

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Peru

## Sugar Annual

## Annual

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**Report Highlights:**

Cane sugar production for CY2010 is forecast at 1.2 MMT, up from 1.07 MMT in CY2009. Favorable weather conditions, a plentiful water supply and investments in new plantations explain this 12 percent increase. Sugar cane production is forecast at 10.05 MMT in CY 2010. Peruvian sugar exports in CY 2010 are estimated at about 80,000 MT. Indonesia was the largest market for Peruvian sugar with 39,300 MT, followed by the United States with 34,166 MT.

**Commodities:**

Select

**Production:**

Sugar Cane for Centrifugal Peru (1000Has, 1000MT)	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		New Post
			Data			Data			Data
Area Planted	81	81	81		82	82			84
Area Harvested	70	74	77		76	78			80
Production	8,300	9,346	10,034		9,720	10,050			10,100
Total Supply	8,300	9,346	10,034		9,720	10,050			10,100
Utilization for Sugar	8,300	9,346	10,034		9,720	10,050			10,050
Utilizatn for Alcohol	0	0	0		0	0			50
Total Utilization	8,300	9,346	10,034		9,720	10,050			10,100

Sugar, Centrifugal Peru	2009			2010			2011			
	2008/2009			2009/2010			2010/2011			
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		New Post	
			Data			Data			Data	
Beginning Stocks	125	125	125	95	110	110		165	150	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0		0	0	(1000 MT)
Cane Sugar Production	1,005	1,074	1,074	1,100	1,200	1,200		1,250	1,250	(1000 MT)
Total Sugar Production	1,005	1,074	1,074	1,100	1,200	1,200		1,250	1,250	(1000 MT)
Raw Imports	3	9	9	10	10	10		10	10	(1000 MT)
Refined Imp.(Raw Val)	204	136	136	160	135	120		100	100	(1000 MT)
Total Imports	207	145	145	170	145	130		110	110	(1000 MT)
Total Supply	1,337	1,344	1,344	1,365	1,455	1,440		1,525	1,510	(1000 MT)
Raw Exports	62	82	82	125	80	80		80	80	(1000 MT)
Refined Exp.(Raw Val)	0	0	0	0	0	0		0	0	(1000 MT)
Total Exports	62	82	82	125	80	80		80	80	(1000 MT)
Human Dom. Consumption	1,180	1,152	1,152	1,180	1,210	1,210		1,275	1,275	(1000 MT)

Other Disappearance	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Use	1,180	1,152	1,152	1,180	1,210	1,210		1,275	1,275	(1000 MT)
Ending Stocks	95	110	110	60	165	150		170	155	(1000 MT)
Total Distribution	1,337	1,344	1,344	1,365	1,455	1,440		1,525	1,510	(1000 MT)

<b>Import Trade Matrix</b>	
<b>Country</b>	Peru
<b>Commodity</b>	Sugar, Centrifugal
<b>Time Period</b>	CY 2009
<b>Imports from:</b>	
U.S.	0
Others	
Colombia	80,711
Bolivia	52,179
Brazil	9,011
Total for Others	141,901
Others not Listed	3,094
<b>Grand Total</b>	<b>144,995</b>

Units: Metric Tons

Cane sugar production for CY2010 is forecast at 1.2 MMT, up from 1.07 MMT in CY2010. This 12 percent increase is explained by favorable weather conditions, a plentiful water supply and investments in new plantations. Post believes that Peru's sugar production will continue increasing in the foreseeable future due to ongoing investment in renewing fields, new plantations, and more efficient processing plants.

Sugar cane production is forecast at 10.05 MMT in CY 2010. Sugar mills in Peru are located along the coast and have 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. Yields and cane age vary greatly from one producer to another. Yields range from 53 to 190 MT of cane per hectare and age varies from 13 to 18 months between cuts. Production costs also vary considerably, with fuel being one of the most important factors. Fuel utilization ranges from 5 to 90 gallons per metric ton of sugar produced. The Peruvian northern coast has excellent conditions for growing sugar cane due to high temperatures and lack of rain. All cultivation is surface irrigated, allowing producers to cut the supply of water at a given time to obtain higher sucrose yields. Under normal weather conditions, and provided the cane is milled on time, sucrose yields are around 12 percent.

<b>Sugar and Cane Production by Mill 2009</b>										
<b>Producer</b>	<b>Pucallá</b>	<b>Tumán</b>	<b>Pomacocha</b>	<b>Casa Grande</b>	<b>Cartavio</b>	<b>Laredo</b>	<b>San Jacinto</b>	<b>Paramonga</b>	<b>Andahuasi</b>	<b>Chucabapi</b>
<b>Cane Milled</b>	997,372	1,009,556	910,801	2,088,011	1,612,764	1,106,640	519,197	1,183,536	539,834	67,069
<b>Sugar Production</b>	102,334	105,571	93,580	233,446	159,286	126,030	59,080	134,958	54,277	5,666
<b>Processing Yield</b>	9.75	9.56	9.73	8.94	10.12	8.78	8.79	8.77	9.95	11.84

(1)										
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(1) MT of cane per MT of sugar

Peru's sugar industry continues its consolidation process. Coazucar, owned by Peru's largest dairy processor Gloria, owns Casa Grande, Cartavio and San Jacinto. Casa Grande has access to 30,000 hectares, but only about 18,000 hectares are under production. Casa Grande could at least double its sugar production very rapidly by both planting currently idle lands and improving yields through technological changes. Ethanol production is also an important project that investors are evaluating.

