

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Ecuador

### Sugar Annual

## Ecuador Sugar Annual Report 2010

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**Report Highlights:**

Ecuador's sugar production will slightly increase in 2011 by 2.6% to 562,000 MT raw sugar value (RSV). This is due mainly to favorable weather conditions in the coastal region of Ecuador. Ecuador will slightly increase its current import and export levels of refined sugars in MY2011. Ecuadorian exports of raw sugar to the U.S. will increase by about 1,000 MT due to the reallocations of the U.S. quota in FY 2010.

## **Executive Summary:**

Cane sugar production for Marketing Year 2011 (June 2010/May 2011) will increase by approximately 4 percent due mainly to favorable weather conditions in the main production areas. Production for MY 2011 is forecast at 562,000 MT raw sugar value. Consumption of sugar in Ecuador remains stable on a per capita basis (between 33 and 35.3 kg of refined sugar).

Total exports decreased from 40,522 MT RSV in Calendar Year (CY) 2008 to 12,282 MT RSV in calendar year (CY) 2009. The drop was due to trade disruptions with neighboring Colombia. In CY 2009, Ecuador increased its imports of refined sugar by 13 percent, from 10,251 MT RSV in CY2008 to 11,572 MT RSV. Ecuador is self-sufficient in the production of refined sugar for domestic consumption. Sugar mills produce raw sugar only as necessary to fill the U.S. Sugar TRQ, and it is usually the first sugar that is commercialized after the harvest starts in June or July. After that, mills produce refined sugar for local consumption.

## **Commodities:**

Sugar, Centrifugal

## **Production:**

Sugar production in Ecuador increased by about 6 percent from MY 2009 (515,000 MT) to MY 2010 (548,000 MT). The reason for this increase in production was the result of good weather conditions that favored higher yields.

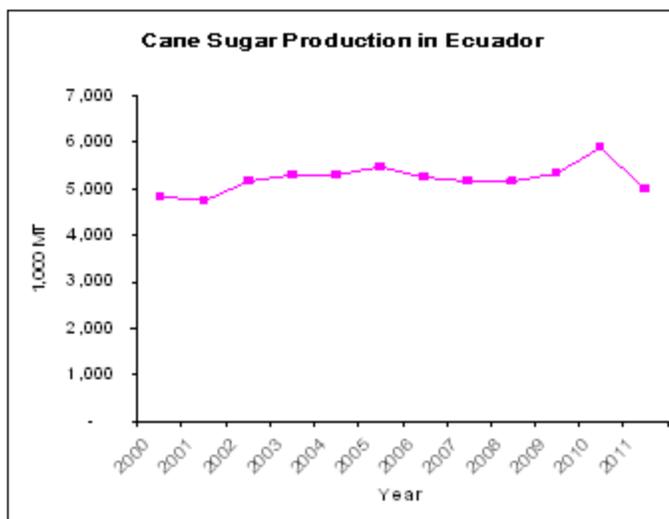
In MY 2010, sugarcane was planted on 69,000 ha. In addition, about 15,000 ha has been planted by very small producers with the purpose of producing alcohol, molasses and *panela* (solid blocks obtained from the boiling and evaporation of sugarcane juice) production. It is expected that the harvested area for sugarcane will increase by 1,000 ha to 70,000 ha in MY2011.

Two factors are expected to impact production of raw sugar in MY 2011: on the one hand, slight increases in area planted (1,000 ha) and good weather conditions; on the other, around 1500 ha planted with sugar cane are being diverted to the production of ethanol. The expected net outcome is a slight increase in sugar production of approximately 2.6 percent, adding up to 562,000 MT. Good weather conditions are expected to produce yields similar to those obtained in MY 2010. In the future, depending on international prices for sugar-based alcohols and the shape that Ecuadorian policies take regarding biofuels, Post foresees a shift in sugarcane-area planted for the purpose of sugar consumption to alcohols.

Approximately 90% of sugar cane production takes place in the coastal region of Ecuador, in the provinces of Guayas and Cañar. These areas experience annual rainfalls of approximately 1000-1100 inches, of which 800 inches are spread between the months of January through May. These lands were traditionally perceived as low-cost production zones due to abundant low-cost labor. However, this has changed in the last three years as a consequence of annual government-mandated increases to the minimum wage and fertilizer prices.

Beginning in December 2009, prices at mills increased at a high percentage. According to industry, this price adjustment was necessary to compensate several years of low prices, and to make up for increased production costs (\$31 per 50 kilo bag) in the last three years, and labor costs, including wage increases and mandatory social security payments to farm workers. From 2009 to 2010, for example, the monthly wage of a farm worker increased from US\$218.00 a US\$ 240.00, an increase of 10 percent. The price at the mill has increased from \$26.50 per bag in 2008 to an average of \$28.00 in 2009. After the December 2009 increase, the price of a bag was \$32.00 in January 2010. The wholesale price of a 50-kilo bag increased

slightly from an average of \$29 in 2008 to \$29.35 in 2009, accounting for a 1.2% increase over that period. Currently, the national average wholesale price of a sugar bag is \$34.

