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## **Peru**

### **Sugar Annual**

### **Sugar Industry Stable in MY2018 Despite El Niño Related Heavy Rains**

**Approved By:**

Casey Bean, Agricultural Counselor

**Prepared By:**

Gaspar E. Nolte, Senior Agricultural Specialist

**Report Highlights:**

Heavy rains and flooding in northern Peru during early 2017 slowed growth of cane sugar production, but the Peruvian industry is expected to recover in MY2018. Cane sugar production for MY 2018 (May/April 2017) is forecast at 1.25 MMT, the same as the previous year. Peru could become a net exporter in the upcoming years. Peru's exports in MY 2018 are forecast at 85,000 MT, the same as the previous year.

## Executive Summary:

Cane sugar production for MY 2018 (May/April 2017) is forecast at 1.25 MMT, remaining at the same levels as the previous year. The industry continues renewing plantations, increasing harvested area and upgrading mills to improve efficiency. Due to the heavy rains in early 2017 related to the coastal El Niño that flooded northern Peru at the beginning of 2017, sugar production slowed down but is forecast to recover. Peru's sugar production will continue to increase in the upcoming years which could lead to self-sufficiency.

Per capita sugar consumption in Peru remains low compared to other countries in the region. Per capita consumption in Peru was 38.2 kgs/year in CY2015 compared to Brazil's 59.1, Chile's 43.2, Uruguay's 40.5, and Argentina's 39.6.

Peruvian sugar exports in MY 2018 are forecast at 85,000 MT, the same as the Previous year. In MY 2016, the United States was the largest market for Peruvian sugar with 42 percent of total Peruvian sugar exports, followed by Colombia with 40 percent. The U.S. sugar tariff-rate quota (TRQ) is an important incentive for Peruvian exporters. Sugar imports into Peru in MY 2016 are estimated at 330 TMT. Peru's main sugar suppliers in CY 2016 were Colombia, Guatemala and Brazil with 50 percent, 22 percent and 17 percent of total sugar imports respectively.

### Commodities:

## Sugar, Centrifugal

**Production:**

## Sugar Cane for Centrifugal

<b>Sugar Cane for Centrifugal Market Begin Year</b>	<b>2015/2016</b>		<b>2016/2017</b>		<b>2017/2018</b>	
	<b>Jan 2015</b>		<b>Jan 2016</b>		<b>Jan 2017</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Peru</b>						
<b>Area Planted</b>	0	87	0	89	0	89
<b>Area Harvested</b>	0	85	0	87	0	87
<b>Production</b>	0	12379	0	11844	0	12000
<b>Total Supply</b>	0	12379	0	11844	0	12000
<b>Utilization for Sugar</b>	0	10212	0	9792	0	9800
<b>Utilizatrñ for Alcohol</b>	0	2167	0	2052	0	2200
<b>Total Utilization</b>	0	12379	0	11844	0	12000
(1000 HA) ,(1000 MT)						

## Sugar, Centrifugal

Sugar, Centrifugal Market Begin Year Peru	2015/2016		2016/2017		2017/2018	
	May 2015		May 2016		May 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	42	42	97	28	0	23
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1350	1206	1500	1250	0	1250
Total Sugar Production	1350	1206	1500	1250	0	1250
Raw Imports	10	104	10	80	0	80
Refined Imp.(Raw Val)	285	275	150	250	0	250
Total Imports	295	379	160	330	0	330
Total Supply	1687	1627	1757	1608	0	1603
Raw Exports	86	52	85	55	0	55
Refined Exp.(Raw Val)	0	37	0	30	0	30
Total Exports	86	89	85	85	0	85
Human Dom. Consumption	1504	1510	1600	1500	0	1500
Other Disappearance	0	0	0	0	0	0
Total Use	1504	1510	1600	1500	0	1500
Ending Stocks	97	28	72	23	0	18
Total Distribution	1687	1627	1757	1608	0	1603

(1000 MT)

Sugar cane production is forecast at 12 MMT in MY 2018, a slight increase from the 11.8 MMT in MY 2017. Sugar in Peru is produced in the northern valleys along the coast. The region of La Libertad produces 49 percent of the Peruvian sugar, followed by Lambayeque and Lima with 27 percent and 15 percent respectively. Peru's milling capacity is 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 55 to 190 MT of cane per hectare and age varies from 13 to 18 months between cuts. Average yield in MY 2018 is estimated at 137 MT per hectare. Total harvested area in MY 2016 was 85,000 hectares and yields reached 145 MT per hectare. Yields are forecast to fall in MY 2018 due to flooding and destruction caused by the heavy rains in early 2017.

Cane sugar production for MY 2018 (May/April 2017) is forecast at 1.25 MMT, remaining at the same level as the previous year. The industry continues renewing plantations, increasing harvested area and upgrading mills to improve efficiency, due to the heavy rains that flooded northern Peru at the beginning of 2017, sugar production growth slowed down but is forecast to recover. Peru's sugar production will continue to increase in the upcoming years which could lead to the country being a net exporter.

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 the lack of rain. Peru's sugar cane is entirely surface irrigated, allowing producers to cut the supply of water at a given time in order to obtain higher sucrose yields. Under normal weather conditions, and provided the cane is milled on time, sucrose yields are around 12 percent.

Company	Production (%)
Casa Grande	25.1
Cartavio	15.3
Laredo	14.5
Paramonga	12.6
San Jacinto	9.9
Tuman	6.2
Pomalca	6.0
Pucala	5.2
Andahuasi	4.4
Chucarapi	0.4
Azucarera del Norte	0.3

Source: Industry

Peru's sugar industry is heavily concentrated and expanding production. 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 17,830 hectares are under production. Casa Grande could 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. Coazucar purchased Maple ethanol operation in 2015. Currently these sugar fields undergoing a renovation process to plant cane for sugar production. The mill is also being modified to produce cane sugar.

Agro Olmos, also owned by Gloria, acquired 18,000 hectares in the Olmos irrigation project located in the Lambayeque region. Of this land, the company will devote 13,500 hectares to plant sugar cane for centrifugal sugar production. Agro Olmos has invested \$320 million and will have a milling capacity of 6,000 MT of cane per day, with a sugar production of 600 MT per day.

Private investors continue to finance economic development in the Peruvian northern coast. Land is being purchased by Peruvian and foreign investors, who then consolidate the property. The efficiency brought about by economies of scale is improving return rates, which in turn attracts more investment and benefits. Bulldozers flattening massive sand dune "mountains" to plant more sugar in the desert are common sites. This process is undoing the impacts of the 1968 land reform that expropriated land to give to workers in cooperatives.

However, there still are two mills, Pomalca and Tuman, where the government has shares. The mills have not found investment partners to finance improvements in efficiency and profits. In an effort to encourage investment in these companies, the government is auctioning its shares to interested private sector companies. Government owned shares were the result of a conversion of unpaid taxes.

## Consumption:

Cane sugar consumption is forecast at 1.5 MMT in MY 2018, around 70 percent of which is for direct consumption and the remaining for industrial use. As the Peruvian economy improves, sugar demand will increase, particularly for sugar-based beverages and confectionary products. Average retail prices in MY 2016 were \$0.74 per kilogram for refined sugar and \$0.67 per kilogram for brown sugar.

Per capita sugar consumption remains low compared to other countries in the region. Per capita consumption in Peru was 38.2 kgs/year in CY2015, compared to Brazil's 59.1, Chile's 43.2, Uruguay's 40.5, and Argentina's 39.6.

#### **Trade:**

Peruvian sugar exports in MY 2018 are forecast at 85,000 MT, the same as the previous year. In MY 2016 the United States was the largest market for Peruvian sugar with 42 percent of total Peruvian sugar exports, followed by Colombia with 40 percent. 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 industry.

Sugar imports into Peru in MY 2016 are estimated at 330 TMT. Peru's main sugar suppliers in CY 2016 were Colombia, Guatemala and Brazil with 50 percent, 22 percent and 17 percent of total sugar imports respectively.

#### *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. However, since the Agreement entered into force in 2009, Peru unilaterally eliminated import duties for sugar.

<b>Export Trade Matrix</b>	
<b>Country</b>	Peru
<b>Commodity</b>	Sugar, Centrifugal
<b>Time Period</b>	CY 2016
<b>Imports from:</b>	
U.S.	52,376
Colombia	50,112
Spain	21,700
Others not Listed	560
<b>Grand Total</b>	124,748

Source: Peruvian Customs

#### **Policy:**

The government of Peru published on March 28, 2016, Supreme Decree 055-2016-EF amending the methodology to determine the Peruvian Price Band (PPB) and establishing new tables to calculate the

actual surcharge assessed under the PPB. This regulation effectively reduces the additional duty assessed to sugar. The floor price of the band has fallen from \$648 to \$518 while the ceiling price has dropped from \$778 to \$644. Currently the additional duty is zero due to higher international prices.

In April 2010, due to the unusual price increase of local sugar while international sugar prices were falling, the government published a Supreme Decree declaring the sugar sector “in emergency”. As a result of this situation, the Ministry of Agriculture established a sugar monitoring committee (i.e., Technical Group) to “assess, evaluate and propose alternatives to improve the performance of the sugar industry.” This committee drafts a supply and demand report before approving shipments for export, including to the United States under the TRQ. The committee is formed by representatives of the Ministry of Agriculture and private sector.