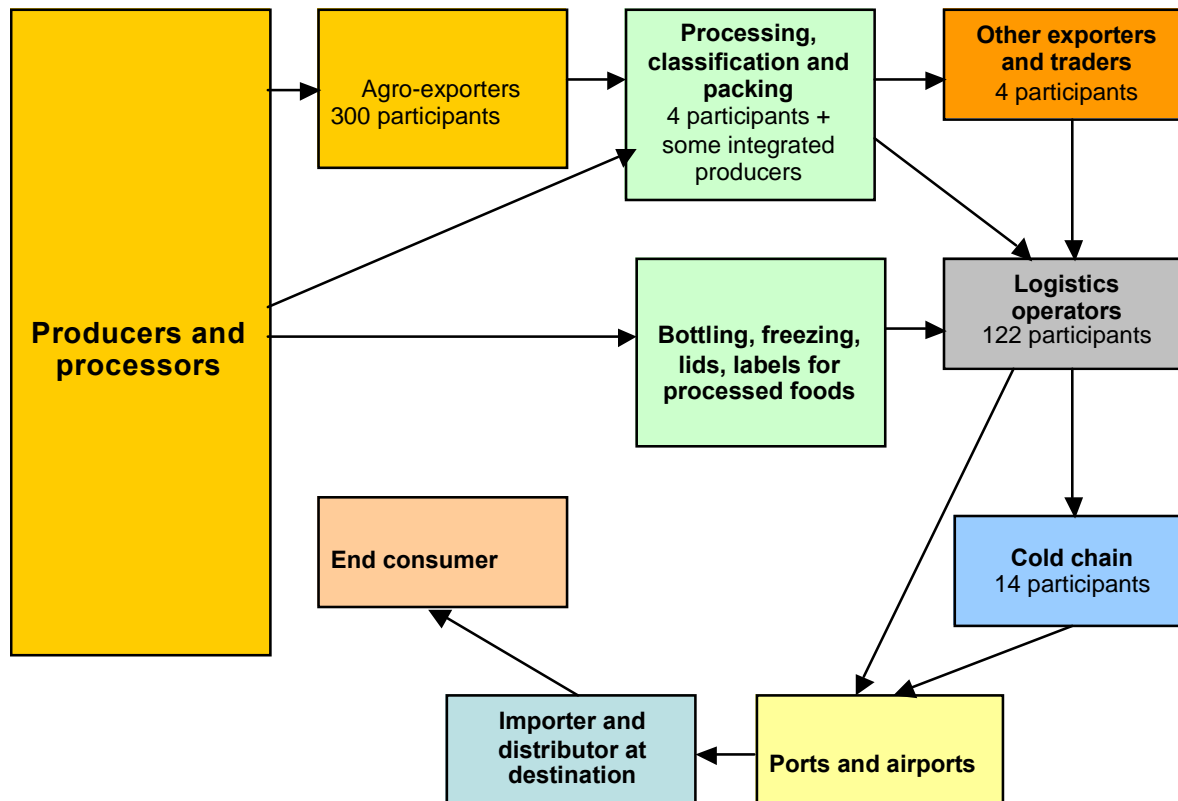
Applying the Methodology in the Context of Peru's Perishables

Agro-exports supply chain – upstream



Applying the Methodology in the Context of Peru's Perishables

Peru Agro export supply chain - downstream



Applying the Methodology in the Context of Peru's Perishables

- Peruvian fruit exports –prominently orange, plus grape, avocado, mango, tangerine, and grapefruit– have grown dynamically in the last few years. It is international marketing, rather than the production of these fruits in Peru, what is growing.
- One of the key challenges in this value chain is that, due to the short shelf life of the asparagus, time is an issue.

Applying the Methodology in the Context of Peru's Perishables

- Despite the presence of a couple dozen cargo airlines, exporters do not have much choice.
- Air freight shipping rates are comparatively expensive in Peru (several times over, in comparison with Chile or Argentina).
- While exporters have organized to consolidate input purchases and run their own logistics, breaking barriers to entry and reducing costs, they still do the commercialization in foreign markets individually.
- Peruvian asparagus confronts phytosanitary barriers. The same does not happen to Mexican asparagus, Peru's main competition.

Applying the Methodology in the Context of Peru's Perishables

- Insufficient competition in the provision of packaging materials: high prices, lower quality and service.
- Key Markets sensitive to the use of pesticides, and no laboratory in Peru can perform analysis and certification: exporters send their product to Chile, which is both costly and also causes a delay of 10–15 days.

Applying the Methodology in the Context of Peru's Perishables

- The United States rules require that some Peruvian fruit meet 15-17 days of refrigeration between 1.1°C and 1.67°C... extra few days are necessary storing the fruit since the shipping time is about 9 days, and that along the route fruit is typically kept at a different temperature...
- Exporters also find barriers accessing certain ports in the US, either due to sanitary tests, or because the port lacks inspection equipment...
- Shipping costs are above the regional mean.



Applying the Methodology in the Context of Peru's Perishables

- Other additional costs caused by port inefficiencies, lack of structures or bad management are passed through directly to the exporter...
- Main overcharges include:
 - *-Waiting at sea,*
 - *-Slow loading and unloading*
 - *-Inventory cost*
 - *Structural costs, including port administrator*
- All of the above, taken together, adds up to **\$1,146** per container.



Applying the Methodology in the Context of Peru's Perishables

High Impact Interventions – Port Capacity and Costs

- Sensitive to transportation costs and delays: only 16 percent of roads are paved, as opposed to 29 percent in Argentina, 46 percent in Indonesia, 75 percent of Malaysia, and 97 percent in Thailand.
- Peruvian land transportation costs: 40 percent higher than in competing countries;

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The need for an Integrated Strategy...

- Emergence of export success requires more than the quality of the overall business climate, and hinges on the ability of that industry to connect effectively to the world market.
 - Integration to the world market, for a developing country, requires efforts of reducing formal barriers to trade and establishing a legal right to access the market...
- ...but it also must go beyond that...

Applying the Methodology in the Context of Peru's Perishables

- The value chain here is served by other value chains.
- Using the value chain analysis in developing both a country's or a region's trade negotiating strategy and its regional integration strategy.



THANK YOU!

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