



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 4/7/2003

GAIN Report #PE3005

Peru

Sugar

Annual

2003

Approved by:

Lawrence D. Fuell

U.S. Embassy

Prepared by:

Gaspar E. Nolte

Report Highlights:

Sugar cane production in Peru continues increasing. Production is estimated to reach one million metric tons in 2003, increasing 14 percent compared to the previous year.

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

Executive Summary

Production of cane sugar for calendar year 2003 is estimated at one million metric tons, increasing 14 percent compared to the previous year. Favorable weather conditions, a plentiful water supply, and most importantly, new investment in renewing plantations, upgrading mills, and better management will drive this increase. Sugar production is expected to maintain this upward trend fulfilling local demand (about 980,000) in the next three years.

The sugar industry in Peru continues its path through the privatization process which started in 1996. Though somewhat slowly, the socialist type cooperative organization of the large plantations are giving way to private investors. The Government of Peru (GOP) is encouraging private investment in the sector and working to convince the worker/owners to sell their ownership shares to local or foreign investors. 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)					
	2002	Revised	2003	Estimate	2004	Forecast
	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
Area Planted	78	78	81	80	0	82
Area Harvested	60	68	65	70	0	71
Production	7830	8422	8300	8800	0	8900
TOTAL SUPPLY	7830	8422	8300	8800	0	8900
Utilization for Sugar	7830	8422	8300	8800	0	8900
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	7830	8422	8300	8800	0	8900

PSD Table						
Country	Peru					
Commodity	Centrifugal Sugar (1000 MT)					
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/200		01/2003		01/2004
Beginning Stocks	88	92	50	135	46	184
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	812	877	866	1000	0	1000
TOTAL Sugar Production	812	877	866	1000	0	1000
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	120	138	100	70	0	40
TOTAL Imports	120	138	100	70	0	40
TOTAL SUPPLY	1020	1107	1016	1205	46	1224
Raw Exports	40	41	40	41	0	41
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	40	41	40	41	0	41
Human Dom. Consumption	930	931	930	980	0	990
Other Disappearance	0	0	0	0	0	0
Total Disappearance	930	931	930	980	0	990
Ending Stocks	50	135	46	184	0	193
TOTAL DISTRIBUTION	1020	1107	1016	1205	0	1224

Import Trade Matrix	
Country	Peru
Commodity	Centrifugal Sugar
Time period	2002
Imports for:	
U.S.	1082
Others	
Colombia	87372
Guatemala	24510
Brazil	12375
Bolivia	11941
Total for Others	136198
Others not Listed	1028
Grand Total	138308