Despite the ongoing economic crisis, the Peruvian northern coast continues undergoing a radical change driven by a private investment "fever". Land is being purchased by Peruvian and foreign investors, and property is being consolidated. The efficiency brought about by economies of scale is improving return rates, which attracts more investment, generating a beneficial cycle. It is quite common to see bulldozers flattening sand dunes to plant more sugar in the desert. This process is undoing the damage done by the catastrophic 1968 land reform that expropriated land to give to workers in socialist type cooperatives.

Mills, such as Pomalca and Tuman, which in the past refused to merge with a strategic partner have formed joint ventures with a Peruvian investor and are improving its operations rapidly. Moreover, they are also diversifying their production with exports crops. In an effort to encourage investment in these companies, the GOP is auctioning its shares to interested private sector companies. Government acquired shares were the result of a conversion of unpaid taxes.

<b>Market Distribution by Company (2009)</b>		
<b>Company</b>	<b>Market Share (%)</b>	<b>Accumulative Share (%)</b>
Casa Grande	21.73	21.73
Cartavio	14.82	36.55
Paramonga	12.56	49.11
Larego	11.73	60.84
Tuman	9.83	70.67
Pucala	9.52	80.19
Pomalca	8.73	88.92
San Jacinto	5.50	94.42
Andahuasi	5.05	99.47
Chucarapi	0.53	100.00

Source: Peruvian Sugar and Biofuels Producers Association (APPAB)

Ethanol production from sugar cane is one of the main reasons Peru is seeing increased investment in the sugar industry. In 2003, the GOP passed Law 28054, which promotes the use of environmentally friendly "biofuel." This law encourages the substitution of highly contaminating components for more environmentally friendly elements. The estimated investment for ethanol production is roughly \$130 million, about 40 percent for adjusting mills and 60 percent to increase area planted. A 100,000-liter per day ethanol plant costs around \$6-8 million. Ethanol will replace 7.8 percent of the gasoline and 5 percent of diesel.

<b>Ethanol Projects in the Pipeline</b>			
<b>Company</b>	<b>Investment (Million \$)</b>	<b>Plant Capacity (Liters/day)</b>	<b>New Sugar Area</b>
Maple	245	450,000	7,800
Comisa	200	400,000	7,500
Caña Brava	60	150,000	7,000
Laredo	60	150,000	4,000

Casa Grande	40	300,000	10,000
TOTAL	605	1,450,000	36,300

Source: Peruvian Sugar and Biofuels Producers Association (APPAB)

### Consumption:

Cane sugar consumption is forecast at 1.12 MMT in CY 2011, around 70 percent of which is for direct consumption and the remaining for industrial use. As the Peruvian economy improves, sugar demand will increase, especially for sugar based beverages and confectionary products.

Retail Sugar Price in 2009 (U.S. \$)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Refined	0.64	0.64	0.63	0.66	0.68	0.69	0.71	0.72	0.75	0.79	0.83	0.83
Brown	0.54	0.53	0.52	0.56	0.59	0.61	0.62	0.65	0.68	0.74	0.79	0.78

Source: Ministry of Agriculture

In February 2010 there was a 30 percent spike on domestic sugar prices. This sudden price increase was triggered by wholesalers' supply concern due to the strike on a major sugar mill and the Bolivian ban on sugar exports. Currently prices are gradually returning to normal levels.

### Trade:

Peruvian sugar exports in CY 2010 are estimated at about 80,000 MT. In CY 2009 Indonesia was the largest market for Peruvian sugar with 39,300 MT, followed by the U.S. with 34,166 MT. The U.S. sugar tariff-rate quota (TRQ) is an important incentive for Peruvian exporters. The U.S. TRQ is distributed among the sugar mills by the Ministry of Agriculture, in coordination with the Peruvian Sugar and Biofuels Producers Association (APPAB).

Due to increased production, sugar imports in CY 2011 are forecast to fall to 100,000 MT. With a market share of 56 percent, Colombia continued to be the lead sugar exporter to Peru in CY 2009. Bolivia was also an important supplier, accounting for 36 percent of total sugar imports.

### U.S. – Peru Trade Promotion Agreement (TPA)

The U.S. - Peru Trade Promotion Agreement includes five-year linear tariff reductions for glucose and fructose. These reductions start at a tariff level of 17 percent and 30 percent for glucose and fructose, respectively, with duty free access in six years

### Policy:

The Peruvian sugar industry continues to undergo a dramatic modernization process. After years of social unrest and economic bankruptcy, the Peruvian sugar industry has finally recovered from the disrupting land reform of the 1970s. This ongoing process has resulted in the privatization of most mills, increased investment and productivity. However, there are still some mills that refuse privatization despite their outstanding debt and inability to make payments as well as their inefficient production. Peru will become self sufficient again in the upcoming years, perhaps with a surplus of as much as 200,000 MT by 2011.

Sugar cane is assessed 9 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). CAN member countries, however, are granted duty free access.