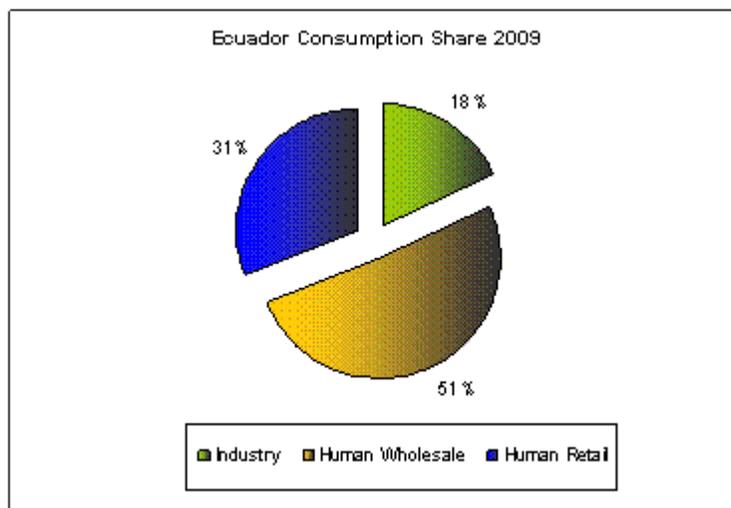


### Consumption:

Approximately 82% of Ecuador's sugar consumption is for human use in the form of white, brown or specialty sugars, while the remaining 18 percent is for industrial utilization. Per capita consumption of cane sugar, including sugar for industrial purposes, has ranged between 33 and 35.3 kg of refined sugar. One of the difficulties encountered when estimating Ecuadorian consumption is that approximately 4 to 7 percent of the consumption is in the form of *panela*. *Panela* is in general produced in an artisanal fashion and statistics on the quantity of *panela* production are not available. Sugar consumption is affected mainly by price rather than a change in sweetener preferences. Assuming an Ecuadorian population of 14,791 million at the end 2010 (USG estimations) and similar consumption levels to that of MY2010, Post estimates that domestic consumption will be about 559,000 MT in MY 2011.

Until five years ago, there was a trend towards supplying high-quality very fine sugars to producers of high-quality confectionary products. Ecuadorian sugar mills, aware of this market niche for specialty sugars, began producing these products for the local industry. These efforts proved very costly and therefore firms requiring these highly refined sugars are currently importing it from Colombia. The soft drink industry also requires a better than regular-quality sugar for the production of carbonated drinks, juices and other sweet drinks. Sugar mills have been able to satisfy the demand of the soft drink industry by providing a whiter type of sugar, of similar quality to that widely available in the market, but simply whiter due to an additional bleaching process.

Modernization of the retail sector has continued to follow changes in consumer preferences regarding space limitations in Ecuadorian homes due to household incomes combined with a decrease in average family size. This has shifted demand towards smaller and lighter packaging practices. Nevertheless, small retailers make up about 38 percent of sugar sales in smaller bags of 1, 2, 5 or 10 kilos. The remaining 62 percent of sugar for direct human consumption is marketed through wholesalers in 50-Kg bags.



### Trade:

Ecuador is self-sufficient in the production of refined sugar for domestic consumption. Surpluses during the harvest season are sent to the United States and neighboring countries. Total sugar exports for MY 2010 will reach 17,000 MT RSV. For MY 2011, Ecuador's exports are forecast at 19,000 MT RSV. Ecuadorian exports are mainly of raw sugar to the United States, however, depending on international prices and the price of sugar in Colombia and Peru, refined sugar is sent to these two neighboring countries. On occasion, these export flows are smuggled across borders and not included in official trade statistics. In addition, in the last few years, sudden changes to the strength of Ecuador's bilateral diplomatic relations with its two neighboring countries affected the forecast for MY 2010. Peru has established restrictions to Ecuadorian imports in response to Ecuador's import safeguard measures increasing tariffs to deal with a balance of payments (BoP) problem. These retaliation-type measures have been aimed at restricting trade of sensitive agricultural products including sugar and rice. In regards to Colombia, the BoP increased the deterioration of the bilateral relationship between the two countries. This has been reflected in overall sanitary and phytosanitary restrictions to Ecuadorian imports in Colombia and some more drastic measures including trade bans. These measures have particularly affected Ecuadorian agricultural exports in which Ecuador is more competitive like sugar and rice. In calendar year (CY) 2009, Ecuador's Central Bank did not record any exports to either Colombia or Peru. In CY 2009, Ecuador's exports of white sugar to Colombia and Peru totaled 28,195 MT RSV. Total exports decreased from 40,252 MT RSV in CY2008 to 12,282 MT RSV in CY 2009.