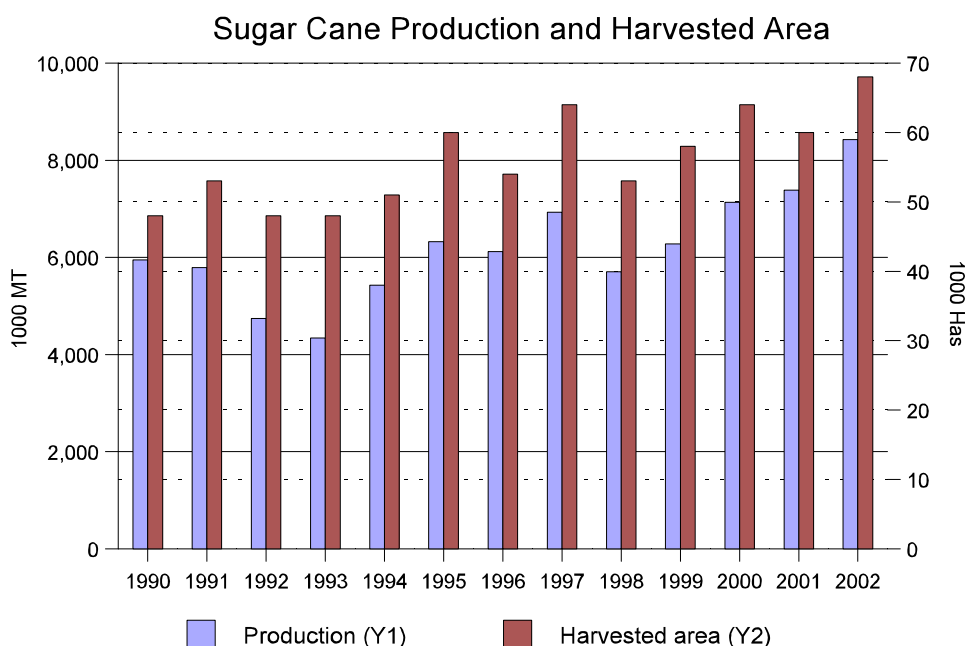
Production

Cane sugar production for MY (Jan/Dec) 2003 is estimated at one million metric tons, increasing 14 percent compared to the previous year. This increase will be the direct result of private investment in both fields and processing infrastructure which is encouraging more planted area, new plantings replacing old fields, a better extraction rate due to the upgrade of the mills, and better quality of the cane at harvest time.

Sugar cane production is expected to increased to 8.422 MMT in 2002 from 7.386 MMT in the previous year.the previous year. 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 .



SUGAR PRODUCING COMPANIES				
NAME	TOTAL 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

* These cooperatives have not been able to find a strategic partner and are financial trouble

** Bankrupt, will probably lose the mill and will have to be just a planting company

*** Andahuasi has not looked for a partner but has implemented an investment plan to refurbish its operation.

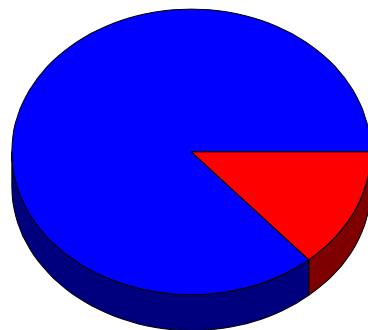
Maple Gas, a U.S. natural gas company, has started a sugar operation "Agricola Cerro Prieto" (ACP) in northern Peru. ACP owns 5,764 hectares of land in the departments of Lambayeque and La Libertad for sugar production. The project will be irrigated completely with technified systems that will allow water and fertilizer to be efficiently managed. This project includes building a mill with a grinding capacity of 4,000 MT of cane per day, expandable to 6,000 MT per day. The sugar factory will produce approximately 140,000 MT of refined sugar per year. This project should be fully operational by the end of 2003.

Consumption

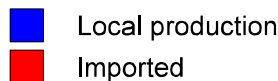
Cane sugar consumption is estimated at around 980,000 MT in CY 2003, a five percent increase compared to the previous year. As the Peruvian economy improves, sugar demand will increase, especially in beverages, sugar bases and confectionary products. Per capita sugar consumption in 2000 was 34.1 kilograms per annum.

The domestic price of sugar is set by the market, with large import tariffs and price band, based on supply and demand. In the last few years, local production has displaced imported sugar. Nevertheless, producers are concern about Colombian sugar coming into Peru at lower-than-production costs. Prices in Colombia are set by a single-desk seller and the surplus over domestic consumption is allegedly dumped in Peru. Producers are also concerned about Bolivian sugar entering Peru through the southern border at what they considered dumping prices.

Demand Distribution



Calendar Year 2002



Trade

Peruvian sugar exports for MY 2003 are estimated at about 41,000 MT. Peru's primary export market for sugar is the United States, under the sugar tariff-rate quota. The quota is distributed by the Ministry of Agriculture among the sugar mills, in coordination with the Sugar Producers Association.

Sugar imports, refined sugar and sugar basis for beverages, into Peru are estimated at 70,000 MT for MY 2003, a sharp decrease from 138,000 MT in the previous year decreasing 56,000 MT from 2001. As the sugar industry rebuilds itself, imports are expected to decrease even more, and disappear in the upcoming

years. With 63 percent of the market, Colombia was the leading sugar exporter to Peru followed by Guatemala and Brazil with 17 and 8 percent respectively.

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).

Policy

The GOP began a privatization process in 1996 which has been successful so far. 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 seven years ago, selling the cooperatives to the private sector has been a very difficult task. There are about 35,000 worker/owners in theses 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 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.

Since Peru has rapidly increased sugar production in the past four years, it is expected to fulfill local demand and probably have a surplus of 200,000 MT in the upcoming years. The GOP and the industry hope that part of this surplus could be exported under an increased sugar quota to the U.S.