Peru

Sweet times

Privatisation heralds a sugar boom

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IN THE 1960s, Peru's sugar industry was among the most efficient in the world. It was all downhill thereafter. A military government expropriated the sugar estates on the country's north coast, turning them into government-owned co-operatives. Having peaked at 1m tonnes in 1975, output fell to 400,000 tonnes by the early 1990s. But since then the sugar industry has passed into private hands again. Over the past decade production has returned to its historic peak—and is now set to boom.

The change has been gradual. The government has sold its stake in the industry in tranches. But now investors are piling in. As in other parts of South and Central America they are attracted by higher prices for sugar because of its use for ethanol. Industry sources predict that land under sugar will expand by 10,000 hectares (25,000 acres) a year, more than doubling output over the next decade. That would turn Peru into an exporter—though not on the scale of Brazil or Colombia.

Last year, local investors secured a controlling stake in Casa Grande, the largest sugar plantation. Bioterra, a Spanish company, plans a $90m ethanol plant nearby. Maple, a Texas company, has bought 10,600 hectares of land in the northern department of Piura. Its plans call for an investment of $120m and ethanol production of 120m litres a year. Brazilian and Ecuadorean investors are also active.

Part of the attraction is that Peru has signed a free-trade agreement with the United States. Provided that it can satisfy the concerns of the new Democratic-controlled Congress in Washington, DC, about the enforcement of labour rights, this agreement should be approved later this year. It would render permanent existing trade preferences under which ethanol from Peru can enter the United States duty-free. By contrast, ethanol exported from Brazil, the world's biggest producer, must pay a tariff of 54 cents a gallon.

Two harsh realities might sour these sweet dreams. Colombia, Central America and the Dominican Republic all enjoy similar preferences and have similar plans. Colombia already produces 360m litres a year of ethanol, much of it for export. The second question is whether sugar—a thirsty crop—is the best use of Peru's desert coastal strip, with its precarious water supply. One of the country's achievements of the past decade has been the private sector's development of new export crops. It would be ironic if these businesses were threatened by sugar's privatisation.

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