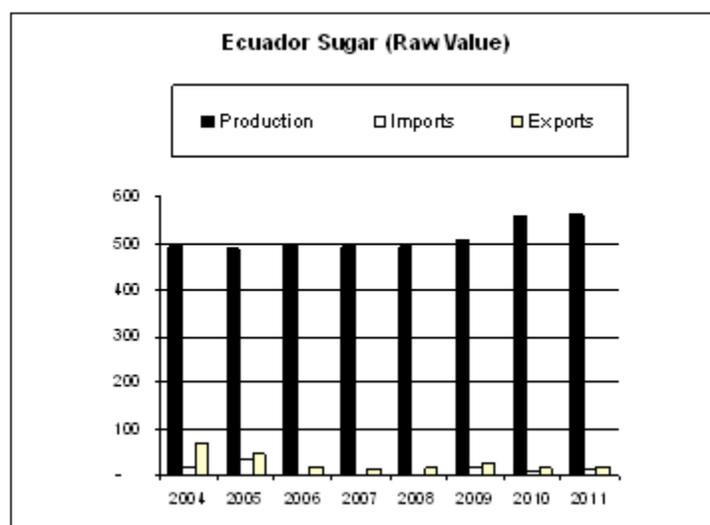
Ecuador usually imports between 10,000 MT and 12,000 MT per year during the months when sugar is scarce (last quarter of each calendar year until the first two weeks of April the following year). This sugar faces zero tariffs in the Andean price-band system. In 2009, the Government of Ecuador continued to allow reduced imports of refined sugars, mainly for a single confectionary factory that exports the end product. Before 2006, imports of this type of sugar were only marginal. Before 2006, mills tried to supply the confectionary industry these refined sugars but the market size did not justify high investments needed for this purpose. Until 2005, Ecuador also imported significant quantities of refined white sugar Incumsa 45 for the beverage industry. However, starting in 2006 Ecuadorian mills started supplying them with an acceptable substitute for Incumsa 45, a whiter type of refined sugar. During the harvest season, on the other hand, Ecuadorian mills export surpluses in similar amounts to those imported, mainly to the United States market. Exports to the United States are limited to the levels allowed under the U.S. sugar TRQ. Depending on market conditions and the status of diplomatic relations, sugar is also traded with Peru and Colombia.

In Calendar Year (CY) 2009, Ecuador increased its imports of white sugar by 13 percent, from 10,251 MT RSV in CY2008 to 11,572 MT RSV in CY2009. Fifty five percent of CY2009 imports originated in Colombia.

### EXPORTS AND IMPORTS OF SUGAR, CALENDAR YEAR

	2008	2009
Exports Total	40,521.85	12,281.85

Colombia	17,352.51	
USA	3,455.26	11,266.48
Peru	14,675.24	
Other	5,038.84	1,015.37
<b>Imports Total</b>	<b>10,251.41</b>	<b>11,571.63</b>
Colombia	10,207.60	6,321.60
Peru		4,299.40
Other	43.81	950.62
<b>Balance( TE-TI)</b>	<b>30,270.44</b>	<b>710.23</b>



### Policy:

Sugar is considered by the Government of Ecuador to be a staple. It is used in the basic basket of goods to calculate inflation indexes. Because of its social significance, sugar prices have been relatively stable for the past few years—to the benefit of consumers and the detriment of producers. In the past year, however, producers’ pledges to increase the price of domestic sugar were heard. The Government of Ecuador agreed to their demands in exchange of producers’ participation in a food subsidy program to impoverished populations called “Solidarity Partner.” Sugar mills agreed to supply the Solidarity Partner program a certain amount of sugar, in agreement with the Government of Ecuador, at a lower price than they charge in the marketplace. In general, there is no evidence that an official government-set price is observed for differentiated products such as those associated with a specific brand or caloric content. Sugar farmers and millers receive neither a domestic nor an export subsidy. As with producers of other crops, sugarcane growers can obtain loans from Ecuador’s Agricultural Development Bank at preferential interest rates.

The Government of Ecuador allows duty-free imports from fellow Community of Andean Nations (CAN) countries. Imports originating in countries other than CAN are assessed a 15 percent base tariff, and a variable “price band” levy. The variable levy for white sugar (17019900) is assessed at 0 percent and the current final tariff for sugar is 15 percent. The current tariff on imports of white sugar is 5%. Sugar imports have a WTO-approved bound tariff of 45%, which includes any price band-

related duties. Because of the U.S. TRQ, sugar mills have an agreement with the Government of Ecuador to continue to supply sugar to the U.S. market in order to not jeopardize Ecuador's quota allocation. Sugar mills and the Government of Ecuador, to some extent, see the U.S. market as a potential destination for Ecuadorian surpluses. Sugar mills produce raw sugar only as necessary to fill the U.S. Sugar TRQ. Raw sugar exports are shipped between June and September.

Although sugar was a part of MERCOSUR negotiations, Ecuador excluded raw and white sugar from the 15-year tariff liberalization process that started in April 2005. There is a special clause by which sugar can start a 15-year liberalization process only if and when Ecuador agrees to do so with each MERCOSUR partner. Even after tariff liberalization, sugar imports would continue to be charged the variable levy under the price band system. To date, Ecuador and its MERCOSUR partners have not initiated negotiations on sugar.

As an alternative to fuels produced from crude oil, a government-owned sugarcane mill and the Ministry of Agriculture are currently executing a 1500 ha pilot project to produce ethanol from sugarcane. Approximately 20,000 liters of ethanol per day is currently being produced. A blend of 5 percent ethanol and 95 percent gasoline is distributed for automotive use at 24 government-owned gas stations in Ecuador's largest city, Guayaquil. If the pilot project proves successful, the Government of Ecuador will encourage the planting of additional hectares of sugarcane. Initial results of the pilot project are expected at the end of CY 2010.

## Production, Supply and Demand Data Statistics:

### PSD TABLE

#### ECUADOR

#### SUGAR CANE, FOR CENTRIFUGAL

Centrifugal Sugar Cane for Ecuador	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 Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data
Area Planted	75	77	75	85	76		77
Area Harvested	60	71	69	78	69		70
Production	4,500	5,340	5,448	5,880	4,918		5,000
Total Supply	4,500	5,340	5,448	5,880	4,918		5,000
Utilization for Sugar	4,500	5,340	5,448	5,880	4,918		5,000
Utilization for Alcohol	0	0	0	0	0		0
Total Utilization	4,500	5,340	5,448	5,880	4,918		5,000
TS=TD			0		0		0

### PSD TABLE

#### ECUADOR

#### SUGAR CANE, CENTRIFUGAL

Centrifugal Sugar, Ecuador	2009		2010		2011	
	2008/2009		2009/2010		2010/2011	
	Market Year Begin: Jun 2008		Market Year Begin: Jun 2009		Market Year Begin: Jun 2010	
	USDA	New	USDA	New	USDA	New

	Official Data		Post Data	Official Data		Post Data	Official Data		Post Data
Beginning Stocks	93	78	93	79	64	116			130
Beet Sugar Production	0	0	0	0	0	0			0
Cane Sugar Production	508	508	515	559	559	548			562
Total Sugar Production	508	508	515	559	559	548			562
Raw Imports	0	0	1	0	0	2			2
Refined Imp.(Raw Val)	18	18	17	15	15	7			12
Total Imports	18	18	18	15	15	9			14
Total Supply	619	604	625	653	638	673			706
Raw Exports	26	26	15	35	35	14			12
Refined Exp.(Raw Val)	0	0	11	0	0	3			7
Total Exports	26	26	26	35	35	17			19
Human Dom. Consumption	514	514	483	522	522	526			559
Other Disappearance	0	0	0	0	0	0			0
Total Use	514	514	483	522	522	526			559
Ending Stocks	79	64	116	96	81	130			128
Total Distribution	619	604	625	653	638	673			706
TS=TD			0			0			0

**Author Defined:**

**Prices Sugar**

**Country** Ecuador

Month	Wholesaler Prices \$ per kg			Retail Prices \$ per kg		
	2007	2008	2009	2007	2008	2009
Jan	0.56	0.55	0.58	0.67	0.67	0.70
Feb	0.56	0.55	0.58	0.67	0.67	0.70
Mar	0.56	0.56	0.58	0.67	0.67	0.70
Apr	0.56	0.56	0.59	0.67	0.67	0.70
May	0.56	0.56	0.59	0.67	0.67	0.71
Jun	0.56	0.56	0.59	0.67	0.67	0.70
Jul	0.56	0.59	0.59	0.67	0.70	0.70
Aug	0.56	0.60	0.59	0.67	0.72	0.70
Sep	0.56	0.59	0.58	0.67	0.71	0.70
Oct	0.56	0.58	0.58	0.68	0.72	0.71
Nov	0.56	0.58	0.59	0.67	0.71	0.71
Dec	0.56	0.58	0.60	0.68	0.72	0.74
Average	0.56	0.57	0.59	0.67	0.69	0.71