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Peru

Sugar

Annual

2004

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Report Highlights:

Sugar production in CY 2004 is forecast to decrease seven percent to 902,000 MT. Lack of water during the growing season is the main cause of this fall.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Lima [PE1]
[PE]

Executive Summary

Production of cane sugar for calendar year 2004 is forecast at 902,000 Metric Tons, a reduction of seven percent compared to the previous year. This reduction will be the result of a severe drought during the beginning of the year. Sugar production is expected to recover in the upcoming years, reaching surplus levels, given improvements in both field and processing infrastructure.

The sugar industry in Peru has halted the privatization process that started in 1996. Most of the worker owned sugar cooperatives have given way to private investors, but there are a few that refuse to find a private partner to invest in their company and continue surviving on permanent loan forgiveness. The Government of Peru (GOP) has been encouraging private investment in these companies and has tried to convince the worker/owners to sell their ownership shares to local or foreign investors, but that effort has entered in dormant stage giving the impression that the government is giving up. The cooperative administration led the industry to a deep internal financial crisis that resulted in less area harvested, abandoned fields, lower yields, and low extraction rates in the mills.

PSD Table							
Country	Peru						
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)		
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Area Planted	80	80	82	82	0	83	(1000 HA)
Area Harvested	70	70	71	77	0	75	(1000 HA)
Production	8800	8800	8900	8838	0	8300	(1000 MT)
TOTAL SUPPLY	8800	8800	8900	8838	0	8300	(1000 MT)
Utilization for Sugar	8800	8800	8900	8838	0	8300	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	8800	8800	8900	8838	0	8300	(1000 MT)

PSD Table							
Country	Peru						
Commodity	Centrifugal Sugar				(1000 MT)		
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	135	135	184	184	193	158	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	1000	1000	1000	970	0	902	(1000 MT)
TOTAL Sugar Production	1000	1000	1000	970	0	902	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	70	70	40	11	0	25	(1000 MT)
TOTAL Imports	70	70	40	11	0	25	(1000 MT)
TOTAL SUPPLY	1205	1205	1224	1165	193	1085	(1000 MT)
Raw Exports	41	41	41	61	0	55	(1000 MT)
Refined Exp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL EXPORTS	41	41	41	61	0	55	(1000 MT)
Human Dom. Consumption	980	980	990	946	0	960	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	980	980	990	946	0	960	(1000 MT)
Ending Stocks	184	184	193	158	0	70	(1000 MT)
TOTAL DISTRIBUTION	1205	1205	1224	1165	0	1085	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Centrifugal Sugar
Time Period	CY2003
Imports for:	
U.S.	5
Others	
Bolivia	6125
Colombia	4767
Total for Others	10892
Others not Listed	3
Grand Total	10895

Units: Metric Tons

Export Trade Matrix	
Country	Peru
Commodity	Centrifugal Sugar
Time Period	CY2003
Exports for:	
U.S.	42582
Others	
Rusia	18439
Total for Others	18439
Others not Listed	
Grand Total	61021

Units: Metric Tons

Production

Cane sugar production for MY (Jan/Dec) 2004 is forecast at 902,000 MT, decreasing seven percent compared to the previous year. This decrease will be the result of a severe drought at the beginning of the year. Water reservoirs, particularly in the northern region of Peru, are down to 9 to 25 percent of their total capacity.

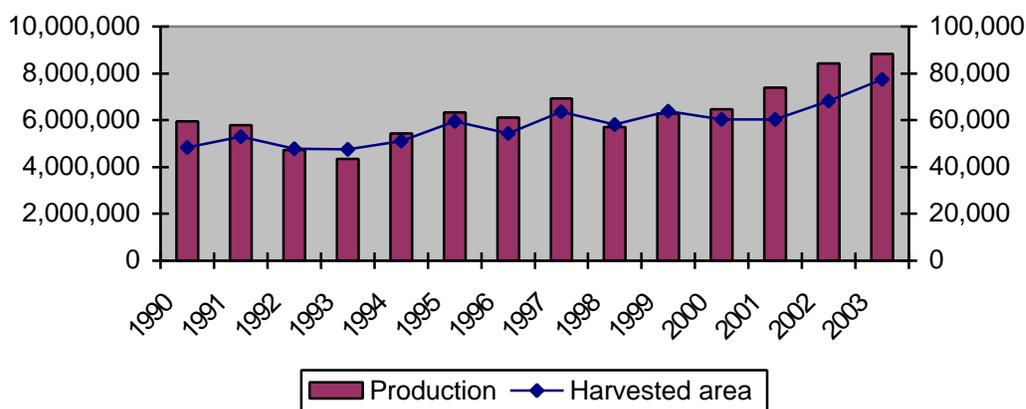
Sugar cane production is expected to decrease to 8.3 MMT in 2004 from 8.8 MMT in 2003. There are twelve sugar mills along the Peruvian coast with a total milling capacity of 37,000 MT of cane per day. Since sugar cane in Peru is produced year round, mills do not need to be very large.

Due to favorable weather conditions, high temperatures and lack of rain, sugar in Peru is produced in the rich valleys along the northern coast year round. All the fields in this area are surface irrigated, which allows producers to cut the supply of water at a given time to obtain higher sucrose yields. Under normal weather conditions, and if the cane is milled on time, sucrose yields are around 12 percent.

Yields and cane age vary greatly from one producer to another. Yields range from 53 to 176 MT of cane per hectare and age from 13 to 18 month between cuts. Mills that have been able to sell part of their shares to private investors have renewed and increased plantations and improved their mills. Production costs also vary quite a bit, one of the most important being fuel. Fuel utilization range from 5 to 90 gallons per metric ton of sugar produced.

Private investment in both fields and processing infrastructure has boosted production in recent years, encouraging more planted area (especially from independent producers), new plantations to replace old and inefficient fields, a better extraction rate due to the upgrade of the mills, and better quality of the cane at harvest time.

Sugar Cane



SUGAR PRODUCING COMPANIES				
NAME	TOTAL ¹ AREA (Hectares)	CANE AREA (Hectares)	MILLING CAPACITY (MT/day)	ACTUAL MILLING (MT/day)
Casa Grande	29,384	24,700	9,000	4,000
Laredo	5,080	4,687	2,000	1,500
Cartavio	6,566	6,254	5,000	2,500
Pomalca	15,819	12,495	3,500	2,000
Pucala	8,530	6,866	3,500	2,000
Tuman	12,311	8,200	4,000	2,200
Cayalti **	7,252	5,413	2,500	1,284
San Jacinto	10,422	7,231	2,800	2,000
Paramonga	8,396	6,566	3,500	2,800
El Ingenio	656	612	n/a	n/a
Andahuasi ***	4,617	2,705	1,000	n/a
Chucarapi	1,794	1,256	500	369
TOTAL	110,827	86,985	37,000	15,591

¹ Includes other crops, housing for workers and area for mills

Though they urgently need the investment to upgrade mills, replace old fields and improve irrigation systems; Casa Grande, Pomalca and Tuman have refused to merge with a strategic partner and continue falling in a financial black hole. Political parties have a strong influence on these companies' workers and are often a source of political unrest. The leadership of these companies, who have been in office for over three decades, have made a good living off the status quo and are the least interested in finding a strategic partner that would put an end to their modus vivendi.

Cayalti is bankrupt. The regional president in coordination with the central government's development bank attempted to restructure the company. Unfortunately, he has not been successful so far; again interested groups among workers boycotted this serious effort to maintain the status quo that benefits a few leaders in detriment of the vast majority of workers.

Andahuasi is the only success story of a worker owned sugar company that has been able to improve its financial situation and upgrade its operation without merging with a strategic partner. They have hired professionals to run the company who report to a board of directors who represent the worker/owner interests.

Consumption

Cane sugar consumption is estimated at around 960,000 MT in CY 2004, increasing 14,000 MT compared to the previous year. As the Peruvian economy improves, sugar demand will increase, especially in beverages, sugar bases and confectionary products. Per capita sugar consumption in 2003 was about 36.4 kilograms per annum.

The market, with large import tariffs and price band, sets the domestic price of sugar. Current sugar prices are about \$420 per MT, a strong recovery from the average \$330 per MT in 2003, current prices to farmers are around 9 cents per pound. In the last few years, local production has displaced imported sugar. Nevertheless, producers are concerned about Colombian sugar coming into Peru at lower-than-production costs. A single-desk seller sets prices in Colombia and the surplus over domestic consumption is allegedly dumped in Peru. Producers are also concerned about Bolivian sugar being smuggled to Peru through the southern border at what they estimate that about 60,000 MT.

Trade

Peruvian sugar exports in CY 2004 are estimated at about 55,000 MT. Peru's primary export market for sugar is the United States, about 41,000 MT, under the sugar tariff-rate quota. A new market for Peru is Russia. The U.S. quota is distributed by the Ministry of Agriculture among the sugar mills, in coordination with the Sugar Producers Association.

Imports of raw sugar, refined sugar and sugar syrups for beverages, into Peru are estimated at 25,000 MT for CY 2004, a sharp increase from 11,000 MT in the previous year, caused by the reduction in production, which will probably occur due to the drought. As the sugar industry rebuilds itself, imports are expected to decrease even more, and disappear in the upcoming years. With 56 percent of the import market, Bolivia was the leading sugar exporter to Peru in CY 2003, followed by Colombia.

Sugar cane is assessed 25 percent import tariff and is also subject to the price band system, which is a surcharge assessed depending on the international prices (the lower the international price, the higher the tax). The surcharge under the price band for sugar in 2003, ranged from \$13 to \$88 per MT, with a mode of \$43 per MT.

Policy

The GOP began a privatization process in 1996, which has been relatively successful. Most sugar cooperatives have found a strategic partner that has invested in new equipment and plantations. Nevertheless, some cooperatives have refused to privatize and the GOP is still struggling with some old issues, especially in the social area. Contrary to what the GOP thought at the beginning of the privatization process almost eight years ago, selling the cooperatives to the private sector has been a very difficult task. There are about 35,000 worker/owners in these 12 sugar estates. If retired workers and families are included, as well as related businesses located on the estates, the population dependent directly on the ex-sugar cooperatives is at least 250,000 people.

To date, there are five mills that have not found an strategic partner, including Casa Grande, by far the largest sugar mill. Of the five mills, there is one mill (Andahuasi) that has decided not to sell shares and has developed an investment plan to upgrade the mills and renovate plantations. This is the only case of a mill that has not sold shares and is being successful. The other four mills are virtually broke. A general unrest among the worker/owners of these ex-cooperatives, continues to be the major obstacle for privatization. Worker/owners have been told for a long time that their land is the best in the country and have overpriced it. They do not take into account the major debts carried by the cooperative.

After this temporary set back on sugar production due to the drought, Peru is expected to recover and become self sufficient in the upcoming years, maybe even have a 200,000 MT surplus. The GOP and the industry hope that part of this surplus could be exported under an increased sugar quota to the U.S. If and when the U.S. and Peru start negotiating a free trade agreement, increased market access into the U.S. for Peruvian sugar will be one of the main agricultural issue for Peru. Most likely, Peru will try to increase its sugar quota to the level it had about eight years ago, around 84,000 MT, which is about twice the current sugar level. Moreover, the current minister of agriculture has called the former general manager of the Sugar Producers Association (APPAR) to serve as the General Director of Planning the Ministry of Agriculture